

KELON 科龙

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

海信科龙电器股份有限公司

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

(Stock Code: 0921)

2007 Interim Results Announcement

The board of directors (“Board”) of Hisense Kelon Electrical Holdings Company Limited (the “Company”) is pleased to announce the consolidated interim financial results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007 (the “Reporting Period”), together with the unaudited comparative figures for the corresponding period in 2006 or the audited comparative figures as at 31 December 2006. The consolidated interim financial statements have not been audited but have been reviewed by the audit committee of the Company and the auditors.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

		For the six months ended 30 June	
	Notes	2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Revenue	4	4,853,981	3,586,177
Cost of sales		(4,022,551)	(2,882,368)
Gross profit		831,430	703,809
Other income and gains		203,287	53,286
Distribution costs		(648,747)	(558,786)
Administrative expenses		(229,567)	(136,206)
Other operating expenses		(11,411)	(13,414)
Profit from operations		144,992	48,689
Share of results of associates		(966)	(2,256)
Finance costs		(48,019)	(83,068)
Profit/(loss) before income tax	5	96,007	(36,635)
Income tax credit/(expense)	6	585	(1,010)
Profit/(loss) for the period		96,592	(37,645)
Attributable to:			
Equity holders of the Company		117,374	(29,153)
Minority interests		(20,782)	(8,492)
		96,592	(37,645)
Dividends	7	—	—
Earnings/(loss) per share attributable to equity holders of the Company	8		
– Basic		RMB0.12	RMB(0.03)
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

		30 June 2007	31 December 2006
	<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		1,415,813	1,601,625
Investment properties		37,200	26,144
Other intangible assets		123,478	125,831
Payments for leasehold land held for own use under operating leases		343,437	372,533
Interests in associates		77,972	78,981
Available-for-sale financial assets		–	–
Deferred tax assets		25,007	21,387
		2,022,907	2,226,501
Current assets			
Inventories		1,131,798	919,837
Trade and other receivables	9	1,695,099	1,119,733
Taxation recoverable		103	827
Pledged bank deposits		30,797	248,257
Cash and cash equivalents		230,647	142,247
		3,088,444	2,430,901
Non-current assets held for sale		49,767	–
Total assets		5,161,118	4,657,402
LIABILITIES			
Current liabilities			
Trade and other payables	10	3,960,295	3,093,956
Trade deposits received		461,812	488,587
Provisions		178,176	169,995
Taxation payable		28,980	26,663
Other liabilities		56,884	46,978
Bank borrowings		1,194,090	1,556,702
		5,880,237	5,382,881

	<i>Notes</i>	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Non-current liabilities			
Other liabilities		–	13,594
Total liabilities		5,880,237	5,396,475
Net current liabilities		(2,791,793)	(2,951,980)
Total assets less current liabilities		(719,119)	(725,479)
TOTAL NET LIABILITIES		(719,119)	(739,073)
Capital and reserves attributable to equity holders of the Company			
Share capital		992,007	992,007
Share premium		1,195,597	1,195,597
Statutory reserves		114,581	114,581
Capital reserve		357,951	402,666
Foreign exchange reserve		19,749	14,956
Accumulated losses		(3,608,153)	(3,725,527)
		(928,268)	(1,005,720)
Minority interests		209,149	266,647
TOTAL EQUITY		(719,119)	(739,073)

Notes:

1. GENERAL INFORMATION

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

The Group is principally engaged in the manufacture and sale of refrigerators and air-conditioners. The address of the registered office of the Company is No.8 Ronggang Road, Ronggui, Shunde, Foshan, the PRC.

2. BASIS OF PREPARATION

As at 30 June 2007, the Group’s current liabilities exceeded its current assets by approximately RMB2,792 million. In addition, the Group has outstanding short-term loans in the aggregate of approximately RMB1,194 million of which approximately RMB176 million were overdue as at 30 June 2007. The Group negotiated with certain banks to restructure the amounts due to them and the Company’s management confirmed that most of the Group’s bankers have expressed their intention to reschedule overdue bank borrowings and/or renew/grant credit facilities to the Group. Based on the above assessments, the directors are of the opinion that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due for the foreseeable future and have prepared the condensed consolidated financial statements on a going concern basis.

These condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”).

The preparation of these condensed consolidated financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These condensed consolidated financial statements include selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 31 December 2006. These condensed consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”) promulgated by the IASB. IFRSs include all applicable IFRSs, IASs and related interpretations. These condensed consolidated financial statements should be read in conjunction with the 2006 annual financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated financial statements have been prepared in accordance with substantially the same accounting policies adopted in the 2006 annual financial statements except as stated in note 3(a) below.

IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2007. The adoption of the new and revised IFRSs that are effective for accounting periods beginning on or after 1 January 2007 did not result in significant changes to the Group’s accounting policies applied in these condensed consolidated financial statements for the periods presented. Accordingly, no prior period adjustment has been recognised.

(a) Summary of the effects of the changes in accounting policies

In prior years, certain property, plant and equipment held for use in production or supply of goods or services, or for administrative purpose are stated in the balance sheet at their revalued amounts, being the fair value on basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses (revaluation model) in accordance with the provisions of IAS 16. During the period, the Company restated these property, plant and equipment at cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses (cost model) in accordance with provisions of IAS 16, to be in alignment with the accounting policy for property, plant and equipment in its PRC statutory financial statements.

The changes resulted in an increase in the cost, accumulated depreciation and impairment of property, plant and equipment by the same amount of RMB246,429,000 and there was no material impact to the carrying amounts of these property, plant and equipment for current and prior periods.

(b) Reclassification of revaluation reserve

The revaluation reserve brought forward of RMB373,570,000 as at 31 December 2006 arose from the restructuring of the Company. This amount was reclassified to capital reserve in order to conform with current period presentation.

4. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of refrigerators and air-conditioners. Analysis of financial information by business segment is as follows:

For the six months ended 30 June 2007						
(Unaudited)						
	Refrigerators	Air-	Freezers	Product	Elimination	Consolidated
	RMB'000	conditioners	RMB'000	components	RMB'000	RMB'000
		RMB'000		RMB'000		
REVENUE						
External sales	2,286,915	2,192,929	157,912	216,225	-	4,853,981
Inter-segment sales	-	-	-	433,942	(433,942)	-
Total revenue	<u>2,286,915</u>	<u>2,192,929</u>	<u>157,912</u>	<u>650,167</u>	<u>(433,942)</u>	<u>4,853,981</u>

Inter-segment sales are charged at prevailing market rates.

For the six months ended 30 June 2007						
(Unaudited)						
	Refrigerators	Air-	Freezers	Product	Elimination	Consolidated
	RMB'000	conditioners	RMB'000	components	RMB'000	RMB'000
		RMB'000		RMB'000		
RESULT						
Segment result	<u>95,482</u>	<u>22,544</u>	<u>(1,976)</u>	<u>40,047</u>	-	<u>156,097</u>
Unallocated corporate expenses						<u>(11,105)</u>
Profit from operations						<u>144,992</u>
Share of results of associates	(456)	(436)	(31)	(43)	-	(966)
Finance costs						<u>(48,019)</u>
Profit before income tax						<u>96,007</u>
Income tax credit						<u>585</u>
Profit for the period						<u><u>96,592</u></u>

For the six months ended 30 June 2006						
(Unaudited)						
	Refrigerators	Air-	Freezers	Product	Elimination	Consolidated
	RMB'000	conditioners	RMB'000	components	RMB'000	RMB'000
		RMB'000		RMB'000		
REVENUE						
External sales	1,663,016	1,585,540	143,696	193,925	-	3,586,177
Inter-segment sales	-	-	-	439,884	(439,884)	-
Total revenue	<u>1,663,016</u>	<u>1,585,540</u>	<u>143,696</u>	<u>633,809</u>	<u>(439,884)</u>	<u>3,586,177</u>

Inter-segment sales are charged at prevailing market rates.

For the six months ended 30 June 2006						
(Unaudited)						
	Refrigerators	Air-	Freezers	Product	Elimination	Consolidated
	RMB'000	conditioners	RMB'000	components	RMB'000	RMB'000
		RMB'000		RMB'000		
RESULT						
Segment result	<u>47,600</u>	<u>(15,966)</u>	<u>5,635</u>	<u>11,867</u>	-	<u>49,136</u>
Unallocated corporate expenses						<u>(447)</u>
Profit from operations						<u>48,689</u>
Share of results of associates	(1,046)	(997)	(91)	(122)	-	(2,256)
Finance costs						<u>(83,068)</u>
Loss before income tax						<u>(36,635)</u>
Income tax expense						<u>(1,010)</u>
Loss for the period						<u><u>(37,645)</u></u>

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

	For the six months ended	
	30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The PRC		
Mainland China	2,678,696	2,399,172
Hong Kong	172,297	1,309
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	2,850,993	2,400,481
Europe	591,011	346,988
America	765,231	294,426
Others	646,746	544,282
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	4,853,981	3,586,177
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The Group's operations are carried out in the PRC and almost all of the production facilities of the Group are located in the PRC.

5. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax in the condensed consolidated income statement was determined after charging/(crediting) the following items:

	For the six months ended	
	30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation on property, plant and equipment	123,419	112,771
Depreciation on investment properties	1,247	324
Amortisation of payments for leasehold land held for own use under operating leases	7,390	7,916
Amortisation of other intangible assets	2,028	2,127
Impairment loss/(reversal of impairment loss) on trade and other receivables	8,472	(17,522)
Write down of inventories to net realisable value	1,540	-
Rental income from investment properties (net of direct operating expenses)	(5,659)	(894)
Share of income tax of associates	1,790	4,067
Loss on disposal of property, plant and equipment, net	28	2,161
Gain on disposal of payments for leasehold land held for own use under operating leases	(9,304)	-
Gain on disposal of investment properties	(57,679)	-
Partial recovery of an impaired receivable	(57,072)	-
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6. INCOME TAX (CREDIT)/EXPENSE

	For the six months ended 30 June	
	2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Income taxes consist of:		
Current tax		
– PRC enterprise income tax	2,950	1,010
– Hong Kong Profits Tax	85	–
Deferred tax	(3,620)	–
Income tax (credit)/expense	<u>(585)</u>	<u>1,010</u>

Taxation is calculated at the rates of tax prevailing at the locations the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The Company and its subsidiaries provide for taxation on the basis of its statutory profit for financial reporting purposes, adjusted for income and expense items which are not taxable or deductible for income tax purposes after considering all available tax benefits.

On 1 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate will change from 33% to 25% with effect from 1 January 2008. The preferential tax rate currently enjoyed by the Company will be gradually transitioned to the new standard rate of 25% over a five-year transitional period. The detailed instruction for the transition to the new tax rate is yet to be issued. The Group estimates that the preferential income tax rate currently enjoyed by the Group will expire at the earlier of the end of the existing preferential tax period or the five-year transitional period. The change in the carrying amount of the deferred tax assets and liabilities, as a result of the change in tax rate, is reflected in the condensed consolidated financial statements of the Group for the six months ended 30 June 2007.

7. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share attributable to equity holders of the Company is based on the net profit attributable to equity holders of the Company for the six months ended 30 June 2007 of RMB117,374,000 (six months ended 30 June 2006: net loss attributable to equity holders of the Company of RMB29,153,000) and 992,006,563 shares (six months ended 30 June 2006: 992,006,563 shares) outstanding during the period.

No diluted earnings/(loss) per share has been presented as there were no dilutive potential ordinary shares in issue in both periods.

9. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables were trade receivables of net carrying amount of RMB707,168,000 (2006: RMB290,166,000). Normal credit term of 30 days is granted to customers. The Group allows a credit period of up to one year for large and well-established customers. Sales are usually settled by cash on delivery for small and new customers. The aging analysis of trade receivables is as follows:

	Gross amount <i>RMB'000</i>	Impairment loss <i>RMB'000</i>	Net amount <i>RMB'000</i>
As at 30 June 2007 (Unaudited)			
Within three months	695,632	(8)	695,624
Three to six months	6,909	(1,816)	5,093
Six months to one year	7,971	(2,068)	5,903
One to two years	29,146	(28,598)	548
Two to three years	46,650	(46,650)	–
Over three years	125,693	(125,693)	–
	<u>912,001</u>	<u>(204,833)</u>	<u>707,168</u>
As at 31 December 2006 (Audited)			
Within three months	252,966	–	252,966
Three to six months	30,938	(954)	29,984
Six months to one year	9,691	(4,854)	4,837
One to two years	19,591	(17,212)	2,379
Two to three years	66,405	(66,405)	–
Over three years	108,215	(108,215)	–
	<u>487,806</u>	<u>(197,640)</u>	<u>290,166</u>

10. TRADE AND OTHER PAYABLES

Included in trade and other payables were trade payables amounted to RMB2,153,524,000 (2006: RMB1,415,803,000). The aging analysis of trade payables is as follows:

	30 June 2007 <i>RMB'000</i> (Unaudited)	31 December 2006 <i>RMB'000</i> (Audited)
Within one year	1,996,073	1,177,093
One to two years	107,601	196,857
Two to three years	37,425	30,937
Over three years	12,425	10,916
	<u>2,153,524</u>	<u>1,415,803</u>

DIFFERENCES BETWEEN IFRS AND PRC GAAP AS APPLICABLE TO THE GROUP

The consolidated shareholders' equity of the Group prepared under International Financial Reporting Standards ("IFRS") and that prepared under PRC GAAP have the following major differences:

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Equity attributable to equity holders of the Company as per condensed consolidated financial statements prepared under IFRS	(928,268)	(1,005,720)
Adjustment on impairment and related depreciation on property, plant and equipment	11,142	11,142
Adjustment on contribution from minority shareholders	26,684	26,684
Adjustment on dilution loss on share reform of an associate	16,317	16,317
Adjustment on impairment loss on goodwill	–	(57,253)
Adjustment on amortisation of trademark	(16,712)	(16,712)
Non-recognition of deferred tax assets	–	(21,387)
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Equity attributable to equity holders of the Company as per consolidated financial statements prepared under PRC GAAP as previously reported	(890,837)	(1,046,929)
	<hr/>	<hr/>
Effect of adoption of China Accounting Standards 2006 ("CAS 2006") effective on 1 January 2007		
Write off of equity investment difference arising from business combinations under common control	–	57,253
Recognition of deferred tax assets	–	21,387
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Equity attributable to equity holders of the Company as per consolidated financial statements prepared under PRC GAAP as restated	(890,837)	(968,289)
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The unaudited consolidated net profit/(loss) of the Group prepared under IFRS and that prepared under PRC GAAP have the following major differences:

	For the six months ended	
	30 June	
	2007	2006
	RMB'000	RMB'000
Net profit/(loss) attributable to equity holders of the Company as per condensed consolidated financial statements prepared under IFRS	117,374	(29,153)
Adjustment on impairment and related depreciation on property, plant and equipment	–	1,765
Amortisation of trademark	–	(7,637)
Adjustment on amortisation of goodwill	–	(698)
Release of negative goodwill to income	–	2,395
Others	–	(2,414)
	<hr/>	<hr/>
Net profit/(loss) attributable to equity holders of the Company as per consolidated income statement prepared under PRC GAAP as previously reported	117,374	(35,742)
Effect of adoption of China Accounting Standards 2006 (“CAS 2006”) effective on 1 January 2007		
Retrospective adjustment on amortisation of goodwill and release of negative goodwill to income	–	(1,697)
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Net profit/(loss) attributable to equity holders of the Company as per consolidated income statement prepared under PRC GAAP as restated	117,374	(37,439)
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There are differences in other items in the condensed consolidated financial statements due to differences in classification between IFRS and PRC GAAP.

EXTRACT FROM AUDITORS' INDEPENDENT REVIEW REPORT

Basis for qualified conclusion

It was reported by the Company that the previous controlling shareholder, Guangdong Greencool Enterprise Development Company Limited (“Greencool Enterprise”), had entered into a series of activities/transactions during the period from 2001 to 2005 which had been harmful to the Group, including but not limited to unauthorised use of the Group’s funds, fictitious sales of goods and scrap materials, unreasonable prepayments and purchases of raw materials and property, plant and equipment at unreasonable quantities and prices. These transactions were conducted through Greencool Enterprise, its affiliates and/or companies suspected to be connected with the Company’s former chairman, Mr. Gu Chu Jun (“Mr. Gu”). As at 30 June 2007, the aggregate amount of receivables and aggregate amount of payables due from/to these companies were approximately RMB286 million (net of an accumulated impairment loss of approximately RMB364 million) and approximately RMB138 million respectively which were reflected in the condensed consolidated balance sheet at 30 June 2007 as “Amounts due from Greencool Enterprise and its affiliates”

and “Amounts due from companies suspected to be connected with Mr. Gu” within current assets and “Amounts due to Greencool Enterprise and its affiliates” and “Amounts due to companies suspected to be connected with Mr. Gu” within current liabilities. Due to the irregularity of the transactions mentioned above and limitation of information available to us, we were unable to satisfy ourselves concerning the validity of these transactions, the appropriateness of the accumulated impairment and the recoverability of the carrying amounts. Any adjustments found to be necessary would affect the net liabilities as at 30 June 2007 and the profit for the six months then ended.

Qualified conclusion

Except for the adjustments to the interim financial information that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that cause us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards.

Without modifying our above review conclusion, we draw to your attention to note 2 to the interim financial information which indicates that the Group’s current liabilities exceeds its current assets by approximately RMB2,792 million as at 30 June 2007. In addition, the Group had outstanding short-term loans in the aggregate of approximately RMB1,194 million of which approximately RMB176 million were overdue as at 30 June 2007. These conditions, along with other matters as set forth in note 2 to the interim financial information indicate the existence of a material uncertainty which may cast doubt about the Group’s ability to continue as a going concern.

INTERIM DIVIDEND

Pursuant to the resolutions passed on the meeting of Board of the Company held on 23 August 2007, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007. No interim dividend was paid for the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Performance review

During the first half year of 2007, in an environment where the economy has gone through a rapid development, competition in the industry remained intense while there was a significant growth in the white home appliances industry due to the continuous improvement of residential consumption as well as the gradual expansion of mid-to-high-end products market capacity.

During the Reporting Period, the Company’s revenue from principal operations was RMB4.85 billion, representing an increase of 35.35% as compared with the corresponding period in 2006; the net profit was RMB96.59 million, representing an increase of RMB134.24 million as compared with the same period of 2006; and profit attributable to equity holders was RMB117.37 million.

Analysis from operational structure

During the Reporting Period, among the Company’s revenue from principal operations, revenue from air-conditioners business accounted for 45.18% of the total turnover of the Company, representing an increase of 38.31% as compared with the same period of the previous year; revenue from refrigerators business accounted for 47.11 % of the total turnover of the Company, representing an increase of 37.52% as compared with the same period of the previous year; the remaining 7.71% of the total turnover was generated from other businesses, such as the sale of freezer and product components.

In addition, domestic sales accounted for 55.19% of the total turnover of the Company, representing an increase of 11.65% as compared with the same period of the previous year; export sales accounted for 44.81% of the total turnover of the Company, representing an increase of 83.26% as compared with the same period of the previous year.

The Board does not recommend the payment of interim dividend to the shareholders of the Company (no dividend was paid by the Group for the first half year of 2006).

Air-conditioners business

Despite the increase in domestic sales of air-conditioners as compared with the same period of the previous year, its growth fell below the average growth of the whole industry and the Company remained a significant distance behind its major competitors due to the insufficiency of purchase and production at the beginning of the year, which left the Company unable to stock sufficient supply for channel distribution during the peak season (March and April), and thus missing the valuable selling opportunity, and the sales channels and distribution network have not been fully recovered and the “KELON” brand was still under unfavourable influence. In addition, as the Company failed to make a breakthrough in the scale of production of air-conditioners, further expansion is therefore expected.

Refrigerators business

During the Reporting Period, the Company has been aggressively exploring the overseas markets, and has established closer strategic relationship with its major customers; The Company has increased the investment in advertising and exploited and promoted the essence of the “RONSHEN” brand. However, as a result of the labour shortage all over the country in the beginning of the year and the difficulties encountered by the Company in recruiting staff, the Company failed to enhance its production capacity efficiently to fill the stock, therefore the Company failed to accomplish the targeted sales volume of “RONSHEN” refrigerators, and moreover, our Class 3 and 4 markets have been challenged by the sudden emergence of a large number of small-scale refrigerator manufacturers. There was also a difference between the performance of the Company and that of the whole industry in terms of the growth in domestic sales.

Despite the significant growth in export sales of refrigerators, the gross profit margin decreased as compared with the same period of the previous year, mainly due to the ineffective export structure. Current sales of refrigerators mainly consists of small-volume refrigerators and the prices of which are low. In addition, as a result of the increase in the price of major raw materials (both the white and black materials etc.) for refrigerators and the appreciation of Renminbi, the gross profit margin for refrigerator export business remained low. It is expected that the export of refrigerators will face even more challenging situation with the upcoming adjustment of the State’s export tax refund policy as well as the rise of ocean transportation cost. The Company, in the later stage, will focus on improving the export product sales structure and shift towards the production and sale of large-volume refrigerators of advanced high-tech nature and high gross profit margin.

Analysis of the influence of the results

The management of the Company considered that the rise in the revenues from the principal operation and the net profit of the Company during the Reporting Period was mainly due to the overall growth of the domestic economy and the industry as well as the numerous measures adopted by the Company during the Reporting Period to improve the operational effectiveness, which facilitated the Company to achieve a better performance. However, the Company is generally still in a recovery stage. A number of historical problems has brought numerous difficulties to the Company. Therefore, the Company still failed to achieve its targets during the Reporting Period.

Analysis of reasons for the improvements in the results:

- (1) The cash received from disposal of idle assets during the Reporting Period could satisfy the Company's fund demand for production as well as maintaining the Company's reputation during the peak season and has to a certain extent improved the asset structure and quality of the Company. Meanwhile, it has made a great contribution to the profit during the Reporting Period, which has brought the Company a net profit of RMB67 million.
- (2) During the Reporting Period, the Company entered into the debt transfer agreement with Foshan Shunde Shunrong Investments Company Limited to transfer the Company's rights to the debts of Foshan Shunde Jiegao Investments Company Limited to Foshan Shunde Shunrong Investments Company Limited at a consideration of RMB142 million. The transfer has set off the provision for bad debt previously made and contributed a profit of RMB57.07 million to the Company.
- (3) The Company continuously improved the product sales structure while developing high-end products market to increase the gross profit of products. Especially in the first half year of 2007, the gross profit margin of air-conditioners recorded an increase as compared with the same period of the previous year, indicating a remarkably stronger profitability.
- (4) The Company's efforts on accelerating fund liquidity have been rewarded, especially in the turnover of working capital. Turnover of raw material in all production factories have generally reached the industry advanced levels.
- (5) During the Reporting Period, the Company adhered to the operation guideline of "Forging Product Competitive Edge" and stressed on the depth of research and development efforts, reinforced the research and development of mid-to-high-end products and increased energy-saving effectiveness. To meet specific market demands, the Company has launched new models of two-door refrigerators and energy-saving and highly-efficient air-conditioners. Both products have won the appreciation by the consumers and support by the market.
- (6) With increasing amount of components purchased from outside as well as reinforced quality control of product design and production, perfection of quality control system and promotion and application of advanced management tools, the Company has achieved a remarkable decrease in the quality assurance costs and return-for-repair rate with a significant upgrading of product reputation, which have boosted the re-establishment of the brand image and sales.

The operation quality of the Company has marked improvement through the above-mentioned efforts. However, as a result of the following factors, the results of the Company are also adversely affected:

- (1) The appreciation of Renminbi: from the beginning of this year to June 2007, the accumulated appreciation of Renminbi has reached 2.34%. The total loss incurred by the Company as a result of the exchange rate for the first half of this year was in the total sum of approximately RMB22,379,000, representing an increase of 60.62% as compared to the same period of last year.
- (2) Product sales was greatly hindered by the insufficient production resources and failure of productivity to meet preset targets at the beginning of 2007.

- (3) The economic scale of air-conditioning products failed to meet the industry standard and the expected growth level. The distribution costs were not under effective control and the domestic and overseas transportation costs have increased. The operating expenses during the Reporting Period were high and reached 13.37%.
- (4) The gross profit margin for exported products, especially refrigerators, remained at a low level under the influence of the sales structure of exported products.
- (5) Due to historical reasons, a number of the production factories of the Company have suspended their productions and continued to suffer losses. Certain production infrastructures were under reconstruction and had not been completed, which, to a certain extent, pared down the restoration and growth of the Company's scale and results.

Outlook

During the second half year of 2007, the competition in the global home appliances market is expected to intensify. In view of the appreciation of Renminbi, the increase in ocean transportation costs as well as the non-tariff barriers, risks on the export business of home appliances manufacturers will be aggravated.

With the increasing domestic and foreign concerns on the energy efficiency of home appliance as well as the promulgation of the relevant compulsory standards, competitions with respect to the energy-saving technology for refrigerators and air-conditioners will become more severe, and thus driving the upgrade of products' structure. As a leader in the technology of the domestic home appliance industry, the Company possesses advanced technological level beyond competitors and a competent research and development team, which will ensure the significant competitiveness of the technologies and products of the Company in the industry.

The operational effectiveness has been improved during the first half of this year, but there is still a long distance from the development goal of the Company and the advanced level of the industry. As the product sales has just stepped into a low season, the operation of the Company in the second half year will be under even greater pressure. The Company will take the following measures to improve the operation in low season with an attempt to lay down a solid foundation for further expansion in the coming year. With respect to the coordination among research and development of products, production and sales, the Company will accelerate and reinforce the implementation of its annual operational guidelines, encourage the management efficiency, exploit the internal potentials, create competitive advantage for products, strengthen staff training, so as to enhance operational effectiveness and offer a strong support for the rapid but healthy development of the Company.

1. The Company plans to further optimise the industrial layouts, clear up and dispose of certain production factories without valuable contributions to the overall business development of the Company, so that it can concentrate on its principal operations. However, the clearing up of subsidiaries is expected to bring certain losses.
2. Under the foundation of significant breakthrough in the wind enhancement technology of air-conditioners and the technology of refrigerators in the first half year, the Company will continue to increase the investment in research and development, particularly the preliminary technological research in order to maintain the Company's leading position in the industry with respect to technology and product quality. In addition, the Company will strengthen the process management for new products and conduct the product planning as early as possible according to the regulation for the industry to guarantee the timely launch of its new products in the coming year.

3. Through adoption of improved technology and the joint development of new products (such as setting up overseas research and development centres), the development of well-oriented products and shortening the lead time, the Company aims at getting closer to the customer market, continuously consolidating the strategic relationships with overseas customers, especially major customers, obtaining large orders, optimising the structure of exported products and improving our profitability. Meanwhile, the Company plans to cope with the influence of Renminbi appreciation through putting efforts on costs reduction, optimisation of currency settlement structure, increasing raw materials import and promoting order financing, and consider the opportunities such as setting up overseas plants at an appropriate time.
4. In order to secure stock supply in order to satisfy the demand on the expansion of the aftermarket, the Company will focus on improving its production capability and revamping critical bottle-neck facilities. On one hand, the Company will proactively push on various technological revamping projects, including the investment in a production line of large-volume refrigerators, revamping critical bottle-neck facilities to enhance productivity and renovating and building staff dormitories for senior staff and dinning rooms to improve the living conditions of our staff and finally resolve the shortage of labour.
5. Aggressively boosting the development of related products and increasing the new profit generating points, such as developing commercial air-conditioners.

LIQUIDITY AND SOURCES OF CAPITAL

Net cash generated from operating activities of the Group was approximately RMB119,168,000 for the six months ended 30 June 2007.

As at 30 June 2007, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB261 million and bank loans amounting to approximately RMB1.19 billion.

Total capital expenditures of the Group for the six months ended 30 June 2007 amounted to approximately RMB98.15 million.

TOTAL ASSETS TO TOTAL LIABILITIES RATIO

As at 30 June 2007, the total assets to total liabilities ratio of the Group was 88%.

TRUST DEPOSITS

As at 30 June 2007, the Company did not have any trust deposits with any financial institutions in the PRC. All of the Company's deposits have been deposited in commercial banks in the PRC and Hong Kong.

UNIFIED INCOME TAX AND LOCAL TAX BENEFIT

The Company has been subject to a profit tax rate of 18% since June 2003.

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2007, the Group had approximately 13,029 employees, mainly comprising 1,072 technicians, 6,303 marketing staff (including promotion staff), 435 financial staff, 489 administrative staff, and 4,714

production staff. Among the Group's employees, there are 2 doctorate graduates, 112 master graduates and 2,627 graduates with bachelor's degree, 432 employees with official titles of middle rank or above. Besides, the Group has 54 retired staff. For the six months ended 30 June 2007, the Group's staff payroll amounted to RMB327,173,659 (corresponding period in 2006 amounted to RMB298,321,497).

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2007, the Group's "investment properties" and "plant, machinery and equipment" amounted to approximately RMB760,644,863 (31 December 2006: RMB575,964,000) were pledged as security for the Group's bank borrowings.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

Since substantial part of the Group's sales and purchases in the Reporting Period were denominated in Renminbi, the Group had certain exposure to exchange rate fluctuation, and financial instruments such as export note discounts, inward/outward documentary bills and hedges were used to hedge risk of exchange rate.

CONTINGENT LIABILITIES

As at 30 June 2007, the Group was involved in a number of material litigations with estimated contingent liabilities of RMB8,712,000.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code for securities transactions by its directors; after due enquiries with the directors of the sixth session of the Board, all directors of the sixth session of the Board confirmed that they had complied with the Model Code during the Reporting period.

SHARE CAPITAL STRUCTURE

For the six months ended 30 June 2007, there was no change in the share capital structure of the Company. As at 30 June 2007, the share capital structure of the Company was as follows:

	Number of Shares	Percentage to the total issued share capital
H shares	459,589,808	46.33%
A Shares	532,416,755	53.67%
Total	<u>992,006,563</u>	<u>100.00%</u>

TOP TEN/SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, there were 46,642 shareholders in total, of which the top ten/substantial shareholders were as follows:

Name of Shareholder	Nature of Shareholder	No. of Shares Held	Percentage of the total issued share capital of the Company	Percentage of the relevant class of issued shares of the Company	No. of shares subject to trading moratorium held	No. of Pledged or Frozen Shares
Hisense Air-conditioning	Domestic non-state-owned legal person shares	238,872,074	24.08%	44.87%	238,872,074	0
Economic Consultancy	Domestic non-state-owned legal person shares	68,666,667	6.92%	12.90%	68,666,667	0
Shenyin Wanguo Securities (H.K.) Limited	Foreign Shareholder	55,091,000	5.55%	11.99%	0	Unknown
The Hongkong and Shanghai Banking Corporation Limited	Foreign Shareholder	51,343,925	5.18%	11.17%	0	Unknown
Bank of China (Hong Kong) Limited	Foreign Shareholder	49,073,000	4.95%	10.68%	0	Unknown
Guotai Junan Securities (Hong Kong) Limited	Foreign Shareholder	40,920,000	4.12%	8.90%	0	Unknown
HSBC Nominees (Hong Kong) Limited	Foreign Shareholder	40,106,904	4.04%	8.73%	0	Unknown
First Shanghai Securities Limited	Foreign Shareholder	25,860,000	2.61%	5.63%	0	Unknown
Hang Seng Securities Limited	Foreign Shareholder	20,235,000	2.04%	4.40%	0	Unknown
Standard Chartered Bank (HK) Ltd.	Foreign Shareholder	10,604,500	1.07%	2.31%	0	Unknown

Notes: As at 29 June 2007, as shown in the register of substantial shareholders maintained according to Section 336 of the Securities and Futures Ordinance (the Laws of Hong Kong) (the “SFO”), the top eight shareholders among the above top 10 shareholders held short positions in the issued share capital of the Company.

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRANSFERABLE SHARES

Name of Shareholders	Number of tradable	Share class
Shenyin Wanguo Securities (H.K.) Limited	55,091,000	H shares
The Hongkong and Shanghai Banking Corporation Limited	51,343,925	H shares
Bank of China (Hong Kong) Limited	49,073,000	H shares
Guotai Junan Securities (Hong Kong) Limited	40,920,000	H shares
HSBC Nominees (Hong Kong) Limited	40,106,904	H shares
First Shanghai Securities Limited	25,860,000	H shares
Hang Seng Securities Limited	20,235,000	H shares
Standard Chartered Bank (HK) Ltd.	10,604,500	H shares
BOCI Securities Limited	8,216,000	H shares
Sun Hung Kei Investment Services Limited	7,893,000	H shares

Remarks: The Company is not aware of whether any of the top ten shareholders of the transferable shares is connected with each other or any of the top ten transferable shareholders constitutes a party acting in concern as defined in the “Administrative Measures for Information Disclosure of the Shareholders of Listed Companies”.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the interim results announcement for the period ended 30 June 2007.

CORPORATE GOVERNANCE

During the Reporting Period, the Company has always been in compliance with the provisions of the Code on Corporate Governance Practices (“the Code”) set out in Appendix 14 to the Listing Rules. In order to standardise the Company’s operations and enhance its internal control, the Board considered and approved the Rules on Internal Control System, the Administrative Rules Governing Connected Transactions, the Administrative Rules Governing Information Disclosure and the Rules on Reception and Promotion System on 28 June 2007, which have been uploaded to the websites of The Shenzhen Stock Exchange, The Stock Exchange of Hong Kong Limited and the Company.

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

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

Suspension of trading in the H shares of the Company

At the request of the Company, trading in the H shares of the Company was suspended with effect from 10:00 a.m. on 16 June 2005 until further notice.

By order of the Board of
Hisense Kelon Electrical Holdings Company Limited
Tang Ye Guo
Chairman

Foshan City, Guangdong, the PRC, 23 August 2007

As at the date of this announcement, the Company's directors are Mr. Tang Ye Guo, Mr. Yang Yun Duo, Mr. Wang Shi Lei, Ms. Yu Shu Min, Mr. Lin Lan and Ms. Liu Chun Xin; and the Company's independent non-executive directors are Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren.

Supplementary information as required by The Stock Exchange of Hong Kong Limited in relation to the Company's A shares interim results announcement (calculated in accordance with PRC GAAP)

I. ANALYSIS OF FINANCIAL AND OPERATION POSITION DURING THE REPORTING PERIOD

1. Analysis of financial position during the Reporting Period

Unit: RMB

Item	30 June 2007	31 December 2006	The percentage of increase or decrease (%)
Notes receivable	138,692,912.45	77,317,440.80	79.38%
Trade receivables	830,245,078.03	374,911,284.04	121.45%
Inventories	1,131,797,733.72	919,836,622.62	23.04%
Construction in progress	67,149,462.00	283,719,768.18	-76.33%
Notes payable	302,929,940.00	508,047,387.22	-40.37%
Trade payables	2,413,762,657.22	1,467,483,921.58	64.48%

Where:

- Notes receivable and trade receivables increased by 79.38% and 121.45%, respectively at the end of the Reporting Period as compared to that at the beginning of the Reporting Period, primarily because of the increase in the revenue of the Company during the Reporting Period. Besides, bank acceptances notes are currently the principal form of payment for the domestic sales in the PRC and thereby causing the increase in notes receivable and trade receivables at the end of the Reporting Period. Since June is a peak season for white home appliance industry, the increase in stock during the end of the Reporting Period was caused by the increase in storage of stock by the Company for the peak season.
- Construction in progress decreased by approximately 76.33% at the end of the Reporting Period as compared to that at the beginning of the Reporting Period, primarily because the construction in progress were transferred to fixed assets due to completion of the construction. Further, according to the new accounting standard, the land use rights which were originally regarded as construction in progress were now reclassified as intangible assets.
- Notes payable decreased by approximately 40.37% at the end of the Reporting Period as compared to that at the beginning of the Reporting Period, mainly because the Company has paid substantial amount of due bank acceptances notes during the Reporting Period.
- Trade payables increased by approximately 64.48% at the end of the Reporting Period as compared to that at the beginning of the Reporting Period, primarily because the Company is at its peak season for production during the Reporting Period, and the purchase volume of raw materials increased significantly.

2. Expenses for the Reporting Period

Unit: RMB

Items	From January to June 2007	From January to June 2006	The percentage of increase or decrease (%)
Distribution costs	648,747,489.21	558,786,006.75	16.10%
Administrative expenses	159,128,698.23	175,727,385.58	-9.45%
Finance costs	65,938,272.20	90,233,581.49	-26.92%

- (1) The distribution costs during the Reporting Period increased by 16.10% as compared to that of the corresponding period of last year, which was primarily due to the significant increase of the export sales of the Company, the increase in sea transportation and international selling expenses and the rise in promotion expenses as a result of the expansion of the domestic sales scale.
- (2) The administrative expenses decreased by RMB16.6 million as compared to that of the corresponding period of last year. The decrease was primarily attributable to a series of effective measures taken and implemented gradually by the Company in controlling costs during the Reporting Period.
- (3) Capital situation of the Company further improved. The Company repaid part of the bank loans so as to reduce the financing size. At the same time, the Company obtained the support from several banks to improve financing structure and thus reducing the financing costs of the Company. Therefore, the finance costs of the Company has reduced significantly as compared to that of the corresponding period of last year.

3. Statement of cash flow for the Reporting Period

Unit: RMB

Items		From January to June 2007	From January to June 2006	Increase (%)
Cash flow generated from operating activities	Subtotal of cash inflow	4,750,763,094.22	5,287,051,806.91	-10.14%
	Subtotal of cash outflow	4,679,474,255.00	5,121,419,556.98	-8.63%
	Net cash flow generated from operating activities	71,288,839.22	165,632,249.93	-56.96%
Cash flow generated from investing activities	Subtotal of cash inflow	259,761,329.48	738,918.86	35,054.24%
	Subtotal of cash outflow	60,559,630.81	22,516,951.07	168.95%
	Net cash flow generated from investing activities	199,201,698.67	(21,778,032.21)	N/A
Cash flow generated from financing activities	Subtotal of cash inflow	698,306,736.39	713,021,241.55	-2.06%
	Subtotal of cash outflow	880,396,419.69	849,912,905.51	3.59%
	Net cash flow generated from financing activities	(182,089,683.30)	(136,891,663.96)	N/A

During the Reporting Period, the Company has disposed of certain long-term idle assets in order to reduce inefficient occupation of assets and optimise assets structure. The proceeds from the disposal was mainly used to repay the Company's bank loans and to reduce the borrowing size and finance costs of the Company. This had resulted in large increase in cash inflow generated from investing activities and cash outflow from financing activities as compared to the corresponding period of the previous year.

II. PARTICULARS OF THE CHANGES IN SHAREHOLDINGS OF THE SHARES OF THE COMPANY HELD BY DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT DURING THE REPORTING PERIOD

Name	Position	No. of shares held at the beginning of the year	No. of shares increase during the Reporting Period	No. of shares decrease during the Reporting Period	No. of shares held at the end of the period	Reasons for movement
Wang Jiu Cun	Vice President	13,800	1,656	-	15,456	As a result of the share reform, 1,656 shares were granted for the Reporting Period.

Except for Ms. Wang Jiu Cun (Vice President) holds shares of the Company, none of other Directors, supervisors and senior managements hold any share of the Company.

III. NEW APPOINTMENT OR DISMISSAL OF DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The sixth session of the Board considered and approved the appointment of Mr. Jia Shao Qian as the vice president of the Company on 30 January 2007.

The sixth session of the Board considered and approved the appointment of Mr. Su Yu Tao as the vice president of the Company on 23 March 2007.

The resignation of Mr. Xiao Jian Lin as the Director of the Company due to personal reasons was approved at the 2007 eighth Board meeting of the sixth Board on 21 June 2007.

IV. INVESTMENTS OF THE COMPANY DURING THE REPORTING PERIOD

1. During the Reporting Period, the Company did not raise any capital and no capital raised during any prior period was used during the Reporting Period.

2. Material Investment excluding raising of capital during the Reporting Period

(1) As at the end of the Reporting Period, the equity transfer procedures in relation to the transfer of the 30% equity interest of Chengdu Kelon from Chengdu Engine (Group) Co., Ltd. to the Company was completed. The Company is now holding 100% of the equity interest of Chengdu Kelon.

(2) During the Reporting Period, the Company has invested the sum of RMB1,500,000 to establish Hisense (Chengdu) Refrigerator Co. with Pearl River Electric Refrigerator Company Limited, a wholly owned subsidiary of the Company.

V. THE PROGRESS OF SETTLEMENT ON THE FUNDS EMBEZZLED FOR NON-OPERATING PURPOSES

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

Unit: RMB (in ten thousand)

Balance of the amount of the Company embezzled by the former substantial shareholders, its subsidiaries, specified third parties and other related parties for non-operating purpose		Amount settled	Form of settlement	Amount settled	Time for Settlement
1 January 2007	30 June 2007	during this period			
68,921.99	65,514.95	3,407.04	Offsetting with the consideration for equity transfer (Note 1)	3,400	24 April 2007
			Collection of outstanding payments (Note 2)	7.04	May 2007

Note 1: On 24 April 2007, the equity transfer procedure of the 30% equity interest of Chengdu Kelon from Chengdu Engine (Group) Co., Ltd. to the Company was completed. According to the agreement, the loan of RMB34,000,000 owed by Chengdu Xinxing to Chengdu Kelon will be repaid by Chengdu Engine (Group) Co., Ltd. and set off against the consideration for the equity transfer of Chengdu Kelon.

Note 2: During the Reporting Period, the Company collected the outstanding payments of RMB70,400 from Yunlong Consultancy.

As at the end of the Reporting Period, the total funds embezzled by the former substantial shareholder and its subsidiaries, specified third parties and other related parties for non-operating reasons amounted to RMB655.15 million of which totally RMB650.69 million was embezzled by Guangdong Greencool (the former substantial shareholder) and its subsidiaries and specified third parties while RMB4.46 million was embezzled by other related parties.

2. The progress of settlement during the Reporting Period

During the Reporting Period, the settlement panel of the Company had been working on settlement. Up to date, progress has been made in eight of the twenty litigations initiated by the Company against Gu Chujun and Guangdong Greencool and its subsidiaries (the former substantial shareholder), specified third parties and other related parties (total target claim amount of RMB528.04 million. The Intermediate People's Court of Foshan City has heard on these eight lawsuits respectively, but judgment of which are still pending. (see details in Relevant Litigations and Arbitrations of the Company set out in part VI to this section).

VI. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY FOR THE REPORT PERIOD.

1. Background information on material litigations involving target claim amount over RMB10,000,000

Litigation involving Greencool Companies and the specified third parties

No.	Name of case	Counterparty	Target Claim Amount (in ten thousand RMB)	Background information of the case	The progress of the case
1	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Jiangxi Kesheng	Guangdong Greencool, Gu Chu Jun and Jiangxi Kesheng	1,863.00	Under the authorisation by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the Company that, on 20 February 2005, it infringed the legal interests of the plaintiff by making use of the name of Jiangxi Kesheng so as to avoid the regulatory restrictions on connected transactions and misappropriated RMB18.63 million of the plaintiff.	The hearing was commenced in Foshan Intermediate Court on 27 June 2007. The case is now pending for judgement.
2	Litigation initiated by Shenzhen Kelon against Guangdong Greencool, Tianjin Lixin, Shenzhen Greencool and Gu Chu Jun	Guangdong Greencool, Tianjin Lixin, Shenzhen Greencool and Gu Chu Jun	8,960.03	Under the authorisation by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the Company to procure the plaintiff to enter into a sale and purchase contract with Tianjin Lixin regarding the purchase of 12,700 tons of steel. The plaintiff made the payment by two installments to Tianjin Lixin on 26 and 27 April 2005, respectively, and Tianjin Lixin transferred the amounts collected to Shenzhen Greencool. The plaintiff has not received any steel supply from Tianjin Lixin. Guangdong Greencool and Mr. Gu Chu Jun misused their controlling position in the Company and infringed the legal interests of the plaintiff.	The hearing was commenced in Foshan Intermediate Court on 27 June 2007. The case is now pending for judgement.

No.	Name of case	Counterparty	Target Claim Amount (in ten thousand RMB)	Background information of the case	The progress of the case
3	Litigation initiated by Kelon Fittings against Guangdong Greencool, Tianjin Xiangrun, Shenzhen Greencool and Gu Chu Jun	Guangdong Greencool, Tianjin Xiangrun, Shenzhen Greencool and Gu Chu Jun	9,741.22	Under the authorisation by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the Company to procure the plaintiff to enter into a sale and purchase contract with Tianjin Xiangrun regarding the purchase of 8,820 tons of steel from it. The plaintiff made the payments by installments to Tianjin Xiangrun on 26, 27 and 28 April 2005, respectively, but the plaintiff did not receive any steel from Tianjin Xiangrun. Guangdong Greencool and Mr. Gu Chu Jun misused its controlling position in the Company and appropriated RMB97.41 million of the plaintiff.	The hearing has been commenced in Foshan Intermediate Court on 27 June 2007. The case is now pending for judgement.

Other litigations

No.	Name of case	Counterparty	Target Claim Amount (in ten thousand RMB)	Background information of the case	The progress of the case
1	Litigation initiated by Guangzhou Mei Kou Jia Food Company Limited (廣州美口佳食品有限公司) against Ronshen Freezer	Guangzhou Mei Kou Jia Food Company Limited (廣州美口佳食品有限公司)	1,000.00	The plaintiff filed the litigation alleging that the freezers sold by Kelon failed to meet the requirements stipulated in the contract.	This is a new case occurred during the reporting period. The Company has appointed lawyers as the agent to deal with this case.

No.	Name of case	Counterparty	Target Claim Amount (in ten thousand RMB)	Background information of the case	The progress of the case
2	Litigation initiated by Ronshen Refrigerator against Xi'an Kelon	Xi'an Kelon	9,998.41	The Company claimed against the defendant for the repayment of the loan of RMB89.18 million and the related interest amounting to RMB10.8 million.	Ronshen Refrigerator received Civil Judgment (Fo Zhong Fa Li Bao Zi No.241 (2007)) and the summon from the Foshan Intermediate Court on 22 June 2007, which stated that, as applied by Ronshen Refrigerator, on 13 June, 2007, Foshan Intermediate Court issued an order of freezing the bank deposit of Xi'an Kelon amounting to RMB89,000,000 or sealing up and distraining its assets of such equivalent amount. The trial of this case has been postponed.
3	Litigation initiated by the Company against Shangqiu Kelon	Shangqiu Kelon	2,566.09	The Company claimed against the defendant for the repayment of the loan of RMB21,590,900, the related interest amounting to RMB4,070,000 and to assume the litigation costs of the case.	On 15 July 2007, the Company received the summon and the Civil Judgment (Fo Zhong Fa Li Bao Zi No.262 (2007)) regarding the Company's application to the Foshan Intermediate Court for an order of freezing the properties of the opposite party.
4	Litigation initiated by Jilin City Commercial Bank Jiangbei Branch against Jilin Kelon and the Company	Jilin City Commercial Bank Jiangbei Branch	1,805.79	The Plaintiff claimed for principal and related interest.	It was judged by the Court that the Company did not need to bear any responsibility.

Apart from the cases above, details of other material litigations are disclosed in the material litigations section set out in the Announcement of Results for the year ended 31 December 2006 dated 27 April 2007 and Announcement on the Addition and Amendment to the Annual Report for the year ended 31 December 2006 dated 12 July 2007.

2. General status of the litigations

As of the date of this announcement, the Company and its subsidiaries were involved in 104 litigations with a total claim amount of RMB1,104,060,000, US\$13,750,719.19 and involving land of 629,003.22 square metres.

Among the aforementioned litigations involving the Company and its subsidiaries, the Company and its subsidiaries acted as plaintiffs in 30 cases with a total claim amount of RMB944,316,700 and as defendants in 74 cases involving an amount of RMB159,743,200, US\$13,750,719.19 and land of 629,003.22 square metres.

Among the aforementioned litigations involving the Company and its subsidiaries, there are 28 litigations and arbitrations as disclosed above involving an amount exceeding RMB10,000,000 each (with a total claim amount of RMB1,045,492,200, US\$13,750,719.19), 76 litigations with a claim amount less than RMB10,000,000 each (with a total claim amount of RMB58,567,800 and land of 629,003.22 square metres).

3. The additional new litigations and the status of completed litigations

From 1 January 2007 to the date of this announcement, the Company and its subsidiaries were involved in 61 new litigations with a total claim amount of RMB173,452,300. The Company and its subsidiaries acted as plaintiff in 8 cases with a total claim amount of RMB140,191,800 and as defendants in 53 cases involving an amount of RMB33,260,500. Among the aforementioned new litigations, there are 4 litigations as disclosed above involving an amount exceeding RMB10,000,000 each (with a total claim amount of RMB147,192,900), 57 litigations with a claim amount less than RMB10,000,000 each (with a total claim amount of RMB26,259,400).

From 1 January 2007 to the date of this announcement, the Company and its subsidiaries were involved in a total of 17 closed cases with a total claim amount of RMB183,853,500. Among the closed cases above, the Company and its subsidiaries were acting as plaintiffs in 1 litigations with a total claim amount of RMB168,855,100. The Company and its subsidiaries were acting as defendants in 16 litigations involving a total claim amount of RMB14,998,400.

VII. PARTICULARS OF THE ACQUISITION AND DISPOSAL OF ASSETS, TAKEOVER AND MERGER

Disposal of assets

Unit: RMB (in ten thousand)

Transaction counterpart	Disposed assets	Date of disposal	Net account value	Transaction price	Net profit attributable to the disposed assets from the beginning of the year to the date of disposal	Gain or loss on disposal	Percentage to total profit	Connected transaction or not	Basis of pricing	Completion of transfer of title of relevant assets	Completion of transfer of relevant indebtedness
Gateway Limited	Buildings	March 2007	6,688.40	12,329.54	5,517.84	5,517.84	57.48%	No	Tender	Yes	Yes
Fuji Elevator	Buildings	June 2007	676.38	1,635.54	865.00	865.00	9.01%	No	Tender	Yes	Yes

Note: The disposals made by the Company during the Reporting Period mainly consisted of idle assets. It would help to optimise the assets structure of the Company. The disposals posed no impact on the continuity of operation and stability of the management of the Company.

VIII. PARTICULARS OF MATERIAL RELATED PARTYS' TRANSACTIONS DURING THE REPORTING PERIOD

1. Related parties transactions relating to the purchase and sales of goods and provision of services

Unit: RMB

Related parties	Subject of the related parties' transaction	Pricing policy	Terms of credit of transaction	Sale of products and provision of services to related parties		Purchase of goods and receipt of services from related parties	
				Transaction amount	Percentage of total amount of similar transactions	Transaction amount	Percentage of total amount of similar transactions
Hisense Zhejiang	Purchase of air-conditioners	Note 4	55 days	-	-	289,575,366.20	6.77%
Hisense Zhejiang	Sale of plastic parts of air-conditioners	Note 2	55 days	7,470,510.94	0.15%	-	-
Hisense Air-conditioning	Sale of components of air-conditioners	Note 2	55 days	4,615,217.56	0.09%	-	-
Hisense Air-conditioning	Purchase of air-conditioners	Note 4	55 days	-	-	48,971,490.07	1.15%
Hisense Air-conditioning	Sale of air-conditioners	Note 1	55 days	53,581,741.84	1.04%	-	-
Hisense Air-conditioning	Sale of moulds	Note 3	60 days	3,078,974.38	0.06%	-	-
Hisense Nanjing	Purchase of refrigerators	Note 4	60 days	-	0.00%	29,549,628.57	0.69%
Hisense Beijing	Sales of refrigerators	Note 1	60 days	34,563,838.25	-	-	-
Huayi Compressor	Purchase of compressors	Note 5	60 days	-	-	32,994,550.14	0.77%
Jiaxi Beila	Purchase of compressors	Note 5	60 days	-	-	79,240,407.33	1.85%
Chongqing Kelon	Sale of refrigerators	Agreed price	Spot delivery	42,549,554.69	0.83%	-	-
Total				<u>145,859,837.66</u>	<u>2.84%</u>	<u>480,331,442.31</u>	<u>11.23%</u>

Note 1: The sales of products from the Company or its subsidiaries to Hisense related party (including refrigerators and air-conditioners, same as below)

The prices of products supplied from the Company or its subsidiaries to Hisense related party are principally determined by negotiation between the parties based on the principle of fairness and reasonableness with reference to the market price of the products and the pricing policy of OEM products within the industry.

The price of individual product to be sold by the Company or its subsidiaries to Hisense related party is determined according to the following standard:

The production costs of individual product of the Company or its subsidiaries + management fee + after-sale service fee ≤ the selling price of individual product to be sold by the Company or its subsidiaries to Hisense related party

After considering the above pricing standard and the relevant percentage level of the management fee and after-sale service fee of the Company or its subsidiaries and making reference with the market price of the products, the price of product (specific model) agreed by both parties is:

The price of product (specific model) to be sold by the Company or its subsidiaries to Hisense related party = production costs of product (specific model) of the Company or its subsidiaries/(1 – processing fee percentage) (Among which, the processing fee percentage for refrigerators is 0.07 and the processing fee percentage for air-conditioners is 0.05)

The self-transportation method was adopted for the transportation of the products.

Note 2: Pricing for the sale of raw materials and product parts and components by the Company or its subsidiaries to the Hisense related part was determined after arm's length negotiation between the Company or its subsidiaries and the Hisense related parties with reference to the market price of similar raw materials, parts and components of refrigerators and air-conditioners.

Note 3: Sale of moulds by Kelon Mould to Hisense Electrical Appliances and Hisense Air-conditioning

In response to the Hisense related parties' invitations to tender (which are also extended to various third parties) from time to time, the Company or its subsidiaries may submit such tenders for the manufacture of the moulds for such products as requested by the Hisense related parties. Pricing for the manufacture of moulds was determined principally by the open bidding process.

Note 4: The price of products purchased by the Company or its subsidiaries from Hisense related parties are principally determined by negotiation between the parties based on the principle of fairness and reasonableness with reference to the market price of the products and the pricing policy of OEM products within the industry.

The price of individual product to be purchased by the Company or its subsidiaries from Hisense related party is determined according to the following standard:

The purchase price of individual product to be purchased by the Company or its subsidiaries from Hisense related party \leq the production costs of individual product (Shunde or other production bases) + management fee + transportation costs for individual product

After considering the above pricing standard and the relevant percentage level of the management fee and production costs of the Company or its subsidiaries and making reference with the market price of the products, the price of product (specific model) agreed by both parties is:

The price of product (specific model) to be purchased by the Company or its subsidiaries from Hisense related party = production costs of individual product (specific model) of the Company or its subsidiaries/(1 – processing fee percentage) (Among which, the processing fee percentage for refrigerators is 0.07 and the processing fee percentage for air-conditioners is 0.05)

The self-transportation method was adopted for the transportation of the products.

Note 5: Pricing for the purchase of compressors was determined principally by the arm's length negotiation between the relevant subsidiaries of the Company and each of Huayi Compressor, Huayi Jingzhou and Jiaxi Beila with reference to the market price of compressors. Such transaction was conducted in the ordinary course of business of the Company and was on normal commercial terms no less favourable than those available from or to third parties.

IX. MATERIAL CONTRACTS AND IMPLEMENTATION DURING THE REPORTING PERIOD

1. During the Reporting Period, the Company has not incurred or subsisted from previous reporting period any material custody, contracting or lease of assets of other companies or custody, contracting or lease of assets of the Company by other companies.
2. During the Reporting Period, the following external guarantees were incurred and subsisted from previous reporting period by the Company.

Unit: RMB (in ten thousand)

External guarantee made by the Company (excluding guarantees to its subsidiaries)

Guaranteed party	Date (the day of signing the agreement)	Guaranteed amount	Type of guarantee	Period of guarantee	Completion or not	Whether in favour of any related party (yes or no)
Total actual guaranteed amount during the Reporting Period	Nil	Nil	Nil	Nil	Nil	Nil
Total balance of the actual guaranteed amount at the end of the Reporting Period (A)	Nil	Nil	Nil	Nil	Nil	Nil

Guarantees made by the Company to its subsidiaries

Total actual guaranteed amount to subsidiaries during the Reporting Period						60,391.37
Total balance of the actual guaranteed amount to subsidiaries at the end of the Reporting Period (B)						27,962.08

Total guarantee made by the Company (including the guarantees to subsidiaries)

Total guaranteed amount (A+B)						27,962.08
Percentage of the total guaranteed amount to absolute net assets of the Company						31.39%

Attributable to:

Guaranteed amount provided to shareholders, actual controlling parties and their related parties (C)						0
Guaranteed amount provided directly or indirectly to guaranteed objects with gearing ratio over 70% (D)						24,695.19
Total guaranteed amount over 50% of the net asset (E)						0
Total guarantee amount of the above three guarantees* (C+D+E)						24,695.19

3. During the Reporting Period, no material cash assets management by the others occurred or occurred in the previous period but subsisted by the Company.

- X. THE FINANCIAL REPORTS FOR THE REPORTING PERIOD ARE UNAUDITED AND THE COMPANY DID NOT CHANGE ITS AUDITORS DURING THE REPORTING PERIOD.**
- XI. DURING THE REPORTING PERIOD, NONE OF THE COMPANY, ITS BOARD OF DIRECTORS AND DIRECTORS, RELEVANT MANAGEMENT MEMBERS, ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER WAS SUBJECT TO ANY INVESTIGATION BY ANY RELEVANT AUTHORITIES OR ANY MANDATORY MEASURES TAKEN BY ANY JUDICIAL AND DISCIPLINARY DEPARTMENTS OR HANDED OVER TO JUDICIAL AUTHORITIES FOR CRIMINAL LIABILITIES NOR WAS ANY OF THEM SUBJECT TO EXAMINATION OR ADMINISTRATIVE PUNISHMENT BY THE CHINA SECURITIES REGULATORY COMMISSION (THE “CSRC”), OR PROHIBITED FROM THE SECURITIES MARKETS, CIRCULATED A NOTICE OF CRITICISM OR DEEMED AS INELIGIBLE PERSONS AND PUNISHED BY ANY OTHER ADMINISTRATIVE BODIES, OR PUBLICLY CENSURED BY ANY STOCK EXCHANGES.**

DEFINITIONS

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

“Company”, the “Company” or “Kelon Electrical”	Hisense Kelon Electrical Holdings Company Limited
“Hisense Air-Conditioning”	Qingdao Hisense Air-conditioning Company Limited
“Hisense Electrical Appliances”	Qingdao Hisense Electric Co., Ltd.
“Hisense Group”	Hisense Group Company
“Hisense Marketing”	Qingdao Hisense Marketing Company Limited
“Economic Consultancy”	Foshan Shunde Economic Consultancy Company
“Hisense Zhejiang”	Hisense (Zhejiang) Air-Conditioner Co., Ltd.
“Hisense Beijing”	Hisense (Beijing) Electrical Co., Ltd.
“Dong Heng Consultancy”	Foshan Shunde Dong Heng Information Consultancy Service Company Limited
“Guangdong Greencool”	Guangdong Greencool Enterprise Development Company Limited
“Greencool Companies”	Guangdong Greencool and other related parties
“Ronshen Refrigerator”	Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.
“Xi’an Kelon Cooling”	Xi’an Kelon Cooling Co., Ltd.
“Kelon Air-Conditioner”	Guangdong Kelon Air-Conditioner Co., Ltd.
“Kelon Fittings”	Guangdong Kelon Fittings Co., Ltd.

“Jiangxi Kelon”	Jiangxi Kelon Industrial Development Co., Ltd.
“Yangzhou Kelon”	Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.
“Kaifeng Kelon”	Kaifeng Kelon Air-Conditioner Co., Ltd.
“Chengdu Kelon”	Chengdu Kelon Refrigerator Co., Ltd.
“Jilin Kelon”	Jilin Kelon Electrical Co Ltd.
“Chongqing Kelon”	Chongqing Rongsheng Kelon Refrigerator Sales Co., Ltd.
“Huayi Compressor”	Huayi Compressor Holdings Company Limited
“Jiaxi Beila”	Jiaxi Beila Compressor Company Limited
“Jiangxi Kesheng”	Jiangxi Kesheng Industry and Trading Company Limited
“Tianjin Greencool”	Greencool Refrigerant (China) Company Limited
“Hainan Greencool”	Hainan Greencool Environmental Protection Engineering Co. Ltd.
“Jinan San Ai Fu”	Jinan San Ai Fu Petrochemical Company Limited
“Shenzhen Kelon”	Shenzhen Kelon Procurement Co Ltd.
“Shenzhen Greencool”	Greencool Procurement (Shenzhen) Co., Ltd.
“Tianjin Xiangrun”	Tianjin Xiangrun Trading Development Company Limited
“Yangzhou Greencool”	Yangzhou Greencool Venture Capital Company Limited
“Jiangxi Keda Plastic”	Jiangxi Keda Plastic Technology Company Limited
“Wuhan Changrong”	Wuhan Changrong Electrical Appliance Company Limited
“Zhuhai Longjia”	Zhuhai City Longjia Refrigerant Co., Ltd.
“Zhuhai Defa”	Zhuhai Defa Air-conditioner Fittings Company Limited
“Hefei Weixi”	Hefei Weixi Home Appliances Co., Ltd.
“Zhuhai Greencool”	Zhuhai Greencool Refrigeration and Engineering Co., Limited
“Beijing Greencool”	Beijing Greencool Refrigerant Replacement Engineering Co., Limited
“Shenzhen Greencool Technology”	Greencool Technology Development (Shenzhen) Company Limited
“Shenzhen Greencool Environmental”	Greencool Technology Environmental Protection Engineering (Shenzhen) Co., Ltd.

“Hangxiao Ganggou”	Zhejiang Hangzhou Hangxiao Ganggou Holdings Company Limited
“Construction Bank”	China Construction Bank Corporation
“CSRC”	China Securities Regulatory Commission
“Shenzhen Stock Exchange”	Shenzhen Stock Exchange
“Intermediate People’s Court of Foshan City”	Intermediate People’s Court of Foshan City
“Gateway Limited”	佳瑋有限公司 (Gateway Limited)
“FUJI Elevator”	Guangdong FUJI Elevator Limited
“Beijing Deheng”	Beijing Deheng Solicitors
“Yangzhou Finace Bureau”	Yangzhou Finace Economic Development Zone Bureau
“Yunlong Consultancy”	Shunde Yunlong Consultancy Limited
“Shangqiu Bingxiong”	Shangqiu Bingxiong Freezing Facilities Company Limited
“Tianjin Lixin”	Tianjin Lixin Trading Development Company Limited
“Shangqiu Kelon”	Shangqiu Kelon Appliances Co., Ltd.
“Huayi Jingzhou”	Huayi Compressor (Jingzhou) Co., Ltd.
“Chengfa Group”	Chengdu Engine (Group) Company Limited
“Chengdu Xinxing”	Chengdu Xinxing Electricial Appliance Hondings Company Limited
“Tianjin Aike”	Aike Enterprise (Tianjin) Company Limited
“Greencool Regrigerant”	Greencool Regrigerant (China) Company Limited
“Hisense Nanjing”	Hisense (Nanjing) Electrical Co., Ltd.