

Hisense KELON *Ronshen

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

海信科龍電器股份有限公司

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

(Stock Code: 00921)

2008 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 2008 (the "Reporting Period"), together with the unaudited comparative figures for the corresponding period in 2007 or the audited comparative figures as at 31 December 2007. The consolidated interim financial statements have not been audited but have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended	
		30 June	
		2008	2007
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Turnover	3	5,046,920	4,853,981
Cost of sales		(4,179,139)	(4,022,551)
Gross profit		867,781	831,430
Other income and gains		107,154	203,287
Distribution costs		(646,108)	(648,747)
Administrative expenses		(209,938)	(229,567)
Other operating expenses		(5,955)	(11,411)
Profit from operations		112,934	144,992
Share of results of associates		7,861	(966)
Finance costs		(51,006)	(48,019)
Profit before income tax	4	69,789	96,007
Income tax (expense)/ credit	5	(7,164)	585
Profit for the period		62,625	96,592
Attributable to:			
Equity holders of the Company		63,255	117,374
Minority interests		(630)	(20,782)
		62,625	96,592
Dividends	6	-	-
Earnings per share attributable to equity holders of the Company	7		
– Basic and diluted		RMB0.06	RMB0.12

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		1,375,224	1,383,062
Investment properties		36,877	38,192
Intangible assets		167,690	168,112
Payments for leasehold land held for own use under operating leases		293,355	305,392
Interests in associates		94,220	82,839
Available-for-sale financial assets		1,990	1,220
Goodwill		-	-
Deferred tax assets		10,544	11,300
		<u>1,979,900</u>	<u>1,990,117</u>
Current assets			
Inventories		1,168,841	940,284
Trade and other receivables	8	1,504,000	1,307,209
Taxation recoverable		944	585
Other financial assets		11,847	9,479
Pledged bank deposits		40,248	70,133
Cash and cash equivalents		164,204	76,395
Total current assets		<u>2,890,084</u>	<u>2,404,085</u>
Non-current assets held for sale		<u>-</u>	<u>20,369</u>
Total assets		<u>4,869,984</u>	<u>4,414,571</u>
LIABILITIES			
Current liabilities			
Trade and other payables	9	3,785,202	3,093,181
Trade deposits received		455,595	406,379
Other financial liabilities		9,759	6,158
Provisions		144,197	144,006
Taxation payable		27,824	27,856
Other liabilities		37,943	55,793
Bank borrowings		969,938	1,310,972
Total current liabilities		<u>5,430,458</u>	<u>5,044,345</u>
Non-current liabilities			
Other liabilities		<u>-</u>	<u>-</u>
Total liabilities		<u>5,430,458</u>	<u>5,044,345</u>
Net current liabilities		<u>(2,540,374)</u>	<u>(2,640,260)</u>
Total assets less current liabilities		<u>(560,474)</u>	<u>(629,774)</u>
TOTAL NET LIABILITIES		<u>(560,474)</u>	<u>(629,774)</u>

CONDENSED CONSOLIDATED BALANCE SHEET - Continued

	Notes	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
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		266,672	266,672
Foreign exchange reserve		35,865	29,111
Accumulated losses		(3,319,485)	(3,382,740)
		(714,763)	(784,772)
Minority interests		154,289	154,998
TOTAL EQUITY		(560,474)	(629,774)

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

As at 30 June 2008, the Group’s current liabilities exceeded its current assets by approximately RMB2,540 million (2007: RMB2,640 million) in which the Group has outstanding short-term loans in the aggregate of approximately RMB970 million (2007: RMB1,311 million). After taking into consideration of the existing banking facilities available, operating advances from related companies, the Company’s management 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 therefore 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 2007. These condensed consolidated financial statements and notes thereon do not include all of the information required for a 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 2007 annual financial statements.

These condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements. The Group has adopted the following new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2008.

IFRIC – Interpretation 11	Group and Treasury Share Transactions
IFRIC – Interpretation 12	Service Concession Arrangements
IFRIC – Interpretation 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new and revised IFRSs did not result in significant changes to the Group’s accounting policies.

The Group has not yet adopted the following new and revised standards, amendments and interpretations that have been issued but are not yet effective. The Board of directors of the Company anticipated that the application of these new and revised IFRSs will have no material impact on the financial statements of the Group.

IAS 1 (Revised)	Presentation of Financial Statements ¹
IAS 23 (Revised)	Borrowing Costs ¹
IAS 27 (Revised)	Consolidated and Separate Financial Statements ³
IAS 32 and IAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
IFRS 1 and IAS 27 Amendments	Cost of a Subsidiary in the Separate Financial Statements of a Parent on First-time Adoption of IFRSs ¹
IAS 39 Amendment	Eligible Hedge Items ³
IFRS 2 Amendment	Share-based Payments – Vesting Conditions and Cancellations ¹
IFRS 3 (Revised)	Business Combinations ³
IFRS 8	Operating Segments ¹
IFRIC – Interpretation 13	Customer Loyalty Programmes ²
IFRIC – Interpretation 15	Agreements for the Construction of Real Estate ¹
IFRIC – Interpretation 16	Hedges of a Net Investment in a Foreign Operation ⁴

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2008

³ Effective for annual periods beginning on or after 1 July 2009

⁴ Effective for annual periods beginning on or after 1 October 2008

3. 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 2008 (Unaudited)						
	Refrigerators	Air- conditioners	Freezers	Product components	Elimination	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE						
External sales	2,321,288	2,199,985	276,516	249,131	-	5,046,920
Inter-segment sales	-	-	-	281,475	(281,475)	-
Total revenue	<u>2,321,288</u>	<u>2,199,985</u>	<u>276,516</u>	<u>530,606</u>	<u>(281,475)</u>	<u>5,046,920</u>

Inter-segment sales are charged at prevailing market rates.

RESULT						
Segment result	<u>123,754</u>	<u>6,775</u>	<u>11,645</u>	<u>(14,707)</u>	<u>-</u>	127,467
Unallocated corporate expenses						<u>(14,533)</u>
Profit from operations						112,934
Share of results of associates						7,861
Finance costs						<u>(51,006)</u>
Profit before income tax						69,789
Income tax expense						<u>(7,164)</u>
Profit for the period						<u>62,625</u>

3. SEGMENT INFORMATION - continued

For the six months ended 30 June 2007 (Unaudited)						
	Air-		Product			
	Refrigerators	conditioners	Freezers	components	Elimination	Consolidated
	RMB'000	RMB'000	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.

RESULT						
Segment result	95,482	22,544	(1,976)	40,047	-	156,097
Unallocated corporate expenses						(11,105)
Profit from operations						144,992
Share of results of associates						(966)
Finance costs						(48,019)
Profit before income tax						96,007
Income tax credit						585
Profit for the period						<u>96,592</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	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The PRC		
Mainland China	3,044,951	2,678,696
Hong Kong	156,796	172,297
	<u>3,201,747</u>	<u>2,850,993</u>
Europe	536,414	591,011
America	442,396	765,231
Others	866,363	646,746
	<u>5,046,920</u>	<u>4,853,981</u>

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. Therefore, presentation of segment assets by geographical locations is not shown.

4. PROFIT BEFORE INCOME TAX

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

	For the six months ended	
	30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	105,529	123,419
Depreciation of investment properties	1,315	1,247
Amortisation of payments for leasehold land held for own use under operating leases	6,580	7,390
Amortisation of other intangible assets	3,985	2,028
Impairment loss on trade and other receivables	3,082	8,472
Write down of inventories to net realisable value	422	1,540
Rental income from investment properties (net of direct operating expenses)	(1,069)	(5,659)
Share of income tax of associates	2,980	1,790
Loss/(Gain) on disposal of property, plant and equipment, net	(4,818)	28
Gain on disposal of payments for leasehold land held for own use under operating leases	-	(9,304)
Gain on disposal of non-current assets held for sale	(52,888)	-
Gain on disposal of investment properties	-	(57,679)
Partial recovery of an impaired receivable	-	(57,072)

5. INCOME TAX EXPENSE / (CREDIT)

	For the six months ended	
	30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Income taxes consist of:		
Current tax		
- PRC enterprise income tax	6,408	2,950
- Hong Kong Profits Tax	-	85
Deferred tax	756	(3,620)
Income tax (credit)/ expense	7,164	(585)

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 16 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 took effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate changed 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 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 2008.

6. DIVIDENDS

The Board of Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

7. EARNINGS 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 2008 of RMB63,255,000 (six months ended 30 June 2007: net profit attributable to equity holders of the Company of RMB117,374,000) and 992,006,563 shares (six months ended 30 June 2007: 992,006,563 shares) outstanding during the period. No diluted earnings per share has been presented as there were no dilutive potential ordinary shares in issue in both periods.

8. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables were trade receivables of net carrying amount of RMB790,463,000 (2007:RMB442,835,000). 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. Trade receivables are non-interest bearing. The aging analysis of trade receivables is as follows:

	Gross amount RMB'000	Impairment loss RMB'000	Net amount RMB'000
As at 30 June 2008 (Unaudited)			
Within three months	603,179	-	603,179
Three to six months	159,260	1,205	158,055
Six months to one year	19,183	2,328	16,855
One to two years	31,274	19,086	12,188
Two to three years	39,051	38,865	186
Over three years	99,586	99,586	-
	<u>951,533</u>	<u>161,070</u>	<u>790,463</u>
As at 31 December 2007(Audited)			
Within three months	396,038	-	396,038
Three to six months	34,126	948	33,178
Six months to one year	13,695	1,507	12,188
One to two years	14,394	13,021	1,373
Two to three years	48,336	48,278	58
Over three years	123,693	123,693	-
	<u>630,282</u>	<u>187,447</u>	<u>442,835</u>

9. TRADE AND OTHER PAYABLES

Included in trade and other payables were trade payables amounted to RMB1,610,140,000 (2007: RMB1,152,853,000). The aging analysis of trade payables is as follows :

	30 June 2008	31 December 2007
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within one year	1,414,947	995,092
One to two years	86,240	70,838
Two to three years	84,360	64,796
Over three years	24,593	22,127
	<u>1,610,140</u>	<u>1,152,853</u>

DIFFERENCES BETWEEN IFRS AND PRC GAAP AS APPLICABLE TO THE GROUP

The consolidated shareholders' equity of the Group prepared under IFRS and that prepared under PRC GAAP have the following major differences:

	30 June 2008	31 December 2007
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Equity attributable to equity holders of the Company as per condensed consolidated financial statements prepared under IFRS	(714,763)	(784,772)
Adjustment on restructuring cost expensed	19,097	11,684
Adjustment on dilution loss on share reform of an associate	16,317	16,317
Adjustment on amortisation of trademark	(16,712)	(16,712)
Equity attributable to equity holders of the Company as per consolidated financial statements prepared under PRC GAAP	<u>(696,061)</u>	<u>(773,483)</u>

The unaudited consolidated net profit of the Group prepared under IFRS and that prepared under PRC GAAP have the following major differences:

	For the six months ended	
	30 June	
	2008	2007
	RMB'000	RMB'000
Net profit attributable to equity holders of the Company as per condensed consolidated financial statements prepared under IFRS	63,255	117,374
Adjustment on restructuring costs expensed	7,413	-
Net profit attributable to equity holders of the Company as per consolidated income statement prepared under PRC GAAP	<u>70,668</u>	<u>117,374</u>

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

INTERIM DIVIDEND

Pursuant to the resolutions passed on the meeting of Board of the Company held on 21 August 2008, the Board does not recommend the payment of any interim dividend for the six months ended 30 June 2008. No interim dividend was paid for the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Review

During the Reporting Period, the macro-economic environment became more challenging to domestic enterprises in view of continued appreciation of Renminbi and the increasing capital pressure and climbing financing costs resulting from the contractionary monetary policy adopted by the State to tame inflation. Against the background of shuttling energy and raw materials prices, CPI (Consumer Price Index) and PPI (Producer Price Index) remained obstinately high, and the market of refrigerating products, particularly the air-conditioner sector, was subject to unprecedented challenges, posting a significant year-on-year downturn for the industry. During the first half of 2008, the business conditions for enterprises both in the domestic market and the international market grew bleak. Under the influence of the above factors, the Company has experienced significantly higher operating pressure as compared to the previous reporting period.

Under the abovementioned unfavorable operating environment, the Company adhered to its operating objective of “Creating product advantages, Improving the quality of product, Strengthening the productivity, Accelerating cash flow and Reinforcing personnel training”. The internal potentials of product design, quality, production and capital management were deeply explored through incessantly increasing the labor productivity, smoothing the technological workflow, improving the product quality level and further enhancing the profitability of products. On the other hand, the core competitive strengths of the enterprise have been reinforced with the introduction of talents, technological cooperation and innovation of technologies. During the Reporting Period, the Company recorded the revenue from its principal operations of RMB5,046,920,000, representing a year-on-year growth of 3.97%; profit from operation of RMB112,934,000, representing a decrease of 22.11% as compared to the corresponding period last year; profit for the period of RMB62,625,000, representing a decrease of 35.17% as compared to the corresponding period of 2007; and the profit attributable to the equity holders of the Company of RMB63,255,000.

Analysis of Operation Structure

During the Reporting Period, of the revenue from the Company’s principal operations, the air-conditioners business accounted for 43.59% of the total turnover of the Company, representing an increase of 0.32% as compared to the corresponding period last year; the refrigerators business accounted for 45.99% of the total turnover, representing a increase of 1.50% as compared to the corresponding period last year; and the remaining 10.42% of the total turnover was generated from the sales of freezers and product components, representing an increase of 40.50% as compared to the corresponding period last year.

The domestic sales accounted for 60.33% of the total turnover of the Company, representing an increase of 13.67% as compared to the corresponding period last year; and the overseas sales accounted for 39.67% of the total turnover of the Company, representing a decrease of 7.97% as compared to the corresponding period last year.

Air-conditioners Business

During the Reporting Period, due to the negative factors such as increasing costs in the air-conditioner sector, anticipated decline in market sales and higher inventory pressure on sales channels, the Company changed its product mix on a timely basis in response to the market demand, and continued to launch new products equipped with the energy-saving function of high efficiency. Through accelerating its fund flow, shortening the delivery lead time and soothing the pressure from the fund embezzlement, the Company mitigated its operating risks. Meanwhile, the Company upheld its operating strategy of being a technology-oriented enterprise by strengthening the technological development. With the self-development of key technologies and optimization of the overall product designs, the product design costs was remarkably reduced, thus further affirming the energy-saving advantages of Kelon's double-efficiencies air-conditioner products. On the other hand, with focusing on product planning and the implementation of product life cycle management, the number of product lines complying to the new energy efficiency standards have increased and the product refinement project was launched so as to enhance the competitiveness of products.

Generally, the Company's strategies for stable operation was worked out by the implementation of the measures above. Under the unfavorable industry environment, the turnover from the sales of air-conditioners during the first half of the year posted a slight increase of 0.32% as compared to the corresponding period last year. Meanwhile, due to the improvement in the structure of export products, the profitability of export products has increased.

Refrigerators Business

During the Reporting Period, the Company has effectively improved the following aspects relating to refrigerator products: optimization of procedures, quality control, new product development and mechanism adjustments. Through focusing on the breakthroughs in technology, optimizing the production process and reducing consumption, this segment of business has accomplished a highly effective production and there was a satisfactory performance of the cost control taken during the first half of the year. The deterioration of a single machine recorded a year-on-year decrease of 10% due to the strengthening of the quality control process. Also, the Company continued to step up its efforts in the breakthroughs of new products and the depth of research and development as well as the self-development and the introduction of cooperation with other parties. The double-door refrigerators were successfully launched in market. The introduction of Toshiba's multi-door refrigerators, the technological level of which was at the advanced level within the industry, expanded the Series SBS products of the Company and perfected the product lines of refrigerators. The changes of the distributorship structure have strengthened the cooperation with distributors while the changes of the product mix has also facilitated the products meeting the market demand.

The above mentioned vigorous measures has brought the positive effects on the refrigerators business with respect to the cost reduction, improvement of quality and technological innovation. In addition, the full support of the State's policy of "Introduction of Household Appliances to Rural Areas" and the reinforcing efforts in product development and construction of network have enabled the expansion of the refrigerator business to the third- and fourth-tier markets. As such, the sales of refrigerators of the Company in the domestic market recorded a notable increase during the Reporting Period as compared to the corresponding period last year despite the negative impacts of the external factors on the operation of the refrigerator business. In respect of exports, the Company took the initiative to reduce the proportion of the orders for the products with low profitability. This improved the sales structure of export products in which the proportion of the sales of medium-to-high-end products increased and thus the overseas market for large-volume refrigerators

was expanded. Despite a slight decrease in the revenue from the export of refrigerators for the first half of the year as compared to the corresponding period last year, the overall profitability of the export refrigerator products was further enhanced.

Changes in Profit Composition in the Reporting Period

During the Reporting Period, the Company has transferred the six land use rights and the industrial plants located in Ronggui, Shunde, Foshan. From this, the Company obtained a gain from the disposal of such idle assets of RMB52,888,000 to Jilin Yinqiao Group Company Limited. The Company has also disposed of its 100% equity interest in Jilin Kelon which has ceased production and lost the ability to continue its business in 2006. A loss amounted to RMB10,289,000 was incurred due to such equity disposal.

Analysis of the Impacts on the Results

The management of the Company was of the view that, despite the significant impacts of the challenging external environment on the business of the Company resulting in an unsatisfactory growth in the revenue from the principal business of the Company, the impacts on the results of the Company brought by the negative factors were offset to a certain extent as the Company has taken the following measures to improve the quality of operation during the Reporting Period.

- (1) The competitiveness of the two largest series of products of the Company, particularly the refrigerators, was substantially enhanced by further improving the research and development system, stepping up the efforts in recruiting the talents in high-end technologies, enlarging the depth of research and development and upgrading the efficiency of products and commencing the introduction of technologies;
- (2) By streamlining the procedures and improving the techniques, the labour productivity was further enhanced and the export and delivery lead time was substantially shortened. Through strengthening the internal fundamental management, the product-value-adding plan was promoted by focusing on the benchmark projects of the industry so that the technological level, quality and production of the products were able to be maintained at an advanced level among the industry;
- (3) The results of the cost control measures has been further improved during the Reporting Period by ways of strengthening the cost management as well as the tracking and analysis of the uses of the costs.
- (4) The acceleration of cash flow saw a satisfactory performance. Through reducing the level of capital used in all areas, strictly controlling the liquidity risk and increasing the capital utilization efficiency, the management level of the liquidity of the Company was significantly upgraded as compared to the corresponding period last year.

Outlook

The management of the Company is of the view that the external business environment for the Company will remain challenging. In view of the continual high raw material prices, the cyclical recession in the industry and the macro-economic consolidations which are beyond the Company's control, the appreciation of Renminbi and non-tariff barriers have increased the risks exposed to the export business of home appliances enterprises. The competition in the global home appliances market will further intensify.

The implementation of energy-saving and emissions management policies by the State and the more stringent mandatory efficiency standards for refrigerating products will facilitate the elimination process for the low quality refrigerator and air-conditioning products and motivate the enhancement of product structures. As a technology-leading enterprise in the home appliance industry in the PRC, the Company possesses long-term advantages in terms of energy-saving technologies, which in turn allows the Company to capture better development opportunities.

In response to the development trend of the industry, the Company will focus on the following aspects during the second half of the year:

1. To step up efforts in the introduction of technologies and co-development and to pursue R&D efforts in depth for prominent technology innovations with the objective to further strengthening the leadership position of the Company in the refrigerating industry through in-depth research in energy-saving technologies;
2. To perfect the quality control standards with increased the weight of quality performances in the performance assessment of key positions, and to strengthen the supervision and control of the key quality control area, in order to enhance the quality standard of production and ensure the improvement of quality;
3. To strengthen sales and marketing efforts and reinforce the marketing research in order to develop the sales and marketing management system and operating mechanism which can adapt to market competition, enhance the quality of services and optimize product portfolio. This is paralleled by the efforts to further adhere to the customer market through continued reinforcement of the strategic relations with overseas customers (especially major customers) to secure sizeable orders, as well as efforts to continually enhance its export product structure in order to increase the profitability;
4. To accelerate the cash flow and mitigate the operation risks. To strengthen management of the receivables, to reinforce inventory control and to lessen the inventory pressure by shortening delivery lead time with the objective to enhancing the response to changes in market demand.

LIQUIDITY AND SOURCES OF CAPITAL

Net cash generated from operating activities of the Group was approximately RMB114,879,000 for the six months ended 30 June 2008.

As at 30 June 2008, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB204,452,000 and bank loans amounting to approximately RMB969,938,000.

Total capital expenditures of the Company for the six months ended 30 June 2008 amounted to approximately RMB125,018,599.

TOTAL ASSETS TO TOTAL LIABILITIES RATIO

As at 30 June 2008, the total assets to total liabilities ratio of the Group was 89.68%.

TRUST DEPOSITS

As at 30 June 2008, 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.

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2008, the Group had approximately 22,960 employees, mainly comprising 2,886 technicians, 6,920 marketing staff (including promotion staff), 423 financial staff, 821 administrative staff, and 11,910 production staff. Among the Group's employees, there are 4 doctorate graduates, 85 master graduates and 1,911 graduates with bachelor's degree, 466 employees with official titles of middle rank or above. Besides, the Group has 16 retired staff. For the six months ended 30 June 2008, the Group's staff payroll amounted to RMB306 million (corresponding period in 2007 amounting to RMB327 million).

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2008, the Group had plant and equipment and investment properties amounting to approximately RMB562 million (31 December 2007: RMB717 million) pledged as security for the Group's bank borrowings.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

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

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; having made 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 2008, there was no change in the share capital structure of the Company. As at 30 June 2008, 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	992,006,563	100.00%

TOP TEN /SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, there were 43,765 shareholders in total, of which the top ten/substantial shareholders were as follows:

Name of Shareholder	Nature of Shareholder	No. of Shares Held	Percentage to the total issued share capital of the Company	Percentage to the relevant class of issued shares of the Company	No. of shares held subject to trading moratorium	No. of Pledged or Frozen Shares
Qingdao Hisense Air-conditioning Company Limited	A Shares subject to selling restrictions	234,375,922	23.63%	78.57%	234,375,922	0
The Hongkong and Shanghai Banking Corporation Limited	Foreign Shareholder	92,881,829	9.36%	20.21%	0	Unknown
Foshan City Shunde District Economic Consultancy Company	A Shares subject to selling restrictions	63,923,804	6.44%	21.43%	63,923,804	0
Shenyin Wanguo Securities (H.K.) Limited	Foreign Shareholder	55,097,000	5.55%	11.99%	0	Unknown
Bank of China (Hong Kong) Limited	Foreign Shareholder	48,839,000	4.92%	10.63%	0	Unknown
Guotai Junan Securities (Hong Kong) Limited	Foreign Shareholder	40,920,000	4.12%	8.90%	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
BOCI Securities Limited	Foreign Shareholder	8,216,000	0.83%	1.79%	0	Unknown
Sun Hung Kai Investment Services Limited	Foreign Shareholder	8,045,000	0.81%	1.75%	0	Unknown

Notes: As at 30 June 2008, 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 seven shareholders among the top 10 shareholders above held short positions in the issued share capital of the Company.

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable Shares Held	Class of Shares
The Hongkong and Shanghai Banking Corporation Limited	92,881,829	H shares
Shenyin Wanguo Securities (H.K.) Limited	55,097,000	H shares
Bank of China (Hong Kong) Limited	48,839,000	H shares
Guotai Junan Securities (Hong Kong) Limited	40,920,000	H shares
First Shanghai Securities Limited	25,860,000	H shares
Hang Seng Securities Limited	20,235,000	H shares
BOCI Securities Limited	8,216,000	H shares
Sun Hung Kai Investment Services Limited	8,045,000	H shares
CITIBANK N.A.	7,294,984	H shares
Chiyu Banking Corporation Limited	6,873,000	H shares

Remarks: The Company is not aware that the top ten holders of the tradable shares is connected with each other nor any of them constitutes a party acting in concert as defined in the “Administrative Measures for Information Disclosure of the Shareholders of Listed Companies”.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES

As at 30 June 2008, none of the directors of the sixth Board, supervisors or the chief executive of the Company and any of their respective associates held any interests or short positions in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to the Model Code or required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO.

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 of the Company for the period ended 30 June 2008.

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 further consummate the corporate governance structure and upgrade corporate management level, proceed the Company’s standardized operations, and better safeguard the interests of corporations and shareholders, the company has formulated and perfected the “Rules on the Work of the Board of Directors”, “Rules on The Work of the Supervisors Committee” and “Rules on the Work of Independent Non-executive Directors”, “Rules on the Work of Independent Non-executive Directors Regarding Annual Report” and “Rules on the Work of the Auditor Committee of the Board Regarding Annual Report”.

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 from 28 April 2005 to 10 May 2005, and has remained suspended since 10:00 a.m. on 16 June 2005, initially following various press releases regarding the investigation by the China Securities and Regulatory Commission on Greencool Technology Holdings Limited in connection with the possible misappropriation of funds of the Company. Greencool Technology Holdings Limited was then an indirect shareholder of the Company controlled by Mr. Gu Chu Jun, who was the then executive director and chairman of the Company and the controlling shareholder of Guangdong Greencool Enterprise Development Company Limited, the then single largest shareholder of the Company.

The Company has reviewed the relevant documents in relation to the suspension of trading of the H Shares, the events leading to such suspension and the actions taken by the Company and has submitted a resumption proposal to the Stock Exchange for review. The Company received a letter from the Stock Exchange dated 5 June 2008 agreeing that trading in the H shares of the Company be allowed to resume subject to the fulfillment of the conditions as set out in its letter to the satisfaction of the Stock Exchange prior to the resumption of trading in the H shares of the Company. Please refer to the announcement of the Company dated 6 June 2008 for details of such conditions.

By order of the Board of

Hisense Kelon Electrical Holdings Company Limited

Tang Ye Guo

Chairman

Foshan City, Guangdong, the PRC, 21 August 2008.

As at the date of this announcement, the Company’s directors are Mr. Tang Ye Guo, Mr. Wang Shi

Lei, Ms. Yu Shu Min, Mr. Lin Lan ,Ms. Liu Chun Xin and Mr. Zhang Ming; and the Company' 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 (prepared in accordance with PRC GAAP)

I. PARTICULARS OF THE CHANGES IN SHAREHOLDINGS IN THE COMPANY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

Name	Position	No. of shares held at the beginning of the year	No. of shares increased during the Reporting Period	No. of shares decreased during the Reporting Period	No. of shares held at the end of the year	Reasons for Changes
Wang Jiu Cun	Vice President	15,456	690	—	16,146	Allotment of 690 donated shares under the Share Reform Proposal of Hisense Air-Conditioning during the Reporting Period

At the end of the Reporting Period, Wang Jiu Cun (Vice President) held 16,146 shares of the Company, of which 12,109 shares were subject to selling restrictions and 4037 shares were free of selling restrictions. Save and except for the shares held by Wang Jiu Cun, none of the other Directors, supervisors and senior managements of the Company holds any shares of the Company.

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

The second meeting 2008 of the sixth session of the Board considered and approved the appointment of Mr. Shi Yong Chang as the vice president of the Company on 30 January 2008.

The third meeting 2008 of the sixth session of the Board considered and approved the resignation of Mr. Yang Yun Duo as the vice chairman and a director of the Company, and the nomination of Mr. Zhang Ming as a director of the Company on 26 February 2008. The second extraordinary general meeting 2008 of the Company considered and approved the appointment of Mr. Zhang Ming as a director of the Company on 16 April 2008.

The sixth meeting 2008 of the sixth session of the Board considered and approved the appointment of Mr. Zhou Xiao Tian as the vice president of the Company on 3 March 2008.

The fourteenth meeting 2008 of the sixth session of the Board considered and approved the appointment of Mr. Chen Zhen Wen as the secretary and qualified accountant of the Company on 29 May 2008.

III. INVESTMENTS OF THE COMPANY DURING THE REPORTING PERIOD

1. During the Reporting Period, the Company did not raise any funds and no fund raised during any previous period was used during the Reporting Period.

2. Material non-fund-raising investment during the Reporting Period

The material investment in Hisense-Whirlpool (Zhejiang) Electric Appliances Co. to be established under the Joint Venture Agreement entered into between the Company and Whirlpool (Hong Kong) on 27 April 2008 was approved by the Board of the Company. The Joint Venture Agreement will be submitted at the forthcoming 2008 third extraordinary general meeting of the Company to be held on 26 August 2008 for shareholders' consideration and approval. The relevant filing and approval procedures is currently underway.

IV. PROFIT FORECAST FOR THE NEXT REPORTING PERIOD

The Company anticipated that it will realize profit for the period from 1 July 2008 to 30 September 2008. It is estimated that the Company will realize the profit for the period from January 2008 to September 2008. Details of the financial information will be disclosed in the third quarterly report of 2008 of the Company.

V. THE PROGRESS OF LIABILITY SETTLEMENT

During the Reporting Period, the liability settlement panel of the Company has been actively working on settlement. Up to date, the Company has received the first trial judgment in for the fourteen cases out of the 20 legal proceedings initiated by the Company against the liable parties, namely, Mr. Gu Chujun and Guangdong Greencool (the then substantial shareholder), certain third party companies and other related parties (with the total targeted claim amount of RMB520,679,400), and the three judgments of three litigations of which (with the total targeted claim amount of RMB183,694,800) had taken effected. (For details, please refer to "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. General status of the litigations

As of the date of this report, the Company and its subsidiaries had a total of 235 outstanding litigations, involving the total claim amount of RMB817,110,400 and US\$13,750,719.19.

Among the litigations above, the Company and its subsidiaries acted as plaintiff in a total of 28 cases, involving the total claim amount of RMB741,349,000, and as defendants in a total of 207 cases, involving the total claim amount of RMB75,761,400 and US\$13,750,719.19.

Among the outstanding litigations involving the Company and its subsidiaries, there were a total of 20 litigations and arbitrations involving the claim amount of more than RMB10,000,000 each (with the total claim amount of RMB738,314,300 and US\$13,750,719.19) and a total of 215 litigations involving the claim amount of less than RMB10,000,000 each (with the total claim amount of RMB78,796,100).

2. New litigations

From 1 January 2008 to the date of this report, the Company and its subsidiaries were involved in a total of 117 new litigations with the total claim amount of RMB25,974,400 and US\$1,494,391.21.

The Company and its subsidiaries acted as plaintiff in a total of 7 cases (of which 2 litigations were settled, involving the total claim amount of RMB487,800), the total claim amount of which was RMB4,067,900. The Company and its subsidiaries acted as defendant in a total of 110 cases (of which 10 litigations were settled, involving the total claim amount of RMB1,636,800), the total claim amount of which was RMB21,906,500.

Among the new litigations above, only 1 litigation involved the claim amount of more than RMB10,000,000, the total claim amount of which was US\$1,494,391.21 (approximately in the sum of RMB10,460,700), and there was a total of 116 litigations with the claim amount of less than RMB10,000,000 each, the total claim amount of which was RMB25,974,400.

The background information of the new litigations involving the targeted claim amount of more than RMB10,000,000 each is set out below:

In RMB ten thousand

No.	Name of Case	Targeted Claim Amount	Case Particulars	Development
1	Litigation initiated by Home Depot against Kelon USA regarding the sale and purchase contract	US\$1,494,391.21	This case is a dispute over the sale and purchase contract. The total claim amount demanded by the Plaintiff is US\$1,494,391.21 (the principal of US\$1,143,171.38 plus the interest of US\$351,219.83 (calculated based on the annual interest rate of 18%)).	The parties have entered into a settlement agreement on 16 June 2008, pursuant to which the Company has settled the first two payments of US\$152,060.10 on a time basis. The case is closed.

3. The status of completed litigations

From 1 January 2008 to the date of this report, the Company and its subsidiaries were involved in a total of 27 completed litigations with the total claim amount of RMB193,554,700 and US\$1,494,391.21.

The Company and its subsidiaries acted as plaintiff in a total of 6 cases, involving the total claim amount of RMB184,685,400 and as defendants in a total of 21 cases, involving the total claim amount of RMB8,869,300 and US\$1,494,391.21.

Among the closed cases involving the Company and its subsidiaries, there were a total of 4 litigations each involving the claim amount of more than RMB10,000,000, the total claim amount of which was RMB183,694,800 and US\$1,494,391.21, and a total of 23 litigations each involving the claim amount of less than RMB10,000,000, the total claim amount of which was RMB9,859,900.

Background information on the litigations involving the targeted claim amount of more than RMB10,000,000:

In RMB ten thousand

No.	Name of Case	Targeted Claim Amount	Case Particulars	Development
1	Litigation initiated by Home Depot against Kelon USA regarding the sale and purchase contract	US\$1,494,391.21	The case is a dispute over the sale and purchase contract. The total claim amount demanded by the Plaintiff is US\$1,494,391.21 (the principal of US\$1,143,171.38 plus the interest of US\$351,219.83 (calculated based on the annual interest rate of 18%)).	The parties have entered into a settlement agreement on 16 June 2008, pursuant to which the Company has settled the first two payments of US\$152,060.10 on a time basis. The case is closed.
2	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Tianjin Greencool, Tianjin Aike and Gu Chu Jun and others	9,000.00	As authorized by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the Company to misappropriate RMB90 million of the plaintiff.	The Court made a judgment in favour of the Company's allegation. The judgment of the case has come into force.
3	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Tianjin Greencool and Gu Chu Jun	7,500.00	As authorized by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the Company to misappropriate RMB75 million of the plaintiff.	The Court made a judgment in favour of the Company's allegation. The judgment of the case has come into force.
4	Litigation initiated by the Company and its Anhui Branch against Guangdong Greencool, Gu Chu Jun and Hefei Weixi	1,869.48	As authorized by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the Company to facilitate that Hefei Weixi took delivery of a large number of air-conditioners and refrigerators from the plaintiff without making any payment during the period from 31 December 2003 to August 2005, and the defaulted payments of RMB16,075,400 and RMB2,619,400 due to the Anhui Branch and the Company, respectively, have not yet been settled. The connected transaction above was conducted without going through the normal internal approval procedures of the Company and no announcement has been issued on it. Therefore, it is attributive to the misuse of Guangdong Greencool and Gu Chu Jun of their controlling position in the Company against the interests of the plaintiff.	The court ruled that Hefei Weixi should pay the damages of RMB11,723,263.82 to the Company and its Anhui Branch. The judgment of the case has come into force.

4. Development of the material litigations each involving the targeted claim amount of more than RMB10,000,000, which subsisted from the previous year or pending

In RMB ten thousand

Litigation involving Greencool Companies and the specified third parties				
No.	Name of Case	Targeted Claim Amount	Case Particulars	Development
1	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Jiangxi Kesheng	1,863.00	As authorized by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the Company to avoid the regulatory restrictions on connected transaction and misappropriate RMB 18.63 million of the plaintiff on 20 February 2005 by making use of the name of Jiangxi Kesheng, which infringed the legal interests of the plaintiff.	The Company has received the judgment of the first trial, under which the Court made a judgment in favour of the Company's allegation. The counterparty lodged an appeal, which is pending the results of review.
2	Litigation initiated by Shenzhen Kelon against Guangdong Greencool, Tianjin Lixin, Shenzhen Greencool and Gu Chu Jun	8,960.03	As authorized 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 payments by two installments to Tianjin Lixin on 26 April 2005 and 27 April 2005 respectively, and Tianjin Lixin transferred such amounts to Shenzhen Greencool. The plaintiff did not receive any steel supply from Tianjin Lixin. Guangdong Greencool and Gu Chu Jun misused their controlling positions in the Company to infringe the legal interests of the plaintiff.	The hearing was first commenced in Intermediate People's Court of Foshan City on 27 June 2007, and re-commenced on 11 August 2008. The case is now pending judgment.
3	Litigation initiated by Kelon Fittings against Guangdong Greencool, Jiangxi Greencool, Shenzhen Greencool and Gu Chu Jun	9,741.22	As authorized 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 Tianjin Xiangrun. 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 supply from Tianjin Xiangrun. Guangdong Greencool and Gu Chu Jun misused their controlling position in the Company to misappropriate RMB97.4122 million of the plaintiff.	The hearing was re-commenced again on 11 August 2008. This case is now pending judgment.

4	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Shenzhen Greencool Technology	3,200.00	From 31 March 2003 to 14 April 2003, under the manipulation of Gu Chu Jun and his Greencool Companies, the plaintiff transferred an accumulative amount of RMB32 million to Shenzhen Greencool Technology, and no repayment has been made to date. As such transfers of funds were not made based on any transactions, the act by the controlling shareholder and its associated companies constitutes an embezzlement of the listed company's funds.	The Company has received the judgment of the first trial, under which the Court made a judgment in favour of the Company's allegation. The counterparty has already lodged an appeal, which is pending the results of review.
5	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Shenzhen Greencool Environmental	3,300.00	From 6 May 2003 to 23 June 2003, under the manipulation of Guangdong Greencool and Gu Chu Jun, Kelon Air-Conditioner transferred an accumulative amount of RMB33 million to Shenzhen Greencool Environmental was , and no repayment has been made to date. As such transfers of funds transferred from the plaintiff to Shenzhen Greencool Environmental were not based on any transactions, Guangdong Greencool and Gu Chu Jun misused their controlling position in the Company to infringe the rights of the plaintiff.	The Company has received the judgment of the first trial, under which the Court made a judgment in favour of the Company's allegation. The counterparty has already lodged an appeal, which is pending the results of review.

Note : For details of the development of other material litigations which subsisted from the previous periods and pending, please refer to the 2007 annual results announcement and annual report published on 24 April 2008 and 29 April 2008, respectively and the announcements on the development of significant litigations dated 2 June 2008, 23 June 2008, 3 July 2008 and 18 August 2008 respectively.

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

1. No acquisition of assets, takeovers and mergers were made by the Company during the Reporting Period.

2. Disposal of assets by the Company during the Reporting Period.

Unit: RMB(in ten thousand)

Transaction counterpart	Disposed assets	Date of disposal	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	Connected transaction or not	Completion of transfer of title of relevant assets	Completion of transfer of relevant indebtedness
Jilin Yinqiao Group Company Limited	100% equity interest in Jilin Kelon	7 January 2008	50	0	-1,057	NO	YES	YES

VIII. RELATED PARTIES TRANSACTIONS RELATING TO THE PURCHASE AND SALES OF GOODS AND PROVISION OF SERVICES

Unit: RMB

Related parties	Subject matters transaction	Sale of goods and provision of services to related parties		Purchase of goods and receipt of services from related parties	
		Transaction amount	Percentage to the total amount of similar transactions	Transaction amount	Percentage to the total amount of similar transactions
Hisense Beijing	Sales of refrigerator finished products	44,377,948	0.82%		
Hisense Nanjing	Sales of refrigerator finished products	5,368,400	0.10%		
Hisense Shandong	Sales of air-conditioner finished products	66,428,227	1.23%		
Hisense Shandong	Sales of materials for air-conditioners	7,708,599	0.14%		
Hisense Zhejiang	Sales of materials for air-conditioners	12,604,570	0.23%		
Hisense Beijing	Purchase of refrigerator finished products			40,354,941	0.90%
Hisense Nanjing	Purchase of refrigerator finished products			93,061,111	2.07%
Hisense Shandong	Purchase of air-conditioner finished products			91,184,775	2.03%
Hisense Zhejiang	Purchase of air-conditioner finished products			394,664,342	8.80%
Hisense Shandong	Purchase of materials for air-conditioners			2,184,118	0.05%
Hisense Zhejiang	Purchase of materials for air-conditioners			1,091,012	0.02%
Huayi Compressor	Purchase of compressors			40,546,602	0.90%
Jiaxi Beila	Purchase of compressors			84,384,959	1.88%
Hisense Beijing	Sales of moulds	1,105,983	0.02%		
Hisense Nanjing	Sales of moulds	1,475,726	0.03%		
Hisense Shandong	Sales of moulds	2,327,774	0.04%		
Hisense Zhejiang	Sales of moulds	882,051	0.02%		
Hisense Mould	Sales of moulds	1,898,547	0.04%		
Hisense Multimedia	Provision of services	112,810	0.00%		
Total		144,290,635	2.67%	747,471,860	16.65%

Note: For the details of the principles of pricing and the terms of payment, please refer to the Business Co-operation Framework Agreement and Compressors Purchase and Supply Framework Agreement, which were set out in the announcement dated 8 January 2008 and the circular dated 28 January 2008 on continuing connected transactions.

IX. MATERIAL CONTRACTS AND THEIR PERFORMANCE DURING THE REPORTING PERIOD

1. During the Reporting Period, no material custody, contracting or lease of assets of other companies or custody, contracting or lease of assets of the Company by other companies was incurred or subsisted from the previous reporting period.

2. During the Reporting Period, the following external guarantees were incurred and subsisted from the previous reporting period by the Company.

Unit: RMB (in ten thousand)

External guarantees made by the Company (excluding the guarantees to its subsidiaries)						
Guaranteed party	Date (the date of the agreement)	Guaranteed amount	Type of guarantee	Period of guarantee	Completion or not	Whether in favour of any related party (yes or no)
Zhejiang Kelon Air-conditioners Sales Company Limited	March 2008	2,000.00		Six months	No	No
Total actual guaranteed amount during the Reporting Period						2,000
Total balance of the actual guaranteed amount at the end of the Reporting Period (A)						2,000
Guarantees made by the Company to its subsidiaries						
Total actual guaranteed amount to subsidiaries during the Reporting Period						68,546.01
Total balance of the actual guaranteed amount to subsidiaries at the end of the Reporting Period (B)						30,230.75
Total guarantee made by the Company (including the guarantees to subsidiaries)						
Total guaranteed amount (A+B)						30,230.75
Percentage of the total guaranteed amount to the net assets of the Company						46.98%
Attributable to:						
Guaranteed amount provided to shareholders, actual controlling parties and their related parties (C)						0
Guaranteed amount provided directly or indirectly to the guaranteed with the gearing ratio over 70% (D)						29,571.57
Total guaranteed amount more than 50% of the net asset (E)						0
Total guarantee amount of the abovementioned three guarantees* (C+D+E)						29,571.57

DEFINITIONS

In this announcement, unless the context otherwise requires, 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 Holdings 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 Shandong"	Hisense (Shandong) Air-Conditioner Co., Ltd.
"Hisense Beijing"	Hisense (Beijing) Electrical Co., Ltd.
"Hisense Nanjing"	Hisense (Nanjing) Electrical Co., Ltd.
"Hisense Mould"	Qingdao Hisense Mould Company Limited.
"Hisense Multimedia"	Guangdong Hisense Multimedia Company Limited.
"Hisense International Marketing"	Qingdao Hisense International Marketing Company Limited.
"Hisense Hitachi"	Qingdao Hisense Hitachi Air-Conditioner Co., Ltd.
"Hisense Import & Export"	Qingdao Hisense Import and Export Company Limited.
"Hisense Chengdu"	Hisense (Chengdu) Refrigerator 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.
"Kelon Air-Conditioner"	Guangdong Kelon Air-Conditioner Co., Ltd.
"Kelon Fittings"	Guangdong Kelon Fittings Co., Ltd.
"Kelon Freezer"	Hisense Ronshen(Guangdong) Freezer Co., Ltd.
"Kelon Household Electrical Appliances"	Foshan Shunde District Kelon Household Electrical Appliances Co., Ltd.
"Kelon Mould"	Guangdong Kelon Mould Company Limited.
"Kelon Property"	Foshan Hisense Kelon Property Development Co., Ltd.
"Kelon Development"	Kelon Development Company Limited.
"Rongsheng Plastic"	Foshan Shunde District Rongsheng Plastic Products Co., Ltd.

“Qingdao Saiwei”	Qingdao Saiwei Household Electrical Appliances Service Co., Ltd
“Huaao Electronics”	Guangdong Huaao Electronics Company Limited.
“Wangao I&E”	Foshan Shunde District Wangao Import & Export., Ltd.
“Weili Electrical Appliances”	Guangdong Kelon Weili Electrical Appliances Company Limited.
“Kelon Jiake”	Foshan Shunde District Kelon Jiake Electronics., 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.
“Hangzhou Kelon”	Hangzhou Kelon Electrical Co., Ltd.
“Zhuhai Kelon”	Zhuhai Kelon Electrical Co., Ltd.
“Jilin Kelon”	Jilin Kelon Electrical Co., Ltd.
“Chongqing Kelon”	Chongqing Rongsheng Kelon Refrigerator Sales Co., Ltd.
“Shangqiu Kelon”	Shangqiu Kelon Electrical Co., Ltd.
“Yingkou Kelon ”	Hisense Ronshen(Yingkou) Refrigerator Co., Ltd.
“Xi’an Kelon ”	Xi’an Kelon Cooling Co., Ltd.
“Kelon Electric Appliances”	Kelon Electric Appliances Company Limited.
“Kelon Japan”	Kelon (Japan) Limited.
“Sichuan Kelon Sales”	Sichuan Rongsheng Kelon Sales Refrigerator Company Limited.
“Wuhu Motors”	Wuhu Ecan Motors Company Limited.
“Huayi Compressor”	Huayi Compressor Holdings Company Limited
“Jiaxi Beila”	Jiaxi Beila Compressor Company Limited
“Huayi Jingzhou”	Huayi Compressor (Jingzhou) Company Limited
“Jiangxi Kesheng”	Jiangxi Kesheng Industry and Trading 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.
“Shen zhen Greencool”	Greencool Procurement (Shenzhen) Co., Ltd.
“Tianjin Xiangrun”	Tianjin Xiangrun Trading Development Company Limited
“Tianjin Lixin”	Tianjin Lixin Commercial Trading Development Company Limited.
“Yangzhou Greencool”	Yangzhou Greencool Venture Capital Company Limited
“Jiangxi Keda ”	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
“Pearl River Refrigerator”	Pearl River Electric Refrigerator Company Limited.
“Hefei Weixi”	Hefei Weixi Home Appliances Co., Ltd.
“Zhuhai Greencool”	Zhuhai Greencool Refrigeration and Engineering Co., Limited
“Jiangxi Greencool”	Jiangxi Greencool Electrical Appliance Company 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.
“Tianjin Aike”	Aike Enterprises(Tianjin) Co., Ltd.
“Tianjin Greencool ”	Greencool Refrigerant(China) Company Limited.
“Hangxiao Ganggou”	Zhejiang Hangzhou Hangxiao Ganggou Holdings Company Limited
“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
“Superior People's Court of Guangdong Province”	Superior People's Court of Guangdong Province
“Attend Logistics ”	Guangzhou Attend Logistics Company Limited.
“Beijing Hengsheng”	Beijing Hengsheng Xin Chuang Technology Company Limited.
“Beijing Tiandi”	Beijing Kelon Tiandi IT Network Company Limited.
“Beijing Shikong”	Beijing Kelon Shikong Information Technology Company Limited.
“Wetherell Development”	Wetherell Development Company Limited.
“Xi’an Gaoke”	Xi’an Gaoke (Group) Limited.
“Chengdu Engine”	Chengdu Engine(Group) Company Limited.
“Jiangxi Combine”	Jiangxi Kelon Combine Electrical Appliances Company Limited.
“Shunde Yunlong ”	Shunde Yunlong Consultancy
“Deheng Lawyer”	Beijing Deheng Law firm.
“Tianjin Taijin Yunye”	Tianjin Taijin Yunye Company Limited.
“Shangqiu Bingxiong”	Shangqiu Bingxiong Freezing Facilities Company Limited
“Hangzhou Xiling ”	Hangzhou Xiling Group Company Limited.