

# **KELON** 科龙

廣東科龍電器股份有限公司

Guangdong Kelon Electrical Holdings Company Limited

stock code : 0921



**INTERIM REPORT 2006**

The board of directors ("Board") of Guangdong 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 2006 (the "Period"), together with the unaudited comparative figures for the corresponding period in 2005 or the audited comparative figures as at 31 December 2005. The consolidated interim financial statements have not been audited but have been reviewed by the audit committee of the Company and the auditors.

Opinion of the Audit Committee is as follows:

The Audit Committee has reviewed the 2006 interim results of the Company, with reference to the independent review report prepared by the Company's auditors in relation to the 2006 interim results, and has no objection to the points stated in the auditors' independent review report.



**BDO McCabe Lo Limited**  
Certified Public Accountants  
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**INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF  
GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED**

廣東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)*

**INTRODUCTION**

We have been instructed by the Company to review the interim financial report of the Group, comprising the Company and its subsidiaries, set out on pages 5 to 27.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with International Accounting Standard 34 "Interim Financial Reporting" and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**REVIEW WORK PERFORMED**

We conducted our review in accordance with Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The scope of our review was limited as follows:

- a. Our audit report on the financial statements of the Group for the year ended 31 December 2005 contained a qualified opinion arising from limitation of audit scope and disclaimer on view given by consolidated income statement and consolidated cash flow statement, details of which were set out in our report dated 11 August 2006. Any adjustments to the opening net assets of the Group at 1 January 2006 would have a consequential effect on the net loss of the Group for the six months ended 30 June 2006. Also the comparative figures in the consolidated balance sheet as at 31 December 2005 and in the consolidated income statement and condensed consolidated cash flow statement for the six months ended 30 June 2005 may not be comparable with the figures for the current period.
- b. The interim financial report include the financial statements of Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon"), the business of which was interrupted after the freezure of its assets by the Higher People's Court of Jiangxi Province in August 2005. The scope of our review on Jiangxi Kelon was limited as personnel responsible for the operations of Jiangxi Kelon had left and the management of the Group was unable to ascertain the accuracy and completeness

of the books and records of Jiangxi Kelon. Due to this limitation, we were unable to obtain sufficient reliable evidence to assess whether the carrying amounts of the following significant financial statement areas (after elimination of intra-group balances and transactions), relating to Jiangxi Kelon, were free from material misstatements:

- Property, plant and equipment of approximately RMB56 million;
  - Inventories of approximately RMB22 million;
  - Other receivables of approximately RMB48 million;
  - Amounts due from companies suspected to be connected with Mr. Gu (as defined in point (f) below) of approximately RMB85 million;
  - Cash and bank balances of approximately RMB1.3 million;
  - Trade payables of approximately RMB114 million;
  - Other payables of approximately RMB23 million;
  - Amounts due to Greencool Enterprise and its affiliates (as defined in point (f) below) of approximately RMB13 million;
  - Taxation payable of approximately RMB23 million;
  - Short-term bank borrowings of approximately RMB111 million; and
  - Net loss attributable to the Group of approximately RMB20 million.
- c. Included in leasehold land and buildings within property, plant and equipment at 30 June 2006 were asset appreciation adjustments made in prior years of an aggregate gross amount and net book value of approximately RMB133 million and RMB94 million respectively. Those asset appreciation adjustments were initially recorded in lump sums without sufficient details as to the individual asset items they relate to. As no further information was available to us with respect to the lump sums, we were unable to determine with reasonable certainty whether the carrying amounts of the property, plant and equipment and revaluation reserve at 30 June 2006 were free from material misstatements and the possible impact on the Group's income statement in the current period should adjustments be found necessary.
- d. At 30 June 2006, included in trade and other receivables under current assets were intra-group receivables of approximately RMB121 million and included in trade and other payables under current liabilities were intra-group payables of approximately RMB106 million. This resulted from an inability to eliminate balances among companies within the Group on consolidation. We were unable to obtain sufficient information and explanation concerning the timing and nature underlying the unreconciled receivables and payables. We were therefore unable to assess the validity and recoverability of the unreconciled receivables amount of approximately RMB121 million and the validity and completeness of the unreconciled payables amount of approximately RMB106 million and the possible impact on the Group's income statement in the current period should adjustments be found necessary.
- e. Included in trade and other receivables at 30 June 2006 was a receivable arising from the sale of an interest in leasehold land under operating lease in Shunde, the People's Republic of China (the "PRC"), of gross amount and carrying amount of approximately RMB169 million and RMB85 million respectively. Although the land use right was registered in the name of the purchaser in June 2005, no settlement of the receivable has been recorded in the Company's books up to the date of this report. During the course of our review, we were unable to obtain sufficient information to satisfy ourselves concerning the continued existence of the receivable nor for us to assess its recoverability. Accordingly, we were unable to assess with reasonable certainty whether the carrying amount of such receivable at 30 June 2006 was free from material misstatement.

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- f. It was reported by the Company that the controlling shareholder, Guangdong Greencool Enterprise Development Company Limited ("Greencool Enterprise"), had entered into a series of activities/ transactions during the period from 2001 to 2005 which had been harmful to the Group, including but not limited to unauthorised use of the Group's funds, fictitious sales of goods and scrap materials, unreasonable prepayments and purchases of raw materials and property, plant and equipment at unreasonable quantities and prices. These transactions were conducted through Greencool Enterprise, its affiliates and/or companies suspected to be connected with the Company's former chairman, Mr. Gu Chu Jun ("Mr. Gu"). As at 30 June 2006, the aggregate net amount of receivables and aggregate amount of payables due from/to these companies were approximately RMB294 million (net of an impairment loss of approximately RMB374 million) and RMB129 million respectively which are reflected in the consolidated balance sheet at 30 June 2006 as "Amounts due from Greencool Enterprise and its affiliates" and "Amounts due from companies suspected to be connected with Mr. Gu" within current assets and "Amounts due to Greencool Enterprise and its affiliates" and "Amounts due to companies suspected to be connected with Mr. Gu" within current liabilities. We were unable to obtain sufficient information to assess the appropriateness of the impairment amount and the recoverability of the net carrying amounts.

### **MODIFIED REVIEW CONCLUSION ARISING FROM LIMITATIONS OF REVIEW SCOPE**

On the basis of our review which does not constitute an audit, with the exception of the possible adjustments that might have been determined to be necessary had the above limitations not existed, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

Without modifying our above review conclusion, we draw to your attention that the Group incurred losses of approximately RMB38 million and RMB3,767 million for the six months ended 30 June 2006 and year ended 31 December 2005 respectively. As at 30 June 2006, the Group's current liabilities exceeded its current assets by approximately RMB3,271 million. In addition, the Group had outstanding short-term loans in the aggregate of approximately RMB2,090 million of which approximately RMB1,446 million were overdue as at 30 June 2006. The Group is in the process of negotiating with certain banks to restructure the amounts due to them and the Company's management confirmed that most of the Group's bankers have expressed their intention to reschedule overdue bank borrowings and/or renew/grant credit facilities to the Group. In addition, the successor single largest shareholder of the Company, Hisense Air-Conditioner Company Limited has expressed its intention to provide necessary financial support to the Group so as to enable it to continue as a going concern. Based on the above assessments, the directors are of the opinion that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due for the foreseeable future and have prepared the interim financial report on a going concern basis.

#### **BDO McCabe Lo Limited**

*Certified Public Accountants*

#### **Chow Tak Sing, Peter**

Practising Certificate Number P04659

Hong Kong, 28 August 2006

**UNAUDITED CONSOLIDATED INCOME STATEMENT**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 "Interim Financial Reporting")

	Notes	For the six months ended 30 June	
		2006	2005
		RMB'000	RMB'000
Revenue	4	3,586,177	4,558,273
Cost of sales		(2,882,368)	(4,146,511)
Gross profit		703,809	411,762
Other operating income		53,286	14,632
Distribution costs		(558,786)	(604,923)
Administrative expenses		(136,206)	(187,403)
Other operating expenses		(13,414)	(2,328)
Profit (loss) from operations		48,689	(368,260)
Share of results of associates		(2,256)	(236)
Finance costs		(83,068)	(79,474)
Loss before tax	5	(36,635)	(447,970)
Income tax expense	6	(1,010)	(9,294)
Loss for the period		<u>(37,645)</u>	<u>(457,264)</u>
Attributable to:			
Equity holders of the Company		(29,153)	(434,554)
Minority interests		(8,492)	(22,710)
		<u>(37,645)</u>	<u>(457,264)</u>
Dividends	7	-	-
Basic loss per share attributable to equity holders of the Company	8	<u>RMB(0.03)</u>	<u>RMB(0.44)</u>

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## UNAUDITED CONSOLIDATED BALANCE SHEET

At 30 June 2006

(Prepared in accordance with IAS 34 "Interim Financial Reporting")

	<u>Notes</u>	<b>30 June 2006</b>	31 December 2005
		<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	1,779,849	1,836,825
Investment properties		27,113	27,723
Interests in leasehold land held for own use under operating leases		462,164	470,080
Interests in associates		89,937	92,186
Intangible assets		126,725	128,782
		<u>2,485,788</u>	<u>2,555,596</u>
<b>Current assets</b>			
Inventories		1,370,936	1,248,766
Trade and other receivables	10	1,785,089	1,441,096
Taxation recoverable		1,539	1,474
Pledged bank deposits		204,388	102,814
Cash and cash equivalents		191,247	184,284
		<u>3,553,199</u>	<u>2,978,434</u>
<b>Total assets</b>		<u>6,038,987</u>	<u>5,534,030</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	3,977,930	3,543,790
Trade deposits from customers		482,202	300,879
Provisions		197,809	209,916
Taxation payable		27,756	26,846
Other liabilities		48,507	43,106
Bank borrowings - amount due within one year		2,090,471	2,160,523
		<u>6,824,675</u>	<u>6,285,060</u>
<b>Non-current liabilities</b>			
Other liabilities		25,025	30,818
<b>Total liabilities</b>		<u>6,849,700</u>	<u>6,315,878</u>
<b>Net current liabilities</b>		<u>(3,271,476)</u>	<u>(3,306,626)</u>
<b>Total assets less current liabilities</b>		<u>(785,688)</u>	<u>(751,030)</u>
<b>TOTAL NET LIABILITIES</b>		<u>(810,713)</u>	<u>(781,848)</u>
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital		992,007	992,007
Share premium		1,195,597	1,195,597
Statutory reserves		114,581	114,581
Capital reserve		29,579	29,573
Revaluation reserve		373,570	373,570
Translation reserve		13,728	4,954
Accumulated losses		(3,805,673)	(3,776,520)
		<u>(1,086,611)</u>	<u>(1,066,238)</u>
<b>Minority interests</b>		<u>275,898</u>	<u>284,390</u>
<b>TOTAL EQUITY</b>		<u>(810,713)</u>	<u>(781,848)</u>

**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 "Interim Financial Reporting")

	Share capital	Share premium	Statutory reserves	Capital reserve	Revaluation reserve	Translation reserve	Accumulated losses	Equity attributable to equity holders of the Company	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2006	992,007	1,195,597	114,581	29,573	373,570	4,954	(3,776,520)	(1,066,238)	284,390	(781,848)
Share of reserves of associates	-	-	-	6	-	-	-	6	-	6
Exchange differences on translation	-	-	-	-	-	8,774	-	8,774	-	8,774
Loss for the period	-	-	-	-	-	-	(29,153)	(29,153)	(8,492)	(37,645)
Balance as at 30 June 2006	<u>992,007</u>	<u>1,195,597</u>	<u>114,581</u>	<u>29,579</u>	<u>373,570</u>	<u>13,728</u>	<u>(3,805,673)</u>	<u>(1,086,611)</u>	<u>275,898</u>	<u>(810,713)</u>
Balance as at 1 January 2005	992,007	1,195,597	114,581	29,573	373,570	1,103	(74,348)	2,632,083	357,931	2,990,014
Exchange differences on translation	-	-	-	-	-	(295)	-	(295)	-	(295)
Effect of deconsolidation of a subsidiary	-	-	-	-	-	-	-	-	(9,000)	(9,000)
Loss for the period	-	-	-	-	-	-	(434,554)	(434,554)	(22,710)	(457,264)
Balance as at 30 June 2005	<u>992,007</u>	<u>1,195,597</u>	<u>114,581</u>	<u>29,573</u>	<u>373,570</u>	<u>808</u>	<u>(508,902)</u>	<u>2,197,234</u>	<u>326,221</u>	<u>2,523,455</u>



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### UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 "Interim Financial Reporting")

	For the six months ended 30 June	
	2006	2005
	<u>RMB'000</u>	<u>RMB'000</u>
Net cash generated from operating activities	111,235	216,681
Net cash used in investing activities	(34,015)	(8,574)
Net cash used in financing activities	(69,828)	(916,208)
Net increase (decrease) in cash and cash equivalents	7,392	(708,101)
Cash and cash equivalents at beginning of the period	184,284	1,017,534
Effect of foreign exchange rate changes	(429)	(505)
Cash and cash equivalents at end of the period representing bank balances and cash	<u>191,247</u>	<u>308,928</u>

**NOTES TO THE INTERIM FINANCIAL REPORT**

*For the six months ended 30 June 2006*

(Prepared in accordance with IAS 34 "Interim Financial Reporting")

**1. GENERAL INFORMATION**

Guangdong 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.

Guangdong Greencool Enterprise Development Company Limited ("Greencool Enterprise"), a company incorporated in the PRC, is the single largest shareholder of the Company. As at 30 June 2006, Greencool Enterprise held 262,212,194 domestic legal person shares of the Company, representing 26.43% of the Company's total share capital.

On 9 September 2005, Greencool Enterprise entered into an equity transfer agreement with Qingdao Hisense Air-Conditioner Company Limited ("Hisense Air-Conditioner") in connection with the transfer of 262,212,194 shares of domestic legal person shares of the Company, representing 26.43% of total issued share capital of the Company. As at the date of this report, the equity transfer is still in process.

The Group is principally engaged in the manufacture and sale of refrigerators and air-conditioners.

The address of the registered office of the Company is No.8 Ronggang Road, Ronggui, Shunde, Foshan, the PRC.

The English names by which some of the companies are referred to in these financial statements represent management's best efforts in translating their Chinese names as no English names have been registered for these companies.

**2. BASIS OF PREPARATION**

The Group incurred losses of approximately RMB38 million and RMB3,767 million for the six months ended 30 June 2006 and year ended 31 December 2005 respectively. As at 30 June 2006, the Group's current liabilities exceeded its current assets by approximately RMB3,271 million. In addition, the Group has outstanding short-term loans in the aggregate of approximately RMB2,090 million of which approximately RMB1,446 million were overdue as at 30 June 2006. The management has implemented various measures including: (1) streamlining operational processes and improving internal management mechanism; (2) introducing cost reduction plans; (3) rationalising business structures of the Group; and (4) rebuilding the image and reputation of the Group.

In addition, the Group is in the process of negotiating with certain banks to restructure the amounts due to them and the Company's management confirmed that most of the Group's bankers have expressed their intention to reschedule overdue bank borrowings and/or renew/grant credit facilities to the Group. Further, the successor single largest shareholder of the Company, Hisense Air-Conditioner has expressed its intention to provide necessary financial support to the Group so as to enable it to continue as a going concern. Based on the above assessments, the directors are of the opinion that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due for the foreseeable future and have prepared the consolidated financial statements on a going concern basis.

This interim financial report has 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" adopted by the International Accounting Standards Board ("IASB").

**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

*For the six months ended 30 June 2006*

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**2. BASIS OF PREPARATION – Continued**

The preparation of an interim financial report 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.

This interim financial report contains condensed consolidated financial statements and 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 2005. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”) promulgated by the IASB. IFRSs include all applicable IFRS, IAS and related interpretations. This interim financial report should be read in conjunction with the 2005 annual financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The interim financial report has been prepared on the historical cost basis, as modified by the revaluation of property, plant and equipment and financial instruments at fair value.

The interim financial report has been prepared in accordance with substantially the same accounting policies adopted in the 2005 annual financial statements.

IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2006. The directors have determined the accounting policies expected to be adopted in the preparation of the Group’s annual financial statements for the year ending 31 December 2006 on the basis of IFRSs currently in issue. The adoption of these new and revised IFRSs did not result in significant changes to the Group’s accounting policies applied in these financial statements for the periods presented.

The Group has not yet applied the new and revised IFRSs that have been issued but are not yet effective. The directors anticipated that the application of these new and revised IFRSs will have no material impact on the Group’s results of operations and financial position.

**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**4. SEGMENT INFORMATION**

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

	For the six months ended 30 June 2006					Consolidated RMB'000
	Refrigerators	Air- conditioners	Freezers	Product components	Elimination	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>REVENUE</b>						
External sales	1,663,016	1,585,540	143,696	193,925	-	3,586,177
Inter-segment sales	-	-	-	439,884	(439,884)	-
Total revenue	<u>1,663,016</u>	<u>1,585,540</u>	<u>143,696</u>	<u>633,809</u>	<u>(439,884)</u>	<u>3,586,177</u>
Inter-segment sales are charged at prevailing market rates.						
<b>RESULT</b>						
Segment result	<u>47,600</u>	<u>(15,966)</u>	<u>5,635</u>	<u>11,867</u>	-	49,136
Unallocated corporate expenses						<u>(447)</u>
Profit from operations						48,689
Share of results of associates	(1,046)	(997)	(91)	(122)	-	(2,256)
Finance costs						<u>(83,068)</u>
Loss before tax						(36,635)
Income tax expense						<u>(1,010)</u>
Loss for the period						<u><u>(37,645)</u></u>

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## NOTES TO THE INTERIM FINANCIAL REPORT – Continued

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

### 4. SEGMENT INFORMATION – Continued

	For the six months ended 30 June 2005					Consolidated RMB'000
	Refrigerators	Air- conditioners	Freezers	Product components	Elimination	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>REVENUE</b>						
External sales	1,469,138	2,596,029	193,905	299,201	-	4,558,273
Inter-segment sales	-	-	-	62,405	(62,405)	-
Total revenue	<u>1,469,138</u>	<u>2,596,029</u>	<u>193,905</u>	<u>361,606</u>	<u>(62,405)</u>	<u>4,558,273</u>

Inter-segment sales are charged at prevailing market rates.

<b>RESULT</b>						
Segment result	(182,442)	(101,969)	(12,529)	(54,308)	-	(351,248)
Unallocated corporate expenses						(17,012)
Loss from operations						(368,260)
Share of results of associates	(102)	(121)	(3)	(10)	-	(236)
Finance costs						(79,474)
Loss before tax						(447,970)
Income tax expense						(9,294)
Loss for the period						<u>(457,264)</u>

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/services:

	Revenue by geographical market	
	For the six months ended 30 June	
	2006 RMB'000	2005 RMB'000
The PRC		
Mainland China	2,399,172	2,344,916
Hong Kong	1,309	21,474
	<u>2,400,481</u>	<u>2,366,390</u>
Europe	346,988	670,329
America	294,426	1,098,915
Others	544,282	422,639
	<u>3,586,177</u>	<u>4,558,273</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.

**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**5. LOSS BEFORE TAX**

Loss before tax in the unaudited consolidated income statement was determined after charging (crediting) the following items:

	<b>For the six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Amortisation of intangible assets	2,127	103
Amortisation of interests in leasehold land held for own use under operating leases	7,916	8,899
Depreciation on property, plant and equipment	112,771	151,801
Depreciation on investment properties	324	-
Loss on disposal of property, plant and equipment, net	2,161	766
(Reversal of impairment loss) impairment loss on trade and other receivables, net	(17,522)	15,111
Share of associates' taxation	4,067	892
Interest on bank borrowings	62,771	53,300
Reversal of write-down of inventories recognised as an expense	(31,485)	(3,465)
Rental income from investment properties (net of immaterial outgoings)	(894)	(610)

**6. INCOME TAXES**

	<b>For the six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Income taxes consist of:		
Current tax		
– PRC enterprise income tax	1,010	1,904
– Hong Kong Profits Tax	-	7,390
Deferred tax	-	-
	<b>1,010</b>	<b>9,294</b>

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 assessable or deductible for income tax purposes after considering all available tax benefits.

**7. DIVIDENDS**

The directors do not recommend the payment of a dividend for the six months ended 30 June 2006. No interim dividend was declared for the same period last year.

**8. BASIC LOSS PER SHARE**

The calculation of basic loss per share attributable to equity holders of the Company was based on the loss attributable to equity holders of the Company for the six months ended 30 June 2006 of approximately RMB29,153,000 (six months ended 30 June 2005: RMB434,554,000) and on 992,006,563 shares (six months ended 30 June 2005: 992,006,563 shares) outstanding during the period.

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

**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent approximately RMB79,988,000 (six month ended 30 June 2005: RMB133,139,000) on the acquisition of property, plant and equipment.

**10. TRADE AND OTHER RECEIVABLES**

	<b>30 June 2006</b>	31 December 2005
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Trade receivables, net	<b>332,802</b>	238,786
Notes receivable	<b>541,786</b>	140,819
Other receivables, net (i)	<b>558,146</b>	508,964
Amounts due from Greencool Enterprise and its affiliates, net	<b>74,055</b>	74,055
Amounts due from companies suspected to be connected with Mr. Gu, net	<b>219,557</b>	232,235
Amounts due from Hisense Group	<b>18,721</b>	204,349
Amounts due from associates, net	<b>141</b>	140
Amounts due from other related companies, net	<b>39,881</b>	41,748
	<b><u>1,785,089</u></b>	<u>1,441,096</u>

(i) At 30 June 2006, included in other receivables was an amount of approximately RMB121,182,000 (2005: RMB80,043,000) of intra-group receivables resulted from an inability to eliminate balances among companies within the Group on consolidation.

The aging analysis of trade receivables is as follows:

	<b>Gross amount</b>	<b>Impairment loss</b>	<b>Net amount</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>As at 30 June 2006 (Unaudited)</b>			
Within one year	<b>346,555</b>	<b>(13,753)</b>	<b>332,802</b>
One to two years	<b>56,185</b>	<b>(56,185)</b>	-
Two to three years	<b>42,802</b>	<b>(42,802)</b>	-
Over three years	<b>133,196</b>	<b>(133,196)</b>	-
	<b><u>578,738</u></b>	<b><u>(245,936)</u></b>	<b><u>332,802</u></b>
<b>As at 31 December 2005 (Audited)</b>			
Within one year	301,586	(62,830)	238,756
One to two years	12,058	(12,028)	30
Two to three years	51,618	(51,618)	-
Over three years	144,444	(144,444)	-
	<b><u>509,706</u></b>	<b><u>(270,920)</u></b>	<b><u>238,786</u></b>

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.

**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**11. TRADE AND OTHER PAYABLES**

	<b>30 June 2006</b>	31 December 2005
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Trade payables	<b>2,298,916</b>	1,993,906
Notes payable	<b>167,030</b>	159,650
Other payables (i)	<b>768,906</b>	822,540
Accruals	<b>368,788</b>	324,303
Amounts due to Greencool Enterprise and its affiliates	<b>13,017</b>	13,017
Amounts due to Companies suspected to be connected with Mr. Gu	<b>115,561</b>	118,155
Amounts due to Hisense Group	<b>180,636</b>	17,257
Amounts due to associates	<b>41,160</b>	75,331
Amounts due to other related companies	<b>23,916</b>	19,631
	<b><u>3,977,930</u></b>	<u>3,543,790</u>

(i) At 30 June 2006, included in other payables was intra-group payables of approximately RMB105,688,000 (2005: RMB51,504,000) resulted from an inability to eliminate balances among companies within the Group on consolidation.

The aging analysis of trade payables is as follows:

	<b>30 June 2006</b>	31 December 2005
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Within one year	<b>2,011,662</b>	1,645,415
One to two years	<b>214,371</b>	83,768
Two to three years	<b>54,200</b>	59,097
Over three years	<b>18,683</b>	205,626
	<b><u>2,298,916</u></b>	<u>1,993,906</u>

Trade payables within normal credit period are non-interest bearing.

**12. RELATED PARTY TRANSACTIONS**

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

As at 30 June 2006, the Company’s single largest shareholder is Greencool Enterprise which owns 26.43% of the Company’s shares. The beneficial owner of Greencool Enterprise is Mr. Gu Chu Jun (“Mr. Gu”), who was also the executive director of the Company up to 26 June 2006. The Group has significant transactions and relationships with Greencool Enterprise and companies controlled by Mr. Gu (collectively refer to “Greencool Enterprise and its affiliates”). The Group also has significant transactions with companies suspected to be connected with Mr. Gu (defined in I (i) below).



**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**12. RELATED PARTY TRANSACTIONS – Continued**

On 9 September 2005, Greencool Enterprise entered into an equity transfer agreement with Hisense Air-Conditioner under which Greencool Enterprise agrees to transfer 262,212,194 domestic legal person shares in the Company to Hisense Air-Conditioner representing 26.43% of the Company’s total issued share capital. The aforesaid transfer is expected to complete after the relevant regulatory approvals have been obtained.

On 16 September 2005, the Company entered into a sales agency agreement (as amended by the first supplemental agency agreement on 26 September 2005 and the second supplemental agency agreement on 1 April 2006) with Qingdao Hisense Marketing Company Limited (“Hisense Agent”) under which Hisense Agent acts as sales agent of the Company’s domestic sales products by way of distribution within the entire PRC domestic market. Both Hisense Air-Conditioner and Hisense Agent are subsidiaries controlled by Hisense Group Company Limited (“Hisense Group”).

Because of the above relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

**I. Relationship with related parties**

During the period, for the purpose of this report, the directors are of the view that the following companies are related parties of the Group:

<b>Name of related parties</b>	<b>Notes</b>	<b>Relationship</b>
Greencool Enterprise		The single largest shareholder of the Company as at 30 June 2006
Mr. Gu		The beneficial owner of Greencool Enterprise and also the executive director of the Company up to 26 June 2006
Greencool Technology Development (Shenzhen) Company Limited (“Shenzhen Greencool Technology”)		A company controlled by Mr. Gu
Greencool Environmental Protection Engineering (Shenzhen) Company Limited (“Shenzhen Greencool Environmental”)		A company controlled by Mr. Gu
Greencool Refrigerant (China) Company Limited (“Greencool China”)		A company controlled by Mr. Gu
Hainan Greencool Environmental Protection Engineering Company Limited (“Hainan Greencool”)		A company controlled by Mr. Gu
Greencool Procurement (Shenzhen) Co., Ltd. (“Greencool Procurement”)		A company controlled by Mr. Gu
Hefei Meiling Holdings Limited (“Hefei Meiling”)		A company controlled by Mr. Gu

**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**12. RELATED PARTY TRANSACTIONS – Continued****I. Relationship with related parties – Continued**

Name of related parties	Notes	Relationship
Jiangxi Greencool Electrical Appliance Company Limited (“Jiangxi Greencool”)		A company controlled by Mr. Gu
Yangzhou Yaxing Motor Coach Company Limited (“Yangzhou Yaxing”)		A company controlled by Mr. Gu
Chengdu Refrigerating Components Factory (“Chengdu Refrigerating”)	(i)	A company suspected to be connected with Mr. Gu
Hefei Weixi Electrical Appliance Company Limited (“Hefei Weixi”)	(i), (ii)	A company suspected to be connected with Mr. Gu
Jiangxi Keda Plastic Technology Company Limited (“Jiangxi Keda”)	(i)	A company suspected to be connected with Mr. Gu
Jiangxi Kesheng Trading Company Limited (“Jiangxi Kesheng”)	(i)	A company suspected to be connected with Mr. Gu
Jinan San’ ai’ fu Chemical Company Limited (“Jinan San’ ai’ fu”)	(i)	A company suspected to be connected with Mr. Gu
Tianjin Lixin Trading Development Company Limited (“Tianjin Lixin”)	(i)	A company suspected to be connected with Mr. Gu
Tianjin Taijin Yunye Company Limited (“Tianjin Taijin Yunye”)	(i)	A company suspected to be connected with Mr. Gu
Tianjin Xiangrun Trading Development Company Limited (“Tianjin Xiangrun”)	(i)	A company suspected to be connected with Mr. Gu
Wuhan Changrong Electrical Appliance Company Limited (“Wuhan Changrong”)	(i), (ii)	A company suspected to be connected with Mr. Gu
Zhejiang Guoda Trading Company Limited (“Zhejiang Guoda”)	(i)	A company suspected to be connected with Mr. Gu
Zhejiang Yuhuan Compressor Factory (“Zhejiang Yuhuan ”)	(i)	A company suspected to be connected with Mr. Gu
Beijing De Heng Solicitors (“Beijing De Heng”)	(i)	A company suspected to be connected with Mr. Gu
Zhuhai Defa Air-conditioner Fittings Company Limited (“Zhuhai Defa”)	(i)	A company suspected to be connected with Mr. Gu

## H

### NOTES TO THE INTERIM FINANCIAL REPORT – *Continued*

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

#### 12. RELATED PARTY TRANSACTIONS – *Continued*

##### I. Relationship with related parties – *Continued*

<u>Name of related parties</u>	<u>Notes</u>	<u>Relationship</u>
Zhuhai Longjia Refrigerating Plant Company Limited (“Zhuhai Longjia”)	(i)	A company suspected to be connected with Mr. Gu
Hisense Air-Conditioner		The successor single largest shareholder of the Company
Hisense Agent		A fellow subsidiary of Hisense Air-Conditioner
Hisense Electric Co., Ltd. (“Hisense Electric”)		A fellow subsidiary of Hisense Air-Conditioner
Hisense (Beijing) Electric Co., Ltd.		A fellow subsidiary of Hisense Air-Conditioner
Hisense (Nanjing) Electric Co., Ltd.		A fellow subsidiary of Hisense Air-Conditioner
Hisense (Zhejiang) Electric Co., Ltd.		A subsidiary of Hisense Air-Conditioner
Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. (“Chongqing Rongsheng”)		An associate of the Group
Guangzhou Antaida Logistic Co., Ltd. (“Guangzhou Antaida”)		An associate of the Group
Huayi Compressor Holdings Company Limited (“Huayi”)		An associate of the Group
Jiaxibeila Compressor Company Limited (“Jiaxibeila”)		A subsidiary of an associate of the Group
Kelon Europe		An unconsolidated subsidiary of the Company
Jiangxi Combine		An unconsolidated subsidiary of the Company
Chengdu Engine (Group) Company Limited (“Chengdu Engine”)		A minority investor of Chengdu Kelon
Chengdu Xinxing Electrical Appliance Holdings Company Limited (“Chengdu Xinxing”)		An associate of Chengdu Engine
Hangzhou Xileng Group Company Limited (“Hangzhou Xileng”)		A minority investor of Hangzhou Kelon
Xi’an Gaoke (Group) Limited (“Xi’an Gaoke”)		A minority investor of Xian Kelon
Shunde Yunlong Consultants (“Shunde Yunlong”)		A minority investor of Huaao Electronics

**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**12. RELATED PARTY TRANSACTIONS – Continued****I. Relationship with related parties – Continued**

- (i) The directors suspected that these companies are connected with Mr. Gu in view of the following reasons: (a) certain transactions (cash flows) were incurred through some off balance sheet bank accounts or were off balance sheet transactions with some members of the Group, and other dealings in such off balance sheet bank accounts have been proved to be connected with Greencool Enterprise and its affiliates; (b) through interviews and enquiries conducted by an external professional firm, staff of some of the members of the Group have confirmed that certain transactions (cash flows) of these companies are connected with Greencool Enterprise and its affiliates; (c) although there are no documents to prove that certain cash flows of these companies are connected with Greencool Enterprise and its affiliates, such cash flows were incurred pursuant to the instructions of the former members of the management of the Company who are connected with Greencool Enterprise and its affiliates; (d) the raw materials which were the subject of certain prepayments were patented products manufactured by Greencool Enterprise and its affiliates; and (e) according to the members of senior management of certain members of the Group, certain prepayments were transferred to Greencool Enterprise and its affiliates subsequent to such prepayments being made to the relevant suppliers.
- (ii) Hefei Weixi and Wuhan Changrong were frequently used by Mr. Gu as the vehicle to manipulate the Group’s results in prior years by way of creating abnormal sales transactions and sales returns. The directors considered, by the reference to the findings of an external professional firm, that Hefei Weixi and Wuhan Changrong are suspected to be connected with Mr. Gu.

**II. Transactions with related parties***(a) Transactions with Greencool Enterprise and its affiliates*

- (i) The Group had the following significant transactions with Greencool Enterprise and its affiliates that were carried out in the normal course of business:

	<b>For the six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>RMB’000</b>	RMB’000
Sales of goods/raw materials to Hefei Meiling	<u>-</u>	<u>77</u>
	<b>30 June</b>	31 December
	<b>2006</b>	2005
	<b>RMB’000</b>	RMB’000
	<b>(Unaudited)</b>	(Audited)
Loan guarantee provided by Greencool Enterprise		
- maximum amount during the period/year	<b>327,971</b>	327,971
- amount as at end of the period/year	<b>12,257</b>	327,971

- (ii) Licence agreement on the use of trademark: Under a licence agreement (“Licence Agreement”) dated 3 April 2003 entered into between the Company and Greencool China, Greencool China granted to the Company an exclusive right to use the trademark “Combine” for no consideration (a) as registered in the PRC and Hong Kong; and/or (b) as may from time to time be registered and/or in respect of which applications for registration may be made with the trademarks registry of any other territory by Greencool China; and/or (c) all “Combine” trademark registrations as may be assigned to Greencool China from time to time on freezers, refrigerators and other similar or related products and such other products as may be requested by the Company from time to time which are not objected by Greencool China, on a worldwide basis, for a term equivalent to the period of validity of the relevant registration. With the prior written consent of the Company, Greencool China may use and allow third party to use, such trademarks on production other than the types of products covered by the Licence Agreement. During the year, the Group has been using the trademark of “Combine” on the refrigerators products and air conditioners products under the Licence Agreement.

**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**12. RELATED PARTY TRANSACTIONS – Continued****II. Transactions with related parties – Continued***(a) Transactions with Greencool Enterprise and its affiliates – Continued*

(iii) Use of land and buildings: Starting from October 2003, Jiangxi Kelon occupied a piece of land and manufacturing facilities of Jiangxi Greencool free of charge. Part of the production facilities of Zhuhai Kelon were constructed on the land and buildings controlled by Mr. Gu for no consideration. As at 30 June 2006, none of Jiangxi Kelon or Zhuhai Kelon had entered into lease agreement with the respective related parties.

*(b) Transactions with companies suspected to be connected with Mr. Gu*

The directors confirmed that the Group did not enter into any transactions with companies suspected to be connected with Mr. Gu during the period.

*(c) Transactions with Hisense Group*

The Group had the following significant transactions with Hisense Group:

	<i>Notes</i>	<b>For the six months ended 30 June</b>	
		<b>2006</b>	<b>2005</b>
		<b>RMB'000</b>	<b>RMB'000</b>
Sales of goods/raw materials (net of returns) to			
– Hisense Agent		<b>63,751</b>	–
– Hisense Zhejiang		<b>7,039</b>	–
Sales of goods to Hisense Agent under the agency agreement (net of returns)	(i)	<b>1,689,359</b>	–
Agency fee paid/payable to			
– Hisense Agent	(ii)	<b>13,178</b>	–
Loan interest payable to			
– Hisense Agent		<b>8,445</b>	–
Purchases of goods/raw materials from			
– Hisense Air-Conditioner		<b>57</b>	–
– Hisense Nanjing		<b>2,454</b>	–
– Hisense Zhejiang		<b>53,526</b>	–
– Hisense Beijing		<b>5,520</b>	–
Sales of moulds to			
– Hisense Electric		<b>2,554</b>	–

(i) Sales and purchases were conducted in accordance with mutually agreed terms with reference to the market rates.

(ii) Agency fee was based on 1% of the total sales proceeds of products under the sales agency agreement.

**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**12. RELATED PARTY TRANSACTIONS – Continued****II. Transactions with related parties – Continued***(d) Transactions with associates*

The Group had the following significant transactions with associates:

	<i>Notes</i>	<b>For the six months ended 30 June</b>	
		<b>2006</b>	2005
		<b>RMB'000</b>	<i>RMB'000</i>
Sales of goods/raw materials to			
- Chongqing Rongsheng		-	36,885
- Huayi and Jiaxibeila		113	-
Purchases of goods/raw materials from			
- Huayi and Jiaxibeila	(i)	66,774	87,599
Logistics management fee paid to			
- Guangzhou Antaida	(ii)	19,381	838

(i) Huayi and Jiaxibeila mainly provide compressors to the Group for production of air-conditioners and refrigerators.

(ii) The Group and Guangzhou Antaida entered into a logistics service agreement, pursuant to which Guangzhou Antaida provides transportation service to the Group. The service fee is based on the actual volume of goods and the distance delivered and discharged at a pre-determined rate agreed by both parties.

*(e) Transactions with other related parties*

The Group had the following significant transactions with other related parties:

	<i>Notes</i>	<b>For the six months ended 30 June</b>	
		<b>2006</b>	2005
		<b>RMB'000</b>	<i>RMB'000</i>
Sales of goods/raw materials to			
- Chengdu Xinxing		3,320	16,121
Purchases of goods/raw materials from			
- Chengdu Xinxing		6,458	19,633
- Chengdu Engine		-	2,265
Interest charged to			
- Chengdu Xinxing	(i)	993	993
Lease payment in respect of plant and equipment to			
- Hangzhou Xileng	(ii)	3,000	-

**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**12. RELATED PARTY TRANSACTIONS – Continued****II. Transactions with related parties – Continued***(e) Transactions with other related parties – Continued*

- (i) The Company made prepayments in an aggregate of RMB34,000,000 indirectly through its subsidiary, Chengdu Kelon, to Chengdu Xinxing, which is an associate of Chengdu Engine, the minority investor of Chengdu Kelon. As consideration for such prepayment, Chengdu Xinxing agreed to repay Chengdu Kelon by supplying an agreed number of refrigeration parts together with interest payments at an annual rate of approximately 5.8%.
- (ii) Lease payment in respect of plant and equipment to Hangzhou Xileng is determined by reference to an equipment lease agreement entered into between Hangzhou Kelon and Hangzhou Xileng.

**III. Balances with related parties***(a) Balances with Greencool Enterprise and its affiliates*

	<b>30 June 2006</b>	31 December 2005
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Included in trade and other receivables, net		
– Greencool Enterprise	<b>7,963</b>	7,963
– Hainan Greencool	<b>976</b>	976
– Hefei Meiling	<b>116</b>	116
– Shenzhen Greencool Technology	<b>32,000</b>	32,000
– Shenzhen Greencool Environmental	<b>33,000</b>	33,000
	<b>74,055</b>	74,055
Included in trade and other payables		
– Hefei Meiling	<b>17</b>	17
– Jiangxi Greencool	<b>13,000</b>	13,000
	<b>13,017</b>	13,017

Amounts due from/to Greencool Enterprise and its affiliates are unsecured, interest-free and repayable on demand.

As at 30 June 2006, impairment loss for bad and doubtful debts of approximately RMB19,283,000 (2005: RMB19,276,000) were recorded in respect of amounts due from Greencool Enterprise and its affiliates.

**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**12. RELATED PARTY TRANSACTIONS – Continued****III. Balances with related parties – Continued**

(b) Balances with companies suspected to be connected with Mr. Gu

	<i>Notes</i>	<b>30 June 2006</b>	31 December 2005
		<b>RMB'000</b>	RMB'000
		<b>(Unaudited)</b>	(Audited)
Included in trade and other receivables, net			
- Beijing De Heng		1,000	1,000
- Hefei Weixi		8,270	8,270
- Jiangxi Keda		6,500	6,500
- Jiangxi Kesheng		4,183	4,183
- Jinan San'ai'fu		56,683	56,683
- Tianjin Lixin		44,800	44,800
- Tianjin Xiangrun		48,199	48,199
- Wuhan Changrong		24,922	24,922
- Zhongshan Dongyue		-	12,678
- Zhuhai Defa	(i)	10,700	10,700
- Zhuhai Longjia	(i)	14,300	14,300
		<b>219,557</b>	232,235
Included in trade and other payables			
- Jiangxi Keda		622	622
- Tianjin Taijin Yunye		65,000	65,000
- Zhongshan Dongyue		-	2,594
- Zhuhai Longjia		28,316	28,316
- Zhuhai Defa		21,400	21,400
- Zhejiang Yuhuan		223	223
		<b>115,561</b>	118,155

- (i) Certain of the Company's subsidiaries have recorded sales of scrapped materials to Zhuhai Longjia and Zhuhai Defa in aggregate of approximately RMB40 million in 2003 and 2004. The findings of an external professional firm revealed that the amounts have been received by the respective subsidiaries but the materials were never delivered to Zhuhai Longjia and Zhuhai Defa. It was suspected that these transactions were not supported by business substance but for the purpose of manipulation of the Group's results. These transactions were executed by Yan Guo Ru (晏果如) former vice financial controller (前任財務資源部副總監) who, together with the ex-chairman Mr. Gu and certain of the ex-senior management were arrested by the PRC Police Department in connection with criminal offences, for alleged economic crime. Against this background, the directors suspected that Zhuhai Longjia and Zhuhai Defa are connected with Greencool Enterprise and/or its affiliates and the balances were included in "Amounts due to companies suspected to be connected with Mr. Gu".



**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**12. RELATED PARTY TRANSACTIONS – Continued****III. Balances with related parties – Continued***(b) Balances with companies suspected to be connected with Mr. Gu – Continued*

Amounts due from/to companies suspected to be connected with Mr. Gu are unsecured, interest-free and repayable on demand.

As at 30 June 2006, impairment loss for bad and doubtful debts of approximately RMB354,524,000 (2005: RMB354,724,000) were recorded in respect of amount due from Greencool Enterprise and its affiliates.

*(c) Balances with Hisense Group*

	<b>30 June 2006</b>	31 December 2005
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Included in trade and other receivables		
– Hisense Agent	<b>1,019</b>	204,349
– Hisense Zhejiang	<b>17,702</b>	–
	<b>18,721</b>	204,349
Included in trade and other payables		
– Hisense Agent	<b>180,627</b>	17,257
– Hisense Zhejiang	<b>9</b>	–
	<b>180,636</b>	17,257

Amounts due from/to Hisense Group are unsecured, interest-free and are repayable in accordance with normal commercial terms.

As at 30 June 2006 and 31 December 2005, no impairment losses for bad and doubtful debts were recorded in respect of amounts due from Hisense Group.

**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**12. RELATED PARTY TRANSACTIONS – Continued****III. Balances with related parties – Continued***(d) Balances with associates*

	<b>30 June 2006</b>	31 December 2005
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Included in trade and other receivables		
- Chongqing Rongsheng	<b>107</b>	137
- Guangzhou Antaida	<b>34</b>	3
	<b>141</b>	140
Included in trade and other payables		
- Guangzhou Antaida	-	24
- Chongqing Rongsheng	<b>2,755</b>	-
- Huayi and Jiaxibeila	<b>38,405</b>	75,307
	<b>41,160</b>	75,331

Amounts due from/to associates are unsecured, interest-free and are repayable in accordance with normal commercial terms.

As at 30 June 2006, impairment losses for bad and doubtful debts of approximately RMB40,000 (2005: Nil) were recorded in respect of amounts due from associates.

**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**12. RELATED PARTY TRANSACTIONS – Continued****III. Balances with related parties – Continued***(e) Balances with other related parties*

	<b>30 June 2006</b>	31 December 2005
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Included in trade and other receivables		
– Chengdu Engine	27	27
– Chengdu Xinxing	34,000	35,802
– Kelon Europe	5,854	5,919
	<u>39,881</u>	<u>41,748</u>
Included in trade and other payables		
– Chengdu Engine	1,247	434
– Chengdu Xinxing	3,011	2,538
– Hangzhou Xileng	12,773	9,774
– Jiangxi Combine	5,100	5,100
– Xi'an Gaoke	1,785	1,785
	<u>23,916</u>	<u>19,631</u>

Save for the balance of RMB34,000,000 (2005: RMB34,000,000) due from Chengdu Xinxing, all amounts due from/to other related companies are unsecured, interest-free and are repayable on demand.

The term and conditions associated with the balance of RMB34,000,000 (2005: RMB34,000,000) due from Chengdu Xinxing are set out in note 12 II (e)(i).

As at 30 June 2006, impairment losses for bad and doubtful debts of approximately RMB4,526,000 (2005: RMB4,686,000) were recorded in respect of amounts due from other related companies.

**IV. Key management personnel emoluments**

	<b>For the six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
Basic salaries, allowances and benefits-in-kind	3,664	8,140
Retirement fund contributions	-	-
	<u>3,664</u>	<u>8,140</u>

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and other senior management, totaling 8 individuals (2005: 11 individuals).

**NOTES TO THE INTERIM FINANCIAL REPORT – Continued**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 “Interim Financial Reporting”)

**13. CAPITAL COMMITMENTS**

	<b>30 June 2006</b>	31 December 2005
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Capital expenditure for acquisition of property, plant and equipment contracted for but not provided in the condensed financial statements	<b>11,181</b>	23,309

**14. CONTINGENCIES**

The Group is a defendant in certain lawsuits as well as the plaintiff in other proceedings arising in the ordinary course of business. The amount involved in the litigations against the Group relate mainly to bank loans, purchases and expenditures incurred by the Group and most of them were recorded as liabilities of the Group as at the balance sheet date. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have material adverse effect on the financial position or operating results of the Group.

**15. OVERDUE BANK LOANS**

As at 30 June 2006, the Group has outstanding short-term bank loans in the aggregate of approximately RMB2,090 million (2005: RMB2,161 million) of which approximately RMB1,446 million (2005: RMB1,233 million) were overdue. The management has implemented various measures including: (1) streamlining operational processes and improving internal management mechanism; (2) introducing cost reduction plans; (3) rationalising business structures of the Group; and (4) rebuilding the image and reputation of the Group. In addition, the Group is in the process of negotiating with certain banks to restructure the amounts due to them and the Company's management confirmed that most of the Group's bankers have expressed their intention to reschedule overdue bank borrowings and/or renew/grant credit facilities to the Group.

**SUPPLEMENTARY INFORMATION**

For the six months ended 30 June 2006

(Prepared in accordance with IAS 34 "Interim Financial Reporting")

**DIFFERENCES BETWEEN IFRS AND PRC GAAP AS APPLICABLE TO THE GROUP**

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

	<b>30 June 2006</b>	31 December 2005
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Equity attributable to equity holders of the Company as per condensed consolidated financial statements prepared under IFRS	<b>(1,086,611)</b>	(1,066,238)
Adjustment on property, plant and equipment in respect of revaluation and related depreciation	<b>11,169</b>	10,348
Adjustment on contribution from minority shareholders	<b>26,684</b>	26,684
Adjustment on impairment on goodwill	<b>10,502</b>	11,200
Adjustment on amortisation of trademark	<b>(7,637)</b>	-
Effect of adoption of IFRS 3	<b>(69,452)</b>	(71,846)
	<b><u>(1,115,345)</u></b>	<b><u>(1,089,852)</u></b>

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

	<b>For the six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
Net loss attributable to equity holders of the Company as per condensed consolidated financial statements prepared under IFRS	<b>(29,153)</b>	(434,554)
Adjustment on property, plant and equipment in respect of revaluation and related depreciation	<b>1,765</b>	1,765
Adjustment on amortisation of trademark	<b>(7,637)</b>	(26,093)
Adjustment on impairment loss on goodwill	<b>(698)</b>	-
Release of negative goodwill to income	<b>2,395</b>	-
Adjustment on impairment of investment	-	(14,485)
Adjustment on pre-operating expenses	-	(6,492)
Adjustment on notional rental	-	(7,085)
Others	<b>(2,414)</b>	-
	<b><u>(35,742)</u></b>	<b><u>(486,944)</u></b>

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 the board of directors of the Company (the "Board") held on 28 August 2006, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006. No interim dividend was paid for the corresponding period of the previous year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### PERFORMANCE REVIEW

During the reporting period, home appliance manufacturers continued to compete severely for market shares in a global scale, which caused the business environment to further deteriorate. The continuous rise of prices of raw materials has further shrunken the profit margin of our principal products and imposed obviously greater pressure on the Company's operation. During the reporting period, the Company continued to pursue the operational guidelines of "optimising internal systems, improving cash flow, continuing high-end strategy and maintaining operational efficiency" established earlier this year, and endeavoured to improve the quality of operation of the Company. Although the Company still faced significant difficulties in its operation during the reporting period, with the understanding and support from the government, banks, suppliers and distributors, the production and sales status of the Company were gradually improving, with the profitability of products and the liquidity of assets further enhanced, and the quality of operation has notably improved as compared with the first quarter of the year.

For the first half of 2006, the Company continued to execute the Sales Agency Agreement and its supplementary agreements entered into between the Company and Qingdao Hisense Marketing Company Limited and has remarkably boosted the revival of the principal operations. However, due to the reasons described as follows, substantial loss was recorded in the unaudited results for the six months ended 30 June 2006:

- (1) Prices of raw materials, especially metals, continued to rise and considerably increased the cost of our principal operations, and moreover, due to fierce market competition, the Company was unable to transfer the increased cost to the customers, which resulted in further shrinking of the profit margin of our principal operations, especially air-conditioners operations.
- (2) As a result of the former chairman of the Company being suspected of having committed economic crimes, the confidence of the distributors of our Company was significantly affected, and thus causing a huge loss of potential orders from September 2005 to September 2006 as well as a significant drop in sales of products, especially in air-conditioners and freezers, in overseas markets.
- (3) The fact that the equity transfer between Guangdong Greencool Enterprise Development Company Limited ("Guangdong Greencool" or "Greencool"), the single major shareholder of the Company, and Qingdao Hisense Air-Conditioner Company Limited ("Hisense Air-Conditioner") is yet to be finalised, combined with the rumour spread in March 2006 that the abovementioned subject shares of the Company might be put on auction, have deeply affected the confidence of the financial institutes, suppliers and distributors and significantly hindered the production and operation of the Company.

As a result of the above, the Company recorded a turnover of approximately RMB3,586,180,000 during the reporting period, representing a decrease of 21.33% as compared to the same period of 2005. The loss attributable to the equity holders of the Company was RMB29,150,000.

The Board does not recommend a payment of interim dividend to the shareholders (for the first half of 2005: nil).

**MANAGEMENT DISCUSSION AND ANALYSIS – Continued****BUSINESS REVIEW**

There has been a substantial decrease in the production costs for the Company as a result of the adjusted production plan formulated at the beginning of the year (the "Production Plan") having been effectively implemented. The Production Plan made material changes to improve the product structure of the Company and used various methods to achieve a reduction in costs. As at the end of this reporting period, the gross profit margin for the main products has largely surpassed the level achieved in the same period in last year, and has reached the industry average, establishing a solid foundation for the improvement of operational quality. At the same time, the Company accelerated its expansion into both the domestic and overseas market and has been working to establish the groundwork for increasing the marketability of its products and to gradually regain its market share. In addition, the Company has focused on improving its cash flow, settling an increased amount of receivables, tightening the credit policy of the Company where appropriate and further disposing of idle assets to facilitate the liquidity of funds, resulting in material improvements in the cash flows of the Company during the reporting period.

In respect of business segments, for the first half year of 2006, revenue from the air-conditioner segment accounted for 44.21% of the total turnover of the Company, and revenues from the refrigerator segment accounted for 46.37% and the remaining 9.42% came from other segments such as sale of components and freezers.

**Air-conditioner segment**

For the first half year of 2006, the air-conditioner segment of the Company directed all its efforts on activating the market, resuming production and rebuilding social reputation, and has overcome countless difficulties in building a new market-oriented pattern for product development and production management, integrating supply sources, controlling the cost of externally-sourced components and improving the product quality while exercising a tightened overall cost control. At the same time, the Company took aggressive steps to adjust the product sales structure and boost the sales of high-end air-conditioners. As a result, the gross profit margin of the domestic sales segment has remarkably improved during the reporting period, as compared with the same period of the previous year, and has reached the industry average.

In spite of the above effective measures, it is still far from enough to offset the adverse impacts caused to the Company's profitability during the reporting period due to the following factors:

- (1) The manufacturing cost of air-conditioners has significantly increased as a result of a significant rise of prices of raw materials, especially metals.
- (2) Air-conditioners are subject to seasonal demands, and the Company was unable to secure expected orders at the beginning of the frozen year (August and September 2005, the prime time for annual export ordering) as a result of the Gu Chu Jun's incident.
- (3) As influenced by the "equity auction crisis", the production of air-conditioners was suspended during March and April, the peak season of domestic sales. As a result, the products of the Company failed to enter into the market.
- (4) The fierce price competition caused by the high similarity in products in the air conditioner industry, together with the impact of Renminbi appreciation, has further shrunken the profit margin of the whole industry.

As such, the air-conditioner segment of the Company has suffered a rather significant loss during the reporting period. During the reporting period, the air-conditioner segment of the Company recorded a sales revenue of approximately RMB1,586,000,000, representing a decrease of 38.92% as compared to the same period of the previous year.

## MANAGEMENT DISCUSSION AND ANALYSIS – Continued

### BUSINESS REVIEW – Continued

#### Refrigerator segment

During the reporting period, although the refrigerator export segment was confronted with unfavourable factors such as increases in prices of bulk raw materials, RMB appreciation, repeated increase of interest rate in the States as well as the ROHS instructions, the Company persisted to adopt the operational guidelines of “optimising internal systems, improving product structure, reinforcing quality control, enhancing working efficiency, accelerating cash flow and securing profit targets”, and has managed not only to completely resume production in a timely manner, but also hit a record high of monthly production and sales. The product structure was further improved, with the gross profit margin of the refrigerator products expanding remarkably over the industry average level. Meanwhile, as refrigerators are less vulnerable to seasonal demands, the refrigerator segment of the Company has gradually recovered from the impact of the former chairman of the Company being alleged for economic crimes, and recorded a major increase during the reporting period.

During the reporting period, the refrigerator segment of the Company recorded a sales revenue of approximately RMB1,663,000,000, representing an increase of 13.20% as compared to the same period of the previous year, and has therefore secured its leading position in the industry.

#### Continuing innovation on high-tech products

During the reporting period, the Company has effectively implemented the high-end strategy established at the beginning of the year and has generally upgraded its products in terms of energy saving, health awareness and appearance novelty. The Company also continued its devotion in developing world leading high technology products, placing special emphasis on the innovation of its core environmental protection and energy saving technologies.

During the reporting period, the Company has launched the high-end “Shuang Xiao Jue” air-conditioners equipped with a new “IRES” active energy-saving system, which has inherited the Company’s industry-leading high effectiveness technology and been met with notable customer popularity in the high-end market.

In the refrigerator segment, the Company has launched the Rongsheng “Lanjue” SPA Original Phase refrigerators capable of active and long time freshness-retention, which are equipped with the Company’s unique proprietary separated and multi-circulation technology as well as the 4th generation Vitamin C super fresh-retaining technology, and were strongly welcomed in the market.

At the “Appliance World Expo Beijing 2006” held in Beijing in May 2006, the Company’s BCD-209S/E and BCD-215YM refrigerator and KFR-35GW/S3F and KFR-27GW/S3F air-conditioner with the brand of “Kelon” won the “Super Energy-saving Award”, and its BCD-209S/D refrigerator with the brand of “Ronsheng” won the “Industrial Design Excellence Award”. These awards reflect the Company’s leading position in core technologies such as environmental protection and energy-saving and industrial design.

#### OUTLOOK

In the second half year of 2006, competition in the global electrical appliance market will further intensify. The electrical appliance enterprises will be under unprecedented pressure arising from the soaring price of basic raw materials. The export business of electrical appliance enterprises is also subject to greater risks due to the appreciation of Renminbi and the ever-increasing trade barriers and non-tariff barriers established by various countries and economic regions.

In the domestic market, with the introduction of the compulsory energy-efficiency label system by the PRC government, it is expected that energy-saving technology for air-conditioners and refrigerators will be the arena for severe competition. In addition, excessive production capacity and significant accumulation of stocks mean that price war will be even more rigorous, competition to attract end-users will be severe and the costs of sales will surge.



**MANAGEMENT DISCUSSION AND ANALYSIS – Continued****OUTLOOK – Continued**

As for the Company, the following uncertainties that the Company disclosed in the annual report of last year have not been eliminated:

- (1) The negative impact caused by the incident involving the persons such as the former chairman of the Company and others being suspected of having committed economic crimes is still affecting the brand name and marketing channels of the Company; and
- (2) As at the date of this report, the Company has taken legal actions against Guangdong Greencool and its related companies for damaging the interests of the Company, and has claimed compensation for the losses. However, there are risks that such claims, even if awarded, may be difficult to enforce. Therefore, the outcome of such claims may have a material impact on the assets of the Company.

Although the Company is facing the above uncertainties, the single major shareholder of the Company will change soon. As such, it is expected that the credit risk arising from the alleged unlawful acts and damage to the Company's interests by Guangdong Greencool and Gu Chu Jun should reduce substantially. The Company, as one of the leading enterprises in the domestic household electrical appliance industry with an excellent technological development team and leading technological level in the industry, will ensure the continued competitiveness of the Company's technology and products in the industry; the completion of the restructuring of the assets with Hisense will enable the Company to cause an alliance between two leading enterprises and swiftly improve the financial position of the Company, significantly enhance the scale of its business and its market competitiveness. Internally, the Company will further particularise and deepen the implementation of the annual operational guideline, explore internal potential, stimulate internal dynamism, persist the high end style and further improve the operational quality to lay the foundation for the Company to overcome its operational difficulties.

**LIQUIDITY AND SOURCES OF CAPITAL**

The Group's net cash flow generated from its operating activities was RMB111,235,000 for the six months ended 30 June 2006.

As at 30 June 2006, the Group had bank deposits and cash at hand amounting to approximately RMB395,635,000, and bank borrowings amounting to approximately RMB2,090,471,000.

The Company's total capital expenditures for the six months ended 30 June 2006 amounted to RMB80,058,000.

As at 30 June 2006, the gearing ratio of the Group was 36.79%.

**TRUST DEPOSITS**

As at 30 June 2006, the Company did not have any trust deposits with any financial institutions in the PRC. All of the Company's deposits have been deposited in commercial banks in the PRC and Hong Kong.

**UNIFIED INCOME TAX AND LOCAL TAX BENEFIT**

The Company is subject to an income tax rate of 18% since June 2003.

## HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2006, the Group had approximately 18,713 employees, comprising 452 technicians, 7,018 marketing staff (promotion staff included), 121 financial staff, 723 administrative staff, and 9,787 production staff (seasonal staff included). Among the Group's employees, there are 7 doctorate graduates, 203 master graduates and 2,327 university graduates, 501 employees with official titles of middle rank or above. Besides, the Group has 68 retired staff. For the six months ended 30 June 2006, the Group's staff payroll amounted to RMB298,321,497 (corresponding period in 2005 amounted to RMB191,113,172).

## CHARGE ON THE GROUP'S ASSETS

As at 30 June 2006, the Group's properties, plant and equipment with a value of approximately RMB641,769,471 (31 December 2005: RMB647,181,000) were pledged as security for the Group's bank borrowings.

## EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

Since substantial part of the Group's sales and purchases in the reporting period were denominated in Renminbi, the Group had a certain exposure to exchange rate fluctuation and financial instruments such as discounted export bills, import/export bills, and hedging was used to hedge exchange rate risk.

## CONTINGENT LIABILITIES

As at 30 June 2006, the Group was involved in a number of material litigations and taken contingent liabilities of RMB596,623,562.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 of 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 directors; the Company confirmed, after due enquiries with the directors of the sixth Board of the Company, which was established on 26 June 2006, all directors of the sixth Board of the Company had complied with the Model Code during the period from the commencement of their office on 26 June 2006 to the date of this interim report.

## SHARE CAPITAL STRUCTURE

For the six months ended 30 June 2006, there was no change in the share capital structure of the Company. As at 30 June 2006, the share capital structure of the Company was as follows:

	<u>Number of Shares</u>	<u>Percentage of total issued share capital</u>
Domestic legal person shares	337,915,755	34.06%
H shares	459,589,808	46.33%
A Shares	194,501,000	19.61%
	<hr/>	<hr/>
Total	<u>992,006,563</u>	<u>100%</u>

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### SHARE CAPITAL STRUCTURE – *Continued*

As at 30 June 2006, there were total of 59,828 shareholders in the Company, of which the top ten/substantial shareholders were as follows:

<u>Name of Shareholders</u>	<u>Class of Shareholders</u>	<u>Percentage of holding</u>	<u>Total number of Shares held</u>	<u>Number of non-circulating Shares held</u>	<u>Number of Shares pledged or frozen</u>
Guangdong Greencool Enterprise Development Company Limited	Domestic legal person shares	26.43%	262,212,194	262,212,194	262,212,194
Shunde Economic Consultancy Company	Domestic legal person shares	6.92%	68,666,667	68,666,667	-
Shenyin Wanguo Securities (H.K.) Limited	H shares	5.53%	54,851,000	-	Unknown
The Hongkong & Shanghai Banking Corporation Limited	H shares	5.16%	51,216,925	-	Unknown
Bank of China (Hong Kong) Limited	H shares	4.96%	49,230,000	-	Unknown
Guotai Junan Securities (Hong Kong) Limited	H shares	4.12%	40,920,000	-	Unknown
HSBC Nominees (Hong Kong) Limited	H shares	4.04%	40,106,904	-	Unknown
First Shanghai Securities Limited	H shares	2.61%	25,868,000	-	Unknown
Hang Seng Securities Limited	H shares	2.04%	20,235,000	-	Unknown
Standard Chartered Bank (HK) Ltd.	H shares	0.96%	9,544,500	-	Unknown

Remarks:

- (1) Except as mentioned above, the Company is not aware of any shares being held by other shareholders which have been pledged or under freezing orders during the reporting period.
- (2) Among the above-mentioned top ten shareholders, as far as the Company is aware, none of the legal person share's shareholders is connected with each other or is a party acting in concert with each other as defined under Administrative Measures for Information Disclosure of Changes in Shareholdings of Shareholders of Listed Companies.
- (3) Guangdong Greencool, the Company's single major shareholder, and Hisense Air-Conditioner entered into the "Equity Transfer Agreement between Guangdong Greencool Enterprise Development Company Limited and Qingdao Hisense Air-Conditioner Company Limited in relation to the transfer of shares in Guangdong Kelon Electrical Holdings Company Limited" on 9 September 2005, and further entered into the "Supplemental Agreement" and the "Second Supplemental Agreement" on 28 September 2005 and 15 April 2006, respectively ("Equity Transfer Agreements"). Pursuant to the Equity Transfer Agreements, Guangdong Greencool intended to transfer 262,212,194 domestic legal person shares in the Company (representing 26.43% of the total issued share capital of the Company) to Hisense Air-Conditioner. The consideration for the above equity transfer was RMB680,000,000 as agreed by both parties with initial payment of RMB500,000,000. As at the date of this report, the Company has not received any notification from China Securities Depository and Clearing Corporation Limited Shenzhen Branch that the equity transfer was completed.

**SHARE CAPITAL STRUCTURE – Continued**

(4) On 8 August 2005, the Company received a notice and a letter (the “Letter”) from a shareholder of the Company, Shunde Economic Consultancy Company (“Economic Consultancy”), which informed the Company and the Board that Economic Consultancy held an aggregate of 68,666,667 legal person shares in the Company (those legal person shares were held in trust for ICBC Guangdong Branch by Economic Consultancy) as at July 2005. According to the share reform plan and financial restructuring plan of ICBC approved by the State Council, under the supervision of the head office of the People’s Bank of China, the Ministry of Finance and other government authorities, ICBC Guangdong Branch legally transferred its holding of 68,666,667 legal person shares in the Company (representing 6.92% of the total issued share capital of the Company) to China Huarong Asset Management Corporation on 7 June 2005.

Upon completion of the transfer of legal person shares to China Huarong Asset Management Corporation, Economic Consultancy will no longer hold any share of the Company, while the number of legal person shares of the Company held by China Huarong Asset Management Corporation will be 68,666,667 shares, representing 6.92% of the total issued share capital of the Company.

As at the date of this report, the Company has not yet received any notice in relation to completion of the share transfer from China Securities Depository and Clearing Corporation Limited Shenzhen Branch.

**SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES**

<b>Name of Shareholders</b>	<b>Number of listed shares held</b>	<b>Share class</b>
Shenyin Wanguo Securities (H.K.) Limited	54,851,000	H shares
The Hongkong and Shanghai Banking Corporation Limited	51,216,925	H shares
Bank of China (Hong Kong) Limited	49,230,000	H shares
Guotai Junan Securities (Hong Kong) Limited	40,920,000	H shares
HSBC Nominees (Hong Kong) Limited	40,106,904	H shares
First Shanghai Securities Limited	25,868,000	H shares
Hang Seng Securities Limited	20,235,000	H shares
Standard Chartered Bank (HK) Ltd.	9,544,500	H shares
BOCI Securities Limited	7,831,000	H shares
Sun Hung Kai Investment Services Limited	7,665,000	H shares

Remarks: The Company does not know whether any one of the top ten holders of listed tradable shares is connected with each other or any of the top ten tradable shares shareholders constitutes a party acting in concert as defined in Administrative Measures for Information Disclosure of the Shareholders of Listed Companies.

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### MAJOR SHAREHOLDERS

<u>Name of Shareholder</u>	<u>Class of Shares</u>	<u>Number of issued ordinary shares held</u>	<u>Percentage of the relevant class of issued shares of the Company</u>	<u>Percentage of the total issued share capital of the Company</u>
Guangdong Greencool Enterprise Development Company Limited	Domestic legal person shares	262,212,194	77.60%	26.43%
Shunde Economic Consultancy Company	Domestic legal person shares	68,666,667	20.32%	6.92%
Shenyin Wanguo Securities (H.K.) Limited	H shares	54,851,000	11.93%	5.53%
The Hongkong & Shanghai Banking Corporation Limited	H shares	51,216,925	11.14%	5.16%
Bank of China (Hong Kong) Limited	H shares	49,230,000	10.71%	4.96%
Guotai Junan Securities (Hong Kong) Limited	H shares	40,920,000	8.90%	4.12%
HSBC Nominees (Hong Kong) Limited	H shares	40,106,904	8.73%	4.04%
First Shanghai Securities Limited	H shares	25,868,000	5.63%	2.61%

Save as disclosed above, the Company was not aware of any relevant interests or short positions in the issued share capital or underlying shares of the Company as recorded in the register of substantial shareholders maintained pursuant to Section 336 of the Securities and Futures Ordinance (Cap. 571 of Laws of Hong Kong) ("SFO") as at 30 June 2006.

### INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at 30 June 2006, none of the directors, supervisors or chief executive of the Company held any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange; or which were required to be recorded in the register referred to in section 352 of the SFO or were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### PURCHASE, SALE AND REDEMPTION OF SHARES

During the reporting period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any securities of the Company or its subsidiaries.

### AUDIT COMMITTEE

The Audit Committee of the sixth Board has reviewed the interim results announcement and interim report for the period ended 30 June 2006 and considered that the interim report and the interim financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

## CORPORATE GOVERNANCE

During the reporting period, save for disclosed below, the Company has been in compliance with all the provisions of the Code of Corporate Governance Practices ("the Code") set out in Appendix 14 of the Listing Rules.

1. The Company has not fully complied with Code Provision A.3 during the reporting period. Since the resignation submitted by Mr. Chan Pei Cheong, Andy, the independent non-executive director of the fifth Board, became effective on 23 January 2006, the Company only had two independent non-executive directors from 24 January 2006 to 26 June 2006, which is not in compliance with Code Provision A.3 that "there shall be at least three independent non-executive directors in the board of directors of a listed issuer".

The sixth Board of the Company was established on 26 June 2006 and comprises six executive directors and three independent non-executive directors. The members of the Board have various industrial backgrounds and are highly experienced in the fields of science and technology, corporate management and finance and accounting.

2. The Company has not fully complied with Code Provision C.1 during the reporting period. Due to many incidents of the Company in 2005 and the resulting complexities of its financial status, the fifth Board of the Company was not able to disclose the Company's annual result announcement for the year ended 31 December 2005 within the period specified by the Listing Rules, which is not in compliance with Code Provision C.1 that "the board of directors shall present a balanced, clear and comprehensive assessment of the company's performance, position and prospects."

The sixth Board of the Company disclosed the Company's annual results announcement for the year ended 31 December 2005 and presented a balanced, clear and comprehensive assessment of the Company's performance, position and prospects on 11 August 2006.

In addition, the Company disclosed the following non-compliances with the Code during the year of 2005 in the annual results announcement and the annual report for the year ended 31 December 2005:

- a. As the executive directors of the fifth Board Mr. Gu Chu Jun, Mr. Yan You Song and Mr. Zhang Hong were suspected for alleged economic crimes and were subjected to enforcement measures by the police department of the PRC, and none of them can be contacted as at the date of this results announcement, the Company was unable to confirm whether they have complied with the Model Code set out in Appendix 10 of the Listing Rules.
- b. The Company has not fully complied with Code Provisions C.1.1 and C.1.2 of the Code during 2005. Since the executive Director of the fifth Board Mr. Gu Chu Jun and others were suspected for alleged economic crimes, the accounts of the Company for the year ended 31 December 2004 did not truly and fairly reflect the business and operating results of the Company during the relevant period.
- c. The Company has not fully complied with Code Provision A.6.2 in 2005. Such deviations were due to the fact that executive Director of the fifth Board Mr. Gu Chu Jun and others were suspected for alleged economic crimes, causing the former operational management (the Company appointed a new operational management on 16 September 2005) to be unable to report on the conclusion of the Company's major contracts, contract implementation status, use of capital and the Company's profit and loss conditions to the fifth Board on a timely, true and complete basis.
- d. The Company has not fully complied with Code Provision A2.1 in 2005. Such deviations were due to the fact that while former chairman Mr. Gu Chu Jun was suspected for alleged economic crime and was being subjected to enforcement measures, the Company has appointed president Mr. Liu Cong Meng to perform the duties of the chairman. Therefore, the Company was not in compliance with Code Provision A2.1 that "the roles of chairman and chief executive officer should be separate and should not be performed by the same individual" during the period from 12 August 2005 to 16 September 2005.

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### **CORPORATE GOVERNANCE – Continued**

- e. The Company has not fully complied with Code Provision A2.3 in 2005. Since the former chairman of the Company Mr. Gu Chu Jun was suspected for alleged economic crime, the Company was not able to fully comply with Code Provision A2.3 that “the chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner.”
- f. The Company has not fully complied with Code Provision C.3.3 in 2005. Since the executive Director Mr. Gu Chu Jun and others were suspected for economic crime, the ability of the audit committee of the fifth Board to fulfill its duties and to receive information from the Company was restricted. The audit committee was unable to guarantee the effective operation of the Company’s internal control system.

On 26 June 2006, the Company established the sixth Board and elected Mr. Tang Ye Guo as the chairman and appointed Mr. Su Yu Tao as the president of the Company; all Directors of the sixth Board confirmed to the Company that they had complied with the Model Code during the period from the election dates of their directorships in the Company to the date of this interim result announcement; the Company disclosed its annual result announcement for the year ended 31 December 2005 on 11 August 2006, in which the Company made a retrospective adjustment to the Company’s accounts of 2004; the Company has made a plan to formulate a comprehensive internal control policy to regulate the Company’s operation pursuant to the Listing Rules and based on the Company’s actual situation. The above actions and facts have rectified the Company’s deviations from the Code in 2005.

### **DOCUMENT AVAILABLE FOR INSPECTION AND ADDRESS FOR INSPECTION TO DOCUMENT**

The original 2006 interim report signed by the chairman is available for inspection at the following address:

The Securities Department  
Guangdong Kelon Electrical Holdings Company Limited  
No. 8 Ronggang Road, Ronggui Street  
Shunde, Foshan  
Guangdong Province  
China

### **TRADING IN THE H SHARES OF THE COMPANY**

At the request of the Company, trading in the H shares of the Company was suspended with effect from 10:00 a.m. on 16 June 2005 pending the release of an announcement in relation to price sensitive information. Subject to the announcements in relation to, amongst others, the financial, production and trading position of the Group, and the satisfaction by the Stock Exchange of the adequacy of the internal control measures of the Company, trading in the H shares of the Company will remain suspended until further notice.

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

As at the date of this report, the Company’s executive directors are Mr. Tang Ye Guo, Ms. Yu Shu Min, Mr. Su Yu Tao, Mr. Xiao Jian Lin, Mr. Lin Lan and Mr. Zhang Ming; and the Company’s independent non-executive directors are Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren.

Foshan City, Guangdong, the PRC, 28 August 2006

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP)**

**IMPORTANT NOTES**

1. The Board, the Directors, the supervisors and the senior management of the Company (other than Bai Yun Feng and Zeng Jun Hong, both being supervisors of the Company) warrant that there are no false representation and misleading statement in or material omission from this report and collectively and individually accept responsibilities for the truthfulness, accuracy and completeness of the content contained herein.
2. As at the date of this report, Mr. Zeng Jun Hong, a supervisor of the Company, cannot be contacted; Mr. Bai Yun Feng, a supervisor of the Company, cannot guarantee the truthfulness, accuracy and completeness of the report for the following reasons: 1. The report gives no explanations as to the accuracy and truthfulness of the financial figures contained in the 2005 annual report as well as the subsequent status in respect of a qualified audit report with emphasised matters issued by the auditors office; 2. The interim report recorded negative net assets. As at 30 June 2006, the external guaranteed amount of the Company was RMB640,000,000, which is in excess of 50% of the net assets. The Company has provided guaranteed parties whose gearing ratios exceed 70% with guaranteed amount of RMB560,000,000. Investors are reminded to pay special attention; 3. I have no evidence to demonstrate the following as reasonable: provision for asset items continues following significant provision in 2005 annual report; I have qualified opinions for the provision for inventory and construction in progress particularly; 4. As there is no sufficient evidence available to demonstrate the reasonableness of the above matters and no relevant explanations are available, I am unable to express any opinion on the interim report for 2006, so I abstain from voting. Investors are reminded to pay special attention.
3. All Directors attended the Board meeting.
4. The financial report during the reporting period was unaudited.
5. Mr. Tang Ye Guo, chairman of the Board, and Mr. Xiao Jian Lin, vice financial controller of the Company, and Mr. Wang Hao, person in charge of the accounting department, warrant that the contents of the interim report within this report are accurate and complete.

**I. PRINCIPAL FINANCIAL OPERATIONS DURING THE REPORTING PERIOD**

**1. Principal Financial Statistics and Indicators**

	<u>At the end of the reporting period</u>	<u>At the end of last year</u>	<b>Change of the amounts at the end of the current reporting period as compared with the beginning of the year</b>
	<i>RMB</i>	<i>RMB</i>	(%)
Current assets	3,375,169,272.68	2,910,850,247.98	15.95%
Current liabilities	6,614,660,694.25	6,178,565,491.88	7.06%
Total assets	5,811,336,404.43	5,420,343,170.97	7.21%
Shareholders' equity (excluding minority interests)	(1,115,344,829.68)	(1,089,851,539.58)	N/A
Net assets per share	(1.1243)	(1.0986)	N/A
Adjusted net assets per share	(1.1273)	(1.1027)	N/A



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**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**I. PRINCIPAL FINANCIAL OPERATIONS DURING THE REPORTING PERIOD – Continued**

**1. Principal Financial Statistics and Indicators – Continued**

	Reporting period (Jan-Jun)	Corresponding period last year	Change of the amounts of the current reporting period as compared with corresponding period last year
	<i>RMB</i>	<i>RMB</i>	(%)
Net profit	(35,741,727.54)	(486,943,597.90)	N/A
Net profit excluding extraordinary items	(28,399,037.83)	(487,522,616.70)	N/A
Earnings per share	(0.0360)	(0.4909)	N/A
Return on net assets	N/A	(22.01%)	N/A
Net cash flow from operating activities	165,632,249.93	(193,217,926.78)	N/A

*Note:* Extraordinary items and amounts during the reporting period.

<u>Loss and profit of extraordinary items</u>	<u>Amount</u>
	<i>RMB</i>
Non operating income	6,110,585.83
Provision for impairment of assets	(39,193.43)
Non operating expense	(13,414,082.11)
Total	<u>(7,342,689.71)</u>

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**I. PRINCIPAL FINANCIAL OPERATIONS DURING THE REPORTING PERIOD – Continued**

**2. Differences between PRC GAAP and International Financial Reporting Standards**

	<b>PRC Accounting Standards</b>	<b>International Financial Reporting Standards</b>
	<i>RMB</i>	<i>RMB</i>
Net profit	(35,741,727.54)	(29,152,458.54)
<b>Explanation on the differences</b>		
Adjustment on fixed assets revaluation and related depreciation		1,765,182.00
Adjustment on amortization of equity investment difference		2,394,895.00
Adjustment on impairment of goodwill		(697,834.00)
Adjustment on amortization of intangible assets		(7,637,329.00)
Others		(2,414,183.00)

**3. Appendix to statement of income**

<b>Profit derived in the reporting period</b>	<b>Return rate of net assets</b>		<b>Return per share</b>	
	<b>Fully diluted</b>	<b>Weighted average</b>	<b>Fully diluted</b>	<b>Weighted average</b>
	%	%	<i>RMB</i>	<i>RMB</i>
Profit from principal operations	N/A	N/A	0.6040	0.6040
Operating profit	N/A	N/A	(0.0361)	(0.0361)
Net profit	N/A	N/A	(0.0360)	(0.0360)
Net profit excluding extraordinary items	N/A	N/A	(0.0286)	(0.0286)

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

- The resignation submitted by Mr. Chan Pei Cheong, Andy, an independent non-executive director of the fifth Board, became effective on 23 January 2006. From 23 January 2006 onwards, Mr. Chan Pei Cheong, Andy no longer assumed his duties as an independent non-executive director and a member of the audit committee and the remuneration and evaluation committee of the Company. Therefore, starting from 24 January 2006, there were only two independent non-executive directors remaining on the fifth Board, which is not in compliance with the relevant securities regulations and the Company's articles of association.
- The fifth Board received letters from Mr. Liu Cong Meng, Mr. Li Zhen Hua, Mr. Fang Zhi Guo, being executive directors, and Mr. Li Kung Man and Mr. Xu Xiao Lu, being independent non-executive directors, on 9 May 2006, informing the fifth Board of their resignation as executive directors or independent non-executive Directors for personal reasons. The Board has agreed to accept the resignation applications of such executive directors and independent non-executive directors. Pursuant to the requirements of relevant securities rules, the Board will not be able to continue its normal operations after the resignation of such directors. As such, the resignation of such directors will take effect upon the elections of new Directors at a general meeting of the Company.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

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

3. At the extraordinary general meeting of the Company held on 26 June 2006, Mr. Tang Ye Guo, Ms. Yu Shu Min, Mr. Lin Lan, Mr. Su Yu Tao, Mr. Xiao Jian Lin and Mr. Zhang Ming were appointed as executive directors of the sixth Board; Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren were appointed as independent non-executive directors of the sixth Board; Mr. Yan You Song and Mr. Zhang Hong were removed as executive directors; the resignations of Mr. Gu Chu Jun, Mr. Liu Cong Meng, Mr. Li Zhen Hua, Mr. Fang Zhi Guo, Mr. Li Kung Man and Mr. Xu Xiao Lu as directors of the Company were approved.
4. At the first board meeting of the sixth Board held on 26 June 2006, Mr. Tang Ye Guo was appointed as the chairman of the Company; Mr. Su Yu Tao was appointed as the president of the Company, and Mr. Tang Ye Guo ceased to be the president of the Company; Ms. Wang Jiu Cun and Mr. Zhang Ming were appointed as vice presidents of the Company, and Mr. Lin Lan, Mr. Su Yu Tao and Mr. Luo Jun ceased to be vice presidents of the Company; Mr. Xiao Jian Lin and Mr. Shi Yong Chang will continue to act as vice presidents of the Company. Mr. Tang Ye Guo was also appointed as the secretary to the Board, and Mr. Li Chi Sing, Gary will continue to act as the chief financial officer and the company secretary responsible for Hong Kong affairs.

Mr. Liu Zhan Cheng was appointed as the supervisor representing the staff and workers of the Company at the staff representative meeting of the Company held on 23 June 2006, and Ms. He Si ceased to be the supervisor representing the staff and workers of the Company.

5. The sixth Board of the Company convened its second meeting on 10 July 2006 by means of written resolutions. All of the nine directors of the Company attended the meeting. The convening of and voting at the meeting were in compliance with the relevant provisions of Company Law and the articles of association. The following resolutions were passed at the meeting:

As Mr. Li Chi Sing, Gary, the company secretary responsible for Hong Kong affairs of the Company ("Company Secretary"), was subject to administrative sanctions imposed by the CSRC, he was no longer eligible for the position in the Company's senior management pursuant to the Company's articles of association and relevant regulatory documents, and accordingly the Board resolved to remove Mr. Li Chi Sing as the Company Secretary with 9 affirmative votes, 0 objecting vote and 0 abstaining vote.

Meanwhile, at the personal request of Mr. Li, the Board approved the cessation of Mr. Li to act as the qualified accountant of the Company from 10 July 2006. Further, Mr. Li Chi Sing ceased to be the chief financial controller of the Company from 7 July 2006.

**III. THERE WERE NO CHANGES IN SHAREHOLDINGS OF THE SHARES OF THE COMPANY BY DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT DURING THE REPORTING PERIOD**

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**IV. ANALYSIS OF FINANCIAL POSITION AND OPERATION RESULTS DURING REPORTING PERIOD**

Item	30 June 2006 <i>RMB</i>	31 December 2005 <i>RMB</i>	Change (%)
Bank balances and cash	395,634,342.82	287,097,542.93	37.80%
Notes receivable	541,785,848.18	140,818,945.44	284.74%
Trade receivables	374,481,972.14	466,115,187.00	(19.66%)
Other receivables	577,439,215.07	594,610,973.79	(2.89%)
Prepayments	90,066,909.30	132,481,387.55	(32.02%)
Inventories	1,370,936,258.66	1,248,765,899.51	9.78%
<b>Total assets</b>	<b>5,811,336,404.43</b>	<b>5,420,343,170.97</b>	<b>7.21%</b>
Short-term loans	2,090,470,538.00	2,160,522,820.56	(3.24%)
Notes payable	167,030,000.00	183,465,027.51	(8.96%)
Trade payables	2,356,409,819.24	2,068,885,828.19	13.90%
Other payables	893,151,263.24	734,951,850.68	21.53%
Advance from customers	600,839,161.60	301,318,221.63	99.40%
Accrued charges	362,584,241.19	287,686,505.72	26.03%
Shareholders' equity	(1,115,344,829.68)	(1,089,851,539.58)	N/A
<b>Total liabilities and Shareholders' equity</b>	<b>5,811,336,404.43</b>	<b>5,420,343,170.97</b>	<b>7.21%</b>
<b>Item</b>	<b>Jan-Jun 2006</b> <i>RMB</i>	<b>Jan-Jun 2005</b> <i>RMB</i>	<b>Change</b> (%)
Profit from principal operations	599,154,689.94	413,237,338.34	44.99%
Net profit	(35,741,727.54)	(486,943,597.90)	N/A

Notes receivable recorded an increase of 284.74% as compared with that at the end of 2005, primarily because traders paid their notes mainly during the last two days of June 2006.

Prepayments decreased by 32.02% as compared with that at the end of 2005, primarily because the Company focused on the handling of prepayments, as a result of which receipts that had long been charged to the financial statements in previous periods have been settled.

Advances from customers rose by 99.40% as compared with that at the end of 2005, primarily because prepayments by Hisense Agent were realised following the conclusion of sales by Hisense Agent during the reporting period.

Profit from principal operations increased by 44.99% as compared with the corresponding period last year, primarily due to the optimisation of product structure as a result of the Company's implementation of high-end strategy during the reporting period.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**V. ANALYSIS OF REVENUE FROM PRINCIPAL OPERATIONS**

**1. Analysis of revenue and profit from principal operations by geographical segments**

<u>Operating indicators</u>	<u>Revenue from principal operations</u>	<u>Change in revenue from principal operations as compared with the corresponding period last year</u>
	<i>RMB</i>	<i>(%)</i>
Domestic market	2,399,840,865.12	2.34%
Overseas market	1,187,005,232.01	(46.37%)
Total	<u>3,586,846,097.13</u>	<u>(21.31%)</u>

**2. Analysis of the Company's revenue and profit from principal operations by industry/product**

<u>Products</u>	<u>Revenue from principal operations</u>	<u>Cost of principal operations</u>	<u>Gross profit margin</u>	<u>Change in revenue from principal operations as compared with the corresponding period last year</u>	<u>Change in cost of principal operations as compared with the corresponding period last year</u>	<u>Change in gross profit margin as compared with the corresponding period last year</u>
	<i>RMB</i>	<i>RMB</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
Refrigerators	1,663,326,079.04	1,306,681,410.48	21.44%	13.22%	(2.68%)	149.01%
Air-conditioners	1,585,836,004.81	1,394,955,223.90	12.04%	(38.91%)	(40.65%)	27.24%
Freezers	143,722,679.87	138,286,064.61	3.78%	(25.88%)	(23.41%)	(45.10%)
Others	193,961,333.41	147,099,614.31	24.16%	(35.17%)	(45.74%)	157.02%
Attributable to:						
Related party transactions		1,753,110,700				
Pricing policy of related party transactions						By reference to fair market prices

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**V. ANALYSIS OF REVENUE FROM PRINCIPAL OPERATIONS – Continued**

**3. Explanation for material changes in profit composition, principal business or its structure in the reporting period (if any)**

The procedures of the equity transfer between Guangdong Greencool and Hisense Air-Conditioner have not been completed yet. Due to the effect of the "auction crisis" of the equity transfer, people changed their expectations as for the major shareholder of the Company and the support received by the Company was affected. In this connection, the utilisation of the Company's production and sales capacity was affected. All the above-mentioned unfavourable factors had a significant impact on the Company's operating results in the first quarter of the year. Despite a relatively obvious improvement achieved in the second quarter, the Company recorded a decrease of 21.31% in its revenue from principal business during the reporting period as compared with the corresponding period in the previous year.

As a result of the Company's over-expansion in the previous periods, few subsidiaries of the Company were still in production but only with partial capacity. Further, fixed costs were still incurred by most subsidiaries which had ceased operation but had not been cleared up yet. These facts resulted in a net loss of RMB67,996,500.

Likewise, as the equity interest was not yet transferred, financial institutions including banks had not yet changed certain overdue loans of the Company as normal loans. The interests and penalty interests on the overdue loans rendered substantial finance costs to the Company, representing an increase of RMB20,056,700 as compared with the corresponding period of last year.

4. During the reporting period, there were no other operating activities which had a material impact on the Company's net profits, nor were there subsidiaries whose investments gains affected more than 10% of the Company's net profits.

**VI. INVESTMENTS DURING THE REPORTING PERIOD**

1. During the reporting period, the Company did not raise funds or use proceeds raised from before during the reporting period.
2. During the reporting period, there were no material investment items not financed from raised funds.

**VII. CHANGES IN AND REMARKS ON THE MATTERS ON WHICH THE COMPANY'S MANAGEMENT HAD QUALIFIED OPINIONS IN THE 2005 AUDITED ANNUAL REPORT**

The auditors of the Company's annual report for 2005, after having audited the Company's financial statements for 2005, issued a report with emphasised matters and qualified opinion, the particulars of attendance to which is disclosed below:

Reserved Matter 1: As described in Note 5 to the financial statements "Particulars of subsidiaries and associates and scope of consolidated financial statements for the year", Jiangxi Kelon Industrial Development Company Limited ("Jiangxi Kelon") is a subsidiary consolidated into the financial statements of the Company for 2005. We were unable to conduct an on-site audit on Jiangxi Kelon as its assets have been seized by the court and the relevant financial personnel have left the Company. As at 31 December 2005, the financial statements of Jiangxi Kelon showed a total asset value of RMB586,000,000, accounting for 10.81% of the total consolidated assets, and its net profit for 2005 was - RMB199,600,000, accounting for 5.41% of the consolidated net profit. The specific data of the financial statements of Jiangxi Kelon for the Year 2005 is disclosed in detail in Note 5.2 to the financial statements.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VII. CHANGES IN AND REMARKS ON THE MATTERS ON WHICH THE COMPANY'S MANAGEMENT HAD QUALIFIED OPINIONS IN THE 2005 AUDITED ANNUAL REPORT – Continued**

The Company's newly appointed management has attached great importance to the above problems in relation to Jiangxi Kelon. They have sent staff repeatedly to Jiangxi Kelon to negotiate with local banks and suppliers and to seek local government's support. In order to improve Jiangxi Kelon's external environment, safeguard the security of its financial resources and minimise Jiangxi Kelon's losses, the Company has employed a new security company to be responsible for Jiangxi Kelon's security. With respect to the indebtedness caused by the outstanding issues, the Company was in active coordination with local government, banks and other creditors for the purpose of working out solutions on an individual basis. Currently, some of the Company's debts have been settled through negotiation, while the Company is in active negotiation with respect to other outstanding debts. The Company's accounts are also being thoroughly tidied up. It is expected that the tidying-up will be completed by the end of the year 2006.

Reserved Matter 2: As described in Item 9 of Note 6 to the financial statements "Fixed assets, accumulated depreciation and provision for impairment loss", the Company has since 1999 had certain of its fixed assets restated at valuation, and such fixed assets had an increase of RMB133,284,123.42 over its original cost, and an increase of RMB96,154,813.34 over its net value. As no breakdown information was recorded for the asset valuation when they were accounted for, the Company could not provide a detailed breakdown of such fixed assets, nor could it identify the corresponding fixed assets, and hence we were unable to acquire adequate evidence to determine whether such amounts should be included completely in the fixed asset value of the Company.

Regarding this incident, the Company arranged for financial personnel to sort out and identify all the relevant documents at that time. In addition, relevant personnel were appointed to search for original documentation held by the organisation then responsible for valuation but no breakdown can be provided either. The Company will continue to follow up on such matter to find out the causes and it is expected that the tidying-up will be completed by the end of the year 2006.

Reserved Matter 3: As described in Item 4 "Other receivables (2)", Item 18 "Other payables" of Note 6 to the financial statements, the accounting records confirmed by the former management of the Company were not in line with its actual operations; there were material imparities found in the inter-company balances between the Company and its subsidiaries; and the transactions and inter-company balances between the Company's headquarters and its regional sales branches were difficult to align. The Company temporarily recorded the unreconciled debit balances of RMB80,043,221.73 for the year ended 31 December 2005 into other receivables, and the unreconciled credit balances of RMB51,504,170.08 into other payables. The reason for such differences is still under investigation.

In addition, as stated in the section headed "Principal Business Revenue and Costs" in item 28 of note 6 to the accounting statements, the Company calculated the inventory for the year by counting the quantity of the finished products for the year as well as the weighted purchasing price thereof. Based on such calculation, the Company estimated the amounts of costs in respect of principal businesses for 2005. Even if such accounting method has no impact on the recognition of the balance of inventory for the year, we are not able to implement satisfactory auditing procedures to determine whether the sales costs incurred are all belong to 2005 due to the unreliability of the inventory control system.

For the above opinion, the Company has adopted remedial measures as follows:

- (1) The Company's management has set up current accounts clearing group, to fully clear out the above problems in the Company's former finance and operation, and to adjust the accounts according to actual business operation.
- (2) In relation to its problems in the former in-and-out of inventory and cost calculations, the Company will set clear procedures in respect of the in-and-out of inventory and cost calculations, control stock-take and such basic management works of the Company, strengthen its internal control, and ensure consistency of fund liquidity and logistics, so as to make sure that accounts are in line with the actual facts.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VII. CHANGES IN AND REMARKS ON THE MATTERS ON WHICH THE COMPANY'S MANAGEMENT HAD QUALIFIED OPINIONS IN THE 2005 AUDITED ANNUAL REPORT – Continued**

As at the date of this report, the Company has completed rectification of its in-and-out system and cost calculation system. Existing unreconciled inter-company balances are expected to be settled by the end of 2006.

Reserved Matter 4: As described in Note 10.4 to the financial statements, the previous land use right for the land with an area of 254,600 square meters under Shun Fu Guo Yong (2004) No. 1002282 of the Company. In respect of the transfer in June 2005, the transferee, namely Foshan Shunde Jiegao Investments Company Limited (佛山市順德區捷高投資有限公司) has finished the registration of title as per the reply of the Land and Resources Bureau of Foshan City, Shunde Branch regarding the enquiry of the title of the relevant land. Pursuant to the transfer agreement entered into between the Company and Foshan Shunde Jiegao Investments Company Limited, the price for the transfer shall be RMB169 million. As at the date the audit report, the Company has no record of having received any payment as consideration for the transfer, and therefore the Company has made provision for such receivables in the sum of RMB84 million. We have made a written enquiry to the transferee but received no reply. As the Company failed to provide us with further information, we cannot carry out other alternative auditing procedures to judge whether the receivables of RMB169 million arising from the transfer of the land still exist as at 31 December, 2005, and whether the provision made is sufficient.

In August 2006, the Company commenced proceedings against the transferee in an endeavour to collect the consideration for the land transfer as soon as possible.

Reserved Matter 5: As described in Notes 6.3, 6.4, and 7 to the financial statements, a series of related party transactions and abnormal cash flow occurred during the period from October 2001 to July 2005 between the Company and its major shareholder, Guangdong Greencool Enterprise Development Limited and its related parties (the "Greencool Companies"). Meanwhile, during this period, a series of abnormal cash flows occurred between the Greencool Companies and the Company through specified third party companies, such as Tianjin Lixin Commercial Trading Development Company Limited. Such transactions and abnormal cash flows as well as the suspected fund embezzlement are now under investigation by the relevant authority and the investigation has not yet been finalised. Such matters involved the accounts receivable and accounts payable of the Company in connection with the Greencool Companies and the above specified third party companies. As at 31 December 2005, the accounts receivable in connection with the Company and the Greencool Companies and the above specified third party companies amounted to RMB680 million. The Company has made a bad debt provision of RMB374 million in respect of the accounts receivable from the Greencool Companies and the above specified third party companies. The Company also had noted financing without trading background. Given the case was still under investigation, the Company was not able to provide sufficient information. We were unable to carry out appropriate audit procedures to ascertain whether the above specified third party were related parties. We were also unable to ascertain whether such related party transactions were valid, whether sufficient disclosure has been made, whether the accounts receivable and payable were the full amount or whether sufficient provision for bad debt has been made. We were unable to ascertain whether there was any material misstatement as to the Company's consolidated accounts for 2005 in relation to the cash flow from operating activities and financing activities under the Company's cash flow statement.

As the investigation conducted by the police and court is yet to be finalised, certain information could not be immediately obtained due to the requirement of criminal investigation. The Company will, pursuant to the progress of the investigation by the police and court, use its best endeavors to strengthen settlement measures particularly to minimise the loss of the Company. The Company will make timely disclosure in accordance with the latest development of the settlement.



**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VII. CHANGES IN AND REMARKS ON THE MATTERS ON WHICH THE COMPANY'S MANAGEMENT HAD QUALIFIED OPINIONS IN THE 2005 AUDITED ANNUAL REPORT – Continued**

The Company has currently taken the following settlement measures:

1. In respect of funds which have evidently been transferred to the Greencool Companies or transferred through third parties, the Company has collected relevant evidence and engaged solicitors for further investigation. The Company has taken legal actions where sufficient legal evidence against the Greencool Companies or third parties were present. Meanwhile, in order to safeguard creditor's rights in the Company and its subsidiaries, Gu Chu Jun was sued as one of the defendants in every litigation, as well as the Greencool Companies which was associated with the business of the Company. To avoid unnecessary litigation costs, the Company is looking into the possibility of recovery of debts and selectively applying to the court for asset protection measures.
2. Checking creditor's rights and debts with the Greencool Companies and settling the outstanding debts by setoff.
3. In respect of abnormal expenditures, the Company has taken actions to check whether relevant companies have provided respective services pursuant to relevant agreements entered into by the Company. Upon release of the relevant results, solicitors of the Company will consider the possibility and means of recovery.
4. Striving for support from local governments.
5. In respect of previous abnormal capital transfers of the Company, the Company has established a corresponding internal mechanism to regulate capital transfers and eliminate financing without trade backgrounds.

Through the above measures, the Company will settle the outstanding debts actively and make its best efforts to minimise loss to the Company and protect the legitimate rights of the shareholders of the Company.

Through the various measures mentioned above, the Company has made positive progress in the settlement of debts. Details are as follows:

- (1) As at the date of this report, the freezing and confiscation measures the Company has taken against the Greencool Companies and third-party companies are as follows:

<b>No.</b>	<b>Preserved Assets</b>	<b>Status</b>	<b>Freezing Period</b>	<b>Place of Freezing or Confiscation</b>
1	82,852,683 shares in Meiling Appliance held by Guangdong Greencool	Waiting to be frozen	From 15 July 2006 to 13 January 2007	Shenzhen Securities Clearing Company
2	262,212,194 shares in the Company held by Guangdong Greencool	Waiting to be frozen	From 24 May 2006 to 23 May 2007	Shenzhen Securities Clearing Company
3	90% equity interests in Yangzhou Greencool Venture Capital Co., Ltd. held by Gu Chu Jun	Waiting to be frozen	11 July 2006 to 10 July 2007	Industrial and Commercial Bureau of Yangzhou Development Zone

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VII. CHANGES IN AND REMARKS ON THE MATTERS ON WHICH THE COMPANY'S MANAGEMENT HAD QUALIFIED OPINIONS IN THE 2005 AUDITED ANNUAL REPORT - Continued**

(1) - Continued

<u>No.</u>	<u>Preserved Assets</u>	<u>Status</u>	<u>Freezing Period</u>	<u>Place of Freezing or Confiscation</u>
4	75% equity interests in Anhui Greencool Enterprise Development Company Limited held by Guangdong Greencool	Waiting to be frozen	10 July 2006 to 9 July 2007	Industrial and Commercial Bureau of Hefei
5	11.368% equity interests in Jiangxi Greencool Enterprise Development Company Limited held by Greencool Refrigerant (China) Company Limited	Waiting to be frozen	6 July 2006 to 5 July 2007	Industrial and Commercial Bureau of Nanchang
6	Lands of 70000.5 m <sup>2</sup> and properties of 8635.09 m <sup>2</sup> held by Greencool Refrigerant (China) Company Limited	Waiting to be confiscated	Not specified in the court reply	Real Estate Exchange of Tianjin Development Zone
7	65% equity interests in Greencool (Zhuhai) Industrial Park Industrial Development Company held by Guangdong Greencool	Being the first preservation applicant	12 July 2006 to 11 July 2007	Industrial and Commercial Bureau of Zhuhai
8	40% equity interests in Guangdong Greencool held by Greencool Refrigerant (China) Company Limited	Being the first preservation applicant	13 July 2006 to 12 July 2007	Industrial and Commercial Bureau of Shunde
9	60% equity interests in Guangdong Greencool held by Gu Chu Jun	Being the first preservation applicant	13 July 2006 to 12 July 2007	Industrial and Commercial Bureau of Shunde
10	45% equity interests in 江西格林柯爾現代物流發展有限公司 held by Gu Chu Jun	Being the first preservation applicant	6 July 2006 to 6 July 2007	Industrial and Commercial Bureau of Jiangxi Province
11	Land use rights of 54832.3 m <sup>2</sup> held by Jinan San Ai Fu Petrochemical Company Limited	Being the first preservation applicant	18 July 2006 to 18 July 2008	Land Resources Bureau of Tiaoqiao District, Jinan

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VII. CHANGES IN AND REMARKS ON THE MATTERS ON WHICH THE COMPANY'S MANAGEMENT HAD QUALIFIED OPINIONS IN THE 2005 AUDITED ANNUAL REPORT – Continued**

(1) – Continued

<u>No.</u>	<u>Preserved Assets</u>	<u>Status</u>	<u>Freezing Period</u>	<u>Place of Freezing or Confiscation</u>
12	Assets of Greencool Refrigerant (China) Company Limited, including but not limited to gas tanks, water heaters, electricity control rooms, production lines, machinery facilities, automobiles, central air conditioners etc.	Being the first preservation applicant	Not specified in the court reply	Plants of Greencool Refrigerant (China) Company Limited

(2) As at the date of this report, the Company has already implemented asset preservation against the capital accounts of the related companies of Guangdong Greencool, the particulars of which are as follows:

<u>Serial No.</u>	<u>Protected parties</u>	<u>Banks and financial institutions</u>	<u>Protected Amounts</u> (RMB)	<u>Actual amounts protected</u> (RMB)
1	Hainan Greencool Environmental Protection Engineering Co. Ltd.	Sales Department of Bank of Communications, Hainan branch	125,954,088	98,175.11
2	Hainan Greencool Environmental Protection Engineering Co. Ltd.	Sales Department of Industrial and Commercial Bank of China, Hainan Yangpu branch	125,954,088	US100,812.2
3	Hainan Greencool Environmental Protection Engineering Co. Ltd.	Sales Department of Industrial and Commercial Bank of China, Hainan Yangpu branch	125,954,088	230.61
4	Hainan Greencool Environmental Protection Engineering Co. Ltd.	Sales Department of Industrial and Commercial Bank of China, Hainan Yangpu branch	125,954,088	138,891.06
5	Hainan Greencool Environmental Protection Engineering Co. Ltd.	Sales Department of Bank of China, Hainan branch	125,954,088	203,200.42
6	Guangdong Greencool Enterprise Development Company Limited	Agricultural Bank of China, Luohu sub-branch	331,596,588	47,437.37
7	Guangdong Greencool Enterprise Development Company Limited	Shenzhen Development Bank, Baocheng sub-branch	331,596,588	5,530.89

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VII. CHANGES IN AND REMARKS ON THE MATTERS ON WHICH THE COMPANY'S MANAGEMENT HAD QUALIFIED OPINIONS IN THE 2005 AUDITED ANNUAL REPORT - Continued**

(2) - Continued

Serial No.	Protected parties	Banks and financial institutions	Protected Amounts (RMB)	Actual amounts protected (RMB)
8	Guangdong Greencool Enterprise Development Company Limited	Shunde Credit Cooperatives, Rongqi branch	331,596,588	509.44
9	Greencool Refrigerant (China) Company Limited	Bank of Communications, Ronggui sub-branch	125,954,088	1,834.35
10	Greencool Refrigerant (China) Company Limited	Shunde Ronggui Rural Credit Co-operatives	125,954,088	98,417.16
11	Greencool Refrigerant (China) Company Limited	Shanghai Pudong Development Bank, Shenzhen branch	125,954,088	3,774.76
12	Greencool Refrigerant (China) Company Limited	Guangdong Development Bank, Guangzhou Yuehua Road sub-branch	125,954,088	1,633.62
13	Jiangxi Kesheng Industry and Trading Company Limited	China Merchants Bank, Nanchang Dieshanlu sub-branch	18,630,000	7,580

(3) As at the date of this report, the Company and the controlling subsidiaries of the Company have initiated a total of 13 cases against the Greencool Companies and third parties, and the total amount involved was RMB685,378,090.63, while a total of 7 cases are to be initiated by the Company, and the amount involved will be RMB196,645,200.

Reserved Matter 6: As described in Note 14 "Comparative Information" and Note 3 "Rectification of Significant Accounting Errors" to the financial statements, the Company restated the financial statements for 2004 and the prior years, and adjusted the items such as revenue from principal activities, profit from other activities and cost of sales. Due to the correction of the above accounting errors, consolidated net assets of the Company as at 31 December 2004 was decreased by RMB209,000,000. Due to the pending investigation into the suspected infringement of laws of certain former management of the Company, we cannot ascertain whether the Company has adjusted all the accounting errors.

As the case in relation to allegations of unlawful acts by the former management of the Company is still under investigation and the accounts of the Company are being cleared up comprehensively, the Company cannot make any assurance as to the completeness of the rectifications made in respect of the accounting errors. The Company will make timely disclosure and rectification in the event of findings of new significant accounting errors in accordance with the progress of the investigation and the clearing up.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VII. CHANGES IN AND REMARKS ON THE MATTERS ON WHICH THE COMPANY'S MANAGEMENT HAD QUALIFIED OPINIONS IN THE 2005 AUDITED ANNUAL REPORT – Continued**

Given matters 1-6, we were unable to ascertain whether adjustment to the opening balance has to be made after the Company has cleared its accounts. Any adjustments to the opening balance of the Company's and the consolidated financial statements in 2005 would affect the net profit as stated in the consolidated and in the Company's accounts in 2005. Besides, the consolidated and the Company's opening balance on the balance sheets, the income statements and profit appropriation statements and cash flow statements for the current year may not be comparable with those of the previous year.

The newly appointed management of the Company strives to arrange for the operation and finance departments for the full clearing of the accounts of the Company. The Company will make adjustments to the accounts according to the outcome of the clearing.

Emphasised matters: the auditor's report with emphasised matters issued by the accounting firm pointed out: "Furthermore, we would like to draw the attention of the financial statements users to the following: as stated in Note 6.13, Note 8 and Note 11 to the financial statements, Kelon Electrical recorded consecutive losses in the years of 2004 and 2005. Net assets of Kelon Electrical was RMB-1.090 billion as at 31 December 2005; short-term borrowings of RMB1.233 billion were overdue; and there were substantial litigations for the debts. If all these matters cannot be resolved in a short time, the continuous operations of Kelon Electrical may be compromised. Kelon Electrical has disclosed the proposed improvement measures in Note 11 to its financial statements. The content of the paragraph does not affect the published audit opinions."

The Company's operations has improved in the first half of 2006. The management of the Company believes that there will not bearing problem regarding the continuous operations of the Company, so long as the Company determinately and continuously implement the following measures:

- (1) Hisense Air-conditioner will become the controlling shareholder of the Company. The management of the Company will utilise the management experience of Hisense to implement an overall reform, strengthen the operating management and completely improve its operational quality.
- (2) Upon the change in the single largest shareholder of the Company, the Company will immediately negotiate with Hisense Air-conditioner, the new shareholder of the Company, to formulate and implement the assets reconstruction plan with Hisense as soon as possible. If the reconstruction is to be implemented, the quality assets and operations from Hisense Air-conditioner will significantly improve the assets and financial status of the Company, this will also help to improve the business scale, competitiveness and credit rating of the Company, which in turn will create favourable conditions for financing to be made by the Company.
- (3) The Company will, based on the requirement of its strategic development, focus on handling the problem of excessive investments occurred in prior years, and place most resources on the principal operations, and reduce the outflow of the capital to the largest extent, lower the capital occupation rate and improve the efficiency of capital utilisation, so as to ensure that the Company has the necessary capital for the normal operation of its principal operations.
- (4) The Company will improve planning in management, coordinate production and sales, strictly control capital occupation, speed up the turnover of capital and upgrade the efficiency of capital utilisation.
- (5) The Company will proactively seek support from others to obtain more working capital. By the end of July, the Company has obtained understanding with major banks, and most overdue loans have been or are in the process of being converted to normal loans. The Company will obtain greater support from major creditors such as banks and suppliers in its course of business in the future.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS**

- (i) During the reporting period, the Company has not previously passed any resolutions on profit distribution, public reserve capitalisation or new shares issuance. The Company has no intent to distribute profit or to capitalise its public reserve in mid 2006.
- (ii) Relevant litigations and arbitrations of the Company during the reporting period.

**1. Basic information of significant litigations with target claim amount exceeding RMB10,000,000**

<u>Number</u>	<u>Name of case</u>	<u>Counterparty</u>	<u>Claim amount</u>	<u>Particulars</u>
<b>Litigations between Greencool Companies and Specified Third Parties</b>				
1	Claims initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Jiangxi Kesheng Industry and Trading Company Limited ("Jiangxi Kesheng")	Guangdong Greencool, Gu Chu Jun and Jiangxi Kesheng	18,630,000.00	Under the authorisation of Gu Chu Jun, on 20 February 2005, Kelon Air-Conditioner purchased 14.1 tons of refrigerants from Jiangxi Kesheng at a price of RMB18,630,000, however, Kelon Air-Conditioner has not received the goods under the contract. The plaintiff argued that Guangdong Greencool has benefited from its position as the major shareholder to embezzle the capital of the plaintiff and used the name of Jiangxi Kesheng to avoid the regulatory restrictions on related party transactions.
2	Claims initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun, Greencool Refrigerant (China) Company Limited ("Tianjin Greencool"), Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool") and Jinan San Ai Fu Petrochemical Co., Ltd. ("Jinan San Ai Fu")	Guangdong Greencool, Gu Chu Jun, Tianjin Greencool, Hainan Greencool and Jinan San Ai Fu	81,600,000.00	On 20 January 2005, under the direction of Gu Chu Jun and Guangdong Greencool, Tianjin Greencool and Jinan San Ai Fu entered into a sale and purchase contract to sell 700 tons of refrigerant to Jinan San Ai Fu, of which 600 tons were sold by Jinan San Ai Fu to the plaintiff. The plaintiff claimed that the five defendants had embezzled its funds by fraud.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**1. Basic information of significant litigations with target claim amount exceeding RMB10,000,000 – Continued**

<u>Number</u>	<u>Name of case</u>	<u>Counterparty</u>	<u>Claim amount</u>	<u>Particulars</u>
3	Claims initiated by Shenzhen Kelon Procurement Co., Ltd. against Guangdong Greencool, Tianjin Lixin Commercial Trading Company Limited ("Tianjin Lixin"), Greencool Procurement Centre (Shenzhen) Co., Ltd. ("Greencool Shenzhen Procurement Center") and Gu Chu Jun	Guangdong Greencool, Greencool Shenzhen Procurement Center and Gu Chu Jun	89,600,300.00	The plaintiff entered into a sale and purchase contract with Tianjin Lixin to purchase 12,700 tons of steel. The plaintiff made payments to Tianjin Lixin on 26 April 2005 and 27 April 2005, respectively, and Tianjin Lixin transferred the funds to Greencool Shenzhen Procurement Centre. The plaintiff has not received any steel supply from Tianjin Lixin. The plaintiff claimed that the four defendants had embezzled its funds by fraud.
4	Claims initiated by Guangdong Kelon Fittings Co., Ltd against Guangdong Greencool, Tianjin Xiangrun Commercial Trading Development Company Limited ("Tianjin Xiangrun"), Greencool Shenzhen Procurement Centre and Gu Chu Jun	Guangdong Greencool, Tianjin Xiangrun, Greencool Shenzhen Procurement Centre and Gu Chu Jun	97,412,200.00	The plaintiff entered into a sale and purchase contract with Tianjin Xiangrun to purchase 8,820 tons of steel from Tianjin Xiangrun. The plaintiff made installment payments to Tianjin Xiangrun on 26, 27 and 28 April 2005, respectively, but it has not received any steel supply from Tianjin Xiangrun. The plaintiff claimed that the four defendants had embezzled its funds by fraud.
5	Claims initiated by Kelon Air-Conditioner Co. Ltd. against Guangdong Greencool, Jinan San Ai Fu, Tianjin Greencool, Hainan Greencool and Gu Chu Jun	Guangdong Greencool, Jinan San Ai Fu, Tianjin Greencool, Hainan Greencool and Gu Chu Jun	40,800,000.00	The plaintiff entered into a sale and purchase contract with Jinan San Ai Fu to purchase 300 tons of environment friendly refrigerant, and paid purchase price of RMB40,800,000 on 1 April 2005, but Jinan San Ai Fu failed to deliver the goods. The plaintiff claimed that the five defendants had embezzled its funds by fraud.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**1. Basic information of significant litigations with target claim amount exceeding RMB10,000,000 – Continued**

<u>Number</u>	<u>Name of case</u>	<u>Counterparty</u>	<u>Claim amount</u>	<u>Particulars</u>
6	Jiangxi Kelon	Guangdong Greencool and Others	90,000,000.00	The Company alleged that Aike Enterprises (Tianjin) Co., Ltd. Company Limited had embezzled its funds and Guangdong Greencool was jointly and severally liable. The first trial was conducted on 24 July 2006.
7	Jiangxi Kelon	Guangdong Greencool and others	75,000,000.00	The Company alleged that Greencool Refrigerant (China) Company Limited had embezzled its funds and Guangdong Greencool was jointly and severally liable. The first trial was conducted on 24 July 2006.

**Other litigations**

1	Claims against Kelon Air-Conditioner by Dongguan Xinnong Motors Company Limited ("Dongguan Xinnong") in relation to a sale and purchase contract	Dongguan Xinnong	10,463,130.79	As a result of the claim by Dongguan Xinnong, both parties involved confirmed upon verification on 31 May 2005, Kelon Air-Conditioner defaulted a total purchase price of RMB10,463,359.99 and deposit amounted to RMB499,770.80. RMB500,000 has been repaid, however, the balance remained unsettled. Dongguan Xinnong initiated proceedings against Kelon Air-Conditioner for payment of the unpaid purchase price and all costs of the legal proceedings and security.
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**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VIII. SIGNIFICANT MATTERS - Continued**

**1. Basic information of significant litigations with target claim amount exceeding RMB10,000,000 - Continued**

<u>Number</u>	<u>Name of case</u>	<u>Counterparty</u>	<u>Claim amount</u>	<u>Particulars</u>
2	Claims against Yangzhou Kelon and the Company by China Merchants Bank Co., Ltd. ("China Merchants Bank") Nanjing Branch in relation to loan agreement	China Merchants Bank Nanjing Branch	21,000,000.00	The plaintiff claimed that on 22 March 2005, Yangzhou Kelon entered into a loan agreement in the amount of RMB20,000,000 for a term of one year. The loan was guaranteed by the Company. The plaintiff had granted the loan and subsequently as a result of material events affecting the repayment ability of Yangzhou Kelon and the Company, the plaintiff demanded early repayment of the loan plus interests thereon in the amount of RMB253,100 as well as all costs of the legal proceedings. At the same time, the plaintiff applied a court order to freeze bank deposit of RMB21,000,000 or seize its assets.
3	Claims against Yangzhou Kelon and the Company by Bank of China Limited Yangzhou Branch in relation to a loan agreement	Bank of China Limited Yangzhou Branch	12,000,000.00	The plaintiff claimed that a letter of credit was issued on behalf of Yangzhou Kelon pursuant to the Banking Facility Agreement entered into by the two parties, with the Company as guarantor. Several letters of credit were issued by Bank of China Limited Yangzhou Branch on behalf of Yangzhou Kelon in favour of Nanjing Hongbaoli Company Limited and the accepting bank produced the bills under those letters of credit to the plaintiff. Yangzhou Kelon failed to make payment.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**1. Basic information of significant litigations with target claim amount exceeding RMB10,000,000 – Continued**

<u>Number</u>	<u>Name of case</u>	<u>Counterparty</u>	<u>Claim amount</u>	<u>Particulars</u>
4	Claims against the Company initiated by Zhejiang Hangzhou Xiu Ganggou Holdings Company Limited ("Zhejiang Hangxiao") in relation to a construction contract	Zhejiang Hangxiao	19,853,000.00	The plaintiff alleged that it had undertaken the construction works of the Company's plain warehouse factories No. 1 and No. 2 pursuant to a construction contract with the Company and the Company defaulted in payment of RMB1,193,000 in construction fees. The plaintiff sued the Company for payment of RMB1,193,000 in construction fees and RMB17,660,000 in default penalties and the cost of legal proceedings.
5	Claims against Jiangxi Kelon and the Company by China Merchants Bank on a loan agreement	China Merchants Bank Nanchang Branch Dieshanlu Sub-branch	31,000,000.00	The plaintiff applied a pre-trial order from the court to freeze or seize assets with an amount of RMB31,000,000. The court ordered to seize 30,105 sets of air-conditioners from Jiangxi Kelon. On 22 August, the Company received documents from the court. The plaintiff alleged that it had discounted certain bank acceptance bills issued by Jiangxi Kelon to the amount of RMB43,013,270.97, Jiangxi Kelon has only paid a deposit of 30% of the total value and the balance of RMB30,109,289.68 remains outstanding. Although part of the acceptance bill has yet to fall due, the plaintiff demanded immediate settlement by Jiangxi Kelon pursuant to the agreement and demanded the Company to take over the collateral liabilities.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**1. Basic information of significant litigations with target claim amount exceeding RMB10,000,000 – Continued**

<u>Number</u>	<u>Name of case</u>	<u>Counterparty</u>	<u>Claim amount</u>	<u>Particulars</u>
6	Claims against Jiangxi Kelon and the Company initiated by China Construction Bank Corporation Nanchang Changbei Branch in relation to the loan contract and guarantee contract	China Construction Bank Corporation Nanchang Changbei Branch	140,000,000.00	China Construction Bank Corporation Nanchang Changbei Branch applied to the court for pre-trial security order on the basis of dispute over the loan contract and guarantee contract. On 5 August, the High Court of Jiangxi Province ordered to freeze Jiangxi Kelon's 80% shareholdings in Shangqiu Kelon. During the freezing period, such shareholdings shall not be pledged or transferred without the court's prior consent.
7	Claims against Jiangxi Kelon and Kaifeng Kelon Air-Conditioner Co., Ltd. ("Kaifeng Kelon") by Kaifeng Economic Technology Development (Group) Company in relation to joint venture contract	Henan Province Kaifeng Economic Technology Development (Group) Company	18,000,000.00	The plaintiff applied for a pre-trial security order from the court to seize properties worth of RMB18,000,000 of Jiangxi Kelon and Kaifeng Kelon. The equipments, factory and the land use right of Kaifeng Kelon were seized.
8	Claims initiated by CNA/MC Appliance Corporation against the Company and Kelon International Incorporation	Can International Inc./ MC Appliance Corporation	221,942,108.01	The plaintiff alleged that it had entered into a contract with the defendant on 29 December 2003 to purchase 108,108 units of MCBR1000W refrigerators, that the defendant failed to perform its obligations as set out in the contract on a timely basis and that the goods delivered were defective.
9	Claims against Foshan Shunde Jiegao Investments Company Limited by Kelon Electrical Holdings Company Limited in relation to the land transfer agreement	Foshan Shunde Jiegao Investments Company Limited	182,271,095.06	The plaintiff claimed for the costs of the transfer of land use rights of State-owned land with interest, and the cost of legal proceedings.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**2. General information of the litigations**

As at the date of this report, the Company and its subsidiaries were involved in 98 litigation cases, representing an aggregate claim amount of RMB1,282,001,652.60.

As for these litigation cases, the Company and its subsidiaries acted as plaintiffs in 13 of them, representing a claim amount of RMB685,378,090.63, and acted as defendants in the remaining 85 cases, representing a claim amount of RMB596,623,561.97.

In addition to the 16 significant litigations and arbitrations with claim amount exceeding RMB10,000,000 (and an aggregate claim amount of RMB1,149,571,833.86) disclosed in this report, the remaining 82 cases each has a claim amount below RMB10,000,000 (with an aggregate claim amount of RMB132,429,818.74).

**Utilisation of the funds for non-operating purposes and the progress of settlement**

**1. Progress of settlement**

Capital utilisation of the Company for non-operating purposes by the controlling shareholders and its subsidiaries		Amount settled during this period	Form of settlement	Amount settled	Time
Beginning of the period	End of the period				
<i>in ten thousand RMB</i>					
70,604.45	70,604.45	-	litigation	-	-

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**2. General information of the litigations – Continued**

**2. Specific statement of capital utilisation of the Company for non-operating purposes by the controlling shareholders and its subsidiaries and the status of settlement**

(1) Specific statement of capital utilisation of the Company for non-operating purposes by the controlling shareholders and its subsidiaries

Unit: RMB10,000

Non-operating fund occupation	Names of parties utilising the capital	Relationship	Account items	Balance of	Accumulated	Interest for	Repayment	Balance of	Reason for utilisation	Nature of utilisation
				utilised funds at the beginning of the period 2006	utilisation during the period January to June 2006 (exclusive of interest)	the period January to June 2006 (if any) for utilised funds	during the period January to June 2006	utilised funds at the end of the period, as at 30 June 2006		
Controlling shareholder and its subsidiaries	Guangdong Greencool Enterprise Development Limited	Controlling shareholder	Other receivables	1,592.59	-	-	-	1,592.59	Joining fee	Non-operating use
	Hefei Meiling Co., Ltd.		Receivables	11.56	-	-	-	11.56	Sales receipt	Operating account
	Greencool Technology Environmental Protection Engineering (Shenzhen) Co., Ltd.	Subsidiary of the ultimate controlling shareholder	Other receivables	3,300.00	-	-	-	3,300.00	Transfer	Non-operating use
	Greencool Technology Development (Shenzhen) Company Limited	Subsidiary of the ultimate controlling shareholder	Other receivables	3,200.00	-	-	-	3,200.00	Transfer	Non-operating use
	Hainan Greencool Environmental Protection Engineering Co., Ltd.	Subsidiary of the ultimate controlling shareholder	Other receivables	1,228.94	-	-	-	1,228.94	Prepayment	Non-operating use
Sub-total				9,333.09	-	-	-	9,333.09		
Total				9,333.09	-	-	-	9,333.09		
Other related parties and their subsidiaries	Chengdu Xinxing Electrical Appliance Holdings Company Limited	Subsidiaries of minority shareholders of fellow subsidiaries	Other receivables	3,400.00	-	-	-	3,400.00	Loan	Non-operating exchange
	Shunde Yunlong Consultancy Service Company Limited	Minority shareholders of fellow subsidiaries	Other receivables	468.58	-	-	-	468.58	Advancement	Non-operating exchange
Sub-total				3,868.58	-	-	-	3,868.58		
Specified third parties	Hefei Weixi Electrical Appliance Company	Specified third party	Trade receivables	1,561.02	-	-	-	1,561.02	Sales receipt	Non-operating use
			Others	46.52	-	-	-	46.52	Sales receipt	Non-operating use

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**2. General information of the litigations – Continued**

**2. Specific statement of capital utilisation of the Company for non-operating purposes by the controlling shareholders and its subsidiaries and the status of settlement – Continued**

(1) Specific statement of capital utilisation of the Company for non-operating purposes by the controlling shareholders and its subsidiaries – Continued

Non-operating fund occupation	Names of parties utilising the capital	Relationship	Account Items	Balance of utilised funds at the beginning of the period 2006	Accumulated utilisation during the period January to June 2006 (exclusive of interest)	Interest for the period January to June 2006 (if any) for utilised funds	Repayment during the period January to June 2006	Balance of utilised funds at the end of the period, as at 30 June 2006	Reason for utilisation	Nature of utilisation
	Wuhan Changrong Electrical Appliance Company Limited;	Specified third party	Trade receivables	2,984.37	-	-	-	2,984.37	Sales receipt	Non-operating use
			Other receivables	2,000.00	-	-	-	2,000.00	Sales receipt	Non-operating use
	Jiangxi Kesheng Industry and Trading Company Limited	Specified third party	Other receivables	2,557.28	-	-	-	2,557.28	Prepayment	Non-operating use
	Jinan San Ai Fu Petrochemical Co., Ltd	Specified third party	Other receivables	12,149.65	-	-	-	12,149.65	Prepayment	Non-operating use
	Tianjin Xiangrun Industrial and Trading Development Company Limited	Specified third party	Other receivables	9,690.53	-	-	-	9,690.53	Prepayment	Non-operating use
	Tianjin Lixin Commercial Trading Development Company Limited	Specified third party	Other receivables	8,960.03	-	-	-	8,960.03	Prepayment	Non-operating use
	Jiangxi Keda Plastic Technology Company Limited	Specified third party	Other receivables	1,300.02	-	-	-	1,300.02	Transfer	Non-operating use
	Zhuhai City Longjia Refrigerant Facilities Co., Ltd.	Specified third party	Other receivables	2,860.00	-	-	-	2,860.00	Materials fee	Non-operating use
	Beijing De Heng Solicitors	Specified third party	Other receivables	400.00	-	-	-	400.00	Service fee	Non-operating use
	Zhejiang Yuhuan	Specified third party	Trade receivables	239.81	-	-	-	239.81	Prepayment	Non-operating use
			Other receivables	710.55	-	-	-	710.55	Materials fee	Non-operating use
	Shangqiu Bing Xiong Freezing Facilities Company Limited	Specified third party	Other receivables	5,803.00	-	-	-	5,803.00	Land and facilities fee	Non-operating use
	Zhuhai Defa	Specified third party	Other receivables	2,140.00	-	-	-	2,140.00	Materials fee	Non-operating use

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**2. General information of the litigations – Continued**

**2. Specific statement of capital utilisation of the Company for non-operating purposes by the controlling shareholders and its subsidiaries and the status of settlement – Continued**

(1) Specific statement of capital utilisation of the Company for non-operating purposes by the controlling shareholders and its subsidiaries – Continued

Non-operating fund occupation	Names of parties utilising the capital	Relationship	Account items	Balance of utilised funds at the beginning of the period 2006	Accumulated utilisation during the period January to June 2006 (exclusive of interest)	Interest for the period January to June 2006 (if any) for utilised funds	Repayment during the period January to June 2006	Balance of utilised funds at the end of the period, as at 30 June 2006	Reason for utilisation	Nature of utilisation
	Yangzhou Economic Development Zone Finance Bureau	Specified third party		4,000.00	-	-	-	4,000.00	Land fee	Non-operating use
Sub-total				57,402.78	-	-	-	57,402.78		
Total				61,271.36	-	-	-	61,271.36		

(2) As at the date of this report, the freezing and confiscation measures the Company has taken against the Greencool Companies and third-party companies are as follows:

No.	Preserved Assets	Status	Freezing Period	Place of Freezing or Confiscation
1	82,852,683 shares in Meiling Appliance held by Guangdong Greencool	Waiting to be frozen	From 15 July 2006 to 13 January 2007	Shenzhen Securities Clearing Company
2	262,212,194 shares in the Company held by Guangdong Greencool	Waiting to be frozen	From 24 May 2006 to 23 May 2007	Shenzhen Securities Clearing Company
3	90% equity interests in Yangzhou Greencool Venture Capital Co., Ltd. held by Gu Chu Jun	Waiting to be frozen	11 July 2006 to 10 July 2007	Industrial and Commercial Bureau of Yangzhou Development Zone
4	75% equity interests in Anhui Greencool Enterprise Development Company Limited held by Guangdong Greencool	Waiting to be frozen	10 July 2006 to 9 July 2007	Industrial and Commercial Bureau of Hefei

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VIII. SIGNIFICANT MATTERS - Continued**

**2. General information of the litigations - Continued**

**2. Specific statement of capital utilisation of the Company for non-operating purposes by the controlling shareholders and its subsidiaries and the status of settlement - Continued**

(2) - Continued

<u>No.</u>	<u>Preserved Assets</u>	<u>Status</u>	<u>Freezing Period</u>	<u>Place of Freezing or Confiscation</u>
5	11.368% equity interests in Jiangxi Greencool Enterprise Development Company Limited held by Greencool Refrigerant (China) Company Limited	Waiting to be frozen	6 July 2006 to 5 July 2007	Industrial and Commercial Bureau of Nanchang
6	Lands of 70000.5 m <sup>2</sup> and properties of 8635.09 m <sup>2</sup> held by Greencool Refrigerant (China) Company Limited	Waiting to be confiscated	Not specified in the court reply	Real Estate Exchange of Tianjin Development Zone
7	65% equity interests in Greencool (Zhuhai) Industrial Park Industrial Development Company held by Guangdong Greencool	Being the first preservation applicant	12 July 2006 to 11 July 2007	Industrial and Commercial Bureau of Zhuhai
8	40% equity interests in Guangdong Greencool held by Greencool Refrigerant (China) Company Limited	Being the first preservation applicant	13 July 2006 to 12 July 2007	Industrial and Commercial Bureau of Shunde
9	60% equity interests in Guangdong Greencool held by Gu Chu Jun	Being the first preservation applicant	13 July 2006 to 12 July 2007	Industrial and Commercial Bureau of Shunde
10	45% equity interests in 江西格林柯爾現代物流發展有限公司 held by Gu Chu Jun	Being the first preservation applicant	6 July 2006 to 6 July 2007	Industrial and Commercial Bureau of Jiangxi Province
11	Land use rights of 54832.3 m <sup>2</sup> held by Jinan San Ai Fu Petrochemical Company Limited	Being the first preservation applicant	18 July 2006 to 18 July 2008	Land Resources Bureau of Tiaoqiao District, Jinan



**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**2. General information of the litigations – Continued**

**2. Specific statement of capital utilisation of the Company for non-operating purposes by the controlling shareholders and its subsidiaries and the status of settlement – Continued**

(2) – Continued

<u>No.</u>	<u>Preserved Assets</u>	<u>Status</u>	<u>Freezing Period</u>	<u>Place of Freezing or Confiscation</u>
12	Assets of Greencool Refrigerant (China) Company Limited, including but not limited to gas tanks, water heaters, electricity control rooms, production lines, machinery facilities, automobiles, central air conditioners etc.	Being the first preservation applicant	Not specified in the court reply	Plants of Greencool Refrigerant (China) Company Limited

(3) As at the date of this report, the Company has already implemented asset preservation against the capital accounts of the related companies of Guangdong Greencool, the particulars of which are as follows:

<u>Serial No.</u>	<u>Protected parties</u>	<u>Banks and financial institutions</u>	<u>Protected Amounts</u> (RMB)	<u>Actual amounts protected</u> (RMB)
1	Hainan Greencool Environmental Protection Engineering Co. Ltd.	Sales Department of Bank of Communications, Hainan branch	125,954,088	98,175.11
2	Hainan Greencool Environmental Protection Engineering Co. Ltd.	Sales Department of Industrial and Commercial Bank of China, Hainan Yangpu branch	125,954,088	US100,812.2
3	Hainan Greencool Environmental Protection Engineering Co. Ltd.	Sales Department of Industrial and Commercial Bank of China, Hainan Yangpu branch	125,954,088	230.61
4	Hainan Greencool Environmental Protection Engineering Co. Ltd.	Sales Department of Industrial and Commercial Bank of China, Hainan Yangpu branch	125,954,088	138,891.06
5	Hainan Greencool Environmental Protection Engineering Co. Ltd.	Sales Department of Bank of China, Hainan branch	125,954,088	203,200.42
6	Guangdong Greencool Enterprise Development Company Limited	Agricultural Bank of China, Luohu sub-branch	331,596,588	47,437.37

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**2. General information of the litigations – Continued**

**2. Specific statement of capital utilisation of the Company for non-operating purposes by the controlling shareholders and its subsidiaries and the status of settlement – Continued**

(3) – Continued

Serial No.	Protected parties	Banks and financial institutions	Protected Amounts (RMB)	Actual amounts protected (RMB)
7	Guangdong Greencool Enterprise Development Company Limited	Shenzhen Development Bank, Baocheng sub-branch	331,596,588	5,530.89
8	Guangdong Greencool Enterprise Development Company Limited	Shunde Credit Cooperatives, Rongqi branch	331,596,588	509.44
9	Greencool Refrigerant (China) Company Limited	Bank of Communications, Ronggui sub-branch	125,954,088	1,834.35
10	Greencool Refrigerant (China) Company Limited	Shunde Ronggui Rural Credit Co-operatives	125,954,088	98,417.16
11	Greencool Refrigerant (China) Company Limited	Shanghai Pudong Development Bank, Shenzhen branch	125,954,088	3,774.76
12	Greencool Refrigerant (China) Company Limited	Guangdong Development Bank, Guangzhou Yuehua Road sub-branch	125,954,088	1,633.62
13	Jiangxi Kesheng Industry and Trading Company Limited	China Merchants Bank, Nanchang Dieshanlu sub-branch	18,630,000	7,580

As at the date of this report, the Company and its subsidiaries have proposed 13 litigation cases in total against Greencool and the third parties, with the subject amount of RMB685,378,090.63. 7 cases are being initiated soon with the subject amount of RMB196,645,200.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**(iii) Particulars of acquisition and disposal of assets and mergers of the Company during the reporting period**

**1. Mergers and acquisitions of the Company during the reporting period**

During the reporting period, the Company has no acquisition of assets and mergers.

**2. Disposal of assets of the Company during the reporting period**

Transaction counterpart	Disposed assets	Date of disposal	Price of transaction (RMB10,000)	Net profit attributable to the Company by the disposed asset from the beginning of the year to the date of disposal (RMB10,000)	Gain on disposal (RMB10,000)	Related transaction or not	Basis of pricing	Completion of transfer of relevant asset title	Completion of transfer of relevant indebtedness
Individual (car selling)	Equipments	February 2006	13.63	-	6.33	No	Tender	Yes	Yes
A third party company	Equipments	March 2006	5.00	-	(0.40)	No	Tender	Yes	Yes
Hunan Xiangtan Fangleng Equipment Company Limited (湖南湘潭方棱設備有限公司)	Equipments	January 2006	7.50	-	0.81	No	Tender	Yes	Yes
Shanghai Zhihu Mould Manufacturing Company Limited (上海志鶴模具製造有限公司)	Equipments	January 2006	7.50	-	0.81	No	Tender	Yes	Yes
Shenzhen Dong Yang Exactitude Muod Co. Ltd	Equipments	March 2006	2.09	-	1.90	No	Tender	Yes	Yes
Shenzhen Bao'an District Shajing Town Zhanjie Machine Fixture Operation Department (深圳市寶安區沙井鎮展捷機械配件經營部)	Equipments	March 2006	4.00	-	3.33	No	Tender	Yes	Yes
Individual (car selling)	Equipments	June 2006	0.95	-	(1.25)	No	Tender	Yes	Yes
Individual (Equipments)	Equipments	April 2006	0.85	-	0.77	No	Tender	Yes	Yes
Foshan Shunde District Rongguixijiao Shunhui Scrap Recycling Store (佛山市順德區容桂細滘順輝廢舊物資回收店)	Equipments	April 2006	9.09	-	8.25	No	Tender	Yes	Yes

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**(iii) particulars of acquisition and disposal of assets and mergers of the Company during the reporting period – Continued**

**2. Disposal of assets of the Company during the reporting period – Continued**

Transaction counterpart	Disposed assets	Date of disposal	Price of transaction (RMB10,000)	Net profit attributable to the Company by the disposed asset from the beginning of the year to the date of disposal (RMB10,000)	Gain on disposal (RMB10,000)	Related transaction or not	Basis of pricing	Completion of transfer of relevant asset title	Completion of transfer of relevant indebtedness
Foshan Shunde District Xingjia Hardware and Carpentry Operation Department (佛山市順德區興嘉五金木器經營部)	Equipments	April 2006	0.09	-	(1.98)	No	Tender	Yes	Yes
Foshan Shunde District Dongricheng Hardware and Plastic Material Enterprise Company Limited (佛山市順德區東日城五金塑料實業有限公司)	Equipments	May 2006	11.23	-	(57.01)	No	Tender	Yes	Yes
Dongguan Dongri Resources Company Limited (東莞東日物資有限公司)	Equipments	May 2006	0.98	-	(2.71)	No	Tender	Yes	Yes
Individuals	Equipments	February 2006	1.12	-	0.60	No	Tender	Yes	Yes
Total			<u>64.03</u>	<u>-</u>	<u>(40.55)</u>				

Note: The disposal involved mainly idle assets and retired and has no effect to the continuity of operations and the stability of the management of the Company.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**(iv) Material related party transactions during the reporting period**

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

- (1) The related party transaction between the Company (as Party A) and Qingdao Hisense Marketing Company Limited (as Party B):

The current board of directors of the Company (the "Board") received the auditor's report on the status and progress of the sales agency agreement (the "Sales Agency Agreement") and the supplemental agency agreements (the "Supplemental Agency Agreements") entered into between Guangdong Kelon Electrical Holdings Company Limited and Qingdao Hisense Marketing Company Limited ("Hisense Agent") as at 18 August 2006 (the "Auditor's Report") from Shenzhen Nanfang Minhe Certified Public Accountants Ltd. ("Nanfang Minhe") on 23 August 2006. The contents of this Auditor's Report and the Board's opinions of the related issues are set out as follows:

**I. THE RELEVANT CONTENTS OF THE SALES AGENCY AGREEMENT AND THE SUPPLEMENTAL AGENCY AGREEMENTS ENTERED INTO BETWEEN THE COMPANY AND HISENSE AGENT**

All of them were set out in the announcements of the Company dated 26 September 2005, 4 April 2006 and 10 May 2006, the details of which were respectively disclosed on the announcements of the Company in the China Securities Journal, the Securities Times, the Hong Kong Commercial Daily and China Daily on 27 September 2005, 5 April 2006 and 11 May 2006.

**II. THE STATUS AND PROGRESS OF THE PREPAYMENTS PAID BY HISENSE AGENT TO THE COMPANY AND CAPITAL UTILISATION FEE PAID BY THE COMPANY**

**(I) The status and progress of the internal inspection on prepayment from Hisense Agent to the Company**

*i. Regarding prepayments*

As set out in the internal inspection report of the Company, the total amount of received prepayments were RMB301,004,000.00, the details of which are as follows:

<u>Date of receipt</u>	<u>Cash</u>	<u>Bank acceptance</u>	<u>Total</u>
	(RMB)	(RMB)	(RMB)
23 September 2005	-	4,000,000.00	4,000,000.00
23 September 2005	-	13,904,000.00	13,904,000.00
12 October 2005	30,000,000.00	-	30,000,000.00
13 October 2005	100,000,000.00	-	100,000,000.00
13 October 2005	50,000,000.00	-	50,000,000.00
24 October 2005	72,000,000.00	-	72,000,000.00
15 December 2005	31,100,000.00	-	31,100,000.00
Total	<u>283,100,000.00</u>	<u>17,904,000.00</u>	<u>301,004,000.00</u>

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**(iv) Material related party transactions during the reporting period – Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services – Continued**

(1) – Continued

*ii. Regarding capital utilisation fee*

(i) Regarding capital utilisation fee for prepayments during the term of the Sales Agency Agreements

According to the internal inspection report of the Company, the capital utilisation fee payable by the Company to Hisense Agent was RMB9,474,781.10 as at 10 May 2006.

(ii) Regarding capital utilisation fee for prepayments after the date of expiry of the Sales Agency Agreements

According to the internal inspection report of the Company, the capital utilisation fee payable by the Company to Hisense Agent was RMB3,961,242.92 from the date of expiry of the Sales Agency Agreements to 18 August 2006. This calculation is as follows:

i) Since the Company received prepayments from Hisense Agent amounting to RMB301,004,000.00, the capital utilisation fee of RMB4,665,562.00 was payable to Hisense Agent for the period from 11 May 2006 to 18 August 2006.

ii) Since the payments of Hisense Agent due to the Company exceeds the credit period, namely the 60 days credit period for finished products from 11 May to 10 July, Hisense Agent has to pay the Company interest for exceeding such period. The Company calculated the interest at RMB704,319.08 which Hisense Agent shall pay the Company for 39 days from 10 July to 18 August for the trade receivables exceeding the credit period, which was calculated as the difference between the average trade receivable due from Hisense between 30 June 2006 to 18 August and the prepayment of RMB301,004,000.00. This amount was deducted from the capital utilisation fee payable by the Company to Hisense Agent.

(iii) The total capital utilisation fee payable by the Company to Hisense Agent from the execution of the Sales Agency Agreements as at 18 August 2006 is RMB13,436,024.02.

**(ii) Nanfang Minhe's audit on the status and progress of the Sales Agency Agreements**

*i. Details of the prepayments made by Hisense Agent received by the Company*

Nanfang Minhe has audited the relevant information and explanations provided by the financial department of the Company and the prepayments made by Hisense Agent for the execution of the Sales Agency Agreements are set out as follows:

(i) Hisense Agent transferred bank acceptances amounting to RMB17,904,000.00 to the Company on 23 September 2005, the issuing dates of which are 16 September 2005 and before;

(ii) Hisense Agent transferred the Company an aggregated amount of RMB252,000,000.00 in cash from 12 October 2005 to 24 October 2005. According to the bank statements provided by Hisense Agent, this amount of RMB252,000,000.00 was from an account which is separate from the account for the settlement of Kelon's products maintained by Hisense Agent;

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**(iv) Material related party transactions during the reporting period – Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services – Continued**

(1) – Continued

(iii) Hisense Agent transferred to the Company an amount of RMB31,100,000.00 in cash on 15 December 2005, which was from an account separate from the account for the settlement of Kelon's products maintained by Hisense Agent.

The Company received prepayments from Hisense Agent amounting to RMB301,004,000.00 in total.

*ii. The calculation of capital utilisation fee relating to prepayment during the term of the Sales Agency Agreements as reviewed by Nanfang Minhe*

Nanfang Minhe calculated that the capital utilisation fee payable by the Company to Hisense Agent for the term of the Sales Agency Agreements from 23 September 2005 to 10 May 2006 was RMB9,495,086.10, based on the amount and date of the above prepayments received by the Company and the annual rate of 5.58% of corresponding bank loan as specified on the Sales Agency Agreements.

According to the calculation of Nanfang Minhe, the actual capital utilisation fee payable by the Company to Hisense Agent was understated by RMB20,305.00 in the internal inspection report.

*iii. The calculation of capital utilisation fee relating to prepayment after the date of expiry of the Sales Agency Agreements as reviewed by Nanfang Minhe*

(i) Nanfang Minhe calculated that the capital utilisation fee of the Company payable to Hisense Agent for the period of 11 May 2006 to 18 August 2006 was RMB4,665,562.00, based on the amount and date of the above prepayments received by the Company and the annual interest rate of 5.58% of corresponding bank loan as specified in the Sales Agency Agreements;

(ii) Based on the calculating method of the interest on the trade receivables of the Company due from Hisense Agent which exceeded the credit period, Nanfang Minhe calculated that the interest of the trade receivables of the Company due from Hisense Agent which exceeded the credit period during 10 July to 18 August 2006 was RMB704,319.08, which is the same as the amount calculated by the internal inspection of the Company.

**(III) Problems relating to the execution of the Sales Agency Agreements**

i. Hisense Agent failed to pay the full amount of RMB300 million within 10 working days after the signing of the Sales Agency Agreement as agreed, except the amount of RMB17,904,000.00 which was paid within 10 working days after the signing of the Sales Agency Agreement, other payments were paid after 10 working days of the signing of the Sales Agency Agreement.

ii. The Company did not according to the Sales Agency Agreements pay the capital utilisation fee for prepayments to Hisense Agent on a quarterly basis.

iii. The above capital utilisation fee was calculated as at 18 August 2006. Since the settlement between the Company and Hisense Agent is not complete, the Company still has to pay Hisense Agent a capital utilisation fee.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**(iv) Material related party transactions during the reporting period – Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services – Continued**

(1) – Continued

**(IV) The Board's explanation on above matters**

The above matters were proven to be true upon the Company's verification. The Company has entered into an agreement with Hisense Agent pursuant to which both parties agreed to settle the above amounts before the end of August 2006.

**III. PAYMENTS PAYABLE BY HISENSE AGENT TO THE COMPANY**

**(I) The Company's verification on the receipt of the payments (including trade deposits) from Hisense Agent**

On 23 September 2005, the finance department of Hisense Agent issued to all of Hisense Agent's branches the "Notice on opening a special settlement account for the payments from the sales of Kelon's products in all Hisense Agent's branches", which required every branch to open a new special settlement account to deposit the payments from the sales of the Company's products, and which also required every branch to separately keep all the acceptance bills relating to the sales of Kelon's products. Meanwhile, apart from applying the existing finance system for stating the sales of Kelon's products to which Hisense Agent has a production right, the head office of Hisense Agent also applied UFIDA Software and all its branch applied NEWGRAND finance software to separately establish an account for financial measurement.

As at 18 August 2006, the Company received from Hisense Agent aggregate payments (including prepayments) of RMB2,867,777,454.62, of which RMB859,999,251.49 was paid by remittance while the remaining RMB2,007,778,203.13 was settled by banker's acceptance bills. If calculated in two separate periods, during the period of the Sales Agency Agreements (as at 10 May 2006), the Company received from Hisense Agent the aggregate payments (including trade deposits) of RMB2,257,452,730.87, of which RMB737,100,000.00 was paid by remittance while the remaining RMB1,520,352,730.87 was settled by banker's acceptance bills; since expiry of the Sales Agency Agreements up until 18 August 2006, the Company received from Hisense Agent aggregate payments of RMB610,324,723.75, among which RMB122,899,251.49 was paid by remittance while the remaining RMB487,425,472.26 was settled by banker's acceptance bills.

**(II) Nanfang Minhe's audit on the execution of the Sales Agency Agreements**

- i. Based on the selective examination on the payment receipts of the Company's domestic marketing department from September 2005 to August 2006, Nanfang Minhe, according to the funds management method and based on the features of the financial measurement system during Hisense Agent's sales of Kelon's products which were provided by the management of the Company, conducted an audit on the special reconciliation account, records of the bills available for inspection and the accounting information relating to Hisense Agent and the Sales Agency Agreements which were provided by Hisense Agent and its branches. Nanfang Minhe found no apparent deviation from its audit in all important aspects.



**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VIII. SIGNIFICANT MATTERS - Continued**

**(iv) Material related party transactions during the reporting period - Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services - Continued**

(1) - Continued

- ii. According to the information obtained by Nanfang Minhe, the balance in the special accounts opened by Hisense Agent and its branches for the sales of Kelon's products are as follows:

<u>End date</u>	<u>Funding balance of Hisense Agent's account for Kelon's payment of goods</u> (RMB ten thousand)	<u>Attributable to: Funding balance of branches of Hisense Agent</u> (RMB ten thousand)
31 December 2005	10,204.62	1,392.54
31 January 2006	4,840.67	1,166.29
28 February 2006	4,921.55	2,196.34
31 March 2006	2,669.36	865.08
30 April 2006	6,713.05	761.41
10 May 2006	3,583.46	559.38

- iii. Balance amounts due from Hisense Agent to the Company at the end of each month

In respect of those payments confirmed by both Hisense Agent and the Company, and not taking into account the unsettled bills, the payments due from Hisense Agent to the Company at the end of each month are as follows:

<u>End Date</u>	<u>Amount</u>	<u>Note</u>
30 September 2005	(17,904,000.00)	17,904,000 prepayment included
31 October 2005	(117,561,598.85)	269,904,000 prepayment included
30 November 2005	45,168,709.24	269,904,000 prepayment included
31 December 2005	48,177,878.96	301,004,000 prepayment included
31 January 2006	146,974,701.00	301,004,000 prepayment included
28 February 2006	328,112,001.72	301,004,000 prepayment included
31 March 2006	614,090,909.85	301,004,000 prepayment included
30 April 2006	348,641,026.89	301,004,000 prepayment included
31 May 2006	578,298,052.38	301,004,000 prepayment included
30 June 2006	(110,599,239.75)	301,004,000 prepayment included
31 July 2006	(208,701,253.11)	301,004,000 prepayment included

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**(iv) Material related party transactions during the reporting period – Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services – Continued**

(1) – Continued

**(III) Problems arising from execution of the Sales Agency Agreements**

1. *The headquarters and branches of Hisense Agent created separate accounts for Kelon's accounts receivable. The following problems were identified by Nanfang Minhe during the examination made on Kelon's accounts receivable statements as provided by Hisense Agent:*

- (i) On 15 November 2005, the headquarters of Hisense Agent transferred an amount of RMB50,730,076.85 to the finance centre of Hisense Group, being the fund balance of the separate account for Kelon's accounts receivable (with the account number of 3803020109200163396) as at 14 November 2005, this amount was subsequently transferred back to the separate account on 16 November 2005.

Hisense Agent's explanation was "as at 15 November 2005, the balance of the separate account for Kelon's accounts receivable managed by Hisense Agent amounted to RMB50,730,076.85. In view of the safety of the fund, the department of finance of Hisense Agent created a separate account for Kelon's accounts receivable in the settlement centre of Hisense Group on 15 November. On the same day, the settlement centre of Hisense Group appropriated such funds to the separate account for Kelon's accounts receivable created in the settlement centre of Hisense Group. To avoid any misunderstandings caused by the above action, relevant leaders in Hisense Group ordered the settlement centre to transfer the amount of RMB50,730,076.85 back to the separate account for Kelon's accounts receivable created by Hisense Agent in the Industrial and Commercial Bank of China on the following day, on 16 November 2005."

- (ii) On 31 October 2005, Hisense Agent Guangzhou Branch transferred an amount of RMB11,071,620.00 out of the separate account for Kelon's accounts receivable (with an account number of 3602866229100008116). Nanfang Minhe discovered that such fund was not transferred to the separate account for Kelon's accounts receivable created at the headquarter of Hisense Agent. On 5 December 2005, Hisense Agent transferred such fund back into the separate account for Kelon's accounts receivable managed by Hisense Agent Guangzhou Branch, and such fund was transferred to the separate account for Kelon's accounts receivable created in the headquarter of Hisense Agent on the following day.

Hisense Agent's explanation was "on 31 October, Hisense Agent Guangzhou Branch transferred the amount of RMB11,071,620.00, being Kelon's accounts receivable collected in October, to Hisense Agent by wire transfer, but the cashier of its Guangzhou Branch made a mistake by wiring such fund to the account for Hisense Agent's accounts receivable. The mistake was not discovered by either the headquarters or the branch during the wire transfer. In November, accountants of the department of finance made vouchers according to the statements of the collected accounts receivable sent by the branch and recorded the financial account in respect of collected accounts receivable for Kelon's products, but unfortunately this accounting error was not identified due to the accountants' negligence. Such error was eventually discovered during an examination of bank statements carried out by the accountants in early December. In compliance with the administrative rules of Hisense Agent for Kelon's accounts receivable, the Company remitted the relevant amount from the account for Hisense's accounts receivable back to Guangzhou Branch on 5 December and on the following day Guangzhou Branch transferred the amount back to the account for Kelon's accounts receivable maintained in the head office of Hisense Agent."

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**(iv) Material related party transactions during the reporting period – Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services – Continued**

(1) – Continued

*ii. Problem regarding the time of making payment*

Pursuant to the Sales Agency Agreements, upon delivery of products to the warehouses designated by Hisense Agent, the ownership of such products will be transferred to Hisense Agent. If the value of the sale of goods made by the Company to Hisense Agent exceeds the prepayment actually received by the Company, the parties shall enter into a deed of buying or borrowing goods on credit and Hisense Agent must pay the Company the value of the sale of goods which is in excess of the prepayments within 60 days. Hisense Agent shall make the payment to the Company within 3 working days following the collection of accounts receivable.

During the review carried out by Nanfang Minhe, it was discovered that the management members of the Company orally notified both parties rather than requiring both parties to execute a written document in respect of a deed of buying or borrowing goods on credit. Hisense Agent also did not abide by the term of the Sales Agency Agreements that it shall make the payment to the Company within 3 working days following the collection of accounts receivable. There is a conflict between the terms of the above-mentioned agreements, and Nanfang Minhe has no comment as to whether the matters mentioned above are in breach of the relevant agreements.

*iii. Regarding the differences between total transaction amounts and the payments thereof*

Pursuant to the relevant agreements, should there be a difference between total transaction amounts by both parties as at the expiration date of the Sales Agency Agreements, the debtor shall pay the other party the differences within 15 working days following the expiration date of the Sales Agency Agreements and the capital utilisation fee thereon. The differences are calculated as follows: difference = total prepayment made by Hisense Agent to the Company during the term of the Sales Agency Agreements + total value of sale of goods made by Hisense Agent to the Company during the term of the Sales Agency Agreements - total accumulated proceeds from sale of products to Hisense Agent by the Company during the term of the Sales Agency Agreements. During the course of the review, Nanfang Minhe noticed that both parties had not settled the transaction differences and the capital utilisation fee within the 15 working days following the expiration date of the Sales Agency Agreements.

**Clarification of the issue by the management of the Company:**

- 1) In view of the complexity of the sales agency procedures of both parties as well as the influence of market situation, the status of Hisense Agent as an agent lasted till the end of May and there still were transactions between the two parties during the period;**
- 2) As most of the chain stores of domestic appliances in PRC operate under a mode known as “credit spreading”, and moreover, the buyer would not allow the supplier to open an invoice until transaction is due, Hisense Agent still owed a number of invoices to the chain stores upon the termination of the Sales Agency Agreements;**
- 3) Upon completion of the Sales Agency Agreements, Kelon Marketing Company and Hisense Agent started to recheck the transactions with the dealers. As the task covers a wide scope, it would take a certain period of time for the accounts to be finally sorted out.**

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**(iv) Material related party transactions during the reporting period – Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services – Continued**

(1) – Continued

*iv. Clarification of the above issues by the Board*

The Company has probed into the aforesaid issues and confirmed their truthfulness. The Board agreed with the management on their clarification for the aforesaid issues. As for the schedule of payment collection, there was an agreement entered into between the Company and Hisense Agent during the execution of the Sales Agency Agreements, which set out that Hisense Agent must pay the Company the value of the sale of goods which is in excess of the prepayments within 60 days.

**IV. DISTRIBUTION OF THE COMPANY'S PRODUCTS BY HISENSE AGENT AND CALCULATION OF AGENCY FEE**

**(I) Sales to Hisense Agent (before tax) as shown in the Internal Inspection Report of the Company:**

*i. The Company's sales to Hisense Agent (before tax) during the period of the Sales Agency Agreements are set out as follows:*

<u>Items</u>	<u>Sales to Hisense Agent, (before tax)</u> (RMB)
October 2005	183,392,995.64
November 2005	270,132,525.40
December 2005	423,747,614.00
January 2006	360,785,001.00
February 2006	393,575,936.00
March 2006	487,231,303.75
April 2006	376,053,752.00
10 May 2006	355,553,785.52
Total:	<u><u>2,850,472,913.31</u></u>

*ii. The return of goods from Hisense Agent to the Company upon the expiry of the Sales Agency Agreements*

Upon the expiry of the Sales Agency Agreements, there still were a certain amount of goods remaining in the stock of Hisense Agent. In order to guarantee the normal sales of our products and avoid pricing disorder as well as the strong request of our dealers on dealing with Kelon products from only one source and the fact that the accounts could not be settled in the middle of the month, the Company has extended the term of the Sales Agency Agreements up to 31 May, during which Hisense Agent agreed not to charge the Company for an agency fee.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VIII. SIGNIFICANT MATTERS - Continued**

**(iv) Material related party transactions during the reporting period - Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services - Continued**

(1) - Continued

Pursuant to the "Proposal on Recheck and Dispose of Hisense-owned Inventory at the End of May" issued by the Company, save for the Kelon products in the Da Chen No. 7 Warehouse in Shunde which have been cleared and returned to the Company on 24 May 2006, the rest Hisense-owned Kelon products were put through a joint inventory check on 31 May by the Company, Hisense Agent and Guangzhou Antaida Logistic Co. Ltd. (a third-party logistics company) and were returned in two batches to the Company in June and July 2006, respectively. As at 17 August, the returned goods have offset the sales of the Company to Hisense by RMB378,720,136.39 (excluding tax), or 443,102,559.58 (including tax). Among which RMB283,934,082.34 (excluding tax) or RMB332,202,876.34 (including tax) account for sales to Hisense during the execution of Sales Agency Agreements offset by the returned goods upon expiry of the Sales Agency Agreements.

i) The return of goods after the Sales Agency Agreements by Hisense Agent

Items	Total	
	Sets	Total amount of price and tax
	(Unit: set)	(In RMB)
Refrigerator	65,566	129,785,340.12
Air-conditioner	246,339	302,111,931.25
Freezer	8,702	11,074,430.26
Small home appliance	236	61,255.64
Commercial air-conditioner	26	69,602.31
Sub-total:	320,869	443,102,559.58

ii) During the period of the Sales Agency Agreements, details of the returned goods after Hisense sales period are as follows:

Items	Total	
	Sets	Total amount of price and tax
	(Unit: set)	(In RMB)
Refrigerator	42,228	87,817,769.17
Air-conditioner	189,178	234,069,341.91
Freezer	7,991	10,186,627.26
Small home appliance	232	61,225.64
Commercial air-conditioner	23	67,912.36
Sub-total:	239,652	332,202,876.34

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VIII. SIGNIFICANT MATTERS - Continued**

**(iv) Material related party transactions during the reporting period - Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services - Continued**

(1) - Continued

*iii. The buy-back of products by Hisense Agent to the Company*

Before the branches of the Company implemented the Sales Agency Agreements, the Company was affected by factors such as trade deposits, sales rebate, acceptance of returned goods and duplicate of invoices. The Company sold its products to Hisense Agent, meanwhile Hisense Agent sold products back to the Company. As at 18 August 2006, the amount excluding taxation generated from buy-back was RMB209,729,271.60, the amount including taxation from buy-back was RMB245,383,247.77. The details are as follows:

Items	Regular repurchase	Irregular repurchase (Invoiced more once)	Total
	<i>In RMB</i>	<i>In RMB</i>	<i>In RMB</i>
Refrigerator	84,889,646.43	9,065,277.37	93,954,923.80
Air-conditioner	136,614,312.36	7,063,704.21	143,678,016.57
Freezer	4,333,551.22	1,274,348.00	5,607,899.22
Small home appliance	714,848.38	1,247,831.72	1,962,680.10
Commercial air-conditioner	179,728.08	-	179,728.08
Total:	226,732,086.47	18,651,161.30	245,383,247.77

*iv. Sales affected by the settlement of negative gross profit*

For the period from October 2005 to 17 August 2006, the negative gross profit excluding taxation which is used by the Company to make up for Hisense Agent was RMB107,958,765.85, the negative gross profit including taxation was RMB126,311,756.05. During the term of the Sales Agency Agreement, the amount excluding taxation which has been used by the Company to make up for Hisense Agent was RMB41,487,268.58, the amount including taxation was RMB48,540,104.24. The negative gross profit which was used to make up for Hisense Agent has offset the sales to Hisense Agent. During the calculation of sales agency fees, the negative gross profit of sales which should be offset was RMB77,771,651.81.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VIII. SIGNIFICANT MATTERS - Continued**

**(iv) Material related party transactions during the reporting period - Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services - Continued**

(1) - Continued

v. The calculation of sales agency fees

<u>Items</u>	<u>Amount</u>
	(RMB)
Sales to Hisense (including tax) during the Sales Agency period	2,850,472,913.31
Less: Returns after the expiry of the agreement (including tax)	332,202,876.34
Less: Re-sales that offset sales	245,383,247.77
Less: Negative gross profit that offsets sales	77,771,651.81
Sales to Hisense (including tax) from which agency fee should be provided	2,195,115,137.39
Multiply: Provision basis for agency fee	1%
Agency fee that should be provided	21,951,151.37

**(II) Nanfang Minhe's Audit on the Execution of the Sales Agency Agreements**

- i. After an audit on the financial information of marketing head office of the Company, Nanfang Minhe found no deviation in the invoiced amount from October 2005 to April 2006 in the internal inspection report. As at 10 May 2006, the products delivered but not invoiced are as follows:

<u>Items</u>	<u>Total</u>	
	<u>Sets</u>	<u>Total amount of price with tax</u>
Refrigerator	81,350	136,428,404.00
Air-conditioner	193,910	199,475,095.00
Freezer	9,306	7,826,901.52
Small home appliance	79,194	7,131,575.00
Commercial air-conditioner	3,847	4,691,810.00
Total:	<u>367,607</u>	<u>355,553,785.52</u>

As to the products delivered but not invoiced, Nanfang Minhe found no deviation in all important aspects after a selective examination of original documents such like delivery advices.

ii. Audit on Returned Goods

After implementing review procedures such as letter certification, sampling inspection and spot check, etc., Nanfang Minhe found no deviation in amount of returned goods in the internal inspection report of the Company in all important aspects.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VIII. SIGNIFICANT MATTERS - Continued**

**(iv) Material related party transactions during the reporting period - Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services - Continued**

(1) - Continued

*iii. Audit on Goods for Resale*

Nanfang Minhe implemented a check and sampling examination on the breakdown of the goods for resale of the Company and found no irregularities in all important aspects.

*iv. Recheck on the Calculation Procedure of Agency Fees*

Nanfang Minhe rechecked the calculation form for agency fees which was provided by the Company and recognised by both the Company and Hisense Agent, and found no irregularities in all important aspects.

**(III) Problems in the Execution Procedure of the Sales Agency Agreements**

*i. Continuing Agency after the Expiration of the Sales Agency Agreements*

The accounting information of the Company showed that the invoiced amount of RMB823,616,359.42 from 11 May 2006 to 17 August 2006 exceeded the amount delivered but not invoiced as at 10 May 2006, representing a continuing delivery and sales by the Company to Hisense Agent after the expiration of the Sales Agency Agreements. According to the information provided by the management of the Company, the products invoiced after the expiration of the Sales Agency Agreements are as follows:

<u>Items</u>	<u>Amount</u>
	(RMB)
Refrigerator	372,023,219.40
Air-conditioner	419,315,076.00
Freezer	16,395,473.20
Small home appliance	10,471,330.37
Commercial air-conditioner	5,411,260.45
Total:	<u><u>823,616,359.42</u></u>

**The Company's Explanatory Statement on the above problems**

The marketing system of the Company began to resume independent operation since 11 May, however, the Company has adopted the transitional measures as the financial department was unable to make payment and settlement during the middle of a month, and necessary transitional period was required for the consistency of business flow adjustment of commercial customers which, otherwise, would result in the suspension of sales and material loss to sales during midseason. The marketing system has completely resumed its independent operation on 1 June, and has basically completed payment and settlement as at the date hereof. Meanwhile, to prevent the entering into of new related party transactions with Hisense Agent, new customers and customers who did not make prepayment to Hisense Agent have begun their operation and settlement in the marketing system of the Company.



**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VIII. SIGNIFICANT MATTERS - Continued**

**(iv) Material related party transactions during the reporting period - Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services - Continued**

(1) - Continued

*ii. Payment of the Agency Fee*

As to the agency fee determined in the Sales Agency Agreements and paid by the Company to Hisense Agent, the Company made provision of 1% but has not yet paid such amount. The Company had not paid quarterly the agency fee to Hisense Agent in accordance with the Sales Agency Agreement.

**(IV) Comments on the abovementioned matters by the Board of Directors of the Company**

- i. After the verification made by the Company, it was confirmed that the abovementioned matters are true. Due to the fact that the Company was under a difficult financial situation during the implementation of the Sales Agency Agreements, the Company and Hisense Agent agreed by negotiation that the Company would pay the agency fee to Hisense Agent upon the completion of implementation of the Sales Agency Agreements. Also, agreement has been reached by both parties that such payment would be settled by the end of August 2006.
- ii. The Sales Agency Agreements between the Company and Hisense Agent should have expired on 10 May 2006. However, as payment and settlement cannot be made in the middle of a month, the Company revised and postponed the expiry of the Sales Agency Agreements to 31 May so as not to affect the normal operation of the business. As at 31 May 2006, Hisense Agent still had certain products of the Company in stock. Owing to the following factors, the Company adopted the approach of return of sales for Hisense Agent and has taken back the inventories from Hisense Agent.
  - (i) Avoidance of confusion in pricing which could affect the market pricing system of the Company;

Since the termination of the Sales Agency Agreements on 31 May, the sales and marketing system of the Company has turned into normal and independent operation, though Hisense Agent still had certain inventory at that time. If those inventories were not called back, two separate systems of sales and marketing would be operating in the market, hence two pricing systems thereof would be formed. In order to maintain the consistency of Kelon's price adjustment strategy for 2006, as well as to avoid chaos in the subsequent market and loss-making after the restoration of the sales and marketing system to normal levels, the Company has resorted to the approach of return of sales as a resolution to the matter.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**(iv) Material related party transactions during the reporting period – Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services – Continued**

(1) – Continued

(ii) Distributors strongly demanded that they would deal with only one single system for the distribution of Kelon products;

Each of the distributors had given the Company tremendous and full support during the period of the Sales Agency Agreements. Upon the termination of the Sales Agency Agreements, all the distributors had similar Kelon products in stock, and if no return of sales was carried out, the distributors would be faced with a situation that two separate systems are selling the products of the Company, thereby causing confusion to their daily operation management. For this reason, the distributors strongly demanded that they would deal with only one single system after the termination of the Sales Agency Agreements. For the benefit of the Company and for the purpose of further restoring the confidence among the distributors in the ability of the Company to resume its independency of sales, the Company therefore adopted the approach of return of sales to resolve the matter.

(iii) Reduction of the sales agency fee for the maximum benefit to the interests of the Company.

**(v) Execution of the Selling Price**

(1) *The Company's internal inspection on the implementation of the selling price under the Sales Agency Agreements*

Hisense Agent and the Company has signed the "Policy regarding the settlement price between the Company and Qingdao Hisense Marketing Company Limited", pursuant to which, both parties agreed that the issue of invoice to Hisense Agent by the finance department of the Company would be made on a monthly basis on the written report on the wholesale price granted by each of the product departments and in accordance with the quantity of products ordered by Hisense Agent. Hisense Agent and its branches would not generate any gross profit to their book accounts from Kelon products. If profits arise, the causes of such profits would be analysed by both parties and adjustment would be made to the invoice price in the following month. At the beginning of each month, each of the sales and marketing branches of the Company would, together with the corresponding branches of Hisense Agent, cross-check the prices of the products sold in the previous month and make a confirmation with the corporate seal of both parties. As at 18 August 2006, the summary of the profit statements recognised by the respective sales and marketing branches of the parties, the head office of Hisense Agent and the Company is as follows:

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VIII. SIGNIFICANT MATTERS - Continued**

**(iv) Material related party transactions during the reporting period - Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services - Continued**

(1) - Continued

<u>Month</u>	<u>Gross profit generated by Hisense Agent and recognised by both parties</u> <i>(In RMB)</i>	<u>Negative gross profit covered by the Company to Hisense Agent</u> <i>(In RMB)</i>	<u>Negative gross profit to be covered by the Company to Hisense Agent</u> <i>(In RMB)</i>
October 2005	(848,319.00)	(848,319.00)	-
November 2005	(10,938,679.43)	(10,938,679.43)	-
December 2005	(12,818,913.87)	(12,818,913.87)	-
January 2006	(10,220,660.96)	(10,220,660.96)	-
February 2006	(6,660,695.32)	(6,660,695.32)	-
March 2006	(23,877,276.28)	(23,877,276.28)	-
April 2006	(10,509,804.55)	(10,509,804.55)	-
May 2006	(20,310,549.77)	(20,310,549.77)	-
June 2006	6,853,454.95	6,853,454.95	-
July 2006	(16,047,589.31)	-	(16,047,589.31)
Financial cost and non-operating income/expenses from October 2005 to July 2006*	314,738.55	-	314,738.55
1 to 18 August 2006	(2,894,470.86)	-	(2,894,470.86)
<b>Total</b>	<b><u>(107,958,765.85)</u></b>	<b><u>(89,331,444.23)</u></b>	<b><u>(18,627,321.62)</u></b>

\* The financial cost and the non-operating income and expenses from October 2005 to July 2006 represented the interest income of bank deposits arising from the exclusive account in respect of the payments for Kelon products opened by Hisense Agent, the handling expenses and other non-operating income and expenses relating to the Sales Agency Agreements.

The management of the Company has analysed the causes of the above negative gross profit and considered that the major causes were the adjustment of the end selling price, the treatment of the obsolete goods and the sales rebate and discount offered to the vendors for the return to profit-making.

**(II) Audit on the Execution of the Sales Agency Agreements by Nanfang Minhe**

Nanfang Minhe has reviewed, on test basis, the invoice selling prices issued by the finance department of the Company and cross checked with the price list provided by the administrative division of the Company, and found that there were no material variances.

**(III) Comments on the abovementioned matter by the Board**

Based on the verification made by the Company, the Board agreed with the opinion made in the Auditors' Report.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VIII. SIGNIFICANT MATTERS - Continued**

**(iv) Material related party transactions during the reporting period - Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services - Continued**

(1) - Continued

**(VI) Current Balance between the Company and Hisense Agent after the period of the Sales Agency Agreements and the subsequent events**

(I) *Internal inspection on the current account between the Company and Hisense Agent*

- i. As at 18 August 2006, based on the reconciliation made by the Company and Hisense Agent, it was confirmed that the current balance of the Company with Hisense Agent (including RMB301,004,000.00 of prepayment by Hisense Agent) was RMB-241,733,467.32, representing the outstanding amount owed by the Company to Hisense Agent of RMB241,733,467.32. As the Company has not repaid the total prepayment by Hisense Agent in the sum of RMB301,004,000.00, the outstanding balance of payment for goods due from Hisense Agent to Kelon was RMB59,270,532.68 as at 18 August 2006, after deducting the amount of prepayment received by Kelon from Hisense Agent of RMB301,004,000.00. As at 18 August 2006, the carrying amount of the balances of payment in advance received from the vendors of Hisense Agent was RMB13.9481 million in aggregate, and the total amount of account receivable was RMB47.4082 million; and the balance of fund (including money in transit) held by Hisense Agent and its branches was RMB18.8898 million.

The respective administrative divisions of the Company and Hisense Agent intended to settle the above outstanding amounts in full by the end of August 2006.

- ii. According to the "Notice regarding the treatment of money transfer from five parties through the current balances with the customers of the branches of Hisense" issued by the finance division under the sales and marketing department of the sales and marketing head office of the Company in the mainland, up until 31 May, the current balances (including the amount received in advance and the accounts receivable) with the vendors formed within the account of the branches of Hisense during the period of Hisense acting as an agent of Kelon products, subject to the verification with the vendors, would be transferred to the head office of Hisense by the branches of Hisense, and to the vendors and the head office of Kelon by the branches of Kelon respectively by way of the signing of transfer agreements, under which no outstanding balance between branches of Hisense and Kelon would be permitted. As at 18 August 2006, the procedures of money transfer from the five parties to the Company were completed and the amount transferred was RMB-73,923,144.32, of which the accounts receivable was RMB22,946,129.12 and the amount received in advance was RMB96,869,273.44.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VIII. SIGNIFICANT MATTERS - Continued**

**(iv) Material related party transactions during the reporting period - Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services - Continued**

(1) - Continued

iii. The calculation of the current balance between the Company and Hisense Agent is as follows:

<u>Items</u>	<u>Amount</u> (RMB)
Invoice before tax to Hisense Agent as at 18 August	3,367,075,591.45
Less: Realized negative gross profit (including tax) to Hisense Agent	104,517,789.75
Less: Returns to the Company by Hisense Agent	443,102,559.58
Less: Re-sales to the Company by Hisense Agent	245,383,247.77
Less: Prepayment to the Company by Hisense Agent	301,004,000.00
Less: Payment to the Company by Hisense Agent	2,566,773,454.62
Less: Trade receivables from the transfers by the five parties	22,946,129.12
Less: Agency fee recognized by Hisense Agent	21,951,151.37
Add: Advanced receipt from the transfers by the five parties	96,869,273.44
	<hr/>
Balance as at 18 August	<u>(241,733,467.32)</u>

iv. According to the information provided by Hisense Agent, as at 18 August 2006, the balance of fund (including money in transit) of Hisense Agent and each of its branches was RMB18.8898 million.

(II) *Audit on the execution by Nanfang Minhe*

i. Nanfang Minhe has reviewed, on test basis, the five-party money transfer agreement, the four-party money transfer agreement, and the bills provided by the finance division under the sales and marketing department of the Company, and verification has also been made with no material irregularities found in all important aspects.

ii. Nanfang Minhe has cross checked the calculation of the current balance between the Company and Hisense Agent as at 18 August 2006 and no abnormalities were found in all important aspects.

(III) *Comments on the abovementioned matter by the Board*

Based on the verification made by the Company, the Board agreed with the opinion made in the Auditors' Report.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VIII. SIGNIFICANT MATTERS - Continued**

**(iv) Material related party transactions during the reporting period - Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services - Continued**

(1) - Continued

**(VII) An overview of the execution of the Sales Agency Agreement and the Supplemental Agreements by the Board and the independent non-executive directors of the Company**

(I) *An overview of the implementation of the Sales Agency Agreement and the Supplemental Agreements by the Board*

As at the date of this report, all the amounts owed by Hisense Agent to the Company were settled. The Board considered that in light of the 2005 crisis, the Company, through the Sales Agency Agreement and the Supplemental Agreements, managed to promptly obtain the urgent funds needed for production and the entry to market as well as rebuild its market image, thereby restoring the confidence among the distributors rapidly, accelerating the collection of payment for goods and improving the efficiency of fund utilisation, thus resulting in the positive cycle of supply and marketing. The entering into the agreements and their execution played an important part in bringing the Company through the operating predicament, and protected the interests of the Company. Although there was a slight departure from the Sales Agency Agreement and the Supplemental Agreements in the course of execution of the agreements due to the practical needs of operation, the Board considered that both parties had essentially complied with the agreed terms under the Sales Agency Agreements without prejudice to the interests of the Company and the non-interested shareholders.

(II) *Comments on the execution of the Sales Agency Agreement and the Supplemental Agreements by the independent non-executive directors of the Company*

The independent non-executive directors of the Company concurred with the comments on the implementation of the Sales Agency Agreement and the Supplemental Agreements made by the Board.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VIII. SIGNIFICANT MATTERS - Continued**

**(iv) Material related party transactions during the reporting period - Continued**

**1. Related party transactions relating to the purchase and sales of goods and provision of services - Continued**

(2) Other transactions between the Company and related parties:

<u>Related Parties</u>	<u>Transactions</u>	<u>Basis of pricing</u>	<u>Amount</u>	<u>Percentage in the amount of similar transactions</u>	
Huayi Compressor Holdings Company Limited	Purchase of materials	Fair market price	66,773,526.35		
Chengdu Xinxing Electrical Appliance Holding Company Limited	Purchase of materials	Fair market price	6,458,175.77		
Hisense (Beijing) Electrical Appliances Company Limited	Purchase of materials	Fair market price	5,519,658.12		3.65%
Hisense (Nanjing) Electrical Appliances Company Limited	Purchase of materials	Fair market price	2,454,200.90		
Hisense (Zhejiang) Air-Conditioner Company Limited	Purchase of finished goods	Fair market price	53,526,175.69		
Chengdu Xinxing Electrical Appliance Holdings Company Limited	Sales of materials	Fair market price	3,320,028.25		
Hisense (Zhejiang) Air-Conditioner Company Limited	Sales of materials	Fair market price	7,038,620.87		8.36%
Huayi Compressor Holdings Company Limited	Sales of materials	Fair market price	113,129.97		
Qingdao Hisense Electric Co., Ltd	Sales of mould	Fair market price	2,554,273.50	7.12%	
Qingdao Hisense Marketing Company Limited	Sales of finished goods	Fair market price	63,751,328.08	1.70%	

Note: The finished goods sold to Hisense Agent were finished goods manufactured by Kelon Air-Conditioners, a subsidiary of the Company.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**(iv) Material related party transactions during the reporting period – Continued**

**2. The related party transactions relating to acquisition and disposal of assets**

During the reporting period, the Company has no related transactions relating to acquisition and disposal of assets.

**3. Credit, indebtedness and guarantee matters between the Company and related parties**

*(1) Credit and indebtedness between the Company and related parties*

Unit: RMB10,000

Name of Related Party	Relationship with the Company	Loans from the Company to related parties		Loans from related party to the Company	
		Incurred amount	Balance	Incurred amount	Balance
Guangdong Greencool Enterprise Development Company Limited	Major shareholder	-	1,592.59	-	-
Hefei Meiling Co., Ltd	Subsidiary of the controlling shareholder	-	11.56	-	-
Greencool Environmental Protection Engineering (Shenzhen) Company Limited	Subsidiary of the controlling shareholder	-	3,300.00	-	-
Greencool Technology Development (Shenzhen) Company Limited	Subsidiary of the controlling shareholder	-	3,200.00	-	-
Hainan Greencool Environmental Protection Engineering Company Limited	Subsidiary of the controlling shareholder	-	1,228.94	-	-
Chengdu Xinxing Electrical Appliance Holdings Company Limited	Subsidiaries of minority shareholders of fellow subsidiaries	-	3,400.00	-	-
Shunde Yunlong Consultancy Service Company Limited	Minority shareholders of fellow subsidiaries	-	468.58	-	-



**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**(iv) Material related party transactions during the reporting period – Continued**

**3. Credit, indebtedness and guarantee matters between the Company and related parties – Continued**

*(1) Credit and indebtedness between the Company and related parties – Continued*

Unit: RMB10,000

Name of Related Party	Relationship with the Company	Loans from the Company to related parties		Loans from related party to the Company	
		Incurred amount	Balance	Incurred amount	Balance
Wuhan Changrong Electrical Appliance Company Limited	Specified third party	-	4,984.37	-	-
Jiangxi Kesheng Trading Company Limited	Specified third party	-	2,557.28	-	-
Jinan San 'ai 'fu Chemical Company Limited	Specified third party	-	12,149.65	-	-
Tianjin Xiangrun Trading Development Company Limited	Specified third party	-	9,690.53	-	-
Tianjin Lixin Trading Development Company Limited	Specified third party	-	8,960.03	-	-
Jiangxi Keda Plastic Technology Company Limited	Specified third party	-	1,300.02	-	-
Zhuhai Longjia Refrigerating Plant Company Limited	Specified third party	-	2,860.00	-	-
Beijing De Heng Solicitors	Specified third party	-	400.00	-	-
Hefei Weixi Electrical Appliance Company Limited	Specified third party	-	1,607.54	-	-
Zhuhai Defa Air-conditioning Fittings Company Limited	Specified third party	-	2,140.00	-	-
Shangqiu Bing Xiong Freezing Facilities Company Limited	Specified third party	-	5,803.00	-	-

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**(iv) Material related party transactions during the reporting period – Continued**

**3. Credit, indebtedness and guarantee matters between the Company and related parties – Continued**

*(1) Credit and indebtedness between the Company and related parties – Continued*

Unit: RMB10,000

Name of Related Party	Relationship with the Company	Loans from the Company to related parties		Loans from related party to the Company	
		Incurred amount	Balance	Incurred amount	Balance
Zhejiang Yuhuan Compressors Factory	Specified third party	-	950.36	-	-
Finance Bureau of Yangzhou Economic Development Zone	Specified third party	-	4,000.00	-	-
Total		-	70,604.45	-	-

Note: During the reporting period, the accrued amount of financing provided by the Listed Company to the controlling shareholder and its subsidiaries was nil and the balance thereof was RMB93,330,900.

*(2) Guarantees between the Company and connected parties*

As at 30 June 2006, the guaranteed balance provided by Guangdong Greencool, the controlling shareholder of the Company, for the loans of the Company was RMB122,574,700.

**(v) Material contracts and its implementation during the reporting period**

1. During the reporting period, the Company has not caused or effected into any material trusteeship on, contract or lease of assets of other companies or vice versa.
2. During the reporting period, the Company has caused or effected external guarantees.

**A**

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VIII. SIGNIFICANT MATTERS - Continued**

**(v) Material contracts and its implementation during the reporting period - Continued**

Unit: RMB10,000

**External guarantee made by the Company (excluding guarantees to subsidiaries of the controlling shareholder)**

<u>Guaranteed party</u>	<u>Date (the day of entering the agreement)</u>	<u>Guaranteed amount</u>	<u>Type of guarantee</u>	<u>Period of guarantee</u>	<u>Completion or not</u>	<u>Whether in favour of any related party (yes or no)</u>
Nil	Nil	Nil	Nil	Nil	Nil	Nil
Total actual guaranteed amount during the reporting period	—	—	—	—	—	—
Total actual guaranteed balance at the end of the reporting period (A)	—	—	—	—	—	—

**Guarantees to controlling subsidiaries of the controlling shareholder and branches made by the Company**

	<u>Guaranteed amount</u>
Total actual guaranteed amount to subsidiaries and branches during the reporting period	92,331.96
Total actual guaranteed balance to subsidiaries and branches at the end of the reporting period (B)	64,293.39
<b>Total guarantee made by the Company (including the guarantees to subsidiaries of the controlling shareholder)</b>	
Total guaranteed amount (A+B)	64,293.39
Proportion of total guaranteed amount to net assets of the Company	N/A

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - Continued**

**VIII. SIGNIFICANT MATTERS - Continued**

**(v) Material contracts and its implementation during the reporting period - Continued**

	<u>Guaranteed amount</u>
<b>Attributable to:</b>	
Guaranteed amount provided to shareholders, actual controlling parties and their related parties (C)	—
Guaranteed amount provided directly or indirectly to guaranteed targets with gearing ratio being over 70% (D)	55,972.45
Whether total guaranteed amount is over 50% of the net asset (E)	54,402.92
Total guarantee amount of the above three items* (C+D+E)	55,972.45

\* As at 30 June 2006, the guaranteed balance provided by Guangdong Greencool, the controlling shareholder of the Company, for the loans of the Company was RMB122,574,700.

**3. No material cash assets management matters were assigned or effected to be assigned by the Company during the reporting period.**

**(vi) Undertakings given by the Company or shareholders who held more than 5% (including 5%) of the shares of the Company during the reporting period**

*1. Undertakings to shareholding reform*

- (1) Guangdong Greencool, the single largest shareholder of the Company, intends to transfer 26.43% of its shares in the Company to Hisense Air-Conditioner. Such transfer is still in progress and is yet to be finalised. Hisense Air-Conditioner has obtained authorisation from Guangdong Greencool to carry out a share reform on the Company. The Company has received an undertaking from Hisense Air-Conditioner that it would assume its obligations and immediately initiate the share reform in accordance with the relevant laws, regulations and provisions of PRC.
- (2) Shunde Economic Consultancy Company, the second largest shareholder of domestic legal person shares of the Company, has undertaken to the Company that it will perform all its obligations of being the second largest shareholder of domestic legal person shares of the Company in respect of the shareholding reform of the Company according to the relevant laws, regulations and rules of the PRC.

*2. Other undertakings*

During the reporting period, no other material undertakings which have been published on relevant newspapers and websites have been given by the Company or shareholders holding more than 5% of shares in the Company.

**(vii) During the reporting period, the financial reports are unaudited and the Company did not change its auditors.**

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. SIGNIFICANT MATTERS – Continued**

**(viii) Particulars of investigations by the China Securities Regulatory Commission (“CSRC”), or administrative penalty, or notice of criticism, or penalty by other administrative departments or public censure by any stock exchange that the Company, the Board and its directors and relevant management personnel were subjected to during the reporting period:**

1. Since the Company has failed to publish its 2005 Annual Report and its 2006 First Quarterly Report within the legally prescribed periods, and is in breach of the Rules Governing Listing of Stocks on Shenzhen Stock Exchange (as revised on May 2006), the Shenzhen Stock Exchange thereby publicly denounced the Company, the fifth Board, the supervisory committee and the senior management of the Company on 29 May 2006.
2. Since the Company failed to publish its 2005 Annual Report on time, the CSRC commenced an investigation against the Company on 31 May 2006.
3. The Company received a Notice of Decision on Administrative Sanction from the CSRC (Zheng Jian Fa Zi (2006) No.16) on 4 July 2006. Since the Company were in breach of the relevant requirements of Articles 59, 60, 61 and 62 of the Securities Laws, amounting to the misconduct as described in Article 177 of the Securities Laws of “failing to disclose information in accordance with relevant regulations or disclosing information which contains a falsehood, misleading statement or major omission”, the Company was subject to a fine of RMB600,000. All members of the fifth Board of the Company and part of management were subject to penalty due to the above reasons. (Please refer to the announcement issued by the Board dated 4 July 2006)

**(ix) Specific remarks and independent opinion of the Independent Non-executive Directors of the Company regarding accumulated and current external guarantees of the Company**

**Specific remarks and Independent Opinion of the Independent Non-executive Directors of the Company Regarding Accumulated and Current External Guarantees as well as the Progress of the Execution of the Provisions set out in Document (Zheng Jian Fa (2003) No.56)**

In accordance with the requirements of the “Notice on Issues concerning the Regulating of Capital Exchange between Listed Companies and their Related Parties and External Guarantees of Listed Companies” (Zheng Jian Fa (2003) No.56), as independent non-executive directors of the Company, holding a pragmatic and diligent attitude, we have carried out a thorough investigation and assessment on the external guarantees provided by the Company, details of which are set out as follows:

- (1) During the reporting period, the Company did not provide guarantees to any of its controlling shareholders, other related parties in which the Company held interests of less than 50%, or any non legal entities or individuals.
- (2) As at 30 June 2006, the total pledged amount of the Company and its controlling subsidiaries in excess of 50% of its net assets are RMB544,029,200.
- (3) The accumulated and current guarantees of the Company amounted to RMB642,933,900.
- (4) The Company provided guarantees amounting to RMB559,724,500 to entities with a gearing ratio of over 70%. The outstanding external guarantees directly provided by the Company to entities with a gearing ratio of over 70% amounted to RMB559,724,500.
- (5) The balance of loan guarantees provided by Guangdong Greencool, being a related party, for the Company and its subsidiary amounted to RMB122,574,700 as at 30 June 2006.

**SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) - *Continued***

**VIII. SIGNIFICANT MATTERS - *Continued***

**(ix) Specific remarks and independent opinion of the Independent Non-executive Directors of the Company regarding accumulated and current external guarantees of the Company - *Continued***

- (6) Save for the external guarantees mentioned above, we are not aware of other external guarantees during the reporting period.
- (7) The Board should adopt a strict approval procedure in relation to the Company's external guarantees and implement the procedures in compliance with the "Notice on the Regulation of External Guarantees of Listed Companies" (Zheng Jian Fa (2005) No.120) in order to control the associated risks of such external guarantees.

*Independent non-executive directors:*  
**Zhang Sheng Ping, Lu Qing and Cheung Yui Kai, Warren**

28 August 2006

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**STATEMENT OF PROVISIONS FOR IMPAIRMENT OF ASSETS**

At 30 June 2006

Unit: RMB

Items	Balance at the beginning of the period	Increase for the period	Decrease during the period			Balance at the end of the period
			Amount reversed for increase in asset value	Amount Transfer out for other reasons	Total	
1. Total provision for bad debts	762,918,543.42	4,880,969.72	-	32,313,248.35	32,313,248.35	735,486,264.79
Including: Trade receivables	296,045,915.31	745,156.76	-	25,726,024.57	25,726,024.57	271,065,047.50
Other receivables	466,872,628.11	4,135,812.96	-	6,587,223.78	6,587,223.78	464,421,217.29
2. Total provision for impairment of short-term investments	-	-	-	-	-	-
Including: Stock investment	-	-	-	-	-	-
Bond investment	-	-	-	-	-	-
3. Total provision for impairment of inventories	409,020,307.89	6,162,651.36	-	206,232,883.92	206,232,883.92	208,950,075.33
Including: Raw material	193,361,294.09	3,019,247.69	-	61,938,706.52	61,938,706.52	134,441,835.26
Work in progress	13,871,951.17	39,569.49	-	5,385,285.17	5,385,285.17	8,526,235.49
Storage goods	201,787,062.63	3,103,834.18	-	138,908,892.23	138,908,892.23	65,982,004.58
4. Total provision for impairment of long-term investments	78,219,525.00	-	-	-	-	78,219,525.00
Including: Long-term equity investment	78,219,525.00	-	-	-	-	78,219,525.00
Long-term debt investment	-	-	-	-	-	-
5. Total provision for impairment of fixed assets	210,442,218.73	-	-	4,223,226.73	4,223,226.73	206,218,992.00
Including: Machinery and equipment	141,509,065.35	-	-	(1,451,474.66)	(1,451,474.66)	142,960,540.01
Electronics, fixtures and furniture	8,957,058.48	-	-	4,129,889.29	4,129,889.29	4,827,169.19
Buildings and structures	32,643,301.45	-	-	50,797.79	50,797.79	32,592,503.66
Motor vehicles	1,042,610.89	-	-	30,506.14	30,506.14	1,012,104.75
Moulds	26,290,182.56	-	-	1,463,508.17	1,463,508.17	24,826,674.39
6. Provision for impairment of intangible assets	312,805,723.50	-	-	-	-	312,805,723.50
Including: Land use right	23,421,758.81	-	-	-	-	23,421,758.81
Computer Software	3,322,848.29	-	-	-	-	3,322,848.29
Trademark	286,061,116.40	-	-	-	-	286,061,116.40
7. Provision for impairment of construction in progress	84,802,421.80	-	-	13,552,610.04	13,552,610.04	71,249,811.76
8. Provision for impairment on authorized loan	-	-	-	-	-	-

**BALANCE SHEET**

At 30 June 2006

In RMB

Assets	At the end of the period		At the beginning of the period	
	Group	Company	Group	Company
<b>CURRENT ASSETS</b>				
Bank balances and cash	395,634,342.82	168,566,054.78	287,097,542.93	66,230,863.58
Short-term investment	2,000.00	2,000.00	2,000.00	2,000.00
Notes receivable	541,785,848.18	366,180,579.98	140,818,945.44	104,796,523.26
Dividend receivable	-	-	-	-
Interest receivables	-	-	-	-
Trade receivables	374,481,972.14	163,038,764.06	466,115,187.00	311,706,597.62
Other receivables	577,439,215.07	2,136,803,766.96	594,610,973.79	2,346,101,538.83
Prepayments	90,066,909.30	41,896,801.50	132,481,387.55	12,193,016.04
Subsidy receivables	23,478,930.83	-	39,221,876.72	-
Inventories	1,370,936,258.66	837,144,171.48	1,248,765,899.51	333,215,524.94
Deferred expenditure	1,302,782.20	446,757.62	1,736,435.04	797,524.55
Long-term debt investments due within one year	-	-	-	-
Other current assets	41,013.48	-	-	-
<b>Total current assets</b>	<b>3,375,169,272.68</b>	<b>3,714,078,896.38</b>	<b>2,910,850,247.98</b>	<b>3,175,043,588.82</b>
<b>LONG TERM INVESTMENT</b>				
Long term equity investment	62,360,921.55	1,044,458,362.20	63,255,982.31	959,252,113.94
Long term debt investment	-	-	-	-
<b>Total long term investment</b>	<b>62,360,921.55</b>	<b>1,044,458,362.20</b>	<b>63,255,982.31</b>	<b>959,252,113.94</b>
Including: consolidation difference	-	-	-	-
Including: equity investment difference	-	-	6,572,677.40	-
<b>FIXED ASSETS</b>				
Fixed assets, at cost	3,886,432,848.56	991,235,866.88	3,882,263,272.74	993,073,433.69
Less: Accumulated depreciation	2,159,033,211.22	470,120,896.64	2,082,142,355.73	442,543,136.93
Fixed assets, net book value	1,727,399,637.34	521,114,970.24	1,800,120,917.01	550,530,296.76
Less: Provision for impairment loss of fixed assets	206,218,991.96	7,102,410.64	210,442,218.73	7,102,410.64
Fixed assets, net value	1,521,180,645.38	514,012,559.60	1,589,678,698.28	543,427,886.12
Construction material	-	-	-	-
Construction in progress	325,067,704.98	18,977,134.86	318,885,601.93	15,182,059.00
Fixed assets to be disposed	8,042,475.46	3,155,086.44	-	-
<b>Total fixed assets</b>	<b>1,854,290,825.82</b>	<b>536,144,780.90</b>	<b>1,908,564,300.21</b>	<b>558,609,945.12</b>
<b>INTANGIBLE ASSETS AND OTHER ASSETS</b>				
Intangible assets	517,902,445.31	364,509,347.00	535,372,702.10	377,844,460.46
Long term deferred expenditures	1,612,939.07	20,704.94	2,299,938.37	-
Other long term assets	-	-	-	-
<b>Total intangible assets and other assets</b>	<b>519,515,384.38</b>	<b>364,530,051.94</b>	<b>537,672,640.47</b>	<b>377,844,460.46</b>
Deferred taxation	-	-	-	-
Deferred tax assets	-	-	-	-
<b>TOTAL ASSETS</b>	<b>5,811,336,404.43</b>	<b>5,659,212,091.42</b>	<b>5,420,343,170.97</b>	<b>5,070,750,108.34</b>



## A

**BALANCE SHEET - Continued**

At 30 June 2006

In RMB

Assets	At the end of the period		At the beginning of the period	
	Group	Company	Group	Company
<b>CURRENT LIABILITIES</b>				
Short term loans	2,090,470,538.00	977,412,990.05	2,160,522,820.56	1,268,135,260.17
Notes payable	167,030,000.00	480,500,000.00	183,465,027.51	180,340,873.71
Trade payables	2,356,409,819.24	1,604,345,541.98	2,068,885,828.19	50,629,618.23
Advance from customers	600,839,161.60	1,103,136,242.70	301,318,221.63	239,312,012.34
Accrued payroll	53,922,572.25	18,388,978.44	52,542,739.06	33,437,359.51
Staff welfare payable	1,819,218.85	271,623.62	886,321.43	230,307.94
Dividend payable	2,067.02	-	2,067.02	-
Taxes payables	(115,315,584.78)	(59,458,877.98)	174,340,203.01	159,037,949.21
Payable to others	5,938,462.92	912,500.70	4,048,161.18	950,004.58
Other payables	893,151,263.24	952,409,026.04	734,951,850.68	2,444,833,810.08
Accrued charges	362,584,241.19	294,515,209.46	287,686,505.72	239,438,823.59
Provision	197,808,934.72	189,797,277.37	209,915,745.89	201,937,388.53
Deferred income	-	-	-	-
Long-term loans due within one year	-	-	-	-
Other current liabilities	-	-	-	-
<b>Total current liabilities</b>	<b>6,614,660,694.25</b>	<b>5,562,230,512.38</b>	<b>6,178,565,491.88</b>	<b>4,818,283,407.89</b>
<b>LONG TERM LIABILITIES:</b>				
Long term loans	-	-	-	-
Bonds payable	-	-	-	-
Long-term payables	62,807,036.52	49,845,198.01	73,923,424.44	68,779,557.54
Specific payables	-	-	-	-
Accrued liabilities of investee enterprise	-	912,034,260.63	-	1,016,803,629.34
<b>Total long term liabilities</b>	<b>62,807,036.52</b>	<b>961,879,458.64</b>	<b>73,923,424.44</b>	<b>1,085,583,186.88</b>
Deferred taxation:				
Deferred tax liabilities	-	-	-	-
<b>Total liabilities</b>	<b>6,677,467,730.77</b>	<b>6,524,109,971.02</b>	<b>6,252,488,916.32</b>	<b>5,903,866,594.77</b>
Minority interests:				
Minority interests	249,213,503.34	-	257,705,794.23	-
<b>Shareholders' equity:</b>				
Capital (share capital)	992,006,563.30	992,006,563.00	992,006,563.00	992,006,563.00
Capital reserve	1,582,552,641.58	1,978,539,344.21	1,581,099,648.75	1,977,086,351.38
Surplus reserves	114,580,901.49	114,580,901.49	114,580,901.49	114,580,901.49
Including: statutory public welfare fund	114,580,901.49	114,580,901.49	114,580,901.49	114,580,901.49
Unappropriated profits	(3,818,234,655.33)	(3,950,024,688.30)	(3,782,492,927.69)	(3,916,790,302.30)
Exchange difference	13,749,719.28	-	4,954,274.87	-
Declared cash dividends	-	-	-	-
Accumulated loss not yet made up	-	-	-	-
<b>Total shareholders' equity</b>	<b>(1,115,344,829.68)</b>	<b>(864,897,879.60)</b>	<b>(1,089,851,539.58)</b>	<b>(833,116,486.43)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>5,811,336,404.43</b>	<b>5,659,212,091.42</b>	<b>5,420,343,170.97</b>	<b>5,070,750,108.34</b>

Legal representative: Tang Ye Guo

Chief finance controller: Xiao Jian Lin

Finance Controller: Wang Hao

## STATEMENT OF INCOME AND PROFIT APPROPRIATION

At 30 June 2006

In RMB

Items	From January to June 2006		From January to June 2005	
	Group	Company	Group	Company
1. Revenue from principal operations	3,586,846,097.13	2,165,031,662.52	4,558,272,742.79	2,172,606,939.43
Less: Cost of sales	2,987,022,313.30	1,880,178,865.91	4,144,745,272.59	2,079,291,793.38
Sales tax and surcharge	669,093.89	8,745.12	290,131.86	111,344.38
2. Profit from principal operations	599,154,689.94	284,844,051.49	413,237,338.34	93,203,801.67
Add: Other operating profit	5,312,402.30	5,496,758.65	(3,817,441.88)	(151,142.60)
Less: Distribution costs	558,786,006.75	485,503,477.31	604,632,947.83	510,703,450.71
Administrative expenses	(8,722,650.19)	(30,730,246.56)	219,836,978.07	80,143,084.80
Financial expenses	90,233,581.49	50,311,111.95	70,176,866.53	30,731,327.99
3. Operating profit	(35,829,845.81)	(214,743,532.56)	(485,226,895.97)	(528,525,204.43)
Add: Investment profit	(521,053.00)	188,522,624.14	(15,611,330.78)	(32,001,096.83)
Subsidy income	422,087.38	115.38	151,351.62	-
Non-operating income	6,110,585.83	1,694,185.14	1,762,439.28	845,459.06
Less: Non-operating expenses	13,414,082.11	8,707,778.11	2,327,742.10	1,665,671.63
4. Profit before tax	(43,232,307.71)	(33,234,386.01)	(501,252,177.95)	(561,346,513.83)
Less: Income tax	1,009,974.04	-	8,401,579.56	-
Minority interests	(8,500,554.21)	-	(22,710,159.61)	-
Loss in subsidiaries not yet made up	-	-	-	-
5. Net profit	(35,741,727.54)	(33,234,386.01)	(486,943,597.90)	(561,346,513.83)
Add: Unappropriated profits at the beginning of the year	(3,782,492,927.79)	(3,916,790,302.29)	8,395,896.73	(6,614,691.27)
Others carried forward	-	-	-	-
6. Profit available for appropriation	(3,818,234,655.33)	(3,950,024,688.30)	(478,547,701.17)	(567,961,205.10)
Less: Appropriations to statutory common reserve fund	-	-	-	-
Appropriations to statutory common welfare fund	-	-	-	-
Appropriations to welfare and reward fund	-	-	-	-
7. Profit available for appropriation to shareholders	(3,818,234,655.33)	(3,950,024,688.30)	(478,547,701.17)	(567,961,205.10)
Less: Dividend payables in respect of preferred shares	-	-	-	-
Appropriations to discretionary reserve	-	-	-	-
Dividends on ordinary shares	-	-	-	-
Dividends on ordinary shares capitalized	-	-	-	-
8. Unappropriated profits	(3,818,234,655.33)	(3,950,024,688.30)	(478,547,701.17)	(567,961,205.10)

**A****STATEMENT OF INCOME AND PROFIT APPROPRIATION – Continued**

At 30 June 2006

In RMB

**Income statement (Supplemental information)**

Items	This period		The corresponding period of last year	
	Group	Company	Group	Company
1. Profit from sale and disposal of departments or investee enterprise	-	-	-	-
2. Loss due to natural disaster	-	-	-	-
3. Increase (or decrease) in total profit from change of all accounting policy	-	-	-	-
4. Increase (or decrease) in total profit from change of accounting estimates	-	-	-	-
5. Loss from debt reconstruction	-	-	-	-
6. Others	-	-	-	-

Legal representative: Tang Ye Guo

Chief finance controller: Xiao Jian Lin

Finance Controller: Wang Hao

**STATEMENT OF CASH FLOWS**

From January to June 2006

Currency: RMB

Items	Group	Company
<b>1. Cash flows from operating activities:</b>		
Cash received from sales of goods and rendering of services	5,174,148,130.05	3,015,117,044.51
Refund of tax and levies	76,943,697.03	-
Cash received from other operating activities	35,959,979.83	8,677,286.87
<b>Sub-total of cash inflows</b>	<b>5,287,051,806.91</b>	<b>3,023,794,331.38</b>
Cash paid for purchases of goods and services	3,637,472,248.72	2,544,578,805.62
Cash paid to and on behalf of employees	287,350,968.19	127,891,231.51
Tax paid	199,358,677.44	92,979,972.80
Cash paid for other operating activities	997,237,662.64	149,239,822.09
<b>Sub-total of cash outflows</b>	<b>5,121,419,556.99</b>	<b>2,914,689,832.02</b>
Net cash flows from operating activities	165,632,249.92	109,104,499.36
<b>2. Cash flows from investing activities:</b>		
Cash received from investment returns	-	-
Including: Cash received from acquisition of subsidiaries	-	-
Cash received from investment revenues	-	-
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	738,918.86	161,017.09
Other cash received from investing activities	-	-
<b>Sub-total of cash inflows</b>	<b>738,918.86</b>	<b>161,017.09</b>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	22,516,951.07	5,110,682.00
Cash paid for acquisition of investments	-	-
Including: Net cash paid for acquisition of subsidiaries	-	-
Cash paid for other investing activities	-	-
<b>Sub-total of cash outflows</b>	<b>22,516,951.07</b>	<b>5,110,682.00</b>
<b>Net cash flows from investing activities</b>	<b>(21,778,032.21)</b>	<b>(4,949,664.91)</b>

**A****STATEMENT OF CASH FLOWS – Continued**

From January to June 2006

Currency: RMB

Items	Group	Company
<b>3. Cash flows from financing activities:</b>		
Cash contribution from investment	-	-
Including: cash contribution from minority shareholders by subsidiaries	-	-
Cash received from borrowings	<b>503,797,318.84</b>	<b>275,311,095.84</b>
Cash received from other financing activities	<b>209,223,922.72</b>	<b>41,640,287.70</b>
<b>Sub-total of cash inflows</b>	<b>713,021,241.56</b>	<b>316,951,383.54</b>
Cash paid for repayment of borrowings	<b>800,680,807.51</b>	<b>375,343,423.18</b>
Cash paid for distribution of dividends, profit or interest expenses	<b>49,232,098.00</b>	<b>31,472,967.65</b>
Including: dividends paid to minority by subsidiaries	-	-
Cash received from reduction in registered capital	-	-
Including: cash paid to minority by subsidiaries for reduction of capital according to laws	-	-
Cash paid for other financing activities	-	-
<b>Sub-total of cash outflows</b>	<b>849,912,905.51</b>	<b>406,816,390.83</b>
<b>Net cash flows from financing activities</b>	<b>(136,891,663.95)</b>	<b>(89,865,007.29)</b>
<b>4. Effect of foreign exchange rate changes on cash</b>	-	-
<b>5. Net increase in cash and cash equivalents</b>	<b>6,962,553.76</b>	<b>14,289,827.16</b>

**STATEMENT OF CASH FLOWS – Continued**

From January to June 2006

Currency: RMB

Items	Group	Company
<b>1. Investing and financing activities not involving in cash receipts and payment</b>		
Liabilities convert into assets	-	-
Convertible company bonds due within one year	-	-
Financing leased fixed assets	-	-
<b>2. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	(35,741,727.54)	(33,234,386.01)
Add: Minority interests	(8,500,554.21)	-
Provision for impairment of assets	11,043,621.08	-
Depreciation of fixed assets	110,920,714.10	27,577,759.71
Amortisation of intangible assets	17,540,156.79	13,335,113.46
Amortisation of long-term deferred expenditure	686,999.30	-
Decrease in deferred expenditures	433,652.84	350,766.55
Increase of in accruals	74,897,735.47	55,076,385.87
Loss from disposal of fixed assets, intangible assets and other long-term assets	447,781.96	123,996.11
Losses on retirement of fixed assets	647,747.65	63,322.52
Financial expenses	90,233,581.49	50,311,112.00
Investment loss	521,053.00	(188,522,624.14)
Deferred tax creditor	-	-
Decrease in inventories	(122,170,359.15)	(503,928,646.54)
Decrease in operating receivables	108,804,973.58	406,481,049.80
Increase in operating payables	(84,133,126.43)	281,470,650.03
Spread other related party transactions	-	-
<b>Net cash flows from operating activities</b>	<b>165,632,249.93</b>	<b>109,104,499.36</b>
<b>3. Net increase in cash and cash equivalents</b>		
Cash at the end of the period	191,246,581.29	79,485,085.35
Less: Cash at the beginning of the period	184,284,027.53	65,195,258.19
Add: Cash equivalents at the end of the period	-	-
Less: Cash equivalents at the beginning of the period	-	-
<b>Net increase in cash and cash equivalents</b>	<b>6,962,553.76</b>	<b>14,289,827.16</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

### I. GENERAL

Guangdong Kelon Electrical Holdings Company Limited (hereinafter referred to as the "Company") is a joint stock limited company incorporated in the PRC on 16 December 1992. The Company's 459,589,808 overseas listed public shares (the "H Shares") were listed on The Stock Exchange of Hong Kong Limited on 23 July 1996. In 1998, the Company obtained approval to issue 110,000,000 domestic shares (the "A Shares"), which were listed on the Shenzhen Stock Exchange on 13 July 1999.

In October 2001 and March 2002, the former single largest shareholder of the Company, Guangdong Kelon (Rongsheng) Group Company Limited (hereinafter referred to as "Rongsheng Group", previously held 34.06% interest in the Company) entered into a share transfer agreement and a supplementary agreement with Shunde Greencool Enterprise Development Company Limited (it was renamed as "Guangdong Greencool Enterprises Development Company Limited in 2004, hereinafter referred to as "Guangdong Greencool"), in connection with the transfer of 20.64% of the total share capital of the Company to Guangdong Greencool. In April 2002, Rongsheng Group transferred its shareholding of 6.92%, 0.71% and 5.79% of the total share capital of the Company to Shunde Economic Consultancy Company, Shunde Dong Heng Development Company Limited and Shunde Xin Hong Enterprise Company Limited, respectively. After the above-mentioned share transfers, Rongsheng Group, the former single largest shareholder of the Company, no longer held any shares of the Company.

On 14 October 2004, Guangdong Greencool, as transferee, had been transferred 5.79% of the total share capital of the Company held by Shunde Xin Hong Enterprise Company. Upon completion of the share transfer, the percentage of total share capital of the Company held by Guangdong Greencool increased to 26.43%.

The Group is principally engaged in the manufacture and sale of refrigerators, air-conditioners and household electricity appliances.

### II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Accounting regulations and standards

The accounting policies adopted by the Company are in accordance with "Accounting Standards for Business Enterprises" and "Accounting System for Business Enterprises" and the supplementary regulations.

#### 2. Accounting year

The Company adopts the Gregorian calendar year as its accounting year, i.e. from 1 January to 31 December of each year.

#### 3. Basis of accounting and principle of measurement

The Company maintains its accounting records on accrual basis. Assets are recorded at historical cost. However, certain fixed assets were restated at assessed value from 1999.

#### 4. Reporting currency

The reporting currency of the Company is Renminbi ("RMB").

#### 5. Foreign exchange translation

Transactions in foreign currencies are translated into RMB at the applicable rates of exchange ("market exchange rate") prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the market exchange rate prevailing at the balance sheet date. Gains and losses arising on exchange are included in financial expenses, except from those arising from the special foreign borrowings for the acquisition and construction of fixed assets which were included in the cost of assets before they are ready for use, and those arising in the pre-operating period which were recorded as long term deferred expenditures for amortisation.

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

### II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued

#### 6. Basis of consolidation

##### (1) Consolidation scope

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the period ended 31 December each year. A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the equity, or where the Company controls the operation of the investee enterprise via other methods.

However, for those subsidiaries whose total assets, operating revenue and net profit are of an amount not material in accordance with the regulatory document "Answer to the Question about Consolidation Scope" (CKZ (96) No. 2) issued by the Ministry of Finance, their results are not included in consolidation. The Company accounts for the unconsolidated subsidiaries by using equity methods.

##### (2) Consolidation method

The principal accounting policies adopted by the subsidiaries are not completely consistent with the Company's policy. In preparing the consolidated financial statements, the Company made necessary adjustments to the financial statements of these subsidiaries according to the accounting policies.

The operating results of subsidiaries during the year are included in the consolidated income statement and the consolidated cash flow statement from the effective date of acquisition as appropriate.

All significant intercompany transactions and balances are eliminated on consolidation.

#### 7. Method for translation of foreign currency financial statements

The foreign currency financial statements of the Group's overseas subsidiaries are translated into RMB for consolidation by adopting the following methods:

Assets and liabilities are translated into RMB at the market exchange rate prevailing at the balance sheet date. Shareholders' equity, except for retained earnings, are translated into RMB at the market rates at transaction dates. All items in the statements of income and profit appropriation are translated at the applicable average exchange rates for the accounting period of the consolidated financial statements. Retained earnings at the beginning of the year represent the translated closing balance brought forward from the previous year; retained earnings at year end are arrived at after the translation of all other items in the income statement. The difference between translated assets and translated liabilities plus equity is shown separately in the balance sheet as exchange differences arising from the translation of the foreign currency in the financial statements under the item "Unappropriated profit".

The translation of cash flow has been made at the average foreign exchange rate. The effect of foreign exchange rate changes on cash will be treated as adjustments and is shown separately as "Effect of foreign exchange rate changes on cash" in the cash flow statement.

#### 8. Cash equivalents

Cash equivalents are short-term (usually less than three months), highly liquid investments that are readily convertible to known amounts of cash and which are held by enterprises and subject to insignificant risk on changes in value.



**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****9. Provision for bad debts***(1) Criteria for recognition of bad debts*

- a. The irrecoverable amount for a debtor who becomes bankrupt after pursuing the statutory recovery procedures;
- b. The irrecoverable amount for a debtor who dies and has no offsetting estate and obligatory undertakers;
- c. The amount for a debtor who does not comply with repayment obligation after the debt becomes due, with sufficient evidence showing that such amount is irrecoverable or unlikely to be recovered.

*(2) Accounting for provision for bad debts*

Provision for bad debts is accounted for using the allowance method and provided based on with the recoverability of accounts receivable as at year end.

Provision for bad debts against the account receivables for domestic customers is accounted for with reference to the aging analysis and the provision percentage is as follows:

<u>Age</u>	<u>Provision percentage</u>
Within 3 months	-
Over 3 months and within 6 months	10%
Over 6 months and within one year	50%
Over one year	100%

Bad debt provision is made against trade receivable from overseas customers by individually analysing large-amount receivables and then bad debts are calculated by using the aging analysis of accounts.

The provision for bad debts of other debtors is provided for individually based on the nature of current accounts and the past experiences of the Company, the actual financial position and cash flows condition of the debtor, and other information.

**10. Inventories**

Inventories are stated at actual cost of acquisition. Inventories include raw materials, work-in-progress and finished goods.

Standard cost is applied for the record of raw materials movement. At the end of each period, amortisation for cost variances is made to the standard cost to arrive at the actual cost.

Actual cost is applied for the record of movement of work-in-progress and finished goods, and is recognised on a weighted average basis.

Inventories are kept on a periodic inventory system. Inventories at year-end are measured at the lower of cost and net realisable value. Provision for impairment loss of inventories is made when the cost of inventories is higher than the net realisable value because of damage, partially or totally obsolete or the sale price falling below the cost, etc. Provision for impairment loss of inventories is made on an individual basis for the difference between the cost and the net realisable value.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****11. Long-term investments***(1) Accounting for long-term equity investments*

Long-term equity investments is stated at acquisition cost.

The cost method is used to account for long-term equity investments when the Company does not have control, joint control or significant influence over the investee enterprise. The equity method is used to account for long-term equity investments when the Company has control, joint control or has significant influence over the investee enterprise.

When the cost method is adopted, the amount of investment income recognised by the investing enterprise is limited to the amount distributed out of accumulated net profits after the investment made by the investing enterprise. The amount of profits or cash dividends declared by the investee enterprise in excess of the above threshold are regarded as return on investment and deducted from the carrying amount of investments accordingly.

When the equity method is adopted, the investment gain or loss is a portion of the investee's net income for the year by reference to the investor's interest in investee enterprise. Generally speaking, the Company recognises net losses incurred by an investee enterprise to the extent which the carrying amount of the investment is reduced to zero, except where the Company has committed financial support to the investee enterprise. If the investee enterprise realises net profit in subsequent periods, the carrying amount of the investment will be increased by the excess of the attributable share of profit over the share of unrecognised losses.

When a long-term equity investment is accounted for using the equity method, the difference between the initial investment cost of the Company and the Company's share of equity of the investee enterprise is shown as "long-term equity investment difference". The excess of the initial investments cost over the share of equity of the investee enterprise should be debited to the "long-term equity investment – equity investment difference" and amortised evenly over a specified investment period. Where the investment period is specified in the contract, it should be amortised over that investment period. If the investment period is not specified in the contract, the excess of the investment cost over the share of equity of the investee enterprise should generally be amortised over a period not more than 10 years. The shortfall of the initial investment cost over the share of equity of the investee enterprise, which has occurred prior to the issuance of document Caikuai [2003] No. 10, should be credited to the "long-term equity investment – equity investment difference" and amortised evenly over a specified period. Where the investment period is specified in the contract, it should be amortised over the investment period. If the investment period is not specified in the contract, the shortfall of the investment cost over the share of equity of the investee enterprise should generally be amortised over a period not less than 10 years. The shortfall of the initial investments cost over the share of equity of the investee enterprise, which occurred after the issue of document Caikuai [2003] No. 10, should be credited to "capital reserve – provision for equity investment".

*(2) Provision for impairment of long-term investment*

At the end of each year, the Company determines whether an impairment should be recognised for a long-term investment by considering the indications that such a loss may have been incurred. Where the recoverable amount of long-term investment is lower than its book value, provision for impairment of long-term investment is recognised for the difference.

For Long-term equity investment accounted for by using the equity method, where difference between equity investment credit has been recognised previously and accounted for as capital reserve, impairment loss will first be used to offset capital reserve and shortcoming will be accounted for as current period profit and loss. Where difference between equity investment credit has been recognised during investment and amortised as an investment deduction, the impairment loss will first be used to offset the equity investment credit and the shortcoming will be accounted for as current profits and losses. Where difference between equity investment debit has been recognised during investment and amortised by stages, impairment loss will be fully accounted for the current profits and losses and at the same time eliminated the difference of equity investment. The shortcoming will be credited to the impairment provision of long-term investment.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****12. Calculation of recoverable amount**

Recoverable amount represents the higher of the net selling price of the asset and the estimated discounted future cash flow generated from the continuing use of the asset and from the disposal of such asset at the end of its useful life.

**13. Fixed assets and depreciation**

Fixed assets are tangible assets held by the Company for production, provision of services, lease or operation, with useful life exceeding one year and with a relatively higher unit cost.

Fixed assets are recorded at actual cost on acquisition. Depreciation is provided to write off the cost of each category of fixed assets over their estimated useful lives using straight-line method from the month after they are put into use. The estimated residual values, estimated useful lives and annual depreciation rates of each category of fixed assets are as follows:

Category	Estimated rate of residual value	Estimated useful life	Annual depreciation rate
Buildings and structures	0-5%	20-50	2-4.75%
Machinery and equipment	5%	10	9.50%
Furniture, fixtures and office equipment	5%	5	19%
Motor vehicles	5%	5	19%
Moulds	0%	3	33.33%

**Provision for impairment of fixed assets**

At the end of each year, the Company assesses if there is any indication that fixed assets suffered from an impairment loss and determines whether provision for impairment of fixed assets should be made accordingly. When the recoverable amount of any fixed assets is lower than its carrying amount, an impairment loss on fixed assets will be recognised for the difference.

**14. Construction in progress**

Construction in progress is stated at actual cost incurred for the construction. Cost comprises construction expenditure incurred during the construction period, capitalised borrowing costs incurred on a specific borrowing for the construction of fixed assets before it has reached the working condition for its intended use and other relevant expenses. The construction in progress is transferred to fixed assets when it has reached the working condition for its intended use. No depreciation is provided for construction in progress.

Provision for impairment on construction in progress is made when the following situation exist (1) construction project is suspended for a long period and is not expected to be resumed within three years; (2) construction project is technically and physically obsolete and its economic benefits to the Company is uncertain; (3) other evidences can prove the existence of the decline in value of construction project. An impairment loss is recognised for the shortfall of the recoverable amount of construction in progress below its carrying amount.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****15. Intangible assets**

Intangible assets are stated at actual cost. The actual cost of the intangible assets injected by the investors is determined by the value having been recognised by each party. The actual cost of acquired intangible assets is determined on the basis of the actual consideration paid. Intangible asset obtained with receivables is recognised at the book value of the receivables plus the cash compensation payable and the related tax expenses which are payable.

Intangible assets shall be amortised evenly by instalments within the estimated tenure of use from the month of acquisition and shall be stated in the profit and loss. Where the estimated tenure of use exceeds the benefited tenure provided in the relevant contract or the valid tenure required by law, the term of amortisation shall not be longer than the benefited tenure or the valid tenure whichever is the shorter. Where there is no benefited tenure in the contract nor valid tenure required by law, the tenure of amortisation shall be 10 years.

**Provision for impairment of intangible assets**

At the end of each year, the Company determines whether an impairment loss should be recognised for intangible assets by considering the indication that such a loss may have occurred. Where the recoverable amount of any intangible asset is lower than its carrying amount, an impairment loss on intangible assets is recognised for the difference.

**16. Long-term deferred expenditures**

Unless related to the acquisition or construction of fixed assets, all expenditure incurred during the pre-operating period is recognised as an expense in the month in which the enterprise commences operation.

Long-term deferred expenditures are recorded at cost when incurred, and amortised evenly over the expected benefited period.

**17. Provision**

Provision is recognised when obligations related to contingent items satisfy the following conditions: (1) such obligation is a present obligation of the enterprise, (2) it is probable that an outflow of economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation.

To the extent the amount payable for any provision will be compensated partly or wholly by a third party, such compensation will be recognised only when it is reasonably certain that the amount will be received.

**18. Borrowing costs**

Borrowing costs represent costs incurred in connection with the borrowing of funds, including interest charges, amortisation of discount and premium, auxiliary costs, and exchange differences. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use. Other borrowing costs are recorded as financial expenses when incurred.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****19. Basis of revenue recognition**

*Sales revenue:* Sales revenue is recognised when the Company and the subsidiaries have transferred the significant risk and rewards of ownership to the buyer; and the Company neither retains the continuous managing rights usually related to the ownership nor control over the goods sold; the economic benefits associated with the transactions will flow into the Company; and relevant revenue and cost can be reliably measured.

*Service income:* Service income is recognised when the amount of revenue can be measured reliably; the stage of completion can be measured reliably; the economic benefits associated with the transaction will flow to the enterprise and the costs incurred in respect of the transaction can be measured reliably.

*Interest income:* Interest income is recognised on a time proportion basis at the applicable interest rates.

**20. Leases**

Finance lease is the lease having actually transferred all the risks and rewards related to the ownership of assets. The leases other than the finance lease are operating leases.

Rental payment for operating leases are recognised as an expense at the straight line method over the lease term.

Rental income from operating leases are recognised as income at the straight line method over the relevant term.

**21. Income tax**

Income tax is provided under tax payable method.

Income tax provision is calculated based on the accounting results for the year after adjustments in accordance with relevant tax laws.

**III. RECTIFICATION OF SIGNIFICANT ACCOUNTING ERRORS**

Certain accounting records confirmed by the former management of the Company are not in line with the actual operational activities. The Company found that, in 2004, the Company inflated revenue from principal activities by RMB513,402,667 and profit from sales of scrap materials by RMB22,537,714, deflated advertising and other operating expenses by RMB24,058,136.23, and deflated loss from enterprise income tax ("EIT") by RMB17,435,805; in and prior to 2003, the Company inflated profit from sales of scrap materials by RMB21,900,316 and deflated loss from EIT by RMB5,615,218; each of the accrued other receivables and payables not recognised in 2003 and 2004 was RMB65,000,000.00. In preparing the accounting statements comparable between last year and the current year, the Company rectified the said significant accounting errors. As a result of the effect from the said accounting errors, the Company's opening balance of retained earnings for the year was inflated by an amount of RMB209,153,478.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**IV. TAXATION****1. Value-added Tax**

Output tax was calculated based on the 17% of sales revenue for products and industrial services sold in the domestic market, and was charged according to the balance after the deduction of input tax. Products sold to foreign countries are subject to the value-added tax ("VAT") rate of 0%, with 13% of the VAT included in purchased raw materials refunded.

**2. Enterprise Income Tax**

The Company was established in Foshan, Guangdong Province and located in Shunde High New Technology Development Zone. The Company was classified as a high new technology enterprise by Department of Science and Technology of Guangdong Province in June 2003. As recognised by the managing tax authority – National Tax Bureau of Shunde, the Company is subject to EIT at a rate of 15%. Together with the local EIT rate of 3%, the aggregate effective EIT rate is 18% in 2006.

The Company's sino-foreign joint venture subsidiaries established in coastal open economic zones in Foshan, Yingkou, Hangzhou are subject to an effective EIT rate of 27%.

The Company's sino-foreign joint venture subsidiaries established in special economic zones in Shenzhen and Zhuhai are subject to an effective EIT rate of 15%.

The Company's subsidiaries classified as high new technology enterprises are subject to an effective EIT rate of 15%.

The Company's sino-foreign joint venture subsidiaries established in the economy and technology development zones in cities such as Yangzhou, Nanchang, Wuhu, Kaifeng and Xi'an are subject to an effective EIT rate of 15-18%.

The effective EIT rate applicable for the sino-foreign subsidiaries established in Nanchang and Chengdu is 33% and 24%, respectively.

The Company's other subsidiaries established in Mainland China are subject to an EIT rate of 33%.

Profits tax for the Company's subsidiaries in Hong Kong has been provided at a rate of 17.5% on estimated assessable profit which was earned in or derived from Hong Kong.

**3. Other tax**

Business tax at a rate of 5% on the assessable income.

Urban construction tax at a rate of 1%-7% on the assessable circular tax.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**V. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR**

As at 30 June 2006, particulars of the subsidiaries of the Company are as follows:

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company			Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly	Total			
Pearl River Electric Refrigerator Company Limited (*Pearl River Refrigerator*)	Hong Kong	HK\$400,000	-	100%	100%	Trading in raw materials and parts for refrigerators	Limited liability company	Yes
Kelon Electric Appliances Co., Ltd. (*Kelon Electric Appliances*)	Hong Kong	HK\$10,000	-	100%	100%	Property investment	Limited liability company	Yes
Shunde Rongsheng Plastic Products Co., Ltd. (*Rongsheng Plastic Products*)	Foshan	US\$15,800,000	45%	25%	70%	Manufacture of plastic parts enterprise	Sino-foreign joint venture	Yes
Kelon Development Company Limited (*Kelon Development*)	Hong Kong	HK\$5,000,000	100%	-	100%	Investment holdings	Limited liability company	Yes
Guangdong Kelon Mould Co., Ltd. (*Kelon Mould*)	Foshan	US\$15,000,000	40%	30%	70%	Manufacture of moulds	Sino-foreign joint venture enterprise	Yes
Guangdong Kelon Refrigerator Ltd. (*Kelon Refrigerator*)	Foshan	US\$26,800,000	70%	30%	100%	Manufacture and sale of refrigerators	Sino-foreign joint venture enterprise	Yes
Guangdong Kelon Air-Conditioner Co., Ltd. (*Kelon Air-Conditioner*)	Foshan	US\$36,150,000	60%	-	60%	Manufacture and sales of air-conditioners	Sino-foreign joint venture enterprise	Yes
Chengdu Kelon Refrigerator Co., Ltd. (*Chengdu Kelon*)	Chengdu	RMB200,000,000	45%	25%	70%	Manufacture and sale of refrigerators	Sino-foreign joint venture enterprise	Yes
Yingkou Kelon Refrigerator Co., Ltd. (*Yingkou Kelon*)	Yingkou	RMB200,000,000	42%	36.79%	78.79%	Manufacture and sale of refrigerators	Sino-foreign joint venture enterprise	Yes
Wetherell Development Limited (*Wetherell Development*)	British Virgin Islands	US\$1	-	100%	100%	Advertising agency	Foreign company	Yes
Kelon International Incorporation (*Kelon International*)	British Virgin Islands	US\$50,000	-	100%	100%	Investment holding and sales of household electrical appliance	Foreign company	Yes
Guangdong Kelon Fittings Co., Ltd. (*Kelon Fittings*)	Foshan	US\$5,620,000	70%	30%	100%	Manufacture and sale of components for refrigerators and air-conditioners	Sino-foreign joint venture enterprise	Yes
Shunde Kelon Jiake Electronic Company Limited (*Kelon Jiake*)	Foshan	RMB60,000,000	70%	30%	100%	IT and communication technology, and micro-electronics technology development	Limited liability company	Yes

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**V. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR – Continued**

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company			Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly	Total			
Guangdong Kelon Freezer Co., Ltd. ("Kelon Freezer")	Foshan	RMB237,000,000	44%	56%	100%	Manufacture and sale of freezers	Sino-foreign joint venture enterprise	Yes
Shunde Kelon Household Electrical Appliance Company Limited ("Kelon Household Electrical Appliance")	Foshan	RMB10,000,000	25%	75%	100%	Manufacture and sales of electrical household appliances	Limited liability company	Yes
Shunde Wangao Import & Export Co., Ltd. ("Wangao Company")	Foshan	RMB3,000,000	20%	80%	100%	Import and export business	Limited liability company	Yes
Shunde Qifei Service Co., Ltd. (Qifei Service")	Foshan	RMB1,000,000	-	100%	100%	Corporate management consultancy, catering services, household decoration designs	Limited liability company	Yes
Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon")	Nanchang	US\$29,800,000	60%	40%	100%	Manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small electrical appliances	Sino-foreign joint venture enterprise	Yes
Shunde Huao Electronics Co., Ltd. ("Huao Electronics")	Foshan	RMB10,000,000	-	70%	70%	Research and development, manufacture and sale of electronic products	Limited liability company	Yes
Jilin Kelon Electric Co., Ltd. ("Jilin Kelon")	Jilin	RMB200,000,000	90%	10%	100%	Development, manufacture and sale of refrigerator, airconditioner, freezer and household electrical appliances	Limited liability company	Yes
Kelon (USA) Inc. ("Kelon (USA)")	USA	US\$100	-	100%	100%	Business liaison	Foreign company	Yes



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**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**V. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR – Continued**

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company			Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly	Total			
Hangzhou Kelon Electrical Company Limited ("Hangzhou Kelon")	Hangzhou	US\$24,100,000	40%	30%	70%	Research and development of the technology for environmental friendly refrigerators, production of high efficiency, energy saving and environmental friendly refrigerators, information consultation, warehousing, and sale of the products made by the Company	Sino-foreign joint venture enterprise	Yes
Yangzhou Kelon Electrical Company Limited ("Yangzhou Kelon")	Yangzhou	US\$29,800,000	30%	70%	100%	Production of energy saving and environmental friendly refrigerators and other energy saving cooling appliances, and sale of products made by the Company	Sino-foreign joint venture enterprise	Yes
Zhuhai Kelon Industrial Development Co., Ltd ("Zhuhai Kelon")	Zhuhai	US\$29,980,000	75%	25%	100%	Research and development of electric refrigerator, air-conditioner, freezer, small household electrical appliances and related accessories	Sino-foreign joint venture enterprise	Yes
Shangqiu Kelon Electrical Company Limited ("Shangqiu Kelon")	Shangqiu	RMB150,000,000	-	100%	100%	Research, development production and sale of household and commercial air-conditioners, refrigerators, freezers, small household electrical appliances and parts and accessories, and provision of relevant information and technical consultancy services	Limited liability company	Yes
Jiangxi Kelon Combine Electrical Appliances Co., Ltd. ("Jiangxi Combine") <sup>1</sup>	Nanchang	RMB20,000,000	-	55%	55%	Research and development, manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small household electrical appliances	Sino-foreign joint venture enterprise	No

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**V. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR – Continued**

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company			Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly	Total			
Xi'an Kelon Refrigeration Co., Ltd. ("Xi'an Kelon")	Xi'an	RMB202,000,000	60%	-	60%	Development, manufacture, design, production of chlorofluorocarbon-free refrigerator (freezer) cooling compressor products; sale of products and conducting after-sale services, research and manufacture, development and production of new cooling compressor products subject to the market demands	Sino-foreign joint enterprise	Yes
Kaifeng Kelon Air-Conditioner Co., Ltd. ("Kaifeng Kelon")	Kaifeng	RMB60,000,000	-	70%	70%	Production, sale, research and development of air-conditioner products	Limited liability company	Yes
Wuhu Ecan Motors Company Limited ("Wuhu Motors")	Wuhu	US\$7,210,000	40%	40%	80%	Production and sale of motor starter and permanent-magnet current brushless motor, micro alternating current machine and electrical equipment Domestic commerce, Supply and sale of supplies (excluding specific marketing, specific control and specific sale products)	Sino-foreign joint venture enterprise	Yes
Shenzhen Kelon Purchase Company Limited ("Shenzhen Kelon")	Shenzhen	RMB200,000,000	95%	5%	100%	Import and export, provision of warehouse and storage, information consultation and technology services (excluding those items limited)	Limited liability company	Yes
Guangdong Kelon Weili Electrical Appliances Company Limited ("Weili Electrical Appliances")	Zhongshan	RMB200,000,000	55%	25%	80%	Production of intelligent washing machine, air-conditioner and after-sale services and technology consultation for other products, 70% products for domestic sale	Sino-foreign joint venture enterprise	Yes

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**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**V. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR – Continued**

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company			Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly	Total			
Kelon (Japan) Limited ("Kelon Japan")*1	Japan	JPY1,100,000,000	-	100%	100%	Technical research and trading in electrical household appliances	Foreign company	No
Kelon Europe Industrial Design Limited ("Kelon Europe")*2	United Kingdom	-	-	100%	100%	Business liaison	Foreign company	No
Sichuan Rongsheng Kelon Refrigerator Sales Company Limited ("Sichuan Kelon Sales")	Chengdu	RMB2,000,000	76%	-	76%	Sale of refrigerator	Limited liability company	Yes
Beijing Hengsheng Xin Chuang Technology Company ("Beijing Hengsheng")	Beijing	RMB30,000,000	80%	-	80%	Research, development of industrial and commercial intelligent system	Limited liability company	Yes
Beijing Kelon Tianti IT Network Limited ("Beijing Tianti")	Beijing	RMB5,000,000	-	78%	78%	Operation items are under free-option, excluding those prohibited by laws and regulations	Limited liability company	Yes
Beijing Kelon Shikong Information Technology Company Limited ("Beijing Shikong")	Beijing	RMB5,000,000	-	78%	78%	Operation items are under free-option, excluding those prohibited by laws and regulations	Limited liability company	Yes

\*1 The Company's investments made in Kelon Japan and Jiangxi Combine were RMB31.7167 million and RMB11.00 million, respectively.

\*2 Kelon Europe, Kelon Japan and Jiangxi Combine were not included into consolidation as their asset scales were relatively small.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES)****1. Bank Balances and Cash**

Items		At the end of the period			At the beginning of the period		
		Currencies	Exchange rate	RMB equivalent	Currencies	Exchange rate	RMB equivalent
Cash	RMB	375,485.55	1	375,485.55	442,216.60	1.00	442,216.60
	HKD	89,609.96	1.029	92,214.02	368,711.31	1.04	383,570.38
	USD	-	7.992	-	0.75	8.07	6.05
	Others			4,339.27			234.88
	Sub-total			472,038.84			826,027.91
Bank deposit	RMB	136,058,853.00	1	136,058,853.00	143,793,089.85	1.00	143,793,089.85
	HKD	5,901,198.30	1.029	6,072,687.12	5,115,163.35	1.04	5,321,304.43
	USD	6,079,893.70	7.992	48,592,942.39	3,392,670.36	8.07	27,379,528.37
	JPY	96,202.00	0.069	6,719.81	896,194.00	0.07	61,582.87
	EUR	3,455.98	10.21	35,308.02	720,533.43	9.58	6,902,494.10
	Others			8,032.11			-
	Sub-total			190,774,542.45			183,457,999.62
Other monetary assets	RMB	201,747,898.26	1	201,747,898.26	99,976,166.40	1.00	99,976,166.40
	HKD	-	1.029	-	148.24	1.04	154.22
	USD	330,296.69	7.992	2,639,863.27	351,484.93	8.07	2,836,553.72
	Others			-			641.06
	Sub-total			204,387,761.53			102,813,515.40
	Total			395,634,342.82			287,097,542.93

\* Other cash at bank and on hand represents pledged deposits that are used to issue bank acceptance notes, commercial acceptance notes, letter of credits and bank borrowings.

**2. Notes Receivable**

Type	At the end of the period	At the beginning of the period
Bank acceptance notes:		
- discounted	54,265,000.00	3,185,560.00
- pledged	3,970,000.52	21,900,000.00
- non-pledged	482,260,847.66	99,233,385.54
Commercial acceptance notes:		
- discounted	1,290,000.00	-
- pledged	-	-
- non-pledged	-	16,499,999.90
Total	541,785,848.18	140,818,945.44

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued****3. Trade Receivables**

The combined figures of trade receivables are as follows:

Age	At the end of the period			At the beginning of the period		
	Amount	Percentage of total amount	Provision for bad debt	Amount	Percentage of total amount	Provision for bad debt
Within three months	337,893,112.08	52.34%	547,102.36	368,794,662.95	48.39%	145,430.30
Three months to six months	35,280,330.62	5.47%	3,279,497.03	47,337,689.83	6.21%	4,284,700.26
Six months to one year	13,133,576.21	2.03%	7,998,447.38	112,812,961.94	14.80%	58,399,997.16
Sub-total	386,307,018.91	59.84%	11,825,046.77	528,945,314.72	69.40%	62,830,127.72
One to two years	58,672,996.99	9.09%	58,672,996.99	34,755,426.24	4.56%	34,755,426.24
Two to three years	67,371,371.76	10.44%	67,371,371.76	51,617,880.60	6.77%	51,617,880.60
Over three years	133,195,631.98	20.63%	133,195,631.98	146,842,480.75	19.27%	146,842,480.75
Total	645,547,019.64	100.00%	271,065,047.50	762,161,102.31	100.00%	296,045,915.31

\* The total figures of the five largest trade receivables were as follows:

	At the end of the period		At the beginning of the period	
	Amount	Percentage of total amount	Amount	Percentage of total amount
Total of the five largest	130,744,108.97	20.25%	277,839,652.48	36.45%

\*\* There was no amount due from shareholders whose shareholding is no less than 5% at the end of the period.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued****3. Trade Receivables – Continued**

\*\*\* There were a series of related party transactions and abnormal cash flows between Greencool Companies and the Company during the period between October 2001 and July 2005, and moreover, during the period, the Greencool Companies also had a series of abnormal cash flows with the Company through the specified third-party companies such as Tianjin Lixin Trading Development Company Limited (hereinafter referred to as the "Specified Third-Party Companies"). Set out below is the breakdown of the special bad debts provision made to the trade receivable from the Greencool Companies and the aforesaid Specified Third-Party Companies:

Name of related companies	At the end of the period	
	Amount	Provision for bad debts
Hefei Weixi Electrical Appliance Co., Ltd ("Hefei Weixi")	15,610,189.24	7,805,094.62
Wuhan Changrong Electrical Appliance Company Limited ("Wuhan Changrong")	29,843,694.04	14,921,847.02
Zhejiang Yuhuan Compressor Fty. ("Zhejiang Yuhuan")	2,398,099.55	2,398,099.55
Total	<u>47,851,982.83</u>	<u>25,125,041.19</u>

The Company's figures of trade receivables are as follows:

Age	At the end of the period			At the beginning of the period		
	Amount	Percentage of total amount	Provision for bad debt	Amount	Percentage of total amount	Provision for bad debt
Within three months	159,463,192.46	40.08%	-	235,538,671.08	42.52%	-
Three months to six months	1,916,060.26	0.48%	-	27,774,533.00	5.01%	1,789,594.24
Six months to one year	4,028,262.57	1.02%	2,368,751.23	100,365,975.56	18.12%	50,182,987.78
Sub-total	<u>165,407,515.29</u>	<u>41.58%</u>	<u>2,368,751.23</u>	<u>363,679,179.64</u>	<u>65.65%</u>	<u>51,972,582.02</u>
One to two years	43,609,022.72	10.96%	43,609,022.72	20,857,885.37	3.77%	20,857,885.37
Two to three years	58,580,779.06	14.72%	58,580,779.06	31,463,873.43	5.68%	31,463,873.43
Over three years	130,279,448.25	32.74%	130,279,448.25	137,931,748.90	24.90%	137,931,748.90
Total	<u>397,876,765.32</u>	<u>100.00%</u>	<u>234,838,001.26</u>	<u>553,932,687.34</u>	<u>100.00%</u>	<u>242,226,089.72</u>

\* At the end of the period, there was no amount due from shareholders holding 5% or more of shares.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued****4. Other Receivables**

The aging analysis of other receivables is as follows:

Age	At the end of the period			At the beginning of the period		
	Amount	Percentage of total amount	Provision for bad debt	Amount	Percentage of total amount	Provision for bad debt
Within one year	544,292,309.74	52.24%	175,178,717.74	919,340,719.45	86.61%	434,909,165.10
One to two years	375,400,871.83	36.03%	269,719,214.77	17,666,674.69	1.66%	13,042,207.69
Two to three years	7,861,690.15	0.75%	7,575,992.15	68,839,542.37	6.49%	3,451,576.46
Over three years	114,305,560.64	10.98%	11,947,292.63	55,636,665.39	5.24%	15,469,678.86
Total	1,041,860,432.36	100.00%	464,421,217.29	1,061,483,601.90	100.00%	466,872,628.11

The total figures of the five largest other receivables were as follows:

	At the end of the period		At the beginning of the period	
	Amount	Percentage of total amount	Amount	Percentage of total amount
Total of the five largest	535,387,296.08	51.39%	534,887,296.08	50.39%

Among which: Greencool companies and Specified Third Party Companies parties:

Name of related companies	At the end of the period	
	Amount	Provision for bad debts
Guangdong Greencool	15,925,922.93	7,962,961.47
Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool")	12,289,357.71	11,313,119.16
Jiangxi Kesheng Trading Company Limited ("Jiangxi Kesheng")	25,572,776.72	21,390,370.86
Jinan San'ai 'fu Chemical Company Limited ("San'ai'fu")	121,496,535.45	64,813,858.20
Tianjin Xiangrun Trading Development Company Limited ("Tianjin Xiangrun")	96,905,328.00	48,706,110.00
Tianjin Lixin Trading Development Company Limited ("Tianjin Lixin")	89,600,300.00	44,800,150.00
Jiangxi Keda Plastic Technology Co., Ltd ("Jiangxi Keda")	13,001,018.63	6,500,100.00
Zhuhai Longjia Refrigerating Plant Co., Ltd. ("Zhuhai Longjia")	28,600,000.00	14,300,000.00
Zhuhai Defa Air-Conditioner Fittings Company Limited ("Zhuhai Defa")	21,400,000.00	10,700,000.00
Wuhan Changrong	20,000,000.00	10,000,000.00
Zhejiang Yuhuan	7,105,456.00	7,105,456.00
Beijing Deheng Solicitors ("Beijing Deheng")	4,000,000.00	3,000,000.00
Finance Bureau of Yangzhou Economic Development Zone	40,000,000.00	40,000,000.00
Shangqiu Bing Xiong Freezing Facilities Company Limited	58,030,000.00	58,030,000.00
Total	553,926,695.44	348,622,125.69

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued****4. Other Receivables – Continued**

Other related parties:

<u>Name of related companies</u>	<u>At the end of the period</u>	
	<u>Amount</u>	<u>Provision for bad debts</u>
Shunde Yuelong Consultancy	4,685,832.74	4,685,832.74

Among which, provision for bad debts related to Foshen Shunde Jiegao Investments Co., Ltd. is set out as follow:

<u>Company name</u>	<u>At the end of the period</u>	
	<u>Amount</u>	<u>Provision for bad debts</u>
Foshen Shunde Jiegao Investments Co., Ltd	168,855,132.63	84,427,566.32

The amount due from Foshen Shunde Jiegao Investments Co., Ltd was the payment for the transfer of the land of 254,600 square meters in Shunde transferred by the Company in June 2005. The Company has not received the relevant payment as at the date of this report.

The Company's figures of other receivables are as follows:

<u>Age</u>	<u>At the end of the period</u>			<u>At the beginning of the period</u>		
	<u>Amount</u>	<u>Percentage of the total</u>	<u>Provision for bad debt</u>	<u>Amount</u>	<u>Percentage of the total</u>	<u>Provision for bad debt</u>
Within one year	2,212,400,919.99	98.52%	75,597,153.03	2,439,412,490.27	99.16%	94,309,996.43
One to two years	22,702,720.67	1.01%	22,702,720.67	11,941,396.68	0.49%	10,942,351.69
Two to three years	2,608,842.57	0.12%	2,608,842.57	1,722,443.46	0.07%	1,722,443.46
Over three years	7,854,059.67	0.35%	7,854,059.67	6,862,772.84	0.28%	6,862,772.84
Total	<u>2,245,566,542.90</u>	<u>100.00%</u>	<u>108,762,775.94</u>	<u>2,459,939,103.25</u>	<u>100.00%</u>	<u>113,837,564.42</u>

**5. Prepayments**

<u>Age</u>	<u>At the end of the period</u>		<u>At the beginning of the period</u>	
	<u>Amount</u>	<u>Percentage of total amount</u>	<u>Amount</u>	<u>Percentage of total amount</u>
Within one year	83,685,544.81	92.91%	112,833,977.75	85.17%
One to two years	4,020,677.13	4.46%	13,316,924.00	10.05%
Two to three years	1,943,369.97	2.16%	5,452,196.97	4.12%
Over three years	417,317.39	0.47%	878,288.83	0.66%
Total	<u>90,066,909.30</u>	<u>100.00%</u>	<u>132,481,387.55</u>	<u>100.00%</u>



**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) –**

Continued

**5. Prepayments – Continued**

\* Total amount of top five debtors is as follows:

	At the end of the period		At the beginning of the period	
	Amount	Percentage of total amount	Amount	Percentage of total amount
Total of top five	33,857,186.92	37.59%	81,284,072.54	61.36%

\*\* During the period, there is no prepayment due from shareholders holding of 5% or more of shares (inclusive).

**6. Subsidy Receivables**

Item	At the end of the period	At the beginning of the period
Export tax receivables	23,287,233.59	39,221,876.72
Others	191,697.24	-
	<u>23,478,930.83</u>	<u>39,221,876.72</u>

**7. Inventories and Provision of Inventories**

Category	At the end of the period		At the beginning of the period	
	Carrying value	Provision	Carrying value	Provision
Raw materials	560,857,653.17	134,441,835.26	802,960,662.66	193,361,294.09
Work-in-progress	81,751,098.41	8,526,235.49	96,280,958.85	13,871,951.17
Storage goods	937,277,582.41	65,982,004.58	758,544,585.89	201,787,062.63
Total	<u>1,579,886,333.99</u>	<u>208,950,075.33</u>	<u>1,657,786,207.40</u>	<u>409,020,307.89</u>

Breakdown of provision for inventory:

Category	Balance at the beginning of the period	Increase during the period	Decrease during the period		Total	Balance at the end of the period
			Reversal due to recover of realised value	Other reduction during the period		
Raw materials	193,361,294.09	3,019,247.69	-	(61,938,706.52)	(61,938,706.52)	134,441,835.26
Work-in-progress	13,871,951.17	39,569.49	-	(5,385,285.17)	(5,385,285.17)	8,526,235.49
Storage goods	201,787,062.63	3,103,834.18	-	(138,908,892.23)	(138,908,892.23)	65,982,004.58
Total	<u>409,020,307.89</u>	<u>6,162,651.36</u>	<u>-</u>	<u>(206,232,883.92)</u>	<u>(206,232,883.92)</u>	<u>208,950,075.33</u>

\* The amount of inventory at the end of the period decreased by 48.91% compared with the amount at the beginning of the year, which was due to the Company reduce the irrational stock of many old products, inferior products and products fail to reach the requirement of International Environment Protection, to increase inventory turnover and reduce the inefficient occupation of funds.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued****8. Long-term Investments**

(1) Details of long-term investments are as follows:

Category	At the end of the period			At the beginning of the period		
	Carrying balance	Provision for impairment	Net book value	Carrying balance	Provision for impairment	Net book value
Investment in associates	89,936,726.71	-	89,936,726.71	92,186,163.51	-	92,186,163.51
Investment in subsidiaries*	42,373,982.29	11,000,000.00	31,373,982.29	42,716,666.40	11,000,000.00	31,716,666.40
Equity investment difference	8,269,737.55	67,219,525.00	(58,949,787.45)	6,572,677.40	67,219,525.00	(60,646,847.60)
Other equity investment	-	-	-	-	-	-
Long-term debt investment	-	-	-	-	-	-
Total	<u>140,580,446.55</u>	<u>78,219,525.00</u>	<u>62,360,921.55</u>	<u>141,475,507.31</u>	<u>78,219,525.00</u>	<u>63,255,982.31</u>

\* Kelon (Japan) and Combine, controlling subsidiaries of the Company, are not consolidated as they are too small in size.

## a. Investments in associates

Name of investee	Percentage of registered capital of investee	Original cost	At the beginning of the period	Change in equity during the period	Accumulated changes in equity	At the end of the period
Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd.	28%	280,000.00	344,367.00	34,015.00	98,382.00	378,382.00
Guangzhou Antaida Logistic Co., Ltd	20%	2,000,000.00	3,556,238.76	451,332.95	2,007,571.71	4,007,571.71
Huayi Compressor Holdings Company Limited	22.725%	118,013,641.00	88,285,557.75	(2,734,784.75)	(32,462,868.00)	85,550,773.00
Total		<u>120,293,641.00</u>	<u>92,186,163.51</u>	<u>(2,249,436.80)</u>	<u>(30,356,914.29)</u>	<u>89,936,726.71</u>

## b. Investments in subsidiaries

Name of investee	Percentage of registered capital of investee	Original cost	At the beginning of the period	Change in equity during the period	Accumulated changes in equity	At the end of the period
Japan Kelon	100%	31,716,666.40	31,716,666.40	(342,684.11)	(342,684.11)	31,373,982.29
Combine	55%	11,000,000.00	11,000,000.00	-	-	11,000,000.00
Total		<u>42,716,666.40</u>	<u>42,716,666.40</u>	<u>(342,684.11)</u>	<u>(342,684.11)</u>	<u>42,373,982.29</u>

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) –***Continued***8. Long-term Investments – Continued**

## c. Changes in provision for impairment

<u>Provision for impairment of long-term investment</u>	<u>At the beginning of the period</u>	<u>Increase during the period</u>	<u>Reversal during the period</u>	<u>At the end of the period</u>
Kelon Air-Conditioner	59,381,641.00	-	-	59,381,641.00
Jiangxi Combine	11,000,000.00	-	-	11,000,000.00
Wangao Company	2,629,693.00	-	-	2,629,693.00
Huaao Electronics	5,208,191.00	-	-	5,208,191.00
Total	<u>78,219,525.00</u>	<u>-</u>	<u>-</u>	<u>78,219,525.00</u>

## d. Equity investment difference

<u>Name of investee</u>	<u>Amortisation period</u>	<u>Original investment cost</u>	<u>At the beginning of the period</u>	<u>Amortisation charge for the period</u>	<u>Accumulated amortisation</u>	<u>Balance after accumulated amortisation</u>
Guangdong Kelon Air-Conditioner Co., Ltd.	10 years	66,596,234.00	59,381,641.00	-	7,214,593.00	59,381,641.00
Yingkou Kelon Refrigerator Co., Ltd.	10 years	1,010,737.00	510,737.00	50,000.00	550,000.00	460,737.00
Guangdong Kelon Freezer Co., Ltd.	18.5 years	(88,611,120.00)	(71,846,852.70)	(2,394,894.25)	(19,159,161.55)	(69,451,958.45)
Shunde Wangao Import & Export Co., Ltd.	10 years	2,744,027.00	2,629,693.00	-	114,334.00	2,629,693.00
Shunde Kelon Household Electrical Appliance Company Limited	10 years	34,694,631.00	-	-	34,694,631.00	-
Shunde Huaao Electronics Co., Ltd.	10 years	5,434,634.00	5,208,191.00	-	226,443.00	5,208,191.00
Xi'an Kelon Refrigeration Co., Ltd.	10 years	12,956,689.00	10,689,268.10	647,834.10	2,195,255.00	10,041,434.00
Total		<u>34,825,832.00</u>	<u>6,572,677.40</u>	<u>(1,697,060.15)</u>	<u>26,556,094.45</u>	<u>8,269,737.55</u>

\* As Guangdong Kelon Air-Conditioner Co., Ltd., Shunde Wangao Import & Export Co., Ltd. and Shunde Huaao Electronics Co., Ltd. suffered excessive loss and the carrying value of long-term equity investments of the Company in these subsidiaries was reduced to zero, the Company ceased to amortise the equity investment difference of these three subsidiaries and made full amount provision for impairment of long-term investment.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued****8. Long-term Investments – Continued**

(2) Details of long-term investment companies are as follows:

Items	At the end of the period			At the beginning of the period		
	Carrying balance	Provision for impairment	Net book value	Carrying balance	Provision for impairment	Net book value
Long-term equity investment						
Consist of						
Investments in subsidiaries	1,024,351,976.20	59,381,641.00	964,970,335.20	939,257,170.13	59,381,641.00	879,875,529.13
Investments in associates	89,558,344.00	-	89,558,344.00	91,841,796.51	-	91,841,796.51
Equity investment difference	(10,070,317.00)	-	(10,070,317.00)	(12,465,211.70)	-	(12,465,211.70)
Other equity investment	-	-	-	-	-	-
Total	<u>1,103,840,003.20</u>	<u>59,381,641.00</u>	<u>1,044,458,362.20</u>	<u>1,018,633,754.94</u>	<u>59,381,641.00</u>	<u>959,252,113.94</u>

## a. Investments in associates

Name of Investee	Percentage of registered capital in investee	Original cost	At the beginning of the period	Change of equity during the period	Accumulated change	At the end of the period
Huayi Compressor Holdings Company Limited	22.725%	118,013,641.00	88,285,557.75	(2,734,784.75)	(32,462,868.00)	85,550,773.00
Guangzhou Antaida Logistic Co., Ltd	20%	2,000,000.00	3,556,238.76	451,332.24	2,007,571.00	4,007,571.00
Total		<u>120,013,641.00</u>	<u>91,841,796.51</u>	<u>(2,283,452.51)</u>	<u>(30,455,297.00)</u>	<u>89,558,344.00</u>

## b. Investments in subsidiaries

Name of Investee	Percentage of registered capital in investee	Original cost	At the beginning of the period	Change of equity during the period	Accumulated change	At the end of the period
Guangdong Kelon Refrigerator Co., Ltd.	70%	155,552,426.00	206,719,170.77	89,732,981.08	140,899,725.85	296,452,151.85
Guangdong Kelon Air-Conditioner Co., Ltd.	60%	214,403,766.00	(445,053,830.87)	97,079,488.36	(562,378,108.51)	(347,974,342.51)
Guangdong Kelon Fittings Co., Ltd.	70%	32,634,554.00	2,251,337.72	16,553,910.60	(13,829,305.68)	18,805,248.32
Guangdong Kelon Mould Co., Ltd.	40%	49,860,000.00	59,153,554.75	(2,957,953.20)	6,335,601.55	56,195,601.55

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**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**

**8. Long-term Investments – Continued**

b. Investments in subsidiaries – Continued

<u>Name of Investee</u>	<u>Percentage of registered capital in investee</u>	<u>Original cost</u>	<u>At the beginning of the period</u>	<u>Change of equity during the period</u>	<u>Accumulated change</u>	<u>At the end of the period</u>
Shunde Rongsheng Plastic Products Co., Ltd.	45%	53,270,064.00	156,893,350.17	2,925,588.28	106,548,874.45	159,818,938.45
Chengdu Kelon Refrigerator Co., Ltd.	45%	90,000,000.00	47,548,671.84	(476,596.70)	(42,927,924.86)	47,072,075.14
Yingkou Kelon Refrigerator Co., Ltd.	42%	84,000,000.00	37,881,471.47	399,649.10	(45,718,879.43)	38,281,120.57
Beijing Hengsheng Xin Chuang Technology Company	80%	24,000,000.00	13,115,220.85	-	(10,884,779.15)	13,115,220.85
Kelon Development Co., Ltd.	100%	11,200,000.00	(345,939,739.80)	26,657,583.05	(330,482,156.75)	(319,282,156.75)
Shunde Kelon Jiake Electronic Co., Ltd.	70%	42,000,000.00	(35,906,563.48)	(5,291,963.56)	(83,198,527.04)	(41,198,527.04)
Sichuan Rongsheng Kelon Refrigerator Sales Company Limited	76%	1,520,000.00	835,353.24	-	(684,646.76)	835,353.24
Guangdong Kelon Freeze Co., Ltd.	44%	104,280,000.00	33,020,543.74	4,137,416.39	(67,122,039.87)	37,157,960.13
Shunde Wangao Import & Export Co., Ltd.	20%	600,000.00	(18,247,367.70)	(2,085,390.20)	(20,932,757.90)	(20,332,757.90)
Shunde Kelon Household Electrical Appliance Company Limited	25%	2,500,000.00	(74,550,760.17)	(1,132,364.11)	(78,183,124.28)	(75,683,124.28)
Jiangxi Kelon Industrial Development Co., Ltd.	60%	147,763,896.00	8,012,371.05	(14,496,432.99)	(154,247,957.94)	(6,484,061.94)
Jilin Kelon Electric Co., Ltd.	90%	180,000,000.00	81,404,894.43	(4,567,081.51)	(103,162,187.08)	76,837,812.92
Hangzhou Kelon Electrical Co., Ltd.	40%	24,000,000.00	16,470,345.73	(112,027.84)	(7,641,682.11)	16,358,317.89
Yangzhou Kelon Electrical Co., Ltd.	30%	24,666,950.00	(89,583,905.75)	(730,101.16)	(114,980,956.91)	(90,314,006.91)
Zhuhai Kelon Industrial Development Co., Ltd.	75%	189,101,850.00	169,386,873.34	(215,906.52)	(19,930,883.18)	169,170,966.82
Xi'an Kelon Refrigeration Co., Ltd.	60%	107,729,620.00	53,278,614.54	(8,973,475.24)	(63,424,480.70)	44,305,139.30
Shenzhen Kelon Purchase Company Limited	95%	95,000,000.00	50,812,990.09	(11,450.96)	(44,198,460.87)	50,801,539.13
Wuhu Ecan Motors Co., Ltd.	40%	12,428,893.00	2,472,407.05	(966,998.03)	(10,923,483.98)	1,505,409.02

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued****8. Long-term Investments – Continued**

## b. Investments in subsidiaries – Continued

<u>Name of Investee</u>	<u>Percentage of registered capital in investee</u>	<u>Original cost</u>	<u>At the beginning of the period</u>	<u>Change of equity during the period</u>	<u>Accumulated change</u>	<u>At the end of the period</u>
Guangdong Kelon Weili Electrical Appliances Co., Ltd.	55%	-	(7,521,462.22)	(3,243,821.07)	(10,765,283.29)	(10,765,283.29)
Sub-total		1,646,512,019.00	(77,546,459.21)	192,225,053.77	(1,531,833,424.44)	114,678,594.56
Add: Accrued liability of investee enterprise		-	1,016,803,629.34	-	-	912,034,260.63
Total		1,646,512,019.00	939,257,170.13	192,225,053.77	(1,531,833,424.44)	1,026,712,855.19

\* The amount at the end of the period includes equity increase/decrease of indirectly controlled shares.

Note: The subsidiaries of the Company, Kelon Air-Conditioner, Wangao Company, Kelon Household Electrical Appliance, Kelon Development, Kelon Jiake and its subsidiary Huao Electronics recorded excessive losses and the net assets dropped below their liabilities. The Company had committed to the subsidiaries aforesaid to provide financial supports to enable them to implement future business plans and repay the debts in maturity. The bank loans of Yangzhou Kelon were guaranteed by the Company. The Company continues to debit its long-term equity investment in subsidiaries that recorded excessive losses when the carrying value decreases to nil, the credit balance of long-term equity investment occurred therefrom will be reflected as liabilities under a separately set item "accrual liabilities of investee enterprise" in balance sheets.

## c. Changes in provision for impairment of long-term investment

<u>Name of investee</u>	<u>At the beginning of the period</u>	<u>Increase during the period</u>	<u>Reversal during the period</u>	<u>At the end of the period</u>
Guangdong Kelon Air-Conditioner Co., Ltd.	59,381,641.00	-	-	59,381,641.00

## d. Equity investment difference

<u>Name of investee</u>	<u>Amortisation period</u>	<u>Original investment cost</u>	<u>At the beginning of the period</u>	<u>Amortisation charge for the period</u>	<u>Accumulated amortisation</u>	<u>Balance after accumulated amortisation</u>
Guangdong Kelon Air-Conditioner Co., Ltd.	10 years	66,596,234.00	59,381,641.00	-	7,214,593.00	59,381,641.00
Guangdong Kelon Freezer Co., Ltd.	18.5 years	(88,611,120.00)	(71,846,852.70)	(2,394,894.70)	(19,159,162.00)	(69,451,958.00)
		(22,014,886.00)	(12,465,211.70)	(2,394,894.70)	(11,944,569.00)	(10,070,317.00)

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued****9. Fixed Assets, Accumulated Depreciation and Provision for Impairment Loss**

<u>Fixed assets, at cost</u>	At the beginning of the period	Increase during the period	Decrease during the period	Less: reclassification	At the end of the period
Buildings and structures	1,631,476,560.62	–	(8,173,272.36)	288,150.00	1,623,015,138.26
Machinery and equipment	1,630,477,168.92	17,759,978.98	(28,299,465.05)	(48,426,425.85)	1,668,364,108.70
Electronic equipment, fixtures and furniture	354,857,678.67	2,840,654.91	(2,155,795.70)	49,303,849.58	306,238,688.30
Motor vehicles	71,106,884.73	1,020,172.37	(4,237,996.73)	(991,988.15)	68,881,048.52
Moulds	194,344,979.80	39,025,343.52	(13,610,044.12)	(173,585.58)	219,933,864.78
Total	<u>3,882,263,272.74</u>	<u>60,646,149.78</u>	<u>(56,476,573.96)</u>	<u>–</u>	<u>3,886,432,848.56</u>
<u>Accumulated depreciation</u>	At the beginning of the period	Increase during the period	Decrease during the period	Less: reclassification	At the end of the period
Buildings and structures	435,666,498.38	34,803,713.04	(2,171,689.74)	(1,924,495.08)	470,223,016.76
Machinery and equipment	1,226,926,454.89	49,600,501.21	(17,374,297.60)	(43,249,381.80)	1,302,402,040.30
Electronic equipment, fixtures and furniture	268,431,902.18	5,257,847.05	(1,466,877.82)	45,774,844.95	226,448,026.46
Motor vehicles	55,249,615.52	3,522,999.57	(3,664,927.44)	(826,763.85)	55,934,451.50
Moulds	95,867,884.76	17,735,653.23	(9,352,066.01)	225,795.78	104,025,676.20
Total	<u>2,082,142,355.73</u>	<u>110,920,714.10</u>	<u>(34,029,858.61)</u>	<u>–</u>	<u>2,159,033,211.22</u>
<u>Provision for impairment</u>	At the beginning of the period	Increase during the period	Reversal during the period	Other reduction	At the end of the period
Buildings and structures	32,643,301.45	–	–	50,797.79	32,592,503.66
Machinery and equipment	141,509,065.35	–	–	(1,451,474.66)	142,960,540.01
Electronic equipment, fixtures and furniture	8,957,058.48	–	–	4,129,889.29	4,827,169.19
Motor vehicles	1,042,610.89	–	–	30,506.14	1,012,104.75
Moulds	26,290,182.56	–	–	1,463,508.21	24,826,674.35
Total	<u>210,442,218.73</u>	<u>–</u>	<u>–</u>	<u>4,223,226.77</u>	<u>206,218,991.96</u>
Net	<u>1,589,678,698.28</u>				<u>1,521,180,645.38</u>

\* The decrease of provision for impairment is due to the disposal of some unused fixed assets during the period.

\*\* As at 30 June, 2006, the buildings and structures with a net value of RMB641,769,471.01 under fixed assets was pledged for bank loans.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued****10. Construction in Progress**

<u>Project name</u>	<u>At the beginning of the period</u>	<u>Increase during the period</u>	<u>Transfer to fixed assets during the period</u>	<u>Other reduction during the period</u>	<u>At the end of the period</u>	<u>Source of capital</u>
Project for reconstruction of Yangzhou Kelon factories*	242,277,661.47	-	-	-	242,277,661.47	Self-raised
Project for Jiangxi Kelon production line	81,864,613.31	856,895.72	-	2,678,100.00	80,043,409.03	Self-raised
Project for Zhuhai refrigerator production line	30,216,161.52	1,317,527.36	-	16,741,900.66	14,791,788.22	Self-raised
Project for Xi'an Power Control Company compressor production line	10,215,385.20	274,572.10	(471,330.00)	-	10,018,627.30	Self-raised
Others	39,114,202.23	16,893,136.03	(6,785,178.00)	36,129.54	49,186,030.72	Self-raised
<b>Total</b>	<b>403,688,023.73</b>	<b>19,342,131.21</b>	<b>(7,256,508.00)</b>	<b>19,456,130.20</b>	<b>396,317,516.74</b>	

\* The land use right of RMB46,800,000 under the project for reconstruction of Yangzhou Kelon factories was pledged for bank loans.

\*\* There is no capitalisation of borrowing costs in increase of construction in progress during the period.

\*\*\* Provision for impairment of construction in progress is set out below:

<u>Project name</u>	<u>Balance at the beginning of the period</u>	<u>Increase during the period</u>	<u>Decrease during the period</u>		<u>Total</u>	<u>Balance at the end of the period</u>
			<u>Amount reversed for increase in as set value</u>	<u>Amount transferred out for other reasons</u>		
Project for reconstruction of Yangzhou Kelon factories	19,749,323.80	-	-	-	-	19,749,323.80
Project for Jiangxi Kelon production line	33,335,052.85	-	-	-	-	33,335,052.85
Project for Zhuhai refrigerator production line	16,146,704.15	-	-	(13,552,610.04)	-	2,594,094.11
Others	15,571,341.00	-	-	-	-	15,571,341.00
<b>Total</b>	<b>84,802,421.80</b>	<b>-</b>	<b>-</b>	<b>(13,552,610.04)</b>	<b>-</b>	<b>71,249,811.76</b>

\* The company clears up the production line of Zhuhai Kelon, which leads to the decrease of construction in progress compared with last year.



**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) –**

Continued

**11. INTANGIBLE ASSETS**

Category	Initial cost	At the	Increase for	Transferred	Amortisation for	At the end of
		beginning of		out for		
		the period	the period	the period	the period	the period
Trademarks	521,857,698.95	404,439,716.40	-	-	7,637,329.03	396,802,387.37
Non-patent technology	548,200.00	296,941.74	-	-	68,524.98	228,416.76
Land use rights	725,856,322.65	429,493,265.28	-	-	7,775,726.17	421,717,539.11
Software systems	30,675,370.47	13,943,602.18	69,900.00	-	2,058,576.61	11,954,925.57
Others	9,100.00	4,900.00	-	-	-	4,900.00
Total	<u>1,278,946,692.07</u>	<u>848,178,425.60</u>	<u>69,900.00</u>	<u>-</u>	<u>17,540,156.79</u>	<u>830,708,168.81</u>

\* Certain land use right (with an original value of RMB254,737,741) and trademarks were acquired by the Company in 2003 through the accounts due from the former substantial shareholder Rongsheng Group and its labor union and the payment of certificates handling charges as well as tax and fees. The trademarks have been amortised over ten years since October 2003, the remaining amortisation term of the land use right was 9 to 67 years.

\*\* As at 30 June 2006, the land use right with a carrying amount of RMB313,007,405 was pledged for bank loans.

Provision for impairment of intangible assets is set out below:

Project name	At the	Increase for	Decrease in the period		Total	At the end of
			beginning of	the period		
	the period	the period	reversed for	transferred		the period
			increase in	out for		
			asset value	other reasons		
Trademarks	286,061,116.40	-	-	-	-	286,061,116.40
Non-patent technology	23,421,758.81	-	-	-	-	23,421,758.81
Software systems	3,322,848.29	-	-	-	-	3,322,848.29
Total	<u>312,805,723.50</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>312,805,723.50</u>

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued****12. Long Term Deferred Expenditures**

<u>Project name</u>	<u>At the beginning of the period</u>	<u>Increase for the period</u>	<u>Amortisation for the period</u>	<u>At the end of the period</u>	<u>Remaining term for amortisation</u>
Leasehold Improvement	810,858.99	21,500.00	189,040.40	643,318.59	1-5 years
Others	1,489,079.38	21,641.62	541,100.52	969,620.48	1-3 years
Illuminated advertising displays	-	-	-	-	-
Total	<u>2,299,938.37</u>	<u>43,141.62</u>	<u>730,140.92</u>	<u>1,612,939.07</u>	

**13. Short Term Loans**

<u>Nature of loan</u>	<u>Currency</u>	<u>At the end of the period</u>		<u>At the beginning of the period</u>	
		<u>Original amount</u>	<u>RMB equivalent</u>	<u>Original amount</u>	<u>RMB equivalent</u>
Guaranteed loan	RMB	503,882,921.48	503,882,921.48	570,722,025.01	570,722,025.01
	USD	-	-	-	-
Secured loan	RMB	596,027,729.11	596,027,729.11	632,211,627.57	632,211,627.57
	HKD	-	-	36,998,889.56	38,489,944.81
Pledged loan	RMB	180,821,985.01	180,821,985.01	149,070,873.12	149,070,873.12
	USD	-	-	-	-
Credit loan	RMB	144,702,335.00	144,702,335.00	214,750,000.00	214,750,000.00
	USD	-	-	-	-
Overdue bank acceptance notes	RMB	39,134,364.78	39,134,364.78	233,346,490.85	233,346,490.85
Bank acceptance notes discounted	RMB	383,885,000.00	383,885,000.00	35,714,203.98	35,714,203.98
Commercial notes discounted	RMB	174,500,000.00	174,500,000.00	188,500,000.00	188,500,000.00
Domestic L/C	RMB	30,566,619.37	30,566,619.38	13,328,596.00	13,328,596.00
Inward bills	USD	4,623,089.84	36,949,583.24	10,456,873.34	84,389,059.22
Total			<u>2,090,470,538.00</u>		<u>2,160,522,820.56</u>

\* As at 30 June 2006, the balance of overdue loans was RMB818.8236 million.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) –***Continued***14. Notes Payable**

<u>Category</u>	<u>At the end of the period</u>	<u>At the beginning of the period</u>
Bank acceptance notes	164,030,000.00	122,739,055.85
Commercial acceptance notes	3,000,000.00	60,725,971.66
Total	<u>167,030,000.00</u>	<u>183,465,027.51</u>

This included no amount due to shareholders holding 5% or more (including 5%) of the share capital of the Company.

**15. Trade Payables**

The period-end balance of trade payables was RMB2,356,409,819.24, of which no amount was due to shareholders holding 5% or more (including 5%) of the share capital of the Company.

**16. Advance From Customers**

The period-end balance of advance from customers was RMB600,839,161.60, of which no amount was due to shareholders holding 5% or more (including 5%) of the share capital of the Company.

**17. Taxes Payables**

<u>Tax</u>	<u>At the end of the period</u>	<u>At the beginning of the period</u>
Value-added tax	(145,768,547.72)	146,969,330.15
Business tax	50,685.39	(14,980.18)
Enterprise Income tax	26,216,289.00	26,845,581.44
Real estate tax	2,331,708.05	392,857.34
Others	1,854,280.50	147,414.26
Total	<u>(115,315,584.78)</u>	<u>174,340,203.01</u>

**18. Other Payables**

The period-end balance of other payables was RMB893,151,263.24, of which no amount was due to shareholders holding 5% or more (including 5%) of the share capital of the Company.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued****19. Accrued Charges**

Items	At the end of the period	At the beginning of the period	Reason as for not settled
Installation costs	98,122,842.15	63,743,988.70	Provision made for the unpaid installation cost of sold products
Sales discounts	83,019,373.11	96,030,139.85	Occurred but not paid
Transportation costs	1,962,616.74	8,011,859.63	Occurred but not paid
Audit fee	7,256,598.01	7,150,220.00	Accrued audit fee
Entertainment fee	20,620,446.11	22,188,399.88	Occurred but not paid
Interest expenses and penalty interest	35,746,174.38	22,206,757.05	Occurred but not paid
Bonus	35,113,287.18	31,526,778.51	Occurred but not paid
Agent fee and price difference	37,684,002.13	13,402,831.68	Occurred but not paid
Fund occupation fee	11,854,217.72	3,409,550.50	Made for the occupation of fund of Hisense
Others	31,204,683.66	20,015,979.92	Occurred but not paid
Total	362,584,241.19	287,686,505.72	

- \* The accrued charges at the end of the period increased by RMB74.8977 million compared to the balance at the beginning of period, mainly due to the report period is the peak selling season of air-condition, installation cost increased by RMB34.3789 million. Furthermore, because the large amount of the overdue short-term loan in prior period, interest expenses and penalty interest increased by RMB13.5394 million; Agent fee and price difference, fund occupation fee increased by RMB32.7258 million compared with the end of 2005.

**20. Provision**

Items	At the end of the period	At the beginning of the period
Litigation costs	5,656,129.80	5,737,064.34
Provision for maintenance*	192,152,804.92	204,178,681.55
Total	197,808,934.72	209,915,745.89

- \* Provision for maintenance represents the expected provision for warranty. The Company offers 3 years warranty for all products sold. During the warranty period, customers are entitled to maintenance services free of charge. In line with common practice of the industry and the past data, provision for maintenance is determined on the basis of the warranty years, estimated repairing rate and the average repairing cost.

**A****NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) –***Continued***21. Long-term Payables**

Items	At the end of the period	At the beginning of the period
Pension liabilities *	28,377,758.87	46,993,026.79
Special long-term payables **	33,806,028.47	26,427,148.47
Others	623,249.18	503,249.18
Total	62,807,036.52	73,923,424.44

\* Pension liabilities represent the contributions paid by the employees and the Company, which are payable to the employees after their retirement or resignation.

\*\* Special long-term payables mainly represent the state debenture projects capital for technical advancement and industry upgrade and other government exclusive financial grant.

**22. Share Capital**

Items	Increase (decrease) during the period			At the end of the period
	At the beginning of the period	Number of bonus shares	Increase Decrease	
A. Unlisted shares				
1. Promoter shares				
Domestic legal person shares	337,915,755.00	-	-	337,915,755.00
Total unlisted shares	337,915,755.00	-	-	337,915,755.00
B. Listed shares				
1. Domestic listed ordinary shares denominated in RMB	194,501,000.00	-	-	194,501,000.00
2. Overseas listed foreign shares	459,589,808.00	-	-	459,589,808.00
Total listed shares	654,090,808.00	-	-	654,090,808.00
C. Total number of shares	992,006,563.00	-	-	992,006,563.00

\* The face value of the above shares is RMB1.00 each.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued****23. Capital Reserve**

Items	At the beginning of the period	Increase during the period	Decrease during the period	At the end of the period
Share premium	1,468,501,786.00	-	-	1,468,501,786.00
Provision for donation of non-cash assets	17,696,745.00	-	-	17,696,745.00
Price difference between related party transactions	17,712,651.00	-	-	17,712,651.00
Equity investment reserve	70,731,421.56	1,452,992.83	-	72,184,414.39
Others	6,457,045.19	-	-	6,457,045.19
Total	1,581,099,648.75	1,452,992.83	-	1,582,552,641.58

**24. Surplus Reserve**

Items	At the beginning of the period	Increase during the period	Decrease during the period	At the end of the period
Statutory common reserve	114,580,901.49	-	-	114,580,901.49
Consist of: Discretionary reserve	-	-	-	-
Statutory common welfare fund	114,580,901.49	-	-	114,580,901.49

\* Statutory common reserve can be utilised for staff welfare.

**25. Unappropriated Profits**

	At the beginning of the period	Increase during the period	Decrease during the period	At the end of the period
	(3,782,492,927.69)	-	(35,741,727.54)	(3,818,234,655.33)

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued****26. Revenue from Principal Operations and Cost**

(1) by product segment

Classification	From January to June 2006		From January to June 2005	
	Revenue	Cost	Revenue	Cost
Sales of refrigerators	1,663,326,079.04	1,306,681,410.48	1,469,137,687.00	1,342,664,919.09
Sales of air-conditioners	1,585,836,004.81	1,394,955,223.90	2,596,028,653.09	2,350,444,341.50
Sales of freezers	143,722,679.87	138,286,064.61	193,905,445.00	180,545,360.00
Others	193,961,333.41	147,099,614.31	299,200,957.70	271,090,652.00
Total	<u>3,586,846,097.13</u>	<u>2,987,022,313.30</u>	<u>4,558,272,742.79</u>	<u>4,144,745,272.59</u>

\* The aggregate amount sales income of the top five was RMB2,049,133,769.92, which accounts for 57.13% of total revenue.

Details of Company's revenue and cost of principal operations are as follows:

Classification	From January to June 2006		From January to June 2005	
	Revenue	Cost	Revenue	Cost
Sales of refrigerators	1,086,048,638.86	917,911,349.39	890,950,451.84	780,546,870.50
Sales of air-conditioners	964,768,104.43	867,873,546.12	1,182,160,502.12	1,202,681,706.28
Sales of freezers	82,723,237.08	68,659,763.05	39,389,321.68	36,169,972.75
Others	31,491,682.15	25,734,207.35	60,106,663.79	59,893,243.85
Total	<u>2,165,031,662.52</u>	<u>1,880,178,865.91</u>	<u>2,172,606,939.43</u>	<u>2,079,291,793.38</u>

**27. Investment Profit**

Details of combined investment profit are as follows:

Classification	From January to June 2006	From January to June 2005
Profit on share of results of investments in associates	(2,255,593.00)	(1,127,879.54)
Amortisation of long-term equity investment difference	1,697,061.00	1,697,060.70
Dividends received from investees	-	-
Profit on dealing with equity	-	-
Provision for impairment of long-term investments	-	(16,181,711.94)
Other investment profits	37,479.00	1,200.00
Total	<u>(521,053.00)</u>	<u>(15,611,330.78)</u>

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued****27. Investment Profit – Continued**

Details of the Company's investment profit are as follows:

Classification	From January to June 2006	From January to June 2005
Profit on share of results of investments in subsidiaries	190,812,232.37	(14,692,705.35)
Profit on share of results of investments in associates	(2,289,608.23)	(1,127,879.54)
Amortisation of long-term equity investment difference	-	-
Provision for impairment of long-term equity investments	-	(16,181,711.94)
Other investment profits	-	1,200.00
Total	188,522,624.14	(32,001,096.83)

**28. Financial Expenses**

Classification	From January to June 2006	From January to June 2005
Interest expenses	62,771,272.16	53,330,215.86
Less: Interest income	3,999,722.20	13,495,566.24
Exchange gain/loss	13,933,234.76	(723,844.56)
Discount interests	10,692,061.93	26,143,792.46
Others	6,836,734.84	4,922,269.01
Total	90,233,581.49	70,176,866.53

\* The increase of financial expenses is mainly due to the large amount of overdue short-term loan since the second half year of 2005, which lead to the significant increase of penalty interest in the review period.

**VII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

Guangdong Greencool Enterprise Development Company Limited, the Company's substantial shareholder, and its related parties (hereinafter referred to "Greencool Companies") had a series of transactions and irregular cash inflow/outflow during the period from October 2001 to July 2005, the transactions and misappropriation of funds above have been formally investigated by relevant authorities. Meanwhile, the Company and Tianjin Lixin ("Specified third parties") have a series of irregular cash inflow/outflow during the period from October 2001 to July 2005.



**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – Continued****1. Related Party Relationships**(1) *Related parties with controlling interests include:*

<u>Name of related parties</u>	<u>Nature</u>	<u>Legal Person</u>	<u>Registered Capital</u>	<u>Business Scope</u>	<u>Shares or interests held</u>	<u>Relationship</u>
Greencool Enterprise	Limited liability company	Gu Chujun	1,200,000,000	*	26.43%	Controlling shareholder
Qingdao Hisense Air-Conditioner Company Limited ("Hisense Air-conditioner")	Sino-Foreign joint venture company	Tang Ye Guo	6,747,900,000	**	26.43% to be transferred	Beneficial controlling shareholders of the company
Combine	Limited liability company	Fang Zhi Guo	20,000,000	***	55.00%	Unconsolidated subsidiary of the company

\* Research, manufacture and sale of refrigeration equipment, fittings and chlorofluorocarbon.

\*\* Manufacture of air-conditioners, moulds and after-sale service.

\*\*\* Research, manufacture and sale of air-conditioners, household electrical appliances and after-sale service.

(2) *Greencool Companies*

<u>Name of related parties</u>	<u>Relationship</u>
Greencool Environmental Protection Engineering (Shenzhen) Co., Ltd. ("Greencool Technology Environmental Protection (Shenzhen)")	Related party of Guangdong Greencool
Greencool Technology Development (Shenzhen) Company Limited ("Greencool Technology Development (Shenzhen)")	Related party of Guangdong Greencool
Greencool Procurement (Shenzhen) Co., Ltd. ("Greencool Procurement")	Related party of Guangdong Greencool
Hainan Greencool	Related party of Guangdong Greencool
Jiangxi Greencool Electrical Appliance Company Limited ("Jiangxi Greencool")	Related party of Guangdong Greencool
Hefei Meiling Holdings Limited ("Meiling Holdings")	Related party of Guangdong Greencool
Yangzhou Yaxing Motor Coach Company Limited ("Yangzhou Yaxing")	Related party of Guangdong Greencool

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – Continued****1. Related Party Relationships – Continued**

(3) Related parties with no controlling interests include:

Name of related parties	Relationship
Huayi Compressor	Associate of the Company
Chongqing Kelon	Associate of the Company
Antaida	Associate of the Company
Kelon Employee Union	Entity organised and owned by employees of the Company
Chengdu Engine (Group) Company Limited ("Chengdu Engine")	Minority shareholder of Chengdu Kelon
Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing")	Subsidiary of the minority shareholder of Chengdu Kelon
Xi'an Gaoke Group Company	Minority shareholder of Xi'an Kelon
Hangzhou Xileng Group Company Limited ("Hangzhou Xileng")	Minority shareholder of Hangzhou Kelon
Jiaxibeila Compressor Company Limited ("Jiaxibeila")	Subsidiary of an associate
Shunde Yunlong Consultancy ("Shunde Yunlong")	Minority shareholder of Huaao Electronics
Hisense Agent	Subsidiary of controlling shareholders of Hisense Air-conditioners
Hisense (Zhejiang)	Subsidiary of controlling shareholders of Hisense Air-conditioner
Hisense (Nanjing)	Subsidiary of controlling shareholders of Hisense Air-conditioner
Hisense (Beijing)	Subsidiary of controlling shareholders of Hisense Air-conditioner
Hisense Electric Co., Ltd. ("Hisense Electric")	Subsidiary of controlling shareholders of Hisense Air-conditioner

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – Continued****1. Related Party Relationships – Continued**

- (4) *The Greencool Companies had a series of transactions or abnormal cash inflow/outflow through the following "Specified Third Party Companies"*

<u>Name of companies</u>	<u>Relationship with the Company</u>
Jiangxi Kesheng	Specified third party companies
Zhongshan Dongyue Electrical Co., Ltd. ("Zhongshan Dongyue")	Specified third party companies
Jinan San'ai'fu	Specified third party companies
Tianjin Xiangrun	Specified third party companies
Tianjin Lixin	Specified third party companies
Jiangxi Keda Plastic Technology Company Limited ("Jiangxi Keda")	Specified third party companies
Refrigerant Production Consultants Limited	Specified third party companies
Hefei Weixi	Specified third party companies
Zhejiang Guoda Trading Company Limited ("Zhejiang Guoda")	Specified third party companies
Zhuhai Longjia	Specified third party companies
Zhuhai Defa	Specified third party companies
Wuhan Changrong	Specified third party companies
Tianjin Taijin Yunye Company Limited ("Tianjin Taijin Yunye")	Specified third party companies
Zhejiang Yuhuan	Specified third party companies
Chengdu Refrigerating Components Factory	Specified third party companies
Beijing De Heng Solicitors	Specified third party companies
Shangqiu Bingxiong Freezing Facilities Company Limited ("Shangqiu Bingxiong")	Specified third party companies

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – Continued****1. Related Party Relationships – Continued**(5) *Movements in the Company's share capital or equity held by related parties with controlling interest:*

<u>Name of related party</u>	<u>At the beginning of the period</u>	<u>Increase during the period</u>	<u>Decrease during the period</u>	<u>At the end of the period</u>
Greencool Enterprise	262,212,194	-	-	262,212,194
Hisense Air-conditioner	-	-	-	-

**2. Transactions with Related Parties and "Specified Third Party Companies"**(1) *Purchases from the related parties*

<u>Items</u>	<u>Name of related parties</u>	<u>From January to June 2006</u>	<u>From January to June 2005</u>
Purchases from:	Chengdu Xinxing	6,458,175.77	19,633,177.00
	Chengdu Engine	-	2,264,944.00
	Shanghai Yilian Electric Business Limited	-	-
	Huayi Compressor	66,773,526.35	87,599,145.00
	Hefei Meiling	-	-
	Hisense (Zhejiang)	53,526,175.69	-
	Hisense (Beijing)	5,519,658.12	-
	Hisense (Nanjing)	2,454,200.90	-
	Hisense Air-Conditioner	56,988.03	-

(2) *Sales of products to the related parties*

<u>Items</u>	<u>Name of related parties</u>	<u>From January to June 2006</u>	<u>From January to June 2005</u>
Sales of products to	Chengdu Xinxing	3,320,028.25	16,121,436.00
	Chongqing Kelon	-	36,884,909.00
	Huayi Compressor	113,129.97	-
	Hefei Meiling	-	76,923.00
	Hisense (Zhejiang)	7,038,620.87	-
	Hisense Agent	63,751,328.08	-

Note: The goods sold to Hisense Agent were goods processed by Kelon Air-Conditioners, a subsidiary of the Company.

(3) *Sales of moulds to related party*

<u>Items</u>	<u>Name of related parties</u>	<u>From January to June 2006</u>	<u>From January to June 2005</u>
Sales of moulds to	Hisense Electric	2,554,273.50	-

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – Continued****2. Transactions with Related Parties and “Specified Third Party Companies” – Continued***(4) Sales Agent*

The Company signed the Sales Agency Agreement and the Supplemental Agreement with Hisense Agent on 16 September 2005 and 26 September 2005, respectively. On 1 April 2006, the Company signed the Supplemental Agreement II to Sales Agency Agreement with Hisense Agent, which specifies that from the date when the agreement was signed to 10 May 2006, Hisense Agent would act as a sales agent of the Company and could sell no more than RMB2.8 billion worth of domestic sales products, of which no more than RMB0.8 billion could be sold by the end of 2005. During the effective period of the sales agency agreement, the Company had already sold Hisense Agent domestic sales products worth RMB2,850,472,913.31. RMB 332,202,876.34 sales return are made by Hisense Agent after the expiry of the Agreement.

The main terms of the Sales Agency Agreement and Supplemental Agreement are as follows:

- (1) Hisense Agent shall prepay no more than RMB0.6 billion to the Company for purchasing its products, wherein RMB0.3 billion shall be paid within 10 working days after the signing of the agreement. Within one month after the date of the first payment, Hisense Agent shall prepay no more than RMB0.3 billion according to the Company's actual financial need for starting its production, marketing and sales. During the term of the agreement, Hisense Agent shall not ask the Company to refund the amount of no more than RMB0.6 billion prepaid by Hisense Agent to the Company.
- (2) The Company shall start providing Hisense Agent with products and deliver them to the warehouses designated by Hisense Agent on the date of receiving prepayment. Upon the products arrive at the warehouses designated by Hisense Agent, the ownership of these products shall transfer to Hisense Agent. Both parties shall complete loan procedure when the amount of delivered products exceeds the prepayment of Hisense. The actual capital period of Kelon Electric's products occupied by Hisense Agent is 60 days.
- (3) The Company shall, after the signing of this agreement and in accordance with the relevant terms of this agreement, persuade all distributors to sign the Three-Party Agreement with the Company and Hisense Agent, which specifies that all distributors shall get products from Hisense Agent and make payments to Hisense Agent; Hisense Agent shall strictly collect sales proceeds in accordance with the foresaid Three-Party Agreement and make payments to Kelon Electric within three working days after these proceeds are collected.
- (4) The settlement price of the products that Hisense Agent get from Kelon Electric shall be equal to the settlement price of the products that the distributors get from Hisense Agent, which price is to be determined by Kelon Electric and the distributors. Kelon Electric shall check and pay all marketing fee, including but not limited to the discount of retailers, price difference, slotting allowance, advertising fee, stand construction cost, rent of the products' warehouse, load and unload cost, logistic cost (including main lines and sublines) and labour cost, etc.
- (5) During the effective period of the agreement, Hisense Agent charged the Company the capital occupation fee, which is calculated in the following formula and charged on a quarterly basis:

Capital occupation Fee = Prepayment Amount x Effective Days of Capital occupied x Interest Rate as quoted by the People's Bank of China for one-year loans ÷ 360

Confirmed by the audit firm appointed specified for the case, for the period from 23 September 2005 to 10 May 2006, the Company should pay RMB9,495,086.10 fund occupation fees to Hisense Agent. In addition, for the period from 11 May 2005 to 18 August 2006, the Company should pay RMB4,665,562 fund occupation fees to Hisense Agent. During the effective period of the Sales Agency Agreement, the Company should pay RMB21,951,151.37 sales commission to Hisense Agent.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – Continued****2. Transactions with Related Parties and “Specified Third Party Companies” – Continued***(5) Use of land and buildings*

A subsidiary of the Company, Jiangxi Kelon, has since October 2003 used the land and buildings of Jiangxi Greencool located in Jiangxi Kelon Greencool Industrial Park. Another subsidiary of the Company, Zhuhai Kelon, has established its small refrigerator manufacturing facility in the land and buildings of the Company’s substantial shareholder Greencool. As at 30 June 2006, Jiangxi Kelon and Zhuhai Kelon had not signed any asset rent agreement with the counterparty.

*(6) Use of trademark*

The Company signed a trademark licensing agreement (“Licensing Agreement”) with Greencool (China) on 3 April 2003, which allows the Company and its subsidiaries to use the trademark “COMBINE” without paying licensing fees. The Company and its subsidiaries have already used the trademark “COMBINE” on several types of refrigerators and air-conditioners in this year.

*(7) Other transactions*

Items	From January to June 2006	From January to June 2005
Other income (expenses) received		
from (paid to) related parties		
– Interest income from Chengdu Xinxing	992,970.00	992,970.00
– Logistics management fee paid to Guangzhou Antaida	19,381,000.00	838,544.69
– Electricity and water utilities paid to Chengdu Engine (Group) Company Limited	–	–
– Equipment rental charge paid to Hangzhou Xileng	3,000,000.00	3,000,000.00

*(8) Guarantees*

As at 30 June 2006, Guangdong Greencool, the controlling shareholder of the Company, provided the Company with guarantees for the borrowings of RMB122,574,700.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – Continued****3. Transactions with Related Companies and “Specified Third Party Companies”**

(1) Transactions with the related companies with controlling interests

<u>Items</u>	<u>Name of related companies</u>	<u>At the end of the period</u>
Other receivables	Guangdong Greencool Enterprise	15,925,922.93
Other payables	Combine	5,099,880.00

(2) Transactions with Greencool Companies

<u>Items</u>	<u>Name of related companies</u>	<u>At the end of the period</u>	<u>At the beginning of the year</u>
Trade receivables	Hefei Meiling	RMB115,600.00	RMB115,600.00
Prepayments	Hefei Meiling	-	-
Other receivables	Greencool Technology Environmental Protection Engineering (Shenzhen)	RMB33,000,000.00	RMB33,000,000.00
	Greencool Technology Development (Shenzhen)	RMB32,000,000.00	RMB32,000,000.00
	Hainan Greencool	RMB12,289,357.71	RMB12,289,357.71
Trade payables	Hefei Meiling	RMB17,385.31	RMB17,385.31
Other payables	Jiangxi Greencool Yangzhou Yaxing	RMB13,000,000.00 -	RMB13,000,000.00 -

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – Continued****3. Transactions with Related Companies and “Specified Third Party Companies” – Continued**

(3) Transactions with the related companies not controlled by the Company

Items	Name of related companies	At the end of the period	At the beginning of the period
Trade receivables	Chongqing Kelon	RMB111,927.84	RMB137,136.40
	Hisense Zhejiang	RMB17,702,141.10	-
	Hisense Agent	RMB1,018,698.74	RMB204,349,247.04
	Antaida	RMB9,050.40	-
Prepayment	Chengdu Xinxing	-	RMB1,802,308.16
Other receivables	Antaida	RMB60,141.02	RMB2,613.20
	Chengdu Engine	RMB26,780.00	RMB26,780.00
	Chengdu Xinxing	RMB34,000,000.00	RMB34,000,000.00
	Chongqing Kelon	-	-
	Shunde Yunlong Consultancy	RMB4,685,832.74	RMB4,685,832.74
Trade payables	Huayi Compressor	RMB11,880,504.04	RMB17,766,207.52
	Chengdu Engine	-	RMB433,940.00
	Chengdu Xinxing	RMB3,010,778.62	RMB2,538,151.87
	Jiaxi Beila	RMB26,524,407.00	RMB57,541,612.28
	Hisense Agent	RMB15,206,500.07	RMB7,800.00
	Hisense air-conditioner	RMB9,740.25	-
Advance from customers	Chongqing Kelon	RMB2,754,701.69	-
	Hisense Agent	RMB115,881,945.57	RMB436,478.09
Other payables	Antaida	-	RMB24,463.43
	Xi'an Gaoke	RMB1,785,476.00	RMB1,785,476.00
	Hangzhou Xileng	RMB12,772,708	RMB9,773,892.29
	Chengdu Engine (Group)	RMB1,246,230.58	-
	Chengdu Xinxing	RMB622.60	-



**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – Continued****3. Transactions with Related Companies and “Specified Third Party Companies” – Continued**

(4) Transactions with specified third party companies

<u>Items</u>	<u>Name of companies</u>	<u>At the end of the period</u>
Trade receivables	Hefei Weixi	15,610,189.24
	Wuhan Changrong Electrical Appliance Company Limited	29,843,694.04
	Zhejiang Yuhuan	2,398,099.55
Prepayment	Hefei Weixi	465,213.00
Other receivables	Jiangxi Kesheng	25,572,776.72
	San'ai'fu	121,496,535.45
	Tianjin Xiangrun	96,905,328.00
	Tianjin Lixin	89,600,300.00
	Jiangxi Keda	13,001,018.63
	Zhuhai Longjia	28,600,000.00
	Zhuhai Defa	21,400,000.00
	Wuhan Changrong	20,000,000.00
	Zhejiang Yuhuan	7,105,456.00
	Beijing De Heng Finance Bureau of Yangzhou Economic Development Zone	4,000,000.00 40,000,000.00
Trade payables	Jiangxi Keda	621,968.35
	Zhejiang Yuhuan	223,062.76
Other payables	Zhuhai Longjia	28,316,425.03
	Zhuhai Defa	21,400,000.00
	Tianjin Taijin Yunye Company Limited	65,000,000.00

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**VIII. LITIGATION AND OTHER CONTINGENT MATTERS****1. As at 30 June 006, the pending litigations involved in the Company are summarized as follows:**(1) *The case with the Company as the plaintiff*

<u>Plaintiff</u>	<u>Defender</u>	<u>Reason</u>	<u>Total amounts involved</u>
The Company	Guangzhou Youyicheng Trading Co., Ltd	Outstanding amount for completed construction	RMB4,500,000.00
The Company	Greencool and Gu Chu Jun	Deceptive procurement and Megal capital possession	493,042,500.00
	Foshan Shunde Jiegao Investments Company Limited	Outstanding amount for transfer of land	182,271,095.06
The Company	Others		5,564,495.57
Total			<u>685,378,090.63</u>

(2) *The cases with the Company as the defender*

<u>Plaintiff</u>	<u>Defender</u>	<u>Reason</u>	<u>Total amounts involved</u>
Materials supplier	The Company	Outstanding amount for delivered products	358,700,356.89
Zhejiang Hangxiao Steel Structure Co., Ltd	The Company	Outstanding amount for completed construction	19,853,000.00
Domestic Commercial Bank	The Company	Outstanding borrowings	209,118,000.00
Others	The Company		8,952,205.08
Total			<u>596,623,561.97</u>

**IX. SUBSEQUENT EVENTS**

On August 2006, the Company filed an action to Guangdong Provincial Higher People's Court against Foshan Shunde Jiegao Investments Company Limited (佛山市順德區捷高投資有限公司) ("Shunde Jiegao"), on 29 December 2004, the Company entered into the "State-owned Land Use Right Transfer Agreement" (the "Transfer Agreement") with Shunde Jiegao of 254,629.69 square meters and at a transfer price of RMB168,855,132.63, Shunde Jiegao shall make lump-sum full payment of the Transfer Price to the Company before 31 December 2004. However, Shunde Jiegao occupied the Subject Land starting from 29 December 2004 and obtained the State-owned Land Use Right Certificate (Shun Fu Guo Yong (2005) No. 1002427) issued by the Government of Foshan City of the People's Republic of China on 22 June 2005, but Shunde Jiegao did not make payment of the Transfer Price to the Company until now.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**X. OTHER SIGNIFICANT EVENTS****1. Land Use Right of Shangqiu Kelon**

Shangqiu Kelon's minority shareholder Shangqiu Bing entered into the Land Transfer Agreement with Shangqiu Kelon and the Administration Committee of Shangqiu Economic and Technology Development Zone in July 2004, which stipulated that Shangqiu Bingxiong shall transfer the land use right of the land totaling 200 mu located to the south of Nanjing Road in Shangqiu City, and that Shangqiu Kelon shall construct a project on the land while taking it over from Shangqiu Bingxiong to produce 2 million ice-making machines and sell them for RMB2.5 billion annually and to produce 1.6 million freezers and sell them for RMB1.2 billion. If the project is not completed, the Administration Committee of Shangqiu Economic and Technology Development Zone will reserve its right to recover the above land. Shangqiu Kelon has obtained the land use certificate, but as it has not completed "three connections and one leveling", Shangqiu Kelon has never used the land, and has not achieved the output as stipulated in the agreement.

In addition, Shangqiu Kelon received the notice from the local court in August 2005 that the Administration Committee of Shangqiu Economic and Technology Development Zone has lodged a claim to the court against Shangqiu Kelon, requesting to recover the 200 mu of land located in Shangqiu Economic and Technology Development Zone which was transferred from Shangqiu Bingxiong to Shangqiu Kelon. Meanwhile the Court has seized the above mentioned land use right. Shangqiu Kelon has made impairment provision of RMB18,207,006.81 for the land use right.

**2. Chengdu Kelon**

In 1998, Chengdu Kelon entered into a borrowing agreement with Chengdu Xinxing which is a subsidiary of Chengdu Kelon's minority shareholder Chengdu Engine, pursuant to which Chengdu Kelon provided Chengdu Xinxing with an operating fund of RMB34,000,000. The operating fund is guaranteed by Chengdu Engine. As the consideration for Chengdu Kelon in providing the operating fund to Chengdu Xinxing, Chengdu Xinxing agreed to repay the operating fund to Chengdu Kelon by supplying an agreed number of refrigerator accessories. If Chengdu Xinxing does not repay the fund, Chengdu Kelon has the right to deduct the outstanding amount from the dividend due to Chengdu Engine (in whatsoever form). Chengdu Xinxing has never repaid the fund because of its poor operations.

**3. Yangzhou Kelon**

In June 2003, the Company entered into the Project Investment and Cooperation Contract with Yangzhou Economic Development Zone, stipulating that Yangzhou Economic Development Zone shall provide the land of 729,000 square meters in area in the Development Zone, that the consideration of the land use right transfer was RMB45 million and that the Company would obtain the land use certificate on 12 December 2003. In August 2003, the Company's subsidiary Yangzhou Kelon entered into the State-owned Land Use Right Transfer Contract with Yangzhou State Land Resources Bureau Development Zone Branch, stipulating that the transferor shall transfer the land of 729,000 square meters at a consideration of RMB102,073,860.00. In November 2003, Yangzhou Kelon has paid RMB45 million land amount to Yangzhou State Land Resources Bureau Development Zone Branch, and in April 2004, Yangzhou Kelon paid RMB40 million to Finance Bureau of Yangzhou Economic Development Zone again.

Yangzhou Kelon originally recognised the cost of land as RMB102,073,860 in its account. On 31 December 2005, Yangzhou Kelon, as advised by lawyers, was of the opinion that the actual purchase price of the above land was RMB45 million and, adding to the relevant tax charges of RMB1.8 million, the carrying value of the above land should be RMB46.8 million. In this connection, Yangzhou Kelon reduced the cost of land by RMB55,273,860 in adjustment.

**4. The Transfer of Land Use Right of the Company**

The Company originally owned the Shun Fu Guo Yong (2004) No.1002282 Land Use Certificate which was for the land of 266,668 square meters. In 22 June 2005, the Company transferred 254,629.68 square meters of it at a consideration of RMB168,855,132.63 to Foshan Shunde Jiegao Investments Company Limited. The Company has not received the relevant land transfer amount till now. The Company has provided an amount of RMB84,427,566.32 for such bad debt.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the six months ended 30 June 2006

(Unless otherwise specified, the currency is expressed in RMB)

**X. OTHER SIGNIFICANT EVENTS – Continued**

5. Hisense Air-conditioner and Guangdong Greencool entered into The Agreement In Relation to the Share Transfer of Guangdong Kelon Electrical Holdings Company Limited entered into between Guangdong Greencool Enterprise Development Company Limited and Qingdao Hisense Air-Conditioner Company Limited and its supplemental agreements on 9 September 2005, 28 September 2005 and 18 April 2006, respectively. Hisense Air-Conditioner proposed to acquire 26.43% equity interest of Kelon Electrical, and the consideration of the transfer which has been agreed on was RMB680 million, with RMB500 million being the first installment.

**XI. RETURN ON NET ASSETS AND EARNINGS PER SHARE**

Profit for the period	Return on net assets		Earnings per share	
	Fully weighted	Diluted average	Fully weighted	Diluted average
Profit derived from principal operations	N/A	N/A	0.6040	0.6040
Operating profits	N/A	N/A	(0.0361)	(0.0361)
Net profit	N/A	N/A	(0.0360)	(0.0360)
Net profit less of extraordinary items	N/A	N/A	(0.0286)	(0.0286)

The above figures were calculated as required by “No.9 Document of Regulations of Information Disclosure for Public Companies” issued by China Securities Regulatory Commission.

**XII. EXTRAORDINARY LOSS AND PROFIT**

Items	From January to June 2006
Non-operating income and expenses:	(7,303,496.28)
add: Provision for impairment of construction in progress	(33,597.48)
add: Provision for impairment of fixed assets	(5,595.95)
add: Provision for impairment of intangible assets	-
Extraordinary loss and profit before income tax	(7,342,689.71)
Effect on income tax	-
Extraordinary loss and profit after income tax	<u>(7,342,689.71)</u>

The Company has confirmed the extraordinary loss and profit items in accordance with Kuaiji Zi No.4 (2005) “No. 1 Questions and answers on information disclosure standards of public companies” issued by the China Securities Regulatory Commission.

