

KELON 科龙

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: 0921)

2007 THIRD QUARTERLY REPORT

This announcement is made in accordance with Rule 13.09(1) of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited.

§1 IMPORTANT NOTICE

1.1 The board of directors (the “Board”), the supervisory committee (the “Supervisory Committee”), the directors (the “Directors”), the supervisors (the “Supervisors”) and the senior management (the “Senior Management”) of the Company (other than Ms. Yu Shu Min, a Director of the Company) warrant that there are no false presentation or misleading statements contained in, or material omissions from, this report (the “Report”); and individually and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in the Report.

1.2 Except Ms. Yu Shu Min, a Director of the Company, no Director, Supervisor or Senior Management declares inability to warrant or object to the truthfulness, accuracy and completeness of the content of the 2007 Third Quarterly Report of the Company.

1.3 Eight of the nine Directors of the Company attended the Board meeting. Ms. Yu Shu Min, a Director of the Company, was unable to attend the meeting due to business trip. She has not entrusted other Directors to attend the meeting on her behalf.

1.4 The third quarterly financial report of the Company has not been audited by any accounting firm.

1.5 Mr. Tang Ye Guo, person in charge of the Company, Ms. Liu Chun Xin person in charge of the accounting function and Mr. Chen Zhen Wen, person in charge of the accounting department, warrant the accuracy and completeness of the contents of the financial report of this Report .

1.6 The full version of the Company's balance sheet, income statement and cash flow statements are published on the website designated by the Shenzhen Stock Exchange for release of information: <http://www.cninfo.com.cn/default.htm>.

§2 COMPANY BASIC INFORMATION

2.1 Major Accounting Data and Financial Indicators

Unit : RMB

	End of the Reporting Period	End of Last Financial Year	Increase/Decrease over End of Last Financial Year (%)
Total Assets	4,602,465,353.40	4,566,576,943.15	0.79%
The parent company's equity	(887,603,709.55)	(968,289,248.23)	N/A
Net assets per share	(0.8948)	(0.9761)	N/A
	Beginning of the Year to End of the Reporting Period		Increase/Decrease over Corresponding Period of Last Year(%)
Net cashflow from operating activities*	158,910,118.63		-22.58%
Net cashflow from operating activities per share	0.1602		-22.58%
	Reporting Period	Beginning of the Year to End of the Reporting Period	Increase/Decrease over End of Last Financial Year (%)
Net profit	5,086,024.56	122,460,983.78	N/A
Earnings per share - basic	0.0051	0.1234	N/A
Earnings per share after extraordinary profit and loss items - Basic	0.0041	0.0406	N/A
Earnings per share - diluted	0.0051	0.1234	N/A
Return on net assets	N/A	N/A	N/A
Return on net assets after extraordinary profit and loss items	N/A	N/A	N/A

* Non-operating profit or loss

Unit : RMB

Non-operating profit or loss items	Beginning of the Year to End of the Reporting Period
Gains from disposal of non-current assets	75,360,365.20
Non-operating net revenue/expense other than the aforesaid items	6,829,952.96
Total non-operating profit or loss	82,190,318.16

2.2 Table of total number of shareholders and top ten listed shareholders at the end of the reporting period

Unit: shares

Total number of shareholders at the end of the reporting period	43,837	
The shareholdings of the top ten listed shareholders		
Name of Shareholder	Shareholdings at the end of the period	Class
The Hong Kong and Shanghai Banking Corporation Limited	92,496,829	H shares
Shenyin Wanguo Securities (H.K.) Ltd.	55,097,000	H shares
Bank of China (Hong Kong) Limited	49,044,000	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

Standard Chartered Bank (Hong Kong) Limited	11,128,500	H shares
BOCI Securities Limited	8,216,000	H shares
Sun Hung Kai Investment Services Limited	7,893,000	H shares
Chiyu Banking Corporation LTD.	6,868,000	H shares

§3 SIGNIFICANT EVENTS

3.1 Significant changes of the principal accounting statement and financial indicators, and the reasons therefor.

✓ Applicable Not applicable

1. Cash and cash equivalents decreased by 48.52% at the end of the Reporting Period as compared to that at the beginning of the Reporting Period, mainly due to the great decrease in guarantee of acceptance.

2. Notes receivable and trade receivables increased by 64.86 % and 91.26%, respectively at the end of the Reporting Period as compared to those at the beginning of the Reporting Period, mainly due to the increase in the revenue of the Company during the Reporting Period, thereby causing the increase in notes receivable and trade receivables at the end of the Reporting Period.

3. Subsidy receivables increased by 1199.55% at the end of the reporting period from the beginning of the reporting period, mainly due to the increase in export tax refund receivables resulting from the substantial growth in export business during the Reporting Period as compared to the corresponding period of last year.

4. Construction in progress decreased by 68.86% at the end of the Reporting Period as compared to that at the beginning of the Reporting Period, primarily because the construction in progress was transferred to fixed assets due to completion of the construction. Further, according to the new accounting standards, the land use rights which were originally regarded as construction in progress has been reclassified as intangible assets.

5. Short-term borrowings decreased by 38.21% at the end of the Reporting Period when

comparing with that at the beginning of the Reporting Period, mainly due to the decrease in bank loan balance attributable to enhanced fund management, the proactive correction of low-efficiency funds usage and the improvement of capital utilization.

6. Notes payable decreased by 66.76% 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.

7. Trade payables increased by 55.38% at the end of the Reporting Period as compared to that at the beginning of the Reporting Period, primarily because the purchase volume of raw materials increased significantly with the increase of sales.

8. The distribution costs during the Reporting Period increased by 29.85% 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 international selling expenses including shipping costs and the rise in promotion expenses as a result of the expansion of the domestic sales scale.

9. The finance costs during the Reporting Period increased by 32.10% as compared to that of the corresponding period of last year, which was primarily due to the improvement of the capital situation of the Company. 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 its 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.

10. The non-operating incomes during the Reporting Period increased by 408.44% as compared to that of the corresponding period of last year, which was primarily due to the proceeds from the disposal of certain idle assets.

3.2 Significant events and analysis on their impact and solutions

Applicable Not applicable

3.2.1 The auditor's report issued by Shenzhen Dahua Tiancheng Certified Public Accountants for the Company contains qualified opinion. The Board explained the matters relating to the qualified auditors' opinion in detail as follows:

Reserved Matter 1: "As described in Notes 6.3, 6.4, and 7 to the financial statements, a series of related parties' transactions and unusual cash flows occurred between the Company and its former largest shareholder, Guangdong Greencool Enterprise Development Limited and its

related parties (the “Greencool Companies”) during the period from October 2001 to July 2005. In addition, during this period, the Greencool Companies, through certain specified third party companies, such as Tianjin Lixin Commercial Trading Development Company Limited, involved in a series of unusual cash flows with the Company in the same period. Such transactions and unusual cash flows as well as the suspected fund embezzlement have been reported to the relevant authority, and are pending judgment. Such reported matters involve the accounts receivables and payables between the Company and the Greencool Companies as well as the specified third party companies mentioned above. As at 31 December 2006, the balance of the accounts receivables of the Company from the Greencool Companies and the above specified third party companies amounted to RMB651 million. The Company has made a provision of RMB364 million in respect of the accounts receivables from Greencool Companies and the above specified third party companies. We were unable to adopt appropriate audit procedures to obtain sufficient and appropriate audit evidence to ascertain whether the estimated provision for bad debts is reasonable and the assessment and calculation of the receivables is reasonable.

As the Company and its former single largest shareholder, Guangdong Greencool Enterprise Development Company Limited, and its related parties or through its third party companies had a series of related parties’ transactions and irregular cash inflow/outflow during the period from 2001 to 2005. The aforesaid transactions, irregular cash inflow/outflow and suspected funds embezzlement have been formally investigated by relevant authorities. As at 30 September 2007, the balance of the accounts receivables of the Company from Greencool Companies and the aforesaid specified third party companies amounted to RMB651 million.

Since the court has not yet made its judgment, the Company can only estimate, based on the available information about the cases at present, the recoverable amount of accounts receivables due from Greencool Companies and specified third party companies, meanwhile the Company has made a provision of RMB364 million. The bases of the estimate include: the information regarding the properties of Greencool Companies sealed and frozen by the Court as applied by the Company, and the initial analysis report on the aforesaid fund embezzlement prepared by the lawyer of the Company. As analyzed by the lawyer, the properties of Greencool Companies available for settlement amounted to approximately RMB1 billion, and the total claim amount against Greencool Companies by the creditors to the court amounted to approximately RMB2.4 billion. The amount claimed by the Company for the fund embezzlement of Greencool Companies amounted to RMB792 million. There is possibility that the credit balance be settled based on the proportion of property to the debts. Based on the estimated settlement proportion, and that the case is still in the progress, the court has not yet acknowledged the amount of the Company's claim of the debts, the Board of the Company estimated the recoverable

amount and made a provision of RMB364 million for bad debts.

Meanwhile, the law firm to this case declared that, apart from the case handled by them, they cannot guarantee the accuracy of the information and data related to other relevant cases, nor the results of those cases. Further, whether the relevant subsidiaries of the Company are qualified to participate in the property appropriation of Greencool Companies is dependent on the decision of the Court.

The Board considers that the provision for bad debts is an accounting estimate. The handling method of this accounts receivable does not contravene any relevant requirements of the Accounting System for Business Enterprises, and since there is no material difference between the level of judgment on the recoverability of the accounts receivables made in 2006 and that in 2005, the qualified opinions to this item will not affect the impartiality on the preparation of the income statement from January to September 2007.

After the court has made its judgment and the settlement proportion, the Company will, pursuant to the determined recoverable proportion, adjust retrospectively the 2005 financial statements (balance sheet and income statement), and the relevant items in the balance sheet as at 30 September 2007. The Company has taken measures to sequester the properties of Greencool Companies which are available for settlement. The Company will also pay attention to the progress of the case and make its best efforts to ensure its rights as a creditor. However, no substantive progress was made during the first three quarters of 2007.

Reserved Matter 2: As described in Note 6.26 “Revenues and Costs of Principal Operations” to the financial statements, in 2005 the Company adopted a method of calculating the inventory at year-end based on the result of stock take at year-end and weighted purchase unit prices, upon which the costs of principal operations in 2005 was back-calculated. Even though such method will not have any impact on the audit of the balance of inventory by the end of 2005, however, due to unreliability of the control system prior to 2005, we were unable to perform satisfactory audit procedures to determine whether the cost of principal operations back-calculated all attributable to 2005. In our audit on the income statement in 2005, we have expressed a qualified opinion on the cost of principal operations. In the year 2006, the management of the Company could not take appropriate measures to rectify such accounting error and make retrospective adjustments to the cost of the principal operations in 2005. The reserved matters above will not impose any impact on the acknowledgment of the income statement of 2006 and the cash flow statement of 2006.

This is a reserved matter on the cost of principal operations in 2005. Such reserved matter will have no impact on the income statement from January to September 2007 and from July to September 2007, and the cash flow statement from January to September 2007

3.2.2 The progress of settlement on the funds embezzled for non-operating purposes.

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 RMB655.1495 million, of which the sum of RMB650.6941 million was embezzled by Guangdong Greencool (the former substantial shareholder) and its subsidiaries and specified third parties and the sum of RMB4.4554 million was embezzled by other related parties. The details were disclosed in interim report.

During the Reporting Period, the settlement panel of the Company had been working on settlement. 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 RMB528.0425 million. Among which, the Intermediate People's Court of Foshan City has heard on these eight lawsuits respectively. The Intermediate People's Court of Foshan City made a judgment on 30 August 2007 in favour of Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon"), a subsidiary of the Company, in respect of its proceedings against Guangdong Greencool Enterprise Development Company Limited ("Guangdong Greencool"), Gu Chu Jun, Aike Enterprises (Tianjin) Co., Ltd. ("Tianjin Aike") and Greencool Refrigerant (China) Company Limited ("Tianjin Greencool"), and in favour of Jiangxi Kelon in its proceedings against Guangdong Greencool, Gu Chu Jun and Tianjin Greencool in respect of claim for damages, the claim amount for the two litigations amounts to the total sum of RMB165 million (please refer to the relevant announcement dated 13 September 2007 published on "China Securities Journal", "Securities Times" and the website www.cninfo.com for further details).

3.2.3 Material litigations and arbitration of the Company.

As at 30 September 2007, the Company and its subsidiaries were involved in 105 litigations with a total claim amount of RMB1,054,966,900, 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 act as plaintiffs in 30 cases with a total claim amount of RMB940,245,800 and as defendants in 75 cases involving an amount of RMB114,721,100, 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 26 litigations and arbitrations as disclosed above involving an amount exceeding RMB10,000,000 each (with a total claim amount of RMB998,364,400, US\$13,750,719.19), 79 litigations with a claim amount less than RMB10,000,000 each (with a total claim amount of RMB56,602,600 and land of 629,003.22 square metres).

The Company will pay close attention to the progress of these litigations, proactively communicate with the relevant authorities, and make as much efforts as possible to protect the Company's interest.

3.3 Performance of undertakings given by the Company, shareholders and de facto controllers

Applicable Not applicable

Hisense Air-Conditioning, the holder of the original non-freely transferable shares of the Company, initiated share reform on 19 December 2006 and the implementation of which completed on 29 March 2007.

As the controlling shareholder of the Company, Hisense Air-Conditioning, the holder of original non-freely transferable shares, will fulfill the following undertakings besides statutory undertakings:

1. Special Undertakings by the Controlling Shareholder – Undertaking on Lock-up Period

Hisense Air-Conditioning, the substantial shareholder of the Company undertakes that:

The non-freely transferable shares originally held by it will not be listed for trading or otherwise transferred within 36 months from the date of the implementation of the share reform scheme.

2. Special Undertakings by the Controlling Shareholder – Undertaking on Restructuring and additional donated share

Hisense Air-Conditioning, the substantial shareholder of the Company undertakes that:

Upon the completion of the consideration arrangement under the share reform of the Company, it will commence the asset restructuring of the Company by injecting the related assets of the White Goods business of Hisense Group into the Company in exchange for the shares of the Company, which will be strengthened as the core enterprise of Hisense Group's White Goods business and will strive to be one of the most competitive enterprises in the industry, both domestically and internationally.

The White Goods business of Hisense Group intended to be injected under this asset

restructuring includes:

(1) The manufacturing business of air-conditioners and its assets, namely the current business and assets of Qingdao Hisense Air-Conditioning Company Limited (including 海信空調平度工廠 (Hisense Air-Conditioning Ping Du Plant) and the 51% shareholdings in 海信(浙江)空調有限公司(Hisense (Zhejiang) Air-conditioning Company Limited held by Hisense Air-Conditioning);

(2) The manufacturing business of refrigerators and its assets, namely the 55% shareholdings in 海信(北京)電器有限公司(Hisense (Beijing) Electrical Appliances Company Limited) (including the 60% shareholdings in 海信(南京)電器有限公司 (Hisense (Nanjing) Electrical Appliances Company Limited) held by 海信(北京)電器有限公司 (Hisense (Beijing) Electrical Appliances Company Limited)) held by Qingdao Hisense Electrical Holdings Company Limited, the subsidiary of Hisense Group;

(3) The marketing business and sales channels of Hisense Group's domestic appliance, namely the marketing business and sales channels for refrigerators and air-conditioners of Qingdao Hisense Marketing Company Limited, the subsidiary of Hisense Group.

If the said assets restructuring fails to be completed as scheduled or the operating results of the Company after the assets restructuring fail to meet the target, it will give additional shares to all the holders of listed A shares and its directors, supervisors and senior management who held the listed A shares of the Company without any sales restriction and whose names appear in the shares register on the day for registration of the additionally issued shares.

① The triggering conditions for additional donated shares:

A: Within 12 months commencing from the date of the A shares of the Company resuming trading on the Shenzhen Stock Exchange after the completion of consideration arrangement made to the holders of the listed A shares of the Company by the holders of non-freely transferable shares of the Company, the assets restructuring process regarding the injection of the related assets (or shareholdings) of the White Goods business of Hisense Group into the Company has not completed.

The criteria to recognize the completion of the assets restructuring process is: the completion of all transfer registration (including assets, shareholding, credit and debts) procedures for the injection of the related assets (or shareholdings) of the White Goods business of Hisense Group into the Company.

B: The earnings per share of the Company will be lower than RMB0.08 in the next accounting

year (the year 200E: if the Company completes restructuring prior to 31 December 2007, 200E shall represent 2008 accounting year; if the Company completes assets restructuring during the period from 1 January 2008 to 29 March 2008, 200E shall represent 2009 accounting year; if the Company completes the afore-mentioned restructuring after 29 March 2008, the condition A is triggered.) after the completion of the said assets restructuring of the Company made by Hisense Air-Conditioning .

The net profit of the Company in the accounting year of 200E shall be determined on the auditing result pursuant to the accounting standards and Rules of Accounting for Enterprise applicable for domestic enterprises at that time.

C: In the accounting year of 200E, the Company is issued with an annual auditing report without “standard unqualified opinion”.

D: The Company fail to issue the year 200E annual report within the specified period.

Whenever any of the afore-mentioned A, B, C and D conditions occurs (which the earliest shall be applicable), Qingdao Hisense Air-Conditioning Company Limited shall donate additional share once, and this undertaking shall be terminated upon the completion of this additional share donation.

② The number of additional donated shares: 9,725,050 A shares of the Company, equivalent to 0.5 additional donated share per 10 shares on the basis of the total listed A shares of 194,501,000 shares of the Company prior to the implementation of the share reform scheme. In the event that the Company ever donates shares, transfer to share capital or reduce its shares capital during this period, the number of donated share shall, on the basis of 9,725,050 shares, be increased or decreased in the same proportion.

③ Timing for additional donated share: If condition A or D for additional donated share is triggered, the Board will implement the additional donated share undertaking of the undertaker within 20 working days commencing from the date when the condition for additional donated share is triggered; if condition B or C for additional donated share is triggered, the Board will implement the additional donated share undertaking of the undertaker within 20 working days after the issue of the annual report for the accounting year of 200E.

④ The receivers of the additional donated shares: Upon the conditions for additional donated share being triggered, all the holders of the listed A shares and its directors, supervisors and senior management who held the listed A shares of the Company without selling condition and whose names appear in the shares register on the day for registration of the additionally

issued shares.

⑤ The guarantee implementation for the additional donated share undertaking: Qingdao Hisense Air-Conditioning Company Limited undertakes that: upon the implementation of the share reform scheme of the Company, it will apply for the temporary custody of the portion of additional donated shares, namely 9,725,050 shares, in Shenzhen branch of the China Securities Depository & Clearing Corporation until the issue of the Company's annual report for the year of 200E and the expiration of the undertaking.

3. Special undertakings by the substantial shareholder – advance undertakings

Undertakings by Hisense Air-Conditioning, the Company's substantial shareholder:

As Foshan Shunde Economic Consultancy Company ("Shunde Consultancy") and Foshan Shunde Dong Heng Information Consultancy Services Co.,Ltd., ("Dong Heng Consultancy"), both being the holders of the Company's original non-freely transferable shares, did not explicitly express that they would involve in the share reform, Hisense Air-Conditioning will advance the number of shares under the consideration arrangement offered by Shunde Consultancy and Dong Heng Consultancy for their participation in the share reform, i.e. 4,742,863 shares and 486,044 shares, respectively. Subsequently, they should repay the shares advanced by Hisense Air-Conditioning or obtain its consent if the shares of the Company held by Shunde Consultancy and Dong Heng Consultancy become listed. Hisense Air-Conditioning has entered into a relevant agreement with Shunde Consultancy in relation to the above matter, but so far, the Company has not been able to get in touch with Dong Heng Consultancy.

On 29 March 2007, Hisense Air-Conditioning had fulfilled the "Advance Undertakings" in the course of the Share Reform Scheme of the Company and completed relevant procedures in the Shenzhen branch of the China Securities Depository & Clearing Corporation in accordance with the "Trading Moratorium Undertakings". Meanwhile, the Company had also applied for the temporary custody of the portion of additional donated share, namely 9,725,050 shares in accordance with the "Restructuring and Additional Donated Share Undertakings" until the expiration of the undertaking. Hisense Air-Conditioning, the substantial shareholder of the Company, submitted the proposal on significant assets restructuring of the Company to the China Securities Regulatory Commission (the "CSRC") on 20 September 2007 for pre-communication. Up to the date hereof, work relating to assets restructuring is still in progress.

3.4 Loss forecast or alert of significant change in the accumulated net profit for the period from the beginning of the financial year to the end of the next reporting period as compared with the corresponding period in the previous year and the explanation thereof

Applicable Not Applicable

According to preliminary estimate, the net profit of the Company for the year ended 2007 will increase by approximately 300% as compared to the corresponding period of last year.

Reasons for the change in results :

1. Since the Company had disposed of some of its idle assets and with the continuous improvement in the operations and management of the Company during the reporting period., the Company expects to realize annual profit for this year. However, the Company is currently not in a position to recognize the respective contributions from its operating and non-operating profits and losses.

2. This estimated results is made on the basis of the Company's actual status in the first three quarters and under normal operating environment in the fourth quarter, without taking into account the unpredictable factors such as the disposal of relevant assets and the impairment of assets, which will have an impact on the accuracy of this estimated results. In the event of any material deviations between the Company's annual results for the year ended 2007 and this announcement of estimated results, the Company will make relevant disclosure of the revised results by way of an announcement according to the relevant requirements as soon as possible. The detailed financial information for 2007 will be disclosed in the 2007 annual report. Investors are advised to be cautious when making investments in the Company.

3.5 OTHER DISCLOSEABLE MATERIAL MATTERS

3.5.1 Information about investment securities

Applicable Not Applicable

3.5.2 Information about shareholding in other listed companies by the Company

Applicable Not Applicable

Stock Code	Abbreviated Name	Initial investment cost	Percentage to the investee's equity	Carrying amount at the end of the period	Profit/loss for the reporting period	Changes in shareholding during the reporting period
000404	Huayi Compressor	118,013,641.00	18.26%	89,633,613.69	-982,311.82	-982,311.82

3.5.3 Information about shareholding in non-listed financial institutions and companies proposed to be listed by the Company

Applicable Not applicable

3.5.4 Table on reception activities in respect of research, communications and visits during the reporting period

Applicable Not applicable

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 10:00a.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, 24 October 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.