

Report of the Supervisory Committee

Dear shareholders,

During the Reporting Period, the supervisory committee (the “Supervisory Committee”) of Guangdong Kelon Electrical Holdings Company Limited has discharged its duties in accordance with the relevant requirements of the Company Law of the PRC, the Listing Rules of Shenzhen Stock Exchange, the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited, and the articles of association of the Company, and protected the lawful interests of the Company, its staff and shareholders. We would like to report to you the work of the Supervisory Committee during 2006 in accordance with the articles of association of the Company:

I. MEETINGS OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the Reporting Period, the Supervisory Committee held a total of four meetings:

1. The meeting of the Supervisory Committee, convened at the conference room of the Company’s head office on 11 August 2006, was attended by two of the three supervisors. Supervisor Mr. Zeng Jun Hong was absent from the meeting as the Company could not contact him. The meeting was chaired by Mr. Liu Zhan Cheng. The 2005 annual report of the Company and the relevant matters were considered, but no resolutions were passed by the supervisory committee.

The announcement on this meeting was published on designated press for information disclosure of the Company on 14 August 2006.

2. The meeting of the Supervisory Committee, convened at the conference room of the Company’s head office on 28 August 2006, was attended by two of the three supervisors, among whom Mr. Liu Zhan Cheng attended the meeting in person and Mr. Bai Yun Feng attended and voted at the meeting by way of telephone conference. Supervisor Mr. Zeng Jun Hong was absent from the meeting as the Company could not contact him. At the meeting, the first quarterly report and the interim report of 2006 of the Company were considered, but no resolutions were passed by the Supervisory Committee.
3. The meeting of the Supervisory Committee was by way of written resolutions on 16 October 2006 and was attended by two of the three supervisors. As the Company was unable to contact Supervisor Mr. Zeng Jun Hong, he was absent from the meeting. The following resolutions were duly considered and approved at the meeting: the “Resolution Relating to Amendments to the Rules of Procedures of the Supervisory Committee” and the “Resolution Relating to the Replacement of Shareholders’ Representative Supervisors”.

The announcement regarding the resolutions passed at this meeting was published on designated press for information disclosure of the Company on 17 October 2006.

4. The meeting of sixth session of Supervisory Committee of the Company, convened on 5 December 2006 at the conference room of the head office of the Company, was attended by all of the three supervisors. The supervisors presented at the meeting have duly considered and elected Mr. Guo Qing Cun as the chairman of the sixth session of Supervisory Committee of the Company.

The announcement regarding the resolutions passed at this meeting was published on designated press for information disclosure of the Company on 6 December 2006.

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II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2006

According to the relevant requirements under the Company Law of the PRC and the articles of association of the Company, the sixth session of the Supervisory Committee of the Company has expressed its independent opinion on relevant affairs of the Company during the Reporting Period as follows:

1. Save for the matters as described below, all decision-making procedures of the Company were lawful, and no material breach of law, regulations and the articles of association of the Company or any actions against the interest of the Company were found when the directors and management of the Company performed their duties during the Reporting Period.
 - (1) During the Reporting Period, the Company has concluded certain connected transactions with the relevant subsidiaries of Hisense Group, which were in breach of relevant provisions of the listing rules on the Shenzhen Stock Exchange and Hong Kong Stock Exchange, as it failed to perform necessary approval procedures and disclose relevant information as required by the Listing Rules and its relevant provisions. The Company has adopted rectification measures to propose such connected transactions to the Board of the Directors for consideration and approval, and such transactions were rectified and approved at the general meeting held on 5 December 2006.
 - (2) During the Reporting Period, the Company failed to disclose its 2005 annual report and first quarterly report of 2006 as required, and has therefore breaching the relevant provisions of the articles of association of the Company.

The Company is currently taking measures to further improve its internal controls system.

2. The actual investment projects from the latest proceeds are in line with the committed investment projects. During the Reporting Period, the Company did not use the proceeds to invest in any project and there is no projects financed by non-raised funds;
3. During the Reporting Period, the prices for disposal of the Company's assets are reasonable. There is neither any insider dealing nor any prejudice to the shareholders' interests or any loss of the assets of the Company;
4. During the Reporting Period, the Company entered into connected transactions with the connected parties which are fair and reasonable at fair prices without causing any prejudice to the interests of any non-connected shareholders and the listed Company;
5. Shenzhen Dahua Tiancheng Certified Public Accountant has audited the Company's financial statement of 2006 and issued an audit report with qualified opinions. In the opinion of the Supervisory Committee, the audit report was fair and objective, and the current financial statement has truly reflect the state of affairs and operating results of the Company;
6. The Supervisory Committee has reviewed the specific explanations of the sixth session of the Board of the Company regarding the issues contained in the qualified opinions from auditors and the specific explanations on the corrections of the material accounting errors, and has approved such specific explanations.