

Chairman's Statement

Dear shareholders,

I am pleased to present the annual report of the Company for the year ended 31 December 2006.

During the reporting period, the Company's sales channels were badly damaged with the lapse of market confidence due to the "Kelon Crisis" in 2005. The disclosure of its operating results for the 2005 financial year was postponed for a long period which posed the Company with a delisting risk. All these external adverse factors, together with the delayed completion of share transfer procedures, did show significant impact on the confidence of our distributors, suppliers and financial institutions in the Company. However, under the leadership of the Board of Directors, the Company still adheres to its objectives of operation of "improving internal systems, accelerating cash flow, continuing high-end innovation and maintaining operational efficiency". At last, the Company used its best endeavours to obtain fully understanding and supports from governments at various levels, banks, our suppliers and distributors, and entered into and implemented the Sales Agency Agreement and its supplemental agreements with Hisense. Through implementation of the operating measures such as further exploring markets, revivifying the brandnames of Kelon and Ronshen, strengthening internal management, regulating financial control system, reducing fund embezzlement and accelerating capital turnover along with the incessant efforts of all staffs, the Company has overcome the crisis in operation, and its production and operation had been fully restored by the end of the reporting period. I would like to take this opportunity to express my sincerest gratitude to governmental departments in various levels, our suppliers, distributors, financial institutions and all shareholders as a whole who had rendered help to Kelon. The Company will reward them and the society with pragmatic operational method and handsome results.

During the reporting period, the Company generated sales revenue of RMB6,564,000,000 for the year, of which, fridge generated sales revenue of RMB3,328,000,000, representing an increase of 30.87% as compared to the previous year, and air-conditioner business generated sales revenue of RMB2,533,000,000, representing a decrease of 29.64% as compared to the previous year.

Along with the achievement of the aforementioned operational results, the Company constantly adhered to the operational guidelines formulated at the beginning of the year, and endeavoured to strengthen the coherence among its internal responsibilities, power and rights through improving its internal operational system, enhance its capability in R&D and promote high-end products, put more effort in disposal of idle assets, streamline its management workflow and business workflow, reduce operational costs in all respects and lay a solid foundation for the rapid development of Kelon.

On the other hand, the registration procedures of the transfer of legal person shares of the Company transferred from Guangdong Greencool Enterprise Development Company Limited to Qingdao Hisense Air-Conditioner Company Limited (the "Hisense") were completed on 13 December 2006, upon which Hisense formally took over Kelon. Driven by the encouragement of Hisense, Kelon successfully completed its share reform scheme, which also significantly boosted the confidence of our distributors, suppliers and financial institutions in the Company's prospects and therefore created a favorable external environment for the reemergence of Kelon.

Looking forward into 2007, the Company will adhere to its objectives of operation of "creating product advantage, accelerating cash flow, enhancing managerial efficiency, strengthening staff trainings and utilizing synergy effect" continue to strengthen its technological R&D, and enhance its products' core competitiveness in all respects. The Company will improve its cash flow through the proactive promotion of the scientific method in its project management; strengthen staff trainings with recruitment of outstanding talents; continue to promote its rapid growth in international market through continuously improving its system, expanding channels and effectively repositioning its self-owned brands in order to achieve a new leap-forward in the Company's industrial development; and consolidate in depth the resources of white goods of Kelon and Hisense, fully exploit the advantages of both parties in brandname, technology, scale, channels and industry coverage and is committed to becoming the "No.1 Home Appliance Brandname in the PRC".

The rapid recovery and development in the Company's production and operation owed much to the enthusiastic expectation and sincere trust of all our shareholders and the support of our directors and supervisors. It also directly benefited from the excellent leadership of the management and the restless efforts of all our staff. I would like to take this opportunity to express my deepest gratitude to all of them.

The Board of Directors believes that there will be further development in the Company's business in 2007. I also earnestly look forward to sharing the better and brighter prospects of Kelon with you all.

Tang Ye Guo

Chairman of the board

The PRC, 26 April 2007