

# KELON 科龙

海信科龍電器股份有限公司

Hisense Kelon Electrical Holdings Company Limited

Stock code: 0921



Interim Report 2007

The board of directors ("Board") of Hisense Kelon Electrical Holdings Company Limited (the "Company") is pleased to announce the consolidated interim financial results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 (the "Period"), together with the unaudited comparative figures for the corresponding period in 2006 or the audited comparative figures as at 31 December 2006. The consolidated interim financial statements have not been audited but have been reviewed by the audit committee of the Company and the auditors.



**BDO McCabe Lo Limited**  
 Certified Public Accountants  
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**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION  
 TO THE BOARD OF DIRECTORS  
 OF HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED**

*(FORMERLY KNOWN AS GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED)*

海信科龍電器股份有限公司(前稱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 reviewed the interim financial information set out on pages 4 to 32 which comprises the condensed balance sheet of Hisense Kelon Electrical Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2007 and the related condensed statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors are responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review. The report is made 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 content of this report.

**SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**BASIS FOR QUALIFIED CONCLUSION**

It was reported by the Company that the previous 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 2007, the aggregate amount of receivables and aggregate amount of payables due from/to these companies were approximately RMB286 million (net of an accumulated impairment loss of approximately RMB364 million) and approximately RMB138 million respectively which were reflected in the condensed consolidated balance sheet at 30 June 2007 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. Due to the irregularity of the transactions mentioned above and limitation of information available to us, we were unable to satisfy ourselves concerning the validity of these transactions, the appropriateness of the accumulated impairment and the recoverability of the carrying amounts. Any adjustments found to be necessary would affect the net liabilities as at 30 June 2007 and the profit for the six-month period then ended.

**QUALIFIED CONCLUSION**

Except for the adjustments to the interim financial information that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards.

Without modifying our above review conclusion, we draw to your attention to note 2 to the interim financial information which indicates that the Group's current liabilities exceeded its current assets by approximately RMB2,792 million as at 30 June 2007. In addition, the Group had outstanding short-term loans in the aggregate of approximately RMB1,194 million of which approximately RMB176 million were overdue as at 30 June 2007. These conditions, along with other matters as set forth in note 2 to the interim financial information indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern.

**BDO McCabe Lo Limited**

*Certified Public Accountants*

**Chow Tak Sing, Peter**

Practising Certificate Number P04659

Hong Kong, 23 August 2007

# H

## HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

(FORMERLY KNOWN AS GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED)

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	Notes	For the six months ended 30 June	
		2007	2006
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	4,853,981	3,586,177
Cost of sales		(4,022,551)	(2,882,368)
Gross profit		831,430	703,809
Other income and gains		203,287	53,286
Distribution costs		(648,747)	(558,786)
Administrative expenses		(229,567)	(136,206)
Other operating expenses		(11,411)	(13,414)
Profit from operations		144,992	48,689
Share of results of associates		(966)	(2,256)
Finance costs		(48,019)	(83,068)
Profit/(loss) before income tax	5	96,007	(36,635)
Income tax credit/(expense)	6	585	(1,010)
Profit/(loss) for the period		96,592	(37,645)
Attributable to:			
Equity holders of the Company		117,374	(29,153)
Minority interests		(20,782)	(8,492)
		96,592	(37,645)
Dividends	7	-	-
Earnings/(loss) per share attributable to equity holders of the Company	8		
- Basic		RMB0.12	RMB(0.03)
- Diluted		N/A	N/A

## HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

(FORMERLY KNOWN AS GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED)

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 June 2007

	Notes	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	1,415,813	1,601,625
Investment properties		37,200	26,144
Other intangible assets		123,478	125,831
Payments for leasehold land held for own use under operating leases		343,437	372,533
Interests in associates		77,972	78,981
Available-for-sale financial assets		-	-
Deferred tax assets		25,007	21,387
		<u>2,022,907</u>	<u>2,226,501</u>
<b>Current assets</b>			
Inventories		1,131,798	919,837
Trade and other receivables	10	1,695,099	1,119,733
Taxation recoverable		103	827
Pledged bank deposits		30,797	248,257
Cash and cash equivalents		230,647	142,247
		<u>3,088,444</u>	<u>2,430,901</u>
<b>Non-current assets held for sale</b>	11	<u>49,767</u>	-
<b>Total assets</b>		<u>5,161,118</u>	<u>4,657,402</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	12	3,960,295	3,093,956
Trade deposits received		461,812	488,587
Provisions		178,176	169,995
Taxation payable		28,980	26,663
Other liabilities		56,884	46,978
Bank borrowings		1,194,090	1,556,702
		<u>5,880,237</u>	<u>5,382,881</u>
<b>Non-current liabilities</b>			
Other liabilities		-	13,594
<b>Total liabilities</b>		<u>5,880,237</u>	<u>5,396,475</u>
<b>Net current liabilities</b>		<u>(2,791,793)</u>	<u>(2,951,980)</u>
<b>Total assets less current liabilities</b>		<u>(719,119)</u>	<u>(725,479)</u>
<b>TOTAL NET LIABILITIES</b>		<u>(719,119)</u>	<u>(739,073)</u>

**H****CONDENSED CONSOLIDATED BALANCE SHEET - Continued**

At 30 June 2007

	<b>30 June 2007</b>	31 December 2006
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<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	357,951	402,666
Foreign exchange reserve	19,749	14,956
Accumulated losses	<u>(3,608,153)</u>	<u>(3,725,527)</u>
	<b>(928,268)</b>	<b>(1,005,720)</b>
<b>Minority interests</b>	<u>209,149</u>	<u>266,647</u>
<b>TOTAL EQUITY</b>	<u><b>(719,119)</b></u>	<u><b>(739,073)</b></u>

## HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

(FORMERLY KNOWN AS GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 June 2007

	Share capital	Share premium	Statutory reserves	Capital reserve	Foreign exchange 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
As at 1 January 2007 (Audited)	992,007	1,195,597	114,581	402,666	14,956	(3,725,527)	(1,005,720)	266,647	(739,073)
Share of reserves of associates	-	-	-	(43)	-	-	(43)	-	(43)
Exchange differences on translation	-	-	-	-	4,793	-	4,793	-	4,793
Acquisition of additional interest in a subsidiary from minority interest	-	-	-	(44,672)	-	-	(44,672)	(36,716)	(81,388)
Profit/(loss) for the period	-	-	-	-	-	117,374	117,374	(20,782)	96,592
As at 30 June 2007 (Unaudited)	<u>992,007</u>	<u>1,195,597</u>	<u>114,581</u>	<u>357,951</u>	<u>19,749</u>	<u>(3,608,153)</u>	<u>(928,268)</u>	<u>209,149</u>	<u>(719,119)</u>
At 1 January 2006 (Audited)	992,007	1,195,597	114,581	403,143	4,954	(3,794,745)	(1,084,463)	284,390	(800,073)
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)
As at 30 June 2006 (Unaudited)	<u>992,007</u>	<u>1,195,597</u>	<u>114,581</u>	<u>403,149</u>	<u>13,728</u>	<u>(3,823,898)</u>	<u>(1,104,836)</u>	<u>275,898</u>	<u>(828,938)</u>



## H

### HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

(FORMERLY KNOWN AS GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED)

#### CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	For the six months ended 30 June	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	119,168	111,235
Net cash generated from/(used in) investing activities	418,137	(34,015)
Net cash used in financing activities	<u>(447,776)</u>	<u>(69,828)</u>
Net increase in cash and cash equivalents	89,529	7,392
Cash and cash equivalents at beginning of the period	142,247	184,284
Effect of foreign exchange rate changes	<u>(1,129)</u>	<u>(429)</u>
Cash and cash equivalents at end of the period representing bank balances and cash	<u><b>230,647</b></u>	<u>191,247</u>

**HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED**

(FORMERLY KNOWN AS GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED)

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 June 2007

**1. GENERAL INFORMATION**

Hisense Kelon Electrical Holdings Company Limited (the "Company") was incorporated in the People's Republic of China (hereinafter referred to as the "PRC") on 16 December 1992. Its H shares were listed on The Stock Exchange of Hong Kong Limited on 23 July 1996 and its A shares were listed on the Shenzhen Stock Exchange on 13 July 1999.

The Company was formerly named Guangdong Kelon Electrical Holdings Company Limited (廣東科龍電器股份有限公司) and has changed its name to Hisense Kelon Electrical Holdings Company Limited (海信科龍電器股份有限公司) since 21 June 2007.

As at 31 December 2006, Qingdao Hisense Air-Conditioner Company Limited ("Hisense Air-Conditioner") held 262,212,194 shares of domestic legal person shares of the Company, representing 26.43% of total share capital of the Company.

On 29 March 2007, the share reform proposed on 19 December 2006 was completed. Upon its completion, the 262,212,194 domestic shares which were non-freely transferable A shares held by Hisense Air-Conditioner were converted into 238,872,074 transferable shares, representing 24.08% of the Company's total capital. Hisense Air-Conditioner was the single largest shareholder of the Company as at 30 June 2007.

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

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 condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Group.

**2. BASIS OF PREPARATION**

As at 30 June 2007, the Group's current liabilities exceeded its current assets by approximately RMB2,792 million. In addition, the Group has outstanding short-term loans in the aggregate of approximately RMB1,194 million of which approximately RMB176 million were overdue as at 30 June 2007. The Group negotiated 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. 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 condensed consolidated financial statements on a going concern basis.

These condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB").

The preparation of these condensed consolidated financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

30 June 2007

**2. BASIS OF PREPARATION - Continued**

These condensed consolidated financial statements include selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 31 December 2006. These condensed consolidated 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 IFRSs, IASs and related interpretations. These condensed consolidated financial statements should be read in conjunction with the 2006 annual financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

These condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

These condensed consolidated financial statements have been prepared in accordance with substantially the same accounting policies adopted in the 2006 annual financial statements except as stated in note 3(a) below.

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 2007. The adoption of the new and revised IFRSs that are effective for accounting periods beginning on or after 1 January 2007 did not result in significant changes to the Group's accounting policies applied in these condensed consolidated financial statements for the periods presented. Accordingly, no prior period adjustment has been recognised.

The Group has not early 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.

**(a) Summary of the effects of the changes in accounting policies**

In prior years, certain property, plant and equipment held for use in production or supply of goods or services, or for administrative purpose are stated in the balance sheet at their revalued amounts, being the fair value on basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment loss (revaluation model) in accordance with the provisions of IAS 16. During the period, the Company restated these property, plant and equipment at cost less any subsequent accumulated depreciation and subsequent accumulated impairment loss (cost model) in accordance with the provisions of IAS 16, to be in alignment with the accounting policy for property, plant and equipment adopted in its PRC statutory financial statements.

The changes resulted in an increase in the cost, accumulated depreciation and impairment of property, plant and equipment by the same amount of RMB246,429,000 and there was no material impact to the carrying amounts of these property, plant and equipment for current and prior periods.

**(b) Reclassification of revaluation reserve**

The revaluation reserve brought forward of RMB373,570,000 as at 31 December 2006 and 2005 arose from the restructuring of the Company. This amount was reclassified as capital reserve in order to conform with current period's presentation of financial statements.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** – *Continued*

30 June 2007

**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 2007 (Unaudited)					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	2,286,915	2,192,929	157,912	216,225	-	4,853,981
Inter-segment sales	-	-	-	433,942	(433,942)	-
Total revenue	<u>2,286,915</u>	<u>2,192,929</u>	<u>157,912</u>	<u>650,167</u>	<u>(433,942)</u>	<u>4,853,981</u>
Inter-segment sales are charged at prevailing market rates.						
<b>RESULT</b>						
Segment result	<u>95,482</u>	<u>22,544</u>	<u>(1,976)</u>	<u>40,047</u>	-	156,097
Unallocated corporate expenses						<u>(11,105)</u>
Profit from operations						144,992
Share of results of associates	(456)	(436)	(31)	(43)	-	(966)
Finance costs						<u>(48,019)</u>
Profit before income tax						96,007
Income tax credit						<u>585</u>
Profit for the period						<u>96,592</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued**

30 June 2007

**4. SEGMENT INFORMATION – Continued**

	For the six months ended 30 June 2006 (Unaudited)					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.

**RESULT**

Segment result	<u>47,600</u>	<u>(15,966)</u>	<u>5,635</u>	<u>11,867</u>	<u>-</u>	<u>49,136</u>
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 income tax						(36,635)
Income tax expense						<u>(1,010)</u>
Loss for the period						<u><u>(37,645)</u></u>

The following table provides an analysis of the Group's revenue by geographical markets with reference to locations of customers:

	For the six months ended 30 June	
	2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
The PRC		
Mainland China	<b>2,678,696</b>	2,399,172
Hong Kong	<b>172,297</b>	1,309
	<b>2,850,993</b>	2,400,481
Europe	<b>591,011</b>	346,988
America	<b>765,231</b>	294,426
Others	<b>646,746</b>	544,282
	<b><u>4,853,981</u></b>	<u>3,586,177</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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** – *Continued*

30 June 2007

**5. PROFIT/(LOSS) BEFORE INCOME TAX**

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

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Depreciation of property, plant and equipment	123,419	112,771
Depreciation of investment properties	1,247	324
Amortisation of payments for leasehold land held for own use under operating leases	7,390	7,916
Amortisation of other intangible assets	2,028	2,127
Impairment loss/(reversal of impairment loss) on trade and other receivables	8,472	(17,522)
Write down of inventories to net realisable value	1,540	-
Rental income from investment properties (net of direct operating expenses)	(5,659)	(894)
Share of income tax of associates	1,790	4,067
Loss on disposal of property, plant and equipment, net	28	2,161
Gain on disposal of payments for leasehold land held for own use under operating leases	(9,304)	-
Gain on disposal of investment properties	(57,679)	-
Partial recovery of an impaired receivable	(57,072)	-
	<u>123,419</u>	<u>112,771</u>

**6. INCOME TAX (CREDIT)/EXPENSE**

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Income taxes consist of:		
Current tax		
– PRC enterprise income tax	2,950	1,010
– Hong Kong Profits Tax	85	-
Deferred tax	(3,620)	-
Income tax (credit)/expense	<u>(585)</u>	<u>1,010</u>

Taxation is calculated at the rates of tax prevailing at the locations the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The Company and its subsidiaries provide for taxation on the basis of its statutory profit for financial reporting purposes, adjusted for income and expense items which are not taxable or deductible for income tax purposes after considering all available tax benefits.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued**

30 June 2007

**6. INCOME TAX (CREDIT)/EXPENSE – Continued**

On 1 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate will change from 33% to 25% with effect from 1 January 2008. The preferential tax rate currently enjoyed by the Company will be gradually transitioned to the new standard rate of 25% over a five-year transitional period. The detailed instruction for the transition to the new tax rate is yet to be issued. The Group estimates that the preferential income tax rate currently enjoyed by the Group will expire at the earlier of the end of the existing preferential tax period or the five-year transitional period. The change in the carrying amount of the deferred tax assets and liabilities, as a result of the change in tax rate, is reflected in the condensed consolidated financial statements of the Group for the six months ended 30 June 2007.

**7. DIVIDENDS**

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

**8. EARNINGS/(LOSS) PER SHARE**

The calculation of basic earnings per share attributable to equity holders of the Company is based on the net profit attributable to equity holders of the Company for the six months ended 30 June 2007 of RMB117,374,000 (six months ended 30 June 2006: net loss attributable to equity holders of the Company of RMB29,153,000) and 992,006,563 shares (six months ended 30 June 2006: 992,006,563 shares) outstanding during the period.

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

**9. ACQUISITION AND DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group acquired property, plant and equipment of approximately RMB95,147,000 (six months ended 30 June 2006: RMB79,988,000) and disposed property, plant and equipment of approximately RMB59,568,000 (six months ended 30 June 2006: RMB48,950,000). During the period, certain properties of the Group have been reclassified as non-current assets held for sale as disclosed in note 11 to the condensed consolidated financial statements.

**10. TRADE AND OTHER RECEIVABLES**

	<b>30 June 2007</b>	31 December 2006
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Trade receivables	<b>707,168</b>	290,166
Notes receivable <sup>(1)</sup>	<b>138,693</b>	77,317
Other receivables	<b>545,282</b>	376,838
Amounts due from Greencool Enterprise and its affiliates <sup>(1)</sup>	<b>72,061</b>	72,061
Amounts due from companies suspected to be connected with Mr. Gu <sup>(1)</sup>	<b>214,217</b>	214,217
Amounts due from Hisense Group (Note 15 III (c))	<b>12,125</b>	2,187
Amounts due from associates (Note 15 III (d))	<b>17</b>	40
Amounts due from other related companies (Note 15 III (e))	<b>5,536</b>	86,907
	<b>1,695,099</b>	1,119,733

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** – *Continued*

30 June 2007

**10. TRADE AND OTHER RECEIVABLES** – *Continued*

- (i) The amounts of notes receivable pledged for bank borrowings amounted to approximately RMB8,340,000 (2006: RMB28,200,000).
- (ii) On 13 December 2006, the share transfer transaction between Greencool Enterprise and Hisense Air-Conditioner was completed. Upon the completion, Mr. Gu, Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu were no longer connected with the Group. Accordingly, no related party disclosure was made in respect of Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu for the period (*Note 15*). As at 30 June 2007, accumulated impairment loss of approximately RMB18,985,000 (2006: RMB18,985,000) and RMB344,968,000 (2006: RMB344,968,000) were recorded in respect of amounts due from Greencool Enterprise and its affiliates and amounts due from companies suspected to be connected with Mr. Gu respectively.

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 2007 (Unaudited)</b>			
Within three months	695,632	(8)	695,624
Three to six months	6,909	(1,816)	5,093
Six months to one year	7,971	(2,068)	5,903
One to two years	29,146	(28,598)	548
Two to three years	46,650	(46,650)	-
Over three years	125,693	(125,693)	-
	<u>912,001</u>	<u>(204,833)</u>	<u>707,168</u>
<b>As at 31 December 2006 (Audited)</b>			
Within three months	252,966	-	252,966
Three to six months	30,938	(954)	29,984
Six months to one year	9,691	(4,854)	4,837
One to two years	19,591	(17,212)	2,379
Two to three years	66,405	(66,405)	-
Over three years	108,215	(108,215)	-
	<u>487,806</u>	<u>(197,640)</u>	<u>290,166</u>

Normal credit term of 30 days is granted to customers. The Group allows a credit period of up to one year for large and well-established customers. Sales are usually settled by cash on delivery for small and new customers. Trade receivables are non-interest bearing.



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued**

30 June 2007

**11. NON-CURRENT ASSETS HELD FOR SALE**

The Group classifies non-current assets held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amounts and fair value less cost to sell upon initial classification.

In May 2007, the directors marketed the Group's certain factories, warehouses and offices in anticipation of moving into new premises. The directors have also obtained sales contracts in May 2007 and the sale transactions will be completed with a significant profit on disposal to be realised. As at 30 June 2007, the properties with carrying amount of RMB49,767,000 have been classified as non-current assets held for sale in the condensed consolidated balance sheet.

**12. TRADE AND OTHER PAYABLES**

	<b>30 June 2007</b>	31 December 2006
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(Unaudited)</b>	(Audited)
Trade payables	<b>2,153,524</b>	1,415,803
Notes payable	<b>302,930</b>	507,918
Other payables	<b>540,038</b>	486,073
Accruals	<b>292,978</b>	140,678
Amounts due to Greencool Enterprise and its affiliates <sup>(i)</sup>	<b>13,050</b>	13,050
Amounts due to companies suspected to be connected with Mr. Gu <sup>(i)</sup>	<b>125,374</b>	119,316
Amounts due to Hisense Group (Note 15 III (c))	<b>439,625</b>	319,526
Amounts due to associates (Note 15 III (d))	<b>66,510</b>	51,680
Amounts due to other related companies (Note 15 III (e))	<b>26,266</b>	39,912
	<b><u>3,960,295</u></b>	<b><u>3,093,956</u></b>

- (i) On 13 December 2006, the share transfer transaction between Greencool Enterprise and Hisense Air-Conditioner was completed. Upon the completion, Mr. Gu, Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu were no longer connected with the Group. Accordingly, no related party disclosure was made in respect of Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu for the period (Note 15).

The aging analysis of trade payables is as follows:

	<b>30 June 2007</b>	31 December 2006
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(Unaudited)</b>	(Audited)
Within one year	<b>1,996,073</b>	1,177,093
One to two years	<b>107,601</b>	196,857
Two to three years	<b>37,425</b>	30,937
Over three years	<b>12,425</b>	10,916
	<b><u>2,153,524</u></b>	<b><u>1,415,803</u></b>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** – *Continued*

30 June 2007

**13. LITIGATION SETTLEMENT**

The Group is currently involved in a number of legal disputes. During the period, the Group paid RMB1,863,000 (six months ended 30 June 2006: RMB2,049,196) for litigation settlement.

**14. ACQUISITION DURING THE PERIOD**

On 24 April 2007, the Company acquired an additional 30% shareholding in a subsidiary, Chengdu Kelon Refrigerator Co., Ltd. (“Chengdu Kelon”) after which it became a wholly-owned subsidiary.

Details of the identifiable assets and liabilities acquired, and the purchase consideration are as follows:

	<i>RMB'000</i>
Property, plant and equipment	84,365
Payments for leasehold land held for own use under operating leases	19,450
Trade and other receivables	183,516
Inventories	7,361
Cash and cash equivalents	7,525
Trade and other payables	(150,950)
Taxation payable	(3,981)
Bank borrowings	(24,900)
	<u>122,386</u>
<b>Net assets</b>	<b>122,386</b>
Net assets acquired	<u>36,716</u>
Consideration:	
Cash	47,388
Off-setting with receivables	34,000
	<u>81,388</u>
Total consideration	81,388
Net assets acquired	(36,716)
	<u>44,672</u>
Debited to capital reserve	<u>44,672</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued***30 June 2007***15. 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 2007, Qingdao Hisense Air-Conditioner Company Limited ("Hisense Air-Conditioner") held 238,872,074 shares of the Company, representing 24.08% of total share capital of the Company.

During the period from 2001 to 2005, the Group had significant transactions and relationships with Greencool Enterprise and its affiliates. The Group also had entered into a series of activities/transactions with companies suspected to be connected with Mr. Gu. Upon the completion of share transfer, Mr. Gu, Greencool Enterprise and its affiliates were no longer connected with the Group. Accordingly, no related party disclosure was made in respect of Mr. Gu, Greencool Enterprise and its affiliates for the period.

During the period, the Group entered into a Business Co-operation Framework Agreement with Hisense Group (*Note 15 I*). The Business Co-operation Framework Agreement is valid for a term of one year commencing from 1 January 2007 to 31 December 2007, but can be terminated before its expiration by mutual agreement of the parties or in the event of any breaches of the agreement. Pursuant to the Business Co-operation Framework Agreement, the Group agrees to sell and supply moulds, air-conditioners, refrigerators and raw materials to Hisense Group, purchase air-conditioners, refrigerators and raw materials from Hisense Group and Hisense Group agrees to render repair and maintenance services for electrical appliances to the Group. The details of the transactions with Hisense Group are disclosed in note 15 II(b).

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** – *Continued*

30 June 2007

**15. RELATED PARTY TRANSACTIONS** – *Continued***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>Relationship</b>
Hisense Air-Conditioner	Single largest shareholder of the Company
Hisense Group	The holding company of Hisense Air-Conditioner and its subsidiaries
Qingdao Hisense Marketing Company Limited ("Hisense Agent")	A fellow subsidiary of Hisense Air-Conditioner
Hisense Electric Co., Ltd. ("Hisense Electric")	A fellow subsidiary of Hisense Air-Conditioner
Hisense (Zhejiang) Air-Conditioner Company Limited ("Hisense Zhejiang")	A subsidiary of Hisense Air-Conditioner
Hisense (Nanjing) Electric Co., Ltd. ("Hisense Nanjing")	A fellow subsidiary of Hisense Air-Conditioner
Hisense (Beijing) Electric Co., Ltd. ("Hisense Beijing")	A fellow subsidiary of Hisense Air-Conditioner
Hisense (Qingdao) Import & Export Co., Ltd. ("Hisense Import & Export")	A fellow subsidiary of Hisense Air-Conditioner
Hisense Hitachi Air Conditioning Co., Ltd. ("Hisense Hitachi")	A fellow subsidiary of Hisense Air-Conditioner
Savor Household Electrical Appliance Service Industry Co., Ltd. ("Savor Service")	A fellow subsidiary of Hisense Air-Conditioner
Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. ("Chongqing Rongsheng")	An associate of the Group
Attend Logistic Co., Ltd. ("Attend Logistic")	An associate of the Group

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

30 June 2007

**15. RELATED PARTY TRANSACTIONS - Continued****I. Relationship with related parties - Continued**

<b>Name of related parties</b>	<b>Relationship</b>
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 Industrial Design Limited ("Kelon Europe")	An unconsolidated subsidiary of the Company
Jiangxi Combine Electrical Appliance Co., Ltd. ("Jiangxi Combine")	An unconsolidated subsidiary of the Company
Chengdu Engine (Group) Company Limited ("Chengdu Engine")	A minority investor of Chengdu Kelon before 24 April 2007
Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing")	A subsidiary 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 Xi'an Kelon
Shunde Yunlong Consultancy ("Shunde Yunlong")	A minority investor of Huaao Electronics

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** – *Continued*

30 June 2007

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

For the purpose of this report, the directors are of the views that the following companies controlled by or suspected to be connected with Mr. Gu are no longer related to the Group starting from 13 December 2006 due to the completion of the share transfer transaction between Greencool Enterprise and Hisense Air-Conditioner. As a result, transactions with Mr. Gu, Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu for the period ended 30 June 2007 are not classified as related party transactions.

<b>Name of related parties</b>	<b>Relationship</b>
Guangdong Greencool Enterprise Development Company Limited ("Greencool Enterprise")	The previous single largest shareholder of the Company
Mr. Gu	The beneficial owner of Greencool Enterprise and also the past executive director of the Company
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
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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

30 June 2007

**15. RELATED PARTY TRANSACTIONS - Continued****I. Relationship with related parties - Continued**

<b>Name of related parties</b>	<b>Relationship</b>
Chengdu Refrigerating Components Factory ("Chengdu Refrigerating")	A company suspected to be connected with Mr. Gu
Hefei Weixi Electrical Appliance Company Limited ("Hefei Weixi")	A company suspected to be connected with Mr. Gu
Jiangxi Keda Plastic Technology Company Limited ("Jiangxi Keda")	A company suspected to be connected with Mr. Gu
Jiangxi Kesheng Trading Company Limited ("Jiangxi Kesheng")	A company suspected to be connected with Mr. Gu
Jinan San'ai'fu Chemical Company Limited ("Jinan San'ai'fu")	A company suspected to be connected with Mr. Gu
Tianjin Lixin Trading Development Company Limited ("Tianjin Lixin")	A company suspected to be connected with Mr. Gu
Tianjin Taijin Yunye Company Limited ("Tianjin Taijin Yunye")	A company suspected to be connected with Mr. Gu
Tianjin Xiangrun Trading Development Company Limited ("Tianjin Xiangrun")	A company suspected to be connected with Mr. Gu
Wuhan Changrong Electrical Appliance Company Limited ("Wuhan Changrong")	A company suspected to be connected with Mr. Gu
Zhongshan Dongyue Electrical Company Limited ("Zhongshan Dongyue")	A company suspected to be connected with Mr. Gu
Zhejiang Guoda Trading Company Limited ("Zhejiang Guoda")	A company suspected to be connected with Mr. Gu
Zhejiang Yuhuan Compressor Factory ("Zhejiang Yuhuan")	A company suspected to be connected with Mr. Gu
Beijing De Heng Solicitors ("Beijing De Heng")	A company suspected to be connected with Mr. Gu

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** – *Continued*

30 June 2007

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

<u>Name of related parties</u>	<u>Relationship</u>
Zhuhai Defa Air-conditioner Fittings Company Limited ("Zhuhai Defa")	A company suspected to be connected with Mr. Gu
Zhuhai Longjia Refrigerating Plant Company Limited ("Zhuhai Longjia")	A company suspected to be connected with Mr. Gu

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

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

	31 December 2006
	<u>RMB'000</u>
	(Audited)
Loan guarantee provided by Greencool Enterprise	
- maximum amount during the year	327,971
- amount as at end of year	<u>85,709</u>



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

30 June 2007

**15. RELATED PARTY TRANSACTIONS - Continued****II. Transactions with related parties - Continued***(b) 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>2007</b>	<b>2006</b>
		<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Sales of goods/raw materials to			
- Hisense Air-Conditioner	(i)	<b>58,197</b>	-
- Hisense Agent	(i)	-	63,751
- Hisense Zhejiang	(i)	<b>7,471</b>	7,039
- Hisense Beijing	(i)	<b>34,564</b>	-
Sales of goods to Hisense Agent under the agency agreement		-	1,689,359
Agency fee paid/payable to			
- Hisense Agent	(ii)	-	13,178
Loan interest payable to			
- Hisense Agent		<b>5,543</b>	8,445
Purchases of goods/raw materials from			
- Hisense Air-Conditioner	(i)	<b>48,971</b>	57
- Hisense Zhejiang	(i)	<b>289,575</b>	53,526
- Hisense Nanjing	(i)	<b>29,550</b>	2,454
- Hisense Beijing	(i)	-	5,520
Sales of moulds to			
- Hisense Electric	(i)	-	2,554
- Hisense Air-Conditioner	(i)	<b>3,079</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 amount of sales proceeds of products under the sales agency agreement.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued**

30 June 2007

**15. RELATED PARTY TRANSACTIONS – Continued****II. Transactions with related parties – Continued***(c) 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>2007</b>	<b>2006</b>
		<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Sales of goods/raw materials to			
- Chongqing Rongsheng	(i)	<b>42,550</b>	-
- Huayi and Jiaxibeila	(i)	<b>18</b>	113
Purchases of goods/raw materials from			
- Huayi and Jiaxibeila	(ii)	<b>112,235</b>	66,774
Service fee charged to			
- Attend Logistic		<b>16</b>	-
Logistics management fee/warehouse rental paid to			
- Attend Logistic	(iii)	<b>29,553</b>	19,381
Water and electricity expenses paid to			
- Attend Logistic		<b>26</b>	-

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

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

(iii) The Group and Attend Logistic entered into a logistics service agreement, pursuant to which Attend Logistic provides transportation and warehousing service to the Group. The service fee is based on the actual volume of goods, the distance delivered, the occupancy space of warehouse and discharged at a pre-determined rate agreed by both parties.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** – *Continued*

30 June 2007

**15. RELATED PARTY TRANSACTIONS** – *Continued***II. Transactions with related parties** – *Continued**(d) 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>2007</b>	<b>2006</b>
		<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Sales of goods/raw materials to			
– Chengdu Xinxing		-	3,320
Purchases of goods/raw materials from			
– Chengdu Xinxing		-	6,458
Interest charged to			
– Chengdu Xinxing		-	993
Water and electricity expenses paid to			
– Chengdu Engine	(i)	<b>4,441</b>	-
Lease payment in respect of plant and equipment to			
– Hangzhou Xileng	(ii)	<b>3,000</b>	<b>3,000</b>

(i) Water and electricity expenses are charged at cost.

(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.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** – *Continued*

30 June 2007

**15. RELATED PARTY TRANSACTIONS** – *Continued***III. Balances with related parties***(a) Balances with Greencool Enterprise and its affiliates*

	31 December 2006
	<i>RMB'000</i> (Audited)
Included in trade and other receivables, net	
- Greencool Enterprise	6,085
- Hainan Greencool	976
- Shenzhen Greencool Technology	32,000
- Shenzhen Greencool Environmental	33,000
	<u>72,061</u>
Included in trade and other payables	
- Hefei Meiling	50
- Jiangxi Greencool	13,000
	<u>13,050</u>

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

As at 31 December 2006, accumulated impairment loss of approximately RMB18,985,000 was recorded in respect of amounts due from Greencool Enterprise and its affiliates.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

30 June 2007

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

	31 December 2006
	<i>RMB'000</i> (Audited)
Included in trade and other receivables, net	
- Beijing De Heng	1,000
- Hefei Weixi	10,424
- Jiangxi Keda	6,500
- Jiangxi Kesheng	6,072
- Jinan San'ai'fu	56,683
- Tianjin Lixin	44,800
- Tianjin Xiangrun	48,199
- Wuhan Changrong	15,539
- Zhuhai Defa	10,700
- Zhuhai Longjia	14,300
	<u>214,217</u>
Included in trade and other payables	
- Tianjin Taijin Yunye	65,000
- Zhongshan Dongyue	4,377
- Zhuhai Longjia	28,316
- Zhuhai Defa	21,400
- Zhejiang Yuhuan	223
	<u>119,316</u>

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

As at 31 December 2006, accumulated impairment loss of approximately RMB344,968,000 was recorded in respect of amounts due from companies suspected to be connected with Mr. Gu.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** – *Continued*

30 June 2007

**15. RELATED PARTY TRANSACTIONS** – *Continued***III. Balances with related parties** – *Continued**(c) Balances with Hisense Group*

	<b>30 June 2007</b>	31 December 2006
	<b>RMB'000 (Unaudited)</b>	RMB'000 (Audited)
Included in trade and other receivables, net		
- Hisense Agent	2	540
- Hisense Air-Conditioner	1,602	335
- Hisense Zhejiang	2,284	582
- Hisense Nanjing	-	730
- Hisense Beijing	8,233	-
- Hisense Import & Export	4	-
	<b>12,125</b>	<b>2,187</b>
Included in trade and other payables		
- Hisense Air-Conditioner	10,069	9,281
- Hisense Agent	231,303	309,965
- Hisense Beijing	2	1
- Hisense Nanjing	13,376	279
- Hisense Zhejiang	184,766	-
- Savor Service	109	-
	<b>439,625</b>	<b>319,526</b>

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

Included in amount due to Hisense Group was an amount of RMB106 million of advance received from Hisense Agent in connection with the sales agency agreement dated on 16 September 2005 (as amended by the first supplemental agency agreement on 26 September 2005 and the second supplemental agency agreement on 1 April 2006). The advance received from Hisense agent is unsecured, interest bearing at the interest rate as quoted by the People's Bank of China for one-year loans and repayable on demand.

All other amounts due to Hisense Group are unsecured, interest-free and repayable on demand.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued**

30 June 2007

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

	<b>30 June 2007</b>	31 December 2006
	<b>RMB'000 (Unaudited)</b>	RMB'000 (Audited)
Included in trade and other receivables, net		
– Attend Logistic	<u>17</u>	<u>40</u>
Included in trade and other payables		
– Attend Logistic	7,117	20,652
– Chongqing Rongsheng	3,948	4,083
– Huayi and Jiaxibeila	<u>55,445</u>	<u>26,945</u>
	<u><b>66,510</b></u>	<u>51,680</u>

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

*(e) Balances with other related companies*

	<b>30 June 2007</b>	31 December 2006
	<b>RMB'000 (Unaudited)</b>	RMB'000 (Audited)
Included in trade and other receivables, net		
– Chengdu Engine	-	47,191
– Chengdu Xinxing	-	34,000
– Kelon Europe	<u>5,536</u>	<u>5,716</u>
	<u><b>5,536</b></u>	<u>86,907</u>
Included in trade and other payables		
– Chengdu Engine	109	5,309
– Chengdu Xinxing	-	11,946
– Hangzhou Xileng	19,272	15,772
– Jiangxi Combine	5,100	5,100
– Xi'an Gaoke	<u>1,785</u>	<u>1,785</u>
	<u><b>26,266</b></u>	<u>39,912</u>

All amounts due from/to other related companies are unsecured, interest-free and are repayable on demand.

As at 30 June 2007, accumulated impairment loss of approximately RMB4,455,000 (2006: RMB4,526,000) was recorded in respect of amounts due from other related companies.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** – *Continued*

30 June 2007

**15. RELATED PARTY TRANSACTIONS** – *Continued***IV. Key management personnel compensation**

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Basic salaries, allowances and benefits-in-kind	<b>1,529</b>	3,664
Defined contribution pension cost	<b>45</b>	-
	<b>1,574</b>	3,664

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 11 individuals (six months ended 30 June 2006: 8 individuals).

**16. CAPITAL COMMITMENTS**

	<b>30 June</b>	31 December
	<b>2007</b>	2006
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Capital expenditure for acquisition of property, plant and equipment contracted for but not provided in the financial statements	<b>33,676</b>	14,004

Other than the above, the Group has the following capital commitments as at 30 June 2007:

During 2006, the Company entered into agreements with Administrative Committee of Chengdu Economic and Technological Development Zone (成都經濟技術開發區管理委員會) for setting up a subsidiary in Chengdu. The total expected cost of investment is approximately RMB350 million. An initial payment of RMB16 million has been made as at 30 June 2007 and is included in trade and other receivables.

**17. 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 amounts 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.



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued***30 June 2007***18. OVERDUE BANK LOANS**

As at 30 June 2007, the Group has outstanding short-term loans in the aggregate of approximately RMB1,194 million (2006: RMB1,557 million) of which approximately RMB176 million (2006: RMB255 million) were overdue. The Group negotiated 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.

**19. SUBSEQUENT EVENTS**

On 27 July 2007, the Company entered into a joint venture agreement (the "Joint Venture Agreement") with Hisense Import & Export, Hisense Electric and certain third parties to establish a joint venture company for the purpose of conducting export of electrical appliances to overseas markets. Pursuant to the Joint Venture Agreement the Company agreed to invest the sums of RMB3,800,000 in cash representing 19% equity interest in the joint venture company.

**HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED***(FORMERLY KNOWN AS GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED)***SUPPLEMENTARY INFORMATION***30 June 2007***DIFFERENCES BETWEEN IFRS AND PRC GAAP AS APPLICABLE TO THE GROUP**

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

	<b>30 June 2007</b>	31 December 2006
	<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>(928,268)</b>	(1,005,720)
Adjustment on impairment and related depreciation on property, plant and equipment	<b>11,142</b>	11,142
Adjustment on contribution from minority shareholders	<b>26,684</b>	26,684
Adjustment on dilution loss on share reform of an associate	<b>16,317</b>	16,317
Adjustment on impairment on goodwill	-	(57,253)
Adjustment on amortisation of trademark	<b>(16,712)</b>	(16,712)
Non-recognition of deferred tax assets	-	(21,387)
	<hr/>	<hr/>
Equity attributable to equity holders of the Company as per consolidated financial statements prepared under PRC GAAP as previously reported	<b>(890,837)</b>	(1,046,929)
	<hr/>	<hr/>
Effect of adoption of China Accounting Standards 2006 ("CAS 2006") effective on 1 January 2007		
Write off of equity investment difference arising from business combinations under common control	-	57,253
Recognition of deferred tax assets	-	21,387
	<hr/>	<hr/>
Equity attributable to equity holders of the Company as per consolidated financial statements prepared under PRC GAAP as restated	<b>(890,837)</b>	(968,289)
	<hr/> <hr/>	<hr/> <hr/>

**SUPPLEMENTARY INFORMATION** - *Continued*

30 June 2007

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

The unaudited consolidated net profit/(loss) 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>2007</b>	<b>2006</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Net profit/(loss) attributable to equity holders of the Company as per condensed consolidated financial statements prepared under IFRS	<b>117,374</b>	(29,153)
Adjustment on impairment and related depreciation on property, plant and equipment	-	1,765
Amortisation of trademark	-	(7,637)
Adjustment on amortisation of goodwill	-	(698)
Release of negative goodwill to income	-	2,395
Others	-	(2,414)
	<hr/>	<hr/>
Net profit/(loss) attributable to equity holders of the Company as per consolidated income statement prepared under PRC GAAP as previously reported	<b>117,374</b>	(35,742)
	<hr/>	<hr/>
Effect of adoption of China Accounting Standards 2006 ("CAS 2006") effective on 1 January 2007		
Retrospective adjustment on amortisation of goodwill and release of negative goodwill to income	-	(1,697)
	<hr/>	<hr/>
Net profit/(loss) attributable to equity holders of the Company as per consolidated income statement prepared under PRC GAAP as restated	<b>117,374</b>	(37,439)
	<hr/> <hr/>	<hr/> <hr/>

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

## INTERIM DIVIDEND

Pursuant to the resolutions passed on the meeting of Board of the Company held on 23 August 2007, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007. No interim dividend was paid for the corresponding period of last year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### PERFORMANCE REVIEW

During the first half year of 2007, in an environment where the economy has gone through a rapid development, competition in the industry remained intense while there was a significant growth in the white home appliances industry due to the continuous improvement of residential consumption as well as the gradual expansion of mid-to-high-end products market capacity.

During the Reporting Period, the Company's revenue from principal operations was RMB4.85 billion, representing an increase of 35.35% as compared with the corresponding period in 2006; the net profit was RMB96.59 million, representing an increase of RMB134.24 million as compared with the same period of 2006; and profit attributable to equity holders was RMB117.37 million.

### ANALYSIS FROM OPERATIONAL STRUCTURE

During the Reporting Period, among the Company's revenue from principal operations, revenue from air-conditioners business accounted for 45.18% of the total turnover of the Company, representing an increase of 38.31% as compared with the same period of the previous year; revenue from refrigerators business accounted for 47.11 % of the total turnover of the Company, representing an increase of 37.52% as compared with the same period of the previous year; the remaining 7.71% of the total turnover was generated from other businesses, such as the sale of freezer and product components.

In addition, domestic sales accounted for 55.19% of the total turnover of the Company, representing an increase of 11.65% as compared with the same period of the previous year; export sales accounted for 44.81% of the total turnover of the Company, representing an increase of 83.26% as compared with the same period of the previous year.

The Board does not recommend the payment of interim dividend to the shareholders of the Company (no dividend was paid by the Group for the first half year of 2006).

### Air-conditioners business

Despite the increase in domestic sales of air-conditioners as compared with the same period of the previous year, its growth fell below the average growth of the whole industry and the Company remained a significant distance behind its major competitors due to the insufficiency of purchase and production at the beginning of the year, which left the Company unable to stock sufficient supply for channel distribution during the peak season (March and April), and thus missing the valuable selling opportunity, and the sales channels and distribution network have not been fully recovered and the "KELON" brand was still under unfavourable influence. In addition, as the Company failed to make a breakthrough in the scale of production of air-conditioners, further expansion is therefore expected.

**MANAGEMENT DISCUSSION AND ANALYSIS – Continued****ANALYSIS FROM OPERATIONAL STRUCTURE – Continued****Refrigerators business**

During the Reporting Period, the Company has been aggressively exploring the overseas markets, and has established closer strategic relationship with its major customers; The Company has increased the investment in advertising and exploited and promoted the essence of the “RONSHEN” brand. However, as a result of the labour shortage all over the country in the beginning of the year and the difficulties encountered by the Company in recruiting staff, the Company failed to enhance its production capacity efficiently to fill the stock, therefore the Company failed to accomplish the targeted sales volume of “RONSHEN” refrigerators, and moreover, our Class 3 and 4 markets have been challenged by the sudden emergence of a large number of small-scale refrigerator manufacturers. There was also a difference between the performance of the Company and that of the whole industry in terms of the growth in domestic sales.

Despite the significant growth in export sales of refrigerators, the gross profit margin decreased as compared with the same period of the previous year, mainly due to the ineffective export structure. Current sales of refrigerators mainly consists of small-volume refrigerators and the prices of which are low. In addition, as a result of the increase in the price of major raw materials (both the white and black materials etc.) for refrigerators and the appreciation of Renminbi, the gross profit margin for refrigerator export business remained low. It is expected that the export of refrigerators will face even more challenging situation with the upcoming adjustment of the State’s export tax refund policy as well as the rise of ocean transportation cost. The Company, in the later stage, will focus on improving the export product sales structure and shift towards the production and sale of large-volume refrigerators of advanced high-tech nature and high gross profit margin.

**Analysis of the influence of the results**

The management of the Company considered that the rise in the revenues from the principal operation and the net profit of the Company during the Reporting Period was mainly due to the overall growth of the domestic economy and the industry as well as the numerous measures adopted by the Company during the Reporting Period to improve the operational effectiveness, which facilitated the Company to achieve a better performance. However, the Company is generally still in a recovery stage. A number of historical problems has brought numerous difficulties to the Company. Therefore, the Company still failed to achieve its targets during the Reporting Period.

**Analysis of reasons for the improvements in the results:**

- (1) The cash received from disposal of idle assets during the Reporting Period could satisfy the Company’s fund demand for production as well as maintaining the Company’s reputation during the peak season and has to a certain extent improved the asset structure and quality of the Company. Meanwhile, it has made a great contribution to the profit during the Reporting Period, which has brought the Company a net profit of RMB67 million.
- (2) During the Reporting Period, the Company entered into the debt transfer agreement with Foshan Shunde Shunrong Investments Company Limited to transfer the Company’s rights to the debts of Foshan Shunde Jiegao Investments Company Limited to Foshan Shunde Shunrong Investments Company Limited at a consideration of RMB142 million. The transfer has set off the provision for bad debt previously made and contributed a profit of RMB57.07 million to the Company.
- (3) The Company continuously improved the product sales structure while developing high-end products market to increase the gross profit of products. Especially in the first half year of 2007, the gross profit margin of air-conditioners recorded an increase as compared with the same period of the previous year, indicating a remarkably stronger profitability.
- (4) The Company’s efforts on accelerating fund liquidity have been rewarded, especially in the turnover of working capital. Turnover of raw material in all production factories have generally reached the industry advanced levels.

## MANAGEMENT DISCUSSION AND ANALYSIS – *Continued*

### ANALYSIS FROM OPERATIONAL STRUCTURE – *Continued*

#### Analysis of reasons for the improvements in the results: – *Continued*

- (5) During the Reporting Period, the Company adhered to the operation guideline of “Forging Product Competitive Edge” and stressed on the depth of research and development efforts, reinforced the research and development of mid-to-high-end products and increased energy-saving effectiveness. To meet specific market demands, the Company has launched new models of two-door refrigerators and energy-saving and highly-efficient air-conditioners. Both products have won the appreciation by the consumers and support by the market.
- (6) With increasing amount of components purchased from outside as well as reinforced quality control of product design and production, perfection of quality control system and promotion and application of advanced management tools, the Company has achieved a remarkable decrease in the quality assurance costs and return-for-repair rate with a significant upgrading of product reputation, which have boosted the re-establishment of the brand image and sales.

The operation quality of the Company has marked improvement through the above-mentioned efforts. However, as a result of the following factors, the results of the Company are also adversely affected:

- (1) The appreciation of Renminbi: from the beginning of this year to June 2007, the accumulated appreciation of Renminbi has reached 2.34%. The total loss incurred by the Company as a result of the exchange rate for the first half of this year was in the total sum of approximately RMB22,379,000, representing an increase of 60.62% as compared to the same period of last year.
- (2) Product sales was greatly hindered by the insufficient production resources and failure of productivity to meet preset targets at the beginning of 2007.
- (3) The economic scale of air-conditioning products failed to meet the industry standard and the expected growth level. The distribution costs were not under effective control and the domestic and overseas transportation costs have increased. The operating expenses during the Reporting Period were high and reached 13.37%.
- (4) The gross profit margin for exported products, especially refrigerators, remained at a low level under the influence of the sales structure of exported products.
- (5) Due to historical reasons, a number of the production factories of the Company have suspended their productions and continued to suffer losses. Certain production infrastructures were under reconstruction and had not been completed, which, to a certain extent, pared down the restoration and growth of the Company’s scale and results.

### OUTLOOK

During the second half year of 2007, the competition in the global home appliances market is expected to intensify. In view of the appreciation of Renminbi, the increase in ocean transportation costs as well as the non-tariff barriers, risks on the export business of home appliances manufacturers will be aggravated.

With the increasing domestic and foreign concerns on the energy efficiency of home appliance as well as the promulgation of the relevant compulsory standards, competitions with respect to the energy-saving technology for refrigerators and air-conditioners will become more severe, and thus driving the upgrade of products’ structure. As a leader in the technology of the domestic home appliance industry, the Company possesses advanced technological level beyond competitors and a competent research and development team, which will ensure the significant competitiveness of the technologies and products of the Company in the industry.

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

The operational effectiveness has been improved during the first half of this year, but there is still a long distance from the development goal of the Company and the advanced level of the industry. As the product sales has just stepped into a low season, the operation of the Company in the second half year will be under even greater pressure. The Company will take the following measures to improve the operation in low season with an attempt to lay down a solid foundation for further expansion in the coming year. With respect to the coordination among research and development of products, production and sales, the Company will accelerate and reinforce the implementation of its annual operational guidelines, encourage the management efficiency, exploit the internal potentials, create competitive advantage for products, strengthen staff training, so as to enhance operational effectiveness and offer a strong support for the rapid but healthy development of the Company.

1. The Company plans to further optimise the industrial layouts, clear up and dispose of certain production factories without valuable contributions to the overall business development of the Company, so that it can concentrate on its principal operations. However, the clearing up of subsidiaries is expected to bring certain losses.
2. Under the foundation of significant breakthrough in the wind enhancement technology of air-conditioners and the technology of refrigerators in the first half year, the Company will continue to increase the investment in research and development, particularly the preliminary technological research in order to maintain the Company's leading position in the industry with respect to technology and product quality. In addition, the Company will strengthen the process management for new products and conduct the product planning as early as possible according to the regulation for the industry to guarantee the timely launch of its new products in the coming year.
3. Through adoption of improved technology and the joint development of new products (such as setting up overseas research and development centres), the development of well-oriented products and shortening the lead time, the Company aims at getting closer to the customer market, continuously consolidating the strategic relationships with overseas customers, especially major customers, obtaining large orders, optimising the structure of exported products and improving our profitability. Meanwhile, the Company plans to cope with the influence of Renminbi appreciation through putting efforts on costs reduction, optimisation of currency settlement structure, increasing raw materials import and promoting order financing, and consider the opportunities such as setting up overseas plants at an appropriate time.
4. In order to secure stock supply in order to satisfy the demand on the expansion of the aftermarket, the Company will focus on improving its production capability and revamping critical bottle-neck facilities. On one hand, the Company will proactively push on various technological revamping projects, including the investment in a production line of large-volume refrigerators, revamping critical bottle-neck facilities to enhance productivity and renovating and building staff dormitories for senior staff and dining rooms to improve the living conditions of our staff and finally resolve the shortage of labour.
5. Aggressively boosting the development of related products and increasing the new profit generating points, such as developing commercial air-conditioners.

**LIQUIDITY AND SOURCES OF CAPITAL**

Net cash generated from operating activities of the Group was approximately RMB119,168,000 for the six months ended 30 June 2007.

As at 30 June 2007, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB261 million and bank loans amounting to approximately RMB1.19 billion.

Total capital expenditures of the Group for the six months ended 30 June 2007 amounted to approximately RMB98.15 million.

## TOTAL ASSETS TO TOTAL LIABILITIES RATIO

As at 30 June 2007, the total assets to total liabilities ratio of the Group was 88%.

## TRUST DEPOSITS

As at 30 June 2007, 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 has been subject to a profit tax rate of 18% since June 2003.

## HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2007, the Group had approximately 13,029 employees, mainly comprising 1,072 technicians, 6,303 marketing staff (including promotion staff), 435 financial staff, 489 administrative staff, and 4,714 production staff. Among the Group's employees, there are 2 doctorate graduates, 112 master graduates and 2,627 graduates with bachelor's degree, 432 employees with official titles of middle rank or above. Besides, the Group has 54 retired staff. For the six months ended 30 June 2007, the Group's staff payroll amounted to RMB327,173,659 (corresponding period in 2006 amounted to RMB298,321,497).

## CHARGE ON THE GROUP'S ASSETS

As at 30 June 2007, the Group's "investment properties" and "plant, machinery and equipment" amounted to approximately RMB760,644,863 (31 December 2006: RMB575,964,000) 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 certain exposure to exchange rate fluctuation, and financial instruments such as export note discounts, inward/outward documentary bills and hedges were used to hedge risk of exchange rate.

## CONTINGENT LIABILITIES

As at 30 June 2007, the Group was involved in a number of material litigations with estimated contingent liabilities of RMB8,712,000.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code for securities transactions by its directors; after due enquiries with the directors of the sixth session of the Board, all directors of the sixth session of the Board confirmed that they had complied with the Model Code during the Reporting period.



## H

### SHARE CAPITAL STRUCTURE

For the six months ended 30 June 2007, there was no change in the share capital structure of the Company. As at 30 June 2007, the share capital structure of the Company was as follows:

	<u>Number of Shares</u>	<u>Percentage to the total issued share capital</u>
H shares	459,589,808	46.33%
A Shares	532,416,755	53.67%
Total	<u>992,006,563</u>	<u>100.00%</u>

### TOP TEN/SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, there were 46,642 shareholders in total. So far as the Directors are aware, as at 30 June 2007, the following persons had interest in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 36 of the Securities and Futures Ordinance (the Laws of Hong Kong) (the "SFO"):

<u>Name of Shareholder</u>	<u>Nature of Shareholder</u>	<u>No. of Shares held</u>	<u>Percentage of the total issued share capital of the Company</u>	<u>Percentage of the relevant class of issued shares of the Company</u>	<u>No. of shares subject to trading moratorium held</u>	<u>No. of Pledged or Frozen Shares</u>
Hisense Air-conditioning	Domestic non-state-owned legal person shares	238,872,074	24.08%	44.87%	238,872,074	0
Economic Consultancy	Domestic non-state-owned legal person shares	68,666,667	6.92%	12.90%	68,666,667	0
Shenyin Wanguo Securities (H.K.) Limited	Foreign Shareholder	55,091,000	5.55%	11.99%	0	Unknown
The Hongkong and Shanghai Banking Corporation Limited	Foreign Shareholder	51,343,925	5.18%	11.17%	0	Unknown
Bank of China (Hong Kong) Limited	Foreign Shareholder	49,073,000	4.95%	10.68%	0	Unknown
Guotai Junan Securities (Hong Kong) Limited	Foreign Shareholder	40,920,000	4.12%	8.90%	0	Unknown
HSBC Nominees (Hong Kong) Limited	Foreign Shareholder	40,106,904	4.04%	8.73%	0	Unknown
First Shanghai Securities Limited	Foreign Shareholder	25,860,000	2.61%	5.63%	0	Unknown
Hang Seng Securities Limited	Foreign Shareholder	20,235,000	2.04%	4.40%	0	Unknown
Standard Chartered Bank (HK) Ltd.	Foreign Shareholder	10,604,500	1.07%	2.31%	0	Unknown

*Note:* As at 29 June 2007, as shown in the register of substantial shareholders maintained according to Section 336 of the Securities and Futures Ordinance (the Laws of Hong Kong) (the "SFO"), the top eight shareholders among the above top 10 shareholders held short positions in the issued share capital of the Company.

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

Name of Shareholders	Number of tradable	Share class
Shenyin Wanguo Securities (H.K.) Limited	55,091,000	H shares
The Hongkong and Shanghai Banking Corporation Limited	51,343,925	H shares
Bank of China (Hong Kong) Limited	49,073,000	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	25,860,000	H shares
Hang Seng Securities Limited	20,235,000	H shares
Standard Chartered Bank (HK) Ltd.	10,604,500	H shares
BOCI Securities Limited	8,216,000	H shares
Sun Hung Kei Investment Services Limited	7,893,000	H shares

*Remarks:* The Company is not aware of whether any of the top ten shareholders of the transferable shares is connected with each other or any of the top ten transferable shareholders constitutes a party acting in concern as defined in the "Administrative Measures for Information Disclosure of the Shareholders of Listed Companies".

**INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES**

As at 30 June 2007, none of the directors of the sixth Board, supervisors or the chief executive of the Company and any of their respective associates held any interests or short positions in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to the Model Code or required to be recorded in the register maintained by the Company.

**PURCHASE, SALE OR REDEMPTION OF SHARES**

During the Reporting Period, neither the company nor any of its subsidiaries has purchased, sold, redeemed any of the Company's securities.

**AUDIT COMMITTEE**

The Audit Committee of the Company has reviewed the interim results announcement and interim report for the period ended 30 June 2007 and considered that the interim report of the Company has complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

**CORPORATE GOVERNANCE**

During the Reporting Period, the Company has always been in compliance with the provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules. In order to standardise the Company's operations and enhance its internal control, the Board considered and approved the Rules on Internal Control System, the Administrative Rules Governing Connected Transactions, the Administrative Rules Governing Information Disclosure and the Rules on Reception and Promotion System on 28 June 2007, which have been uploaded to the websites of The Shenzhen Stock Exchange, The Stock Exchange of Hong Kong Limited and the Company.

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

At the request of the Company, trading in the H shares of the Company was suspended with effect from 10:00 a.m. on 16 June 2005 until further notice.

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

Foshan City, Guangdong, the PRC, 23 August 2007

*As at the date of this report, the Company's directors are Mr. Tang Ye Guo, Mr. Yang Yun Duo, Mr. Wang Shi Lei, Ms. Yu Shu Min, Mr. Lin Lan and Ms. Liu Chun Xin; and the Company' independent non-executive directors are Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren.*

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

**I. ANALYSIS OF FINANCIAL AND OPERATION POSITION DURING THE REPORTING PERIOD**

**1. Analysis of financial position during the Reporting Period**

*Unit: RMB*

<u>Item</u>	<u>30 June 2007</u>	<u>31 December 2006</u>	<u>The percentage of increase or decrease (%)</u>
Notes receivable	<b>138,692,912.45</b>	77,317,440.80	79.38%
Trade receivables	<b>830,245,078.03</b>	374,911,284.04	121.45%
Inventories	<b>1,131,797,733.72</b>	919,836,622.62	23.04%
Construction in progress	<b>67,149,462.00</b>	283,719,768.18	-76.33%
Notes payable	<b>302,929,940.00</b>	508,047,387.22	-40.37%
Trade payables	<b>2,413,762,657.22</b>	1,467,483,921.58	64.48%

Where:

- Notes receivable and trade receivables increased by 79.38% and 121.45%, respectively at the end of the Reporting Period as compared to that at the beginning of the Reporting Period, primarily because of the increase in the revenue of the Company during the Reporting Period. Besides, bank acceptances notes are currently the principal form of payment for the domestic sales in the PRC and thereby causing the increase in notes receivable and trade receivables at the end of the Reporting Period. Since June is a peak season for white home appliance industry, the increase in stock during the end of the Reporting Period was caused by the increase in storage of stock by the Company for the peak season.
- Construction in progress decreased by approximately 76.33% at the end of the Reporting Period as compared to that at the beginning of the Reporting Period, primarily because the construction in progress were transferred to fixed assets due to completion of the construction. Further, according to the new accounting standard, the land use rights which were originally regarded as construction in progress were now reclassified as intangible assets.
- Notes payable decreased by approximately 40.37% at the end of the Reporting Period as compared to that at the beginning of the Reporting Period, mainly because the Company has paid substantial amount of due bank acceptances notes during the Reporting Period.
- Trade payables increased by approximately 64.48% at the end of the Reporting Period as compared to that at the beginning of the Reporting Period, primarily because the Company is at its peak season for production during the Reporting Period, and the purchase volume of raw materials increased significantly.

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

**I. ANALYSIS OF FINANCIAL AND OPERATION POSITION DURING THE REPORTING PERIOD - Continued**

**2. Expenses for the Reporting Period**

Unit: RMB

Items	From January to June 2007	From January to June 2006	The percentage of increase or decrease (%)
Distribution costs	<b>648,747,489.21</b>	558,786,006.75	16.10%
Administrative expenses	<b>159,128,698.23</b>	175,727,385.58	-9.45%
Finance costs	<b>65,938,272.20</b>	90,233,581.49	-26.92%

(1) The distribution costs during the Reporting Period increased by 16.10% as compared to that of the corresponding period of last year, which was primarily due to the significant increase of the export sales of the Company, the increase in sea transportation and international selling expenses and the rise in promotion expenses as a result of the expansion of the domestic sales scale.

(2) The administrative expenses decreased by RMB16.6 million as compared to that of the corresponding period of last year. The decrease was primarily attributable to a series of effective measures taken and implemented gradually by the Company in controlling costs during the Reporting Period.

(3) Capital situation of the Company further improved. The Company repaid part of the bank loans so as to reduce the financing size. At the same time, the Company obtained the support from several banks to improve financing structure and thus reducing the financing costs of the Company. Therefore, the finance costs of the Company has reduced significantly as compared to that of the corresponding period of last year.

**3. Statement of cash flow for the Reporting Period**

Unit: RMB

Items	From January to June 2007	From January to June 2006	Increase (%)
Cash flow generated from operating activities	Subtotal of cash inflow	5,287,051,806.91	-10.14%
	Subtotal of cash outflow	5,121,419,556.98	-8.63%
	Net cash flow generated from operating activities	165,632,249.93	-56.96%
Cash flow generated from investing activities	Subtotal of cash inflow	738,918.86	35,054.24%
	Subtotal of cash outflow	22,516,951.07	168.95%
	Net cash flow generated from investing activities	(21,778,032.21)	N/A
Cash flow generated from financing activities	Subtotal of cash inflow	713,021,241.55	-2.06%
	Subtotal of cash outflow	849,912,905.51	3.59%
	Net cash flow generated from financing activities	(136,891,663.96)	N/A

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

**I. ANALYSIS OF FINANCIAL AND OPERATION POSITION DURING THE REPORTING PERIOD – Continued**

**3. Statement of cash flow for the Reporting Period – Continued**

During the Reporting Period, the Company has disposed of certain long-term idle assets in order to reduce inefficient occupation of assets and optimise assets structure. The proceeds from the disposal was mainly used to repay the Company's bank loans and to reduce the borrowing size and finance costs of the Company. This had resulted in large increase in cash inflow generated from investing activities and cash outflow from financing activities as compared to the corresponding period of the previous year.

**II. PARTICULARS OF THE CHANGES IN SHAREHOLDINGS OF THE SHARES OF THE COMPANY HELD BY DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT DURING THE REPORTING PERIOD**

<u>Name</u>	<u>Position</u>	<u>No. of shares held at the beginning of the year</u>	<u>No. of shares increase during the Reporting Period</u>	<u>No. of shares decrease during the Reporting Period</u>	<u>No. of shares held at the end of the period</u>	<u>Reasons for movement</u>
Wang Jiu Cun	Vice President	13,800	1,656	-	15,456	As a result of the share reform, 1,656 shares were granted for the Reporting Period.

Except for Ms. Wang Jiu Cun (Vice President) holds shares of the Company, none of other Directors, supervisors and senior managements hold any share of the Company.

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

The sixth session of the Board considered and approved the appointment of Mr. Jia Shao Qian as the vice president of the Company on 30 January 2007.

The sixth session of the Board considered and approved the appointment of Mr. Su Yu Tao as the vice president of the Company on 23 March 2007.

The resignation of Mr. Xiao Jian Lin as the Director of the Company due to personal reasons was approved at the 2007 eighth Board meeting of the sixth Board on 21 June 2007.

**IV. INVESTMENTS OF THE COMPANY DURING THE REPORTING PERIOD**

1. During the Reporting Period, the Company did not raise any capital and no capital raised during any prior period was used during the Reporting Period.

**2. Material Investment excluding raising of capital during the Reporting Period**

(1) As at the end of the Reporting Period, the equity transfer procedures in relation to the transfer of the 30% equity interest of Chengdu Kelon from Chengdu Engine (Group) Co., Ltd. to the Company was completed. The Company is now holding 100% of the equity interest of Chengdu Kelon.

(2) During the Reporting Period, the Company has invested the sum of RMB1,500,000 to establish Hisense (Chengdu) Refrigerator Co. with Pearl River Electric Refrigerator Company Limited, a wholly owned subsidiary of the Company.

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

**V. THE PROGRESS OF SETTLEMENT ON THE FUNDS EMBEZZLED FOR NON-OPERATING PURPOSES**

**1. Amount of funds embezzled for non-operating purposes at beginning of the Reporting Period and end of the Reporting Period**

*Unit: RMB (in ten thousand)*

Balance of the amount of the Company embezzled by the former substantial shareholders, its subsidiaries, specified third parties and other related parties for non-operating purpose						
<u>1 January 2007</u>	<u>30 June 2007</u>	<u>Amount settled during this period</u>	<u>Form of settlement</u>	<u>Amount settled</u>	<u>Time for Settlement</u>	
68,921.99	65,514.95	3,407.04	Offsetting with the consideration for equity transfer (Note 1)	3,400	24 April 2007	
			Collection of outstanding payments (Note 2)	7.04	May 2007	

*Note 1:* On 24 April 2007, the equity transfer procedure of the 30% equity interest of Chengdu Kelon from Chengdu Engine (Group) Co., Ltd. to the Company was completed. According to the agreement, the loan of RMB34,000,000 owed by Chengdu Xinxing to Chengdu Kelon will be repaid by Chengdu Engine (Group) Co., Ltd. and set off against the consideration for the equity transfer of Chengdu Kelon.

*Note 2:* During the Reporting Period, the Company collected the outstanding payments of RMB70,400 from Yunlong Consultancy.

As at the end of the Reporting Period, the total funds embezzled by the former substantial shareholder and its subsidiaries, specified third parties and other related parties for non-operating reasons amounted to RMB655.15 million of which totally RMB650.69 million was embezzled by Guangdong Greencool (the former substantial shareholder) and its subsidiaries and specified third parties while RMB4.46 million was embezzled by other related parties.

**2. The progress of settlement during the Reporting Period**

During the Reporting Period, the settlement panel of the Company had been working on settlement. Up to date, progress has been made in eight of the twenty litigations initiated by the Company against Gu Chujun and Guangdong Greencool and its subsidiaries (the former substantial shareholder), specified third parties and other related parties (total target claim amount of RMB528.04 million. The Intermediate People's Court of Foshan City has heard on these eight lawsuits respectively, but judgment of which are still pending. (see details in Relevant Litigations and Arbitrations of the Company set out in part VI to this section).

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

**VI. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY FOR THE REPORT PERIOD**

**1. Background information on material litigations involving target claim amount over RMB10,000,000**

**Litigation involving Greencool Companies and the specified third parties**

<b>No.</b>	<b>Name of case</b>	<b>Counterparty</b>	<b>Target Claim Amount</b> <i>(in ten thousand RMB)</i>	<b>Background information of the case</b>	<b>The progress of the case</b>
1	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Jiangxi Kesheng	Guangdong Greencool, Gu Chu Jun and Jiangxi Kesheng	1,863.00	Under the authorisation by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the Company that, on 20 February 2005, it infringed the legal interests of the plaintiff by making use of the name of Jiangxi Kesheng so as to avoid the regulatory restrictions on connected transactions and misappropriated RMB18.63 million of the plaintiff.	The hearing was commenced in Foshan Intermediate Court on 27 June 2007. The case is now pending for judgement.
2	Litigation initiated by Shenzhen Kelon against Guangdong Greencool, Tianjin Lixin, Shenzhen Greencool and Gu Chu Jun	Guangdong Greencool, Tianjin Lixin, Shenzhen Greencool and Gu Chu Jun	8,960.03	Under the authorisation by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the Company to procure the plaintiff to enter into a sale and purchase contract with Tianjin Lixin regarding the purchase of 12,700 tons of steel. The plaintiff made the payment by two installments to Tianjin Lixin on 26 and 27 April 2005, respectively, and Tianjin Lixin transferred the amounts collected to Shenzhen Greencool. The plaintiff has not received any steel supply from Tianjin Lixin. Guangdong Greencool and Mr. Gu Chu Jun misused their controlling position in the Company and infringed the legal interests of the plaintiff.	The hearing was commenced in Foshan Intermediate Court on 27 June 2007. The case is now pending for judgement.



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

**VI. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY FOR THE REPORT PERIOD – Continued**

**1. Background information on material litigations involving target claim amount over RMB10,000,000 – Continued**

<u>No.</u>	<u>Name of case</u>	<u>Counterparty</u>	<u>Target Claim Amount</u> <i>(in ten thousand RMB)</i>	<u>Background information of the case</u>	<u>The progress of the case</u>
3	Litigation initiated by Kelon Fittings against Guangdong Greencool, Tianjin Xiangrun, Shenzhen Greencool and Gu Chu Jun	Guangdong Greencool, Tianjin Xiangrun, Shenzhen Greencool and Gu Chu Jun	9,741.22	Under the authorisation by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the Company to procure the plaintiff to enter into a sale and purchase contract with Tianjin Xiangrun regarding the purchase of 8,820 tons of steel from it. The plaintiff made the payments by installments to Tianjin Xiangrun on 26, 27 and 28 April 2005, respectively, but the plaintiff did not receive any steel from Tianjin Xiangrun. Guangdong Greencool and Mr. Gu Chu Jun misused its controlling position in the Company and appropriated RMB97.41 million of the plaintiff.	The hearing has been commenced in Foshan Intermediate Court on 27 June 2007. The case is now pending for judgement.

**Other litigations**

<u>No.</u>	<u>Name of case</u>	<u>Counterparty</u>	<u>Target Claim Amount</u> <i>(in ten thousand RMB)</i>	<u>Background information of the case</u>	<u>The progress of the case</u>
1	Litigation initiated by Guangzhou Mei Kou Jia Food Company Limited (廣州美口佳食品有限公司) against Ronshen Freezer	Guangzhou Mei Kou Jia Food Company Limited (廣州美口佳食品有限公司)	1,000.00	The plaintiff filed the litigation alleging that the freezers sold by Kelon failed to meet the requirements stipulated in the contract.	This is a new case occurred during the reporting period. The Company has appointed lawyers as the agent to deal with this case.

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

**VI. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY FOR THE REPORT PERIOD – Continued**

**1. Background information on material litigations involving target claim amount over RMB10,000,000 – Continued**

<u>No.</u>	<u>Name of case</u>	<u>Counterparty</u>	<u>Target Claim Amount</u> <i>(in ten thousand RMB)</i>	<u>Background information of the case</u>	<u>The progress of the case</u>
2	Litigation initiated by Ronshen Refrigerator against Xi'an Kelon	Xi'an Kelon	9,998.41	The Company claimed against the defendant for the repayment of the loan of RMB89.18 million and the related interest amounting to RMB10.8 million.	Ronshen Refrigerator received Civil Judgment (Fo Zhong Fa Li Bao Zi No.241 (2007)) and the summon from the Foshan Intermediate Court on 22 June 2007, which stated that, as applied by Ronshen Refrigerator, on 13 June, 2007, Foshan Intermediate Court issued an order of freezing the bank deposit of Xi'an Kelon amounting to RMB89,000,000 or sealing up and distraining its assets of such equivalent amount. The trial of this case has been postponed.
3	Litigation initiated by the Company against Shangqiu Kelon	Shangqiu Kelon	2,566.09	The Company claimed against the defendant for the repayment of the loan of RMB21,590,900, the related interest amounting to RMB4,070,000 and to assume the litigation costs of the case.	On 15 July 2007, the Company received the summon and the Civil Judgment (Fo Zhong Fa Li Bao Zi No.262 (2007)) regarding the Company's application to the Foshan Intermediate Court for an order of freezing the properties of the opposite party.

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

**VI. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY FOR THE REPORT PERIOD – Continued**

**1. Background information on material litigations involving target claim amount over RMB10,000,000 – Continued**

<u>No.</u>	<u>Name of case</u>	<u>Counterparty</u>	<u>Target Claim Amount</u> <i>(in ten thousand RMB)</i>	<u>Background information of the case</u>	<u>The progress of the case</u>
4	Litigation initiated by Jilin City Commercial Bank Jiangbei Branch against Jilin Kelon and the Company	Jilin City Commercial Bank Jiangbei Branch	1,805.79	The Plaintiff claimed for principal and related interest.	It was judged by the Court that the Company did not need to bear any responsibility.

Apart from the cases above, details of other material litigations are disclosed in the material litigations section set out in the Announcement of Results for the year ended 31 December 2006 dated 27 April 2007 and Announcement on the Addition and Amendment to the Annual Report for the year ended 31 December 2006 dated 12 July 2007.

**2. General status of the litigations**

As of the date of this report, the Company and its subsidiaries were involved in 104 litigations with a total claim amount of RMB1,104,060,000, US\$13,750,719.19 and involving land of 629,003.22 square metres.

Among the aforementioned litigations involving the Company and its subsidiaries, the Company and its subsidiaries acted as plaintiffs in 30 cases with a total claim amount of RMB944,316,700 and as defendants in 74 cases involving an amount of RMB159,743,200, US\$13,750,719.19 and land of 629,003.22 square metres.

Among the aforementioned litigations involving the Company and its subsidiaries, there are 28 litigations and arbitrations as disclosed above involving an amount exceeding RMB10,000,000 each (with a total claim amount of RMB1,045,492,200, US\$13,750,719.19), 76 litigations with a claim amount less than RMB10,000,000 each (with a total claim amount of RMB58,567,800 and land of 629,003.22 square metres).

**3. The additional new litigations and the status of completed litigations**

From 1 January 2007 to the date of this report, the Company and its subsidiaries were involved in 61 new litigations with a total claim amount of RMB173,452,300. The Company and its subsidiaries acted as plaintiff in 8 cases with a total claim amount of RMB140,191,800 and as defendants in 53 cases involving an amount of RMB33,260,500. Among the aforementioned new litigations, there are 4 litigations as disclosed above involving an amount exceeding RMB10,000,000 each (with a total claim amount of RMB147,192,900), 57 litigations with a claim amount less than RMB10,000,000 each (with a total claim amount of RMB26,259,400).

From 1 January 2007 to the date of this report, the Company and its subsidiaries were involved in a total of 17 closed cases with a total claim amount of RMB183,853,500. Among the closed cases above, the Company and its subsidiaries were acting as plaintiffs in 1 litigations with a total claim amount of RMB168,855,100. The Company and its subsidiaries were acting as defendants in 16 litigations involving a total claim amount of RMB14,998,400.

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

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

**Disposal of assets**

*Unit: RMB (in ten thousand)*

Transaction counterpart	Disposed assets	Date of disposal	Net account value	Transaction price	Net profit attributable to the disposed assets from the beginning of the year to the date of disposal	Gain or loss on disposal	Percentage to total profit	Connected transaction or not	Basis of pricing	Completion of transfer of title of relevant assets	Completion of transfer of relevant indebtedness
Gateway Limited	Buildings	March 2007	6,688.40	12,329.54	5,517.84	5,517.84	57.48%	No	Tender	Yes	Yes
Fuji Elevator	Buildings	June 2007	676.38	1,635.54	865.00	865.00	9.01%	No	Tender	Yes	Yes

*Note:* The disposals made by the Company during the Reporting Period mainly consisted of idle assets. It would help to optimise the assets structure of the Company. The disposals posed no impact on the continuity of operation and 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 SHARES INTERIM RESULTS ANNOUNCEMENT (CALCULATED IN ACCORDANCE WITH PRC GAAP) – Continued**

**VIII. PARTICULARS OF MATERIAL RELATED PARTYS' TRANSACTIONS DURING THE REPORTING PERIOD**

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

Unit: RMB

Related parties	Subject of the related parties' transaction	Pricing policy	Terms of credit of transaction	Sale of products and provision of services to related parties		Purchase of goods and receipt of services from related parties	
				Transaction amount	Percentage of total amount of similar transactions	Transaction amount	Percentage of total amount of similar transactions
Hisense Zhejiang	Purchase of air-conditioners	Note 4	55 days	-	-	289,575,366.20	6.77%
Hisense Zhejiang	Sale of plastic parts of air-conditioners	Note 2	55 days	7,470,510.94	0.15%	-	-
Hisense Air-conditioning	Sale of components of air-conditioners	Note 2	55 days	4,615,217.56	0.09%	-	-
Hisense Air-conditioning	Purchase of air-conditioners	Note 4	55 days	-	-	48,971,490.07	1.15%
Hisense Air-conditioning	Sale of air-conditioners	Note 1	55 days	53,581,741.84	1.04%	-	-
Hisense Air-conditioning	Sale of moulds	Note 3	60 days	3,078,974.38	0.06%	-	-
Hisense Nanjing	Purchase of refrigerators	Note 4	60 days	-	0.00%	29,549,628.57	0.69%
Hisense Beijing	Sales of refrigerators	Note 1	60 days	34,563,838.25	-	-	-
Huayi Compressor	Purchase of compressors	Note 5	60 days	-	-	32,994,550.14	0.77%
Jiaxi Beila	Purchase of compressors	Note 5	60 days	-	-	79,240,407.33	1.85%
Chongqing Kelon	Sale of refrigerators	Agreed price	Spot delivery	42,549,554.69	0.83%	-	-
Total				<u>145,859,837.66</u>	<u>2.84%</u>	<u>480,331,442.31</u>	<u>11.23%</u>

Note 1: The sales of products from the Company or its subsidiaries to Hisense related party (including refrigerators and air-conditioners, same as below)

The prices of products supplied from the Company or its subsidiaries to Hisense related party are principally determined by negotiation between the parties based on the principle of fairness and reasonableness with reference to the market price of the products and the pricing policy of OEM products within the industry.

The price of individual product to be sold by the Company or its subsidiaries to Hisense related party is determined according to the following standard:

The production costs of individual product of the Company or its subsidiaries + management fee + after-sale service fee ≤ the selling price of individual product to be sold by the Company or its subsidiaries to Hisense related party

After considering the above pricing standard and the relevant percentage level of the management fee and after-sale service fee of the Company or its subsidiaries and making reference with the market price of the products, the price of product (specific model) agreed by both parties is:

The price of product (specific model) to be sold by the Company or its subsidiaries to Hisense related party = production costs of product (specific model) of the Company or its subsidiaries/(1 - processing fee percentage) (Among which, the processing fee percentage for refrigerators is 0.07 and the processing fee percentage for air-conditioners is 0.05)

The self-transportation method was adopted for the transportation of the products.

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

**VIII. PARTICULARS OF MATERIAL RELATED PARTYS' TRANSACTIONS DURING THE REPORTING PERIOD – Continued**

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

*Note 2:* Pricing for the sale of raw materials and product parts and components by the Company or its subsidiaries to the Hisense related party was determined after arm's length negotiation between the Company or its subsidiaries and the Hisense related parties with reference to the market price of similar raw materials, parts and components of refrigerators and air-conditioners.

*Note 3:* Sale of moulds by Kelon Mould to Hisense Electrical Appliances and Hisense Air-conditioning

In response to the Hisense related parties' invitations to tender (which are also extended to various third parties) from time to time, the Company or its subsidiaries may submit such tenders for the manufacture of the moulds for such products as requested by the Hisense related parties. Pricing for the manufacture of moulds was determined principally by the open bidding process.

*Note 4:* The price of products purchased by the Company or its subsidiaries from Hisense related parties are principally determined by negotiation between the parties based on the principle of fairness and reasonableness with reference to the market price of the products and the pricing policy of OEM products within the industry.

The price of individual product to be purchased by the Company or its subsidiaries from Hisense related party is determined according to the following standard:

The purchase price of individual product to be purchased by the Company or its subsidiaries from Hisense related party  $\leq$  the production costs of individual product (Shunde or other production bases) + management fee + transportation costs for individual product

After considering the above pricing standard and the relevant percentage level of the management fee and production costs of the Company or its subsidiaries and making reference with the market price of the products, the price of product (specific model) agreed by both parties is:

The price of product (specific model) to be purchased by the Company or its subsidiaries from Hisense related party = production costs of individual product (specific model) of the Company or its subsidiaries / (1 - processing fee percentage) (Among which, the processing fee percentage for refrigerators is 0.07 and the processing fee percentage for air-conditioners is 0.05)

The self-transportation method was adopted for the transportation of the products.

*Note 5:* Pricing for the purchase of compressors was determined principally by the arm's length negotiation between the relevant subsidiaries of the Company and each of Huayi Compressor, Huayi Jingzhou and Jiayi Beila with reference to the market price of compressors. Such transaction was conducted in the ordinary course of business of the Company and was on normal commercial terms no less favourable than those available from or to third parties.

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

**IX. MATERIAL CONTRACTS AND IMPLEMENTATION DURING THE REPORTING PERIOD**

1. During the Reporting Period, the Company has not incurred or subsisted from previous reporting period any material custody, contracting or lease of assets of other companies or custody, contracting or lease of assets of the Company by other companies.
2. During the Reporting Period, the following external guarantees were incurred and subsisted from previous reporting period by the Company.

Unit: RMB (in ten thousand)

**External guarantee made by the Company (excluding guarantees to its subsidiaries)**

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

**Guarantees made by the Company to its subsidiaries**

Total actual guaranteed amount to subsidiaries during the Reporting Period						60,391.37
Total balance of the actual guaranteed amount to subsidiaries at the end of the Reporting Period (B)						27,962.08

**Total guarantee made by the Company (including the guarantees to subsidiaries)**

Total guaranteed amount (A+B)						27,962.08
Percentage of the total guaranteed amount to absolute net assets of the Company						31.39%

**Attributable to:**

Guaranteed amount provided to shareholders, actual controlling parties and their related parties (C)						0
Guaranteed amount provided directly or indirectly to guaranteed objects with gearing ratio over 70% (D)						24,695.19
Total guaranteed amount over 50% of the net asset (E)						0
Total guarantee amount of the above three guarantees* (C+D+E)						24,695.19

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

**IX. MATERIAL CONTRACTS AND IMPLEMENTATION DURING THE REPORTING PERIOD – Continued**

3. During the Reporting Period, no material cash assets management by the others occurred or occurred in the previous period but subsisted by the Company.

**X. THE FINANCIAL REPORTS FOR THE REPORTING PERIOD ARE UNAUDITED AND THE COMPANY DID NOT CHANGE ITS AUDITORS DURING THE REPORTING PERIOD.**

**XI. DURING THE REPORTING PERIOD, NONE OF THE COMPANY, ITS BOARD OF DIRECTORS AND DIRECTORS, RELEVANT MANAGEMENT MEMBERS, ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER WAS SUBJECT TO ANY INVESTIGATION BY ANY RELEVANT AUTHORITIES OR ANY MANDATORY MEASURES TAKEN BY ANY JUDICIAL AND DISCIPLINARY DEPARTMENTS OR HANDED OVER TO JUDICIAL AUTHORITIES FOR CRIMINAL LIABILITIES NOR WAS ANY OF THEM SUBJECT TO EXAMINATION OR ADMINISTRATIVE PUNISHMENT BY THE CHINA SECURITIES REGULATORY COMMISSION (THE "CSRC"), OR PROHIBITED FROM THE SECURITIES MARKETS, CIRCULATED A NOTICE OF CRITICISM OR DEEMED AS INELIGIBLE PERSONS AND PUNISHED BY ANY OTHER ADMINISTRATIVE BODIES, OR PUBLICLY CENSURED BY ANY STOCK EXCHANGES.**

**DEFINITIONS**

In the report, unless the context requires otherwise, the following terms or expressions shall have the following meanings:

"Company", the "Company" or "Kelon Electrical"	Hisense Kelon Electrical Holdings Company Limited
"Hisense Air-Conditioning"	Qingdao Hisense Air-conditioning Company Limited
"Hisense Electrical Appliances"	Qingdao Hisense Electric Co., Ltd.
"Hisense Group"	Hisense Group Company
"Hisense Marketing"	Qingdao Hisense Marketing Company Limited
"Economic Consultancy"	Foshan Shunde Economic Consultancy Company
"Hisense Zhejiang"	Hisense (Zhejiang) Air-Conditioner Co., Ltd.
"Hisense Beijing"	Hisense (Beijing) Electrical Co., Ltd.
"Dong Heng Consultancy"	Foshan Shunde Dong Heng Information Consultancy Service Company Limited
"Guangdong Greencool"	Guangdong Greencool Enterprise Development Company Limited
"Greencool Companies"	Guangdong Greencool and other related parties
"Ronshen Refrigerator"	Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.
"Xi'an Kelon Cooling"	Xi'an Kelon Cooling Co., Ltd.
"Kelon Air-Conditioner"	Guangdong Kelon Air-Conditioner Co., Ltd.



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

**DEFINITIONS – Continued**

“Kelon Fittings”	Guangdong Kelon Fittings Co., Ltd.
“Jiangxi Kelon”	Jiangxi Kelon Industrial Development Co., Ltd.
“Yangzhou Kelon”	Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.
“Kaifeng Kelon”	Kaifeng Kelon Air-Conditioner Co., Ltd.
“Chengdu Kelon”	Chengdu Kelon Refrigerator Co., Ltd.
“Jilin Kelon”	Jilin Kelon Electrical Co Ltd.
“Chongqing Kelon”	Chongqing Rongsheng Kelon Refrigerator Sales Co., Ltd.
“Huayi Compressor”	Huayi Compressor Holdings Company Limited
“Jiaxi Beila”	Jiaxi Beila Compressor Company Limited
“Jiangxi Kesheng”	Jiangxi Kesheng Industry and Trading Company Limited
“Tianjin Greencool”	Greencool Refrigerant (China) Company Limited
“Hainan Greencool”	Hainan Greencool Environmental Protection Engineering Co. Ltd.
“Jinan San Ai Fu”	Jinan San Ai Fu Petrochemical Company Limited
“Shenzhen Kelon”	Shenzhen Kelon Procurement Co Ltd.
“Shenzhen Greencool”	Greencool Procurement (Shenzhen) Co., Ltd.
“Tianjin Xiangrun”	Tianjin Xiangrun Trading Development Company Limited
“Yangzhou Greencool”	Yangzhou Greencool Venture Capital Company Limited
“Jiangxi Keda Plastic”	Jiangxi Keda Plastic Technology Company Limited
“Wuhan Changrong”	Wuhan Changrong Electrical Appliance Company Limited
“Zhuhai Longjia”	Zhuhai City Longjia Refrigerant Co., Ltd.
“Zhuhai Defa”	Zhuhai Defa Air-conditioner Fittings Company Limited
“Hefei Weixi”	Hefei Weixi Home Appliances Co., Ltd.
“Zhuhai Greencool”	Zhuhai Greencool Refrigeration and Engineering Co., Limited
“Beijing Greencool”	Beijing Greencool Refrigerant Replacement Engineering Co., Limited

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

**DEFINITIONS – Continued**

"Shenzhen Greencool Technology"	Greencool Technology Development (Shenzhen) Company Limited
"Shenzhen Greencool Environmental"	Greencool Technology Environmental Protection Engineering (Shenzhen) Co., Ltd.
"Hangxiao Ganggou"	Zhejiang Hangzhou Hangxiao Ganggou Holdings Company Limited
"Construction Bank"	China Construction Bank Corporation
"CSRC"	China Securities Regulatory Commission
"Shenzhen Stock Exchange"	Shenzhen Stock Exchange
"Intermediate People's Court of Foshan City"	Intermediate People's Court of Foshan City
"Gateway Limited"	佳瑋有限公司 (Gateway Limited)
"FUJI Elevator"	Guangdong FUJI Elevator Limited
"Beijing Deheng"	Beijing Deheng Solicitors
"Yangzhou Finace Bureau"	Yangzhou Finace Economic Development Zone Bureau
"Yunlong Consultancy"	Shunde Yunlong Consultancy Limited
"Shangqiu Bingxiong"	Shangqiu Bingxiong Freezing Facilities Company Limited
"Tianjin Lixin"	Tianjin Lixin Trading Development Company Limited
"Shangqiu Kelon"	Shangqiu Kelon Appliances Co., Ltd.
"Huayi Jingzhou"	Huayi Compressor (Jingzhou) Co., Ltd.
"Chengfa Group"	Chengdu Engine (Group) Company Limited
"Chengdu Xinxing"	Chengdu Xinxing Electricial Appliance Holdings Company Limited
"Tianjin Aike"	Aike Enterprise (Tianjin) Company Limited
"Greencool Regrigerant"	Greencool Regrigerant (China) Company Limited
"Hisense Nanjing"	Hisense (Nanjing) Electrical Co., Ltd.

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## BALANCE SHEET

Unit: RMB

Assets	NOTE VII Note	30 June 2007		31 December 2006	
		Consolidated	Company	Consolidated	Company
<b>Current assets:</b>					
Cash and cash equivalents	1	261,444,225.73	154,685,866.24	390,503,566.38	205,118,842.75
Tradable financial assets		2,000.00	2,000.00	2,000.00	2,000.00
Notes receivable	2	138,692,912.45	4,825,000.00	77,317,440.80	23,963,736.61
Trade receivables	3	830,245,078.03	426,941,563.13	374,911,284.04	220,267,064.25
Prepayments	5	61,906,186.13	551,627,000.23	81,980,665.92	267,776,312.98
Interest receivable		0.00	0.00	0.00	0.00
Dividend receivable		0.00	0.00	0.00	0.00
Other receivables	4	510,246,959.92	1,118,557,684.90	470,725,981.76	1,396,925,531.98
Subsidy receivable	6	10,752,014.56	0.00	5,021,210.04	0.00
Inventories	7	1,131,797,733.72	819,174,420.25	919,836,622.62	620,785,727.30
Deferred expenditure		2,440,959.42	703,384.68	543,661.62	125,000.00
Long-term assets due within one year		0.00	0.00	0.00	0.00
Other current assets		0.00	0.00	0.00	0.00
<b>Total current assets</b>		<b>2,947,528,069.96</b>	<b>3,076,516,919.43</b>	2,320,842,433.18	2,734,964,215.87
<b>Non-current assets:</b>					
Long-term equity investments	8	123,955,269.27	1,391,116,034.65	125,928,171.92	1,309,247,209.72
Investment properties	9	37,199,783.00	37,199,783.00	26,143,501.59	0.00
Fixed Assets	10	1,369,514,798.88	405,946,883.45	1,369,167,918.64	477,377,889.73
Construction in progress	11	67,149,462.00	3,266,225.19	283,719,768.18	2,205,075.77
Materials for construction		0.00	0.00	0.00	0.00
Fixed assets disposal		0.00	0.00	0.00	0.00
Intangible assets	12	467,264,566.91	260,468,494.00	418,507,966.06	269,114,746.00
Long-term deferred expenditures	13	916,592.92	0.00	880,451.52	0.00
Deferred tax assets	14	25,007,415.16	0.00	21,386,732.06	0.00
Other long-term assets		0.00	0.00	0.00	0.00
<b>Total non-current assets</b>		<b>2,091,007,888.14</b>	<b>2,097,997,420.29</b>	2,245,734,509.97	2,057,944,921.22
<b>Total assets</b>		<b>5,038,535,958.10</b>	<b>5,174,514,339.72</b>	4,566,576,943.15	4,792,909,137.09

**BALANCE SHEET - Continued**

Unit: RMB

Liabilities and shareholders' equity	NOTE VII	30 June 2007		31 December 2006	
	Note	Consolidated	Company	Consolidated	Company
<b>Current liabilities:</b>					
Short-term bank loans	16	1,194,090,341.42	768,486,539.47	1,556,702,248.52	866,902,248.52
Tradable financial liabilities		0.00	0.00	0.00	0.00
Notes payable	17	302,929,940.00	388,589,940.00	508,047,387.22	660,069,940.00
Trade payables	18	2,413,762,657.22	413,885,321.94	1,467,483,921.58	554,805,693.76
Advance from customers	19	685,520,200.55	869,321,582.98	760,291,406.34	686,697,652.74
Accrued payroll	20	62,303,120.65	18,320,720.62	34,522,351.34	5,824,765.25
Taxes payables	21	(179,872,425.12)	(127,230,802.48)	(99,151,661.08)	(85,624,053.90)
Interest payable		0.00	0.00	0.00	0.00
Dividend payable		2,067.02	0.00	2,067.02	0.00
Other payables	22	683,920,301.88	2,157,234,062.29	570,915,593.57	1,481,510,368.91
Non-current liabilities maturing within one year		0.00	0.00	0.00	0.00
Other current liabilities	23	359,193,460.21	301,200,100.22	265,524,373.81	218,349,926.15
<b>Total current liabilities</b>		<b>5,521,849,663.83</b>	<b>4,789,807,465.04</b>	<b>5,064,337,688.32</b>	<b>4,388,536,541.43</b>
<b>Non-current liabilities:</b>					
Long-term loans		0.00	0.00	0.00	0.00
Bonds payable		0.00	0.00	0.00	0.00
Long-term payables	25	46,883,819.82	46,683,819.82	60,572,294.23	58,214,807.25
Government grant		0.00	0.00	0.00	0.00
Provision	24	178,176,084.31	1,100,506,117.96	169,995,082.92	1,100,059,386.44
Deferred tax liabilities		0.00	0.00	0.00	0.00
Other non-current liabilities		0.00	0.00	0.00	0.00
<b>Total non-current liabilities</b>		<b>225,059,904.13</b>	<b>1,147,189,937.78</b>	<b>230,567,377.15</b>	<b>1,158,274,193.69</b>
<b>Total liabilities</b>		<b>5,746,909,567.96</b>	<b>5,936,997,402.82</b>	<b>5,294,905,065.47</b>	<b>5,546,810,735.12</b>
<b>Shareholders' equity:</b>					
Share Capital	26	992,006,563.00	992,006,563.00	992,006,563.00	992,006,563.00
Capital reserve	27	1,563,387,028.80	2,004,045,823.51	1,608,102,127.20	2,004,088,829.83
Revenue reserve	28	114,580,901.49	114,580,901.49	114,580,901.49	114,580,901.49
Accumulated profits	29	(3,580,582,273.19)	(3,873,116,351.10)	(3,697,957,232.42)	(3,864,577,892.35)
Exchange difference		19,770,655.68	0.00	14,978,392.50	0.00
<b>Total equity attributable to holders of the Company</b>		<b>(890,837,124.22)</b>	<b>(762,483,063.10)</b>	<b>(968,289,248.23)</b>	<b>(753,901,598.03)</b>
Minority interests		182,463,514.36	0.00	239,961,125.91	0.00
<b>Total shareholders' equity</b>		<b>(708,373,609.86)</b>	<b>(762,483,063.10)</b>	<b>(728,328,122.32)</b>	<b>(753,901,598.03)</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>5,038,535,958.10</b>	<b>5,174,514,339.72</b>	<b>4,566,576,943.15</b>	<b>4,792,909,137.09</b>

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## INCOME STATEMENT

Unit: RMB

Item	NOTE VII Note	January to June 2007		January to June 2006	
		Consolidated	Company	Consolidated	Company
<b>I. Total operating revenue</b>	30	<b>5,143,093,658.70</b>	<b>3,008,976,014.95</b>	3,757,185,569.44	2,215,466,649.24
Including: Revenue from principal activities	30	<b>4,854,805,311.94</b>	<b>2,652,889,338.65</b>	3,586,846,097.13	2,165,031,662.52
<b>II. Total operating cost</b>		<b>5,127,311,109.64</b>	<b>3,023,249,096.51</b>	3,793,015,415.25	2,430,210,181.80
Including: Costs of sale	30	<b>4,260,504,815.42</b>	<b>2,409,380,783.38</b>	2,985,121,325.08	1,855,600,355.07
Sales tax and surcharge		<b>824,341.83</b>	<b>545,510.69</b>	669,093.89	8,745.12
Distribution costs	31	<b>648,747,489.21</b>	<b>581,231,499.93</b>	558,786,006.75	485,503,477.31
Administrative expenses	32	<b>159,128,698.23</b>	<b>31,007,049.38</b>	175,727,385.58	50,242,645.85
Finance costs	33	<b>65,938,272.20</b>	<b>50,926,160.97</b>	90,233,581.49	50,311,111.95
Impairment loss	34	<b>(7,832,507.25)</b>	<b>(49,841,907.84)</b>	(17,521,977.54)	(11,456,153.50)
Add: Revenue from change in fair value		<b>0.00</b>	<b>0.00</b>	0.00	0.00
Investment income	35	<b>(965,560.89)</b>	<b>(976,168.75)</b>	(2,218,114.00)	186,127,729.44
Including: Share of results of associates and joint ventures		<b>(965,560.89)</b>	<b>(976,168.75)</b>	(2,255,593.00)	(2,289,608.23)
<b>III. Operating profit</b>		<b>14,816,988.17</b>	<b>(15,249,250.31)</b>	(38,047,959.81)	(28,615,803.12)
Add: Non-operating income	36	<b>92,602,570.83</b>	<b>11,143,454.79</b>	6,532,673.21	1,694,300.52
Less: Non-operating expenses	36	<b>11,410,826.28</b>	<b>4,432,663.22</b>	13,414,082.11	8,707,778.11
Including: Loss from disposal of non-current assets		<b>6,706,771.31</b>	<b>264,292.00</b>	2,121,947.68	146,035.00
<b>IV. Total profit</b>		<b>96,008,732.72</b>	<b>(8,538,458.74)</b>	(44,929,368.71)	(35,629,280.71)
Less: Income tax	37	<b>(584,510.32)</b>	<b>0.00</b>	1,009,974.04	0.00
<b>V. Net profit</b>		<b>96,593,243.04</b>	<b>(8,538,458.74)</b>	(45,939,342.75)	(35,629,280.71)
Net profit attributable to holders of the Company		<b>117,374,959.22</b>	<b>(8,538,458.74)</b>	(37,438,788.54)	(35,629,280.71)
Minority interests		<b>(20,781,716.18)</b>	<b>0.00</b>	(8,500,554.21)	0.00
<b>VI. Earnings per share</b>					
(I) Basic earnings per share		<b>0.1183</b>		(0.0377)	
(II) Diluted earnings per share		<b>0.1183</b>		(0.0377)	

## CASH FLOW STATEMENTS

Unit: RMB

Item	January to June 2007		January to June 2006	
	Consolidated	Company	Consolidated	Company
<b>I. Cash flows from operating activities</b>				
Cash received from sales of goods and rendering of services	4,562,957,265.16	2,702,757,663.56	5,174,148,130.05	3,015,117,044.51
Refund of tax and levies	66,151,966.11	0.00	76,943,697.03	0.00
Cash received from other operating activities	121,653,862.95	100,510,571.66	35,959,979.83	8,677,286.87
<b>Subtotal of cash inflows</b>	<b>4,750,763,094.22</b>	<b>2,803,268,235.22</b>	5,287,051,806.91	3,023,794,331.38
Cash paid for purchase of goods and services	3,903,527,558.95	2,455,727,560.50	3,637,472,248.72	2,544,578,805.62
Cash paid to and for employees	275,792,675.62	100,250,993.48	287,350,968.19	127,891,231.51
Taxes paid	91,241,674.81	60,651,418.88	199,358,677.44	92,979,972.80
Cash paid for other operating activities	408,912,345.62	335,396,718.30	997,237,662.63	149,239,822.09
<b>Subtotal of cash outflows</b>	<b>4,679,474,255.00</b>	<b>2,952,026,691.16</b>	5,121,419,556.98	2,914,689,832.02
<b>Net cash flows from operating activities</b>	<b>71,288,839.22</b>	<b>(148,758,455.94)</b>	165,632,249.93	109,104,499.36
<b>II. Cash flows from investing activities</b>				
Cash received from investment returns	0.00	0.00	0.00	0.00
Cash received from investment revenue	0.00	0.00	0.00	0.00
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	255,807,904.23	231,270,396.60	738,918.86	161,017.09
Net cash received from disposal of subsidiaries and other operating units	0.00	0.00	0.00	0.00
Cash received from other investing activities	3,953,425.25	1,539,476.96	0.00	0.00
<b>Subtotal of cash inflows</b>	<b>259,761,329.48</b>	<b>232,809,873.56</b>	738,918.86	161,017.09
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	60,559,630.81	4,294,917.06	22,516,951.07	5,110,682.00
Cash paid for investment activities	0.00	0.00	0.00	0.00
Net cash paid for acquisition of subsidiaries and other operating units	0.00	0.00	0.00	0.00
Other cash paid for other investing activities	0.00	0.00	0.00	0.00
<b>Subtotal of cash outflows</b>	<b>60,559,630.81</b>	<b>4,294,917.06</b>	22,516,951.07	5,110,682.00
<b>Net cash flows from investing activities</b>	<b>199,201,698.67</b>	<b>228,514,956.50</b>	(21,778,032.21)	(4,949,664.91)

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## CASH FLOW STATEMENTS - Continued

Unit: RMB

Item	January to June 2007		January to June 2006	
	Consolidated	Company	Consolidated	Company
<b>III. Cash flows from financing activities</b>				
Cash contribution from investment	0.00	0.00	0.00	0.00
Cash received from borrowings	480,846,541.15	252,000,000.00	503,797,318.84	275,311,095.84
Cash received from other financing activities	217,460,195.24	146,221,284.46	209,223,922.71	41,640,287.70
<b>Subtotal of cash inflows</b>	<b>698,306,736.39</b>	<b>398,221,284.46</b>	713,021,241.55	316,951,383.54
Cash paid for repayment of borrowings	843,458,446.25	350,415,709.05	800,680,807.51	375,343,423.18
Cash paid for distribution of dividend and profit or interest expenses	36,937,973.44	31,773,768.02	49,232,098.00	31,472,967.65
Cash paid for other financing activities	0.00	0.00	0.00	0.00
<b>Subtotal of cash outflows</b>	<b>880,396,419.69</b>	<b>382,189,477.07</b>	849,912,905.51	406,816,390.83
<b>Net cash flows from financing activities</b>	<b>(182,089,683.30)</b>	<b>16,031,807.39</b>	(136,891,663.96)	(89,865,007.29)
<b>IV. Effect of foreign exchange rate change on cash</b>	<b>0.00</b>	<b>0.00</b>	0.00	0.00
<b>V. Net increase in cash and cash equivalents</b>	<b>88,400,854.59</b>	<b>95,788,307.95</b>	6,962,553.76	14,289,827.16
Add: Opening balance of cash and cash equivalents	142,246,506.14	54,118,987.38	184,284,027.53	65,195,258.19
<b>VI. Closing balance of cash and cash equivalents</b>	<b>230,647,360.73</b>	<b>149,907,295.33</b>	191,246,581.29	79,485,085.35

**CASH FLOW STATEMENTS - Continued**

Unit: RMB

**Supplementary Information**

Item	January to June 2007		January to June 2006	
	Consolidated	Company	Consolidated	Company
<b>I. Reconciliation of net profits to cash flows from operating activities</b>				
Net Profit	117,374,959.22	(8,538,458.74)	(37,438,788.54)	(35,629,280.71)
Add: Minority interests	(20,781,716.18)	0.00	(8,500,554.21)	0.00
Provision/(reversal) for impairment of assets	(65,781,761.93)	(84,427,566.32)	11,043,621.08	0.00
Depreciation of fixed assets	96,725,032.86	23,444,794.27	110,920,714.10	27,577,759.71
Amortisation of intangible assets	19,842,269.25	3,197,737.16	17,540,156.79	13,335,113.46
Amortisation of long-term deferred expenditure	20,641,790.57	0.00	686,999.30	0.00
Decrease in deferred expenditure	(1,897,297.80)	(578,384.68)	433,652.84	350,766.55
Increase in accrued expenses	0.00	0.00	74,897,735.47	55,076,385.87
Losses from disposal of fixed assets, intangible assets and other long-term assets	(73,712,677.34)	(62,278,246.40)	447,781.96	123,996.11
Loss from retirement of fixed assets	6,635,683.25	96,665.00	647,747.65	63,322.52
Loss from change in fair value	0.00	0.00	0.00	0.00
Finance costs	32,040,091.48	24,915,514.05	90,233,581.49	50,311,112.00
Investment losses	965,560.89	976,168.75	2,218,114.00	(186,127,729.44)
Decrease in deferred tax assets	0.00	0.00	0.00	0.00
Increase in deferred tax liabilities	0.00	0.00	0.00	0.00
Decrease in inventories	(162,106,515.74)	(194,436,296.51)	(122,170,359.15)	(503,928,646.54)
Decrease in operating receivables	(434,526,488.28)	(97,966,012.24)	108,804,973.58	406,481,049.80
Increase in operating payables	535,508,908.97	246,835,629.72	(84,133,126.43)	281,470,650.03
Others	0.00	0.00	0.00	0.00
<b>Net cash flows from operating activities</b>	<b>71,288,839.22</b>	<b>(148,758,455.94)</b>	165,632,249.93	109,104,499.36
<b>II. Investing and financing activities not involving cash receipts and payments</b>				
Debts changed to capital	0.00	0.00	0.00	0.00
Convertible bonds maturing within one year	0.00	0.00	0.00	0.00
Fixed assets under finance leases	0.00	0.00	0.00	0.00
<b>III. Net increase in cash and cash equivalents</b>				
Closing balance of cash	230,647,360.73	149,907,295.33	191,246,581.29	79,485,085.35
Less: opening balance of cash	142,246,506.14	54,118,987.38	184,284,027.53	65,195,258.19
Add: closing balance of cash equivalents	0.00	0.00	0.00	0.00
Less: opening balance of cash equivalents	0.00	0.00	0.00	0.00
<b>Net increase in cash and cash equivalents</b>	<b>88,400,854.59</b>	<b>95,788,307.95</b>	6,962,553.76	14,289,827.16



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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unit: RMB

Item	January to June 2007						Total shareholders' equity
	Equity attributable to holders of the Company					Minority interests	
	Paid-up capital (or stock)	Capital reserve	Revenue reserve	Accumulated profits	Others		
<b>I. Closing balance of last year</b>	992,006,563.00	1,608,102,127.20	114,580,901.49	(3,776,596,690.68)	14,978,392.50	239,961,125.91	(806,967,580.58)
Add: Changes in accounting policies	0.00	0.00	0.00	78,639,458.26	0.00	0.00	78,639,458.26
<b>II. Opening balance of the current year</b>	992,006,563.00	1,608,102,127.20	114,580,901.49	(3,697,957,232.42)	14,978,392.50	239,961,125.91	(728,328,122.32)
<b>III. Increase/decrease of the current year ("-" for decrease)</b>	0.00	(44,715,098.40)	0.00	117,374,959.23	4,792,263.18	(57,497,611.55)	19,954,512.46
(I) Net profit	0.00	0.00	0.00	117,374,959.23	0.00	0.00	117,374,959.23
(II) Gains and losses directly stated as holders' equity	0.00	(44,715,098.40)	0.00	0.00	4,792,263.18	(57,497,611.55)	(97,420,446.77)
1. Others	0.00	(44,715,098.40)	0.00	0.00	4,792,263.18	(57,497,611.55)	(97,420,446.77)
Subtotal of (I) & (II) above	0.00	(44,715,098.40)	0.00	117,374,959.23	4,792,263.18	(57,497,611.55)	19,954,512.46
<b>IV. Closing balance of the current year</b>	<u>992,006,563.00</u>	<u>1,563,387,028.80</u>	<u>114,580,901.49</u>	<u>(3,580,582,273.19)</u>	<u>19,770,655.68</u>	<u>182,463,514.36</u>	<u>(708,373,609.86)</u>

Item	January to June 2006						Total shareholders' equity
	Equity attributable to holders of the Company					Minority interests	
	Paid-up capital (or stock)	Capital reserve	Revenue reserve	Accumulated profits	Others		
<b>I. Closing balance of last year</b>	992,006,563.00	1,581,099,648.75	114,580,901.49	(3,782,492,927.69)	4,954,274.87	257,705,794.23	(832,145,745.35)
Add: Changes in accounting policies	0.00	0.00	0.00	60,646,847.60	0.00	0.00	60,644,847.60
<b>II. Opening balance of the current year</b>	992,006,563.00	1,581,099,648.75	114,580,901.49	(3,721,846,080.09)	4,954,274.87	257,705,794.23	(771,498,897.75)
<b>III. Increase/decrease of the current year ("-" for decrease)</b>	0.00	1,452,992.83	0.00	(37,438,788.54)	8,795,444.41	(8,492,290.89)	(35,682,642.19)
(I) Net profit	0.00	0.00	0.00	(37,438,788.54)	0.00	0.00	(37,438,788.54)
(II) Gains and losses directly stated as holders' equity	0.00	1,452,992.83	0.00	0.00	8,795,444.41	(8,492,290.89)	1,756,146.35
1. Effect of changes in equity of other holders of invested entities under the equity law	0.00	1,452,992.83	0.00	0.00	0.00	0.00	1,452,992.83
2. Others	0.00	0.00	0.00	0.00	8,795,444.41	(8,492,290.89)	303,153.52
Subtotal of (I) & (II) above	0.00	1,452,992.83	0.00	(37,438,788.54)	8,795,444.41	(8,492,290.89)	(35,682,642.19)
<b>IV. Closing balance of the current year</b>	<u>992,006,563.00</u>	<u>1,582,552,641.58</u>	<u>114,580,901.49</u>	<u>(3,759,284,868.63)</u>	<u>13,749,719.28</u>	<u>249,213,503.34</u>	<u>(807,181,539.94)</u>

## STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

Unit: RMB

Item	January to June 2007				
	Paid-up capital (or stock)	Capital reserve	Revenue reserve	Accumulated profits	Total shareholders' equity
I. Closing balance of last year	992,006,563.00	2,004,088,829.83	114,580,901.49	(3,931,634,954.75)	(820,958,660.43)
Add: Changes in accounting policies	0.00	0.00	0.00	67,057,062.40	67,057,062.40
II. Opening balance of the current year	992,006,563.00	2,004,088,829.83	114,580,901.49	(3,864,577,892.35)	(753,901,598.03)
III. Increase/decrease of the current year ("-" for decrease)	0.00	(43,006.32)	0.00	(8,538,458.75)	(8,581,465.07)
(I) Net profit	0.00	0.00	0.00	(8,538,458.75)	(8,538,458.75)
(II) Gains and losses directly stated as holders' equity	0.00	(43,006.32)	0.00	0.00	(43,006.32)
1. Others	0.00	(43,006.32)	0.00	0.00	(43,006.32)
Subtotal of (I) & (II) above	0.00	(43,006.32)	0.00	(8,538,458.75)	(8,581,465.07)
IV. Closing balance of the current year	<u>992,006,563.00</u>	<u>2,004,045,823.51</u>	<u>114,580,901.49</u>	<u>(3,873,116,351.10)</u>	<u>(762,483,063.10)</u>
Item	January to June 2006				
	Paid-up capital (or stock)	Capital reserve	Revenue reserve	Accumulated profits	Total shareholders' equity
I. Closing balance of last year	992,006,563.00	1,977,086,351.38	114,580,901.49	(3,916,790,302.30)	(833,116,486.43)
Add: Changes in accounting policies	0.00	0.00	0.00	71,846,852.70	71,846,852.70
II. Opening balance of the current year	992,006,563.00	1,977,086,351.38	114,580,901.49	(3,844,943,449.60)	(761,269,633.73)
III. Increase/decrease of the current year ("-" for decrease)	0.00	1,452,992.83	0.00	(35,629,280.70)	(34,176,287.87)
(I) Net profit	0.00	0.00	0.00	(35,629,280.70)	(35,629,280.70)
(II) Gains and losses directly stated as holders' equity	0.00	1,452,992.83	0.00	0.00	1,452,992.83
1. Effect of changes in equity of other holders of invested entities under the equity law	0.00	1,452,992.83	0.00	0.00	1,452,992.83
Subtotal of (I) & (II) above	0.00	1,452,992.83	0.00	(35,629,280.70)	(34,176,287.87)
IV. Closing balance of the current year	<u>992,006,563.00</u>	<u>1,978,539,344.21</u>	<u>114,580,901.49</u>	<u>(3,880,572,730.30)</u>	<u>(795,446,921.60)</u>

**NOTES TO THE FINANCIAL STATEMENTS**

(Unless otherwise specified, expressed in RMB)

**NOTE I. GENERAL**

Hisense 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 share 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 Limited. Upon completion of the share transfer, the percentage of total share capital of the Company held by Guangdong Greencool increased to 26.43%.

On 13 December 2006, pursuant to an equity transfer agreement, 26.43% of the total share capital of the Company held by Guangdong Greencool were transferred to Qingdao Hisense Air-Conditioner Company Limited. Upon completion of the transfer, Guangdong Greencool, the former single largest shareholder of the Company, no longer held any share of the Company.

The share reform scheme of the Company was passed at the A Share related general meeting of the Company held on 29 January 2007 and was approved by the Ministry of Commerce on 22 March 2007. After the share reform, the Company's single largest shareholder Qingdao Hisense Air-Conditioning Company Limited holds 24.08% of the total share capital of the Company.

On 20 June 2007, the name of the Company changed from Guangdong Kelon Electrical Holdings Company Limited to Hisense Kelon Electrical Holdings Company Limited.

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

**NOTE II. STATEMENT OF COMPLIANCE WITH "ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES"**

The financial statements prepared by the Company on the following basis comply with "Accounting Standards for Business Enterprises" and give a true and complete view of the financial position, operating results and cash flow of the Company.

**NOTE III. BASIS FOR PREPARING THE FINANCIAL STATEMENTS**

The financial statements are prepared based on the assumption of going concern of the Company, according to the transactions effectuated, in accordance with "Accounting Standards for Business Enterprises" issued by the Ministry of Finance on 15 February 2006, "Q & A No. 7 on Regulations Governing Information Disclosure of Publicly Listed Companies - Comparison of Preparation and Disclosure of Financial Information in the Transition Period between Old and New Accounting Standards" issued by China Securities Regulatory Commission on 15 February 2007, and on the basis of the following accounting policies and accounting estimates.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE IV. PRINCIPAL 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 the supplementary regulations issued by the Ministry of Finance of the PRC.

**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 periods which were recorded as long term deferred expenditures for amortisation.

**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 year ended 31 December each year. A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than 50% of its total share capital, 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 method.

*(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 period 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.

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE IV. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****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 "Accumulated profits".

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 liquidated 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.

**9. Financial assets:**

Financial assets may be classified upon initial recognition into: the financial assets measured at fair value and which changes stated as financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the intention and capacity of the Company and subsidiaries thereof to hold financial assets.

*(1) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include available-for-sale financial assets and financial assets specified to be measured at fair value through profit or loss.

*(2) Receivables*

Receivables refer to non-derivative financial assets on active markets without quotation and with fixed or determinable payments, including notes receivable, trade receivables, interest receivable, dividend receivable and other receivables.

*(3) Available-for-sale financial assets*

Available-for-sale financial assets include non-derivative financial assets specified as available for sale at the time of initial recognition and the financial assets not classified as financial assets at fair value through profit or loss, receivables, and held-to-maturity investments. Available-for-sale financial assets to be sold within 12 months after the balance sheet date are stated as other current assets in the balance sheet.

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE IV. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****9. Financial assets: – Continued***(4) Held-to-maturity investments*

Held-to-maturity investments refer to non-derivative financial assets which have a fixed maturity date and fixed or determinable payments, and which the Company and subsidiaries thereof have the intention and capacity to hold to maturity. Held-to-maturity investments maturing within 12 months after the balance sheet date are stated as long-term assets due within one year in the balance sheet.

*(5) Recognition and measurement*

When the Company and subsidiaries become a party of the financial instrument contract, financial assets are initially recognised at fair value. The expenses relating to financial assets at fair value through profit or loss are directly recorded in the income statement for the period. The expenses relating to other financial assets are included in the initial recognised amount. If the contract right to collect cash flow from a certain financial asset is terminated or if almost all the risks and returns relating to the ownership of the said financial asset have been transferred, recognition of the said financial asset will be derecognised.

Financial assets at fair value through profit or loss and available-for-sale financial assets are measured subsequently at fair value.

Change in fair value of financial assets at fair value through profit or loss is stated as profit or loss from change in fair value; interest or cash dividend obtained while holding the assets is recognised as investment income; at the time of disposal, the difference between the fair value and the book value is recognised as profit or loss from investment, and profit or loss from change in fair value is adjusted.

Profit or loss arising from change in fair value of available-for-sale financial assets, excluding impairment loss and exchange difference arising from foreign currency financial assets, is directly stated as shareholders' equity, and is stated as profit or loss for the period when the recognition of the said financial assets is derecognised.

Receivables and held-to-maturity investments are stated as amortised cost using the effective interest rate.

*(6) Impairment of financial assets*

Except for financial assets at fair value through profit or loss, the Company and subsidiaries assess the book value of financial assets on the balance sheet date, and make the provision for impairment if there is objective evidence indicating a certain financial asset impaired.

If the fair value of available-for-sale financial assets decreases significantly or not temporarily, the cumulative loss arising from decreased fair value which previously stated as shareholders' equity is stated as impairment loss. For available-for-sale equity investment which impairment loss is recognised, reversal of impairment loss can be made in subsequent periods when an increase in the fair value of financial assets can be related objectively to an event occurring after the impairment was recognised.

If any financial asset measured at amortised cost impairs, the book value of the said financial asset is written down as the current value of foreseeable future cash flow (excluding future credit loss not incurred), and the written-down amount is recognised as impairment loss and is stated as profit or loss for the period. If there is any objective evidence that the said financial asset has restored to its original value and objectively relates to events happening after the said loss is recognised, the original recognised loss will be restated as profit or loss for the period.

The impairment loss of equity investment which is not quoted on active market and the fair value of which cannot be measured reliably will not be restated if its value is restored in a subsequent period.

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE IV. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****10. Provision for bad debts:***(1) Criteria for the 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*

General provision and specific provision for bad debts are accounted by using the allowance method which based on the recoverability of trade receivables as at period end.

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

<b>Age</b>	<b>Percentage</b>
Within three months (inclusive)	–
Within three to six months (including six months)	10%
Within six months to one year (including one year)	50%
Over one year	100%

Bad debt provision made against trade receivables from overseas customers was first analysed the large-amount receivables individually, and then provision is made 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.

**11. 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***(Unless otherwise specified, expressed in RMB)***NOTE IV. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****12. Long-term equity investment:**

Long-term equity investments include equity investments of the Company in subsidiaries, equity investments of the Company in joint ventures and associates, and long-term equity investments of the Company in invested entities without control, joint control or material impact, without quotation on active market, and with fair value impossible to be measured reliably.

*(a) Subsidiaries*

Subsidiaries refer to invested entities on which the Company can exercise control, whose financial and operation policies the Company has the right to decide, and from whose operating activities the Company can obtain benefits. In determining whether control can be exercised on the invested entities, potential voting factors such as the current convertible bonds and current exercisable warrants of the invested entities are also considered. Investments in subsidiaries are stated at values determined by the cost method in the separate financial statements of the Company, and are consolidated after being adjusted by the equity method in the consolidated financial statements.

Long-term equity investments stated by the cost method are measured at initial investment cost. The cash dividend or profit to be distributed as announced by the invested entities is recognised as current investment income. The recognised investment income is limited to the acquired share of the cumulative net profit of the invested entities after accepting the investments; the part of profit or cash dividend exceeding the aforesaid amount is taken back as initial investment cost.

*(b) Joint ventures and associates*

Joint ventures refer to invested entities jointly controlled by the Company and other parties; associates refer to invested entities on which the Company has material influence in financial and operations decisions. Investments in joint ventures and associates are measured initially at actual cost, and measured subsequently by the equity method. If the initial investment cost is greater than the fair value of the due identifiable net asset of the invested entities at the time of investment, the difference is included in the initial investment cost; if the initial investment cost is smaller than the fair value of the due identifiable net asset of the invested entities at the time of investment, the difference is stated as profit or loss for the period, and the long-term equity investment cost is adjusted at the same time. In accounting by the equity method, the Company recognises the current investment profit or loss as per the net profit or loss of the invested entities to be shared by the Company. In recognising the net loss of the invested entities, the book value of the long-term equity investments and other long-term equity substantively forming net investments of the invested entities are written down until zero. However, if the Company has the obligation to undertake extra loss and the provision recognition conditions specified in the contingency standards are satisfied, investment losses and provision are still recognised. In respect of changes other than net profit or loss in shareholders' equity of the invested entities, if the shareholding percentage remains the same, the part to be shared by the Company as per the shareholding percentage is directly stated as capital reserve. The book value of long-term equity investments is deducted as per the Company's share of the profit or cash dividend distributed by the invested entities at the time of announcement of distribution. The unrealised profit or loss arising from transactions between the Company and the invested entities are offset within the range of the equity held by the Group in the invested entities; however, if the assets transferred in the said transactions impair, the corresponding unrealised profit or loss are not offset.



**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE IV. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****12. Long-term equity investment: – Continued***(c) Other long-term equity investments*

Other long-term equity investments of the Company in invested entities without control, joint control or material impact, without quotation on active market, and with fair value impossible to be measured reliably are stated by the cost method.

*(d) Impairment of long-term equity investments*

If the recoverable value of long-term equity investments is lower than the book value, the book value is written down to the recoverable amount.

**13. Investment properties:**

Investment properties of the Company include the right to use land already leased, the right to use land held and prepared for transfer after appreciation and buildings already leased.

The Company makes follow-up measurement on investment properties by the cost method. The depreciation or amortisation method is based on depreciation method for buildings in fixed assets and amortisation method for land use right in intangible assets, and the method for provision for impairment is based on the corresponding method for fixed assets and intangible assets.

**14. 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 on fixed assets:*

At the end of each year, the Company assesses if there is any indication that fixed assets are suffered from an impairment loss case by case 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.

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE IV. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****15. 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 individually for the shortfall of the recoverable amount of construction in progress below its carrying amount.

**16. 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 are amortised evenly and recorded as profit or loss for the period over the estimated useful life thereof as from the month of acquisition. If the estimated useful life is longer than the benefit period specified in the relevant contract or the validity period stipulated by law, the amortisation period will not be longer than the shorter of the benefit period and validity period. If the period during which the intangible assets bring economic benefits for the Group, the intangible assets are deemed as of indefinite useful life, but the useful life needs to be reviewed during each accounting period. If there is evidence that the useful life is limited, the intangible assets will be treated as of limited useful life. Intangible assets with indefinite useful life are not amortised.

*Provision for impairment of intangible assets:*

At the end of each year, the Company assesses if there is any indication that intangible assets are suffered from an impairment loss case by case. 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.

**17. Long-term deferred expenditures:**

Unless related to the acquisition or construction of fixed assets, all expenditure incurred during the preoperating 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.

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE IV. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****18. Impairment on assets:**

At impairment test is conducted every year on the goodwill and intangible assets with indefinite useful life separately stated in the financial statements regardless whether there is any indication of impairment. Impairment test is conducted on fixed assets, intangible assets, investment properties measured by cost method and long-term equity investments if they have any indication of impairment on the balance sheet date. If the test result indicates the recoverable amount of the assets is lower than the carrying amount, provision for impairment is made as per the difference and is stated as impairment loss. The recoverable amount is the higher of the net value of the fair value of the assets minus the disposal expenses and the current value of the foreseeable future cash flow of the assets. Provision for impairment of assets is calculated and recognised based on individual assets. If it is not possible to assess the recoverable amount of the individual assets, it will be determined by the recoverable amount of the cash-generating unit to which the assets belong.

**19. 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.

**20. 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.

**21. Staff costs:**

Staff costs mainly include salary, bonus, subsidy and allowance, staff welfare, social insurance and housing provident fund, union fee, staff education fee, and other expenses relating to the services provided by the employees. Accrued payroll are recognised while the employees are providing services, and are stated as relevant costs and expenses according to the beneficiaries of the services provided by the employees.

**22. 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.

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE IV. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****23. 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 is recognised as an expense at the straight line method over the lease term.

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

**24. Income taxes:**

Income taxes are calculated by the balance sheet liability method.

The Company determines its tax basis when obtaining assets and liabilities. If the book value of assets and liabilities differ from the tax basis, the deferred tax assets or deferred tax liabilities are recognised pursuant to relevant provisions. The Company recognises the deferred tax asset arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference. For the deductible losses and tax deductions that can be carried forward to subsequent years, the Company recognises the corresponding deferred tax asset to the extent of the amount of the future taxable income which it is most likely to obtain and which can be deducted from the deductible losses and tax deductions.

On the balance sheet date, for the current tax liabilities (or assets) formed in the current and preceding periods are measured as per the foreseeable payable (or refundable) income tax calculated pursuant to the tax law. The deferred tax assets and deferred tax liabilities are measured pursuant to the tax law at the applicable tax rate for the period in which the said assets are expected to be recovered or the said liabilities are expected to be settled. The book value of the deferred tax assets is reviewed on the balance sheet date. If it is likely that sufficient taxable income cannot be obtained in the future to offset the interest of the deferred tax assets, the book value of the deferred tax assets should be written down. If sufficient taxable income is likely to be obtained, the amount written down should be restated.

**NOTE V. 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 enterprise income tax ("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%.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE V. TAXATION – Continued****2. Enterprise Income Tax – Continued**

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**

Sales tax is levied at a rate of 5% on the assessable income.

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

Land appreciation tax ("LAT") is levied at a rate of 1% of assigned land income on the assignment of land use rights in accordance with relevant provisions set out in the document named "Reply Letter on Adjusting taxation rate of LAT of Land Use Rights" (Fo-fu-ban No.(2003)46) issued by the office of People's Government of Foshan.

Urban real estate tax is levied at a rate of 18% on rental income if the property is held for lease, or at a rate of 70% of the original value of the property multiplying 1.2%. Property owners are given three years tax exemption commencing on the purchase date or completion date.

Bank protection fee is levied at a rate of 0.12% of the turnover for the applicable period, according to the relevant provisions set out in the Notice on Bank Protection Fee issued by Shunde Water Bureau and Shunde Municipal Tax Bureau on 17 January 2003.

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE VI. RANGE OF CONSOLIDATED FINANCIAL STATEMENTS, HOLDINGS SUBSIDIARIES AND ASSOCIATES**

1. Details of the Company's subsidiaries as at 30 June 2007 are as follows:

Name of subsidiary	Place of registration	Registered capital	Shareholding Percentage of the Company			Main businesses	Nature of business	Whether consolidated
			Direct	Indirect	Total			
Pearl River Refrigerator Co., Ltd. ("Pearl River Refrigerator")	Hong Kong	HK\$400,000	-	100%	100%	Sale of refrigerator raw materials and fittings	Company with limited liability	Yes
Hong Kong Kelon Electrical Co., Ltd. ("Hong Kong Kelon Electrical")	Hong Kong	HK\$10,000	-	100%	100%	Property investment	Company with limited liability	Yes
Shunde Rongsheng Plastic Products Co., Ltd. ("Rongsheng Plastic")	Foshan	US\$15,800,000	45%	25%	70%	Manufacture of plastic fittings	Sino-foreign joint venture	Yes
Kelon Development Co., Ltd. ("Kelon Development")	Hong Kong	HK\$5,000,000	100%	-	100%	Investment holdings	Company with limited liability	Yes
Guangdong Kelon Mould Co., Ltd. ("Kelon Mould")	Foshan	US\$15,000,000	40%	30%	70%	Manufacture of moulds	Sino-foreign joint venture	Yes
Hisense Rongsheng (Guangdong) Refrigerator Co., Ltd. ("Rongsheng Refrigerator")	Foshan	US\$26,800,000	70%	30%	100%	Manufacture and sale of refrigerators	Sino-foreign joint venture	Yes
Guangdong Kelon Air-Conditioner Co., Ltd. ("Kelon Air-Conditioner")	Foshan	US\$36,150,000	60%	-	60%	Manufacture and sale of air-conditioners	Sino-foreign joint venture	Yes
Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon")	Chengdu	RMB200,000,000	75%	25%	100%	Manufacture and sale of refrigerators	Sino-foreign joint venture	Yes
Hisense Rongsheng (Yingkou) Refrigerator Co., Ltd. ("Yingkou Kelon")	Yingkou	RMB200,000,000	42%	36.79%	78.79%	Manufacture and sale of refrigerators	Sino-foreign joint venture	Yes
Guangke Development Co., Ltd. ("Guangke Development")	BVI	US\$1	-	100%	100%	Ad agency	Foreign company	Yes
Kelon International Incorporation ("Kelon Int")	BVI	US\$50,000	-	100%	100%	Investment holdings and sale of household appliances	Foreign company	Yes
Guangdong Kelon Fittings Co., Ltd. ("Kelon Fittings")	Foshan	US\$5,620,000	70%	30%	100%	Manufacture and sale of fittings of refrigerators and air-conditioners	Sino-foreign joint venture	Yes
Shunde Kelon Jiake Electronic Co., Ltd. ("Kelon Jiake")	Foshan	RMB60,000,000	70%	30%	100%	Information and communications network technology and microelectronic technology development	Company with limited liability	Yes
Hisense Rongsheng (Guangdong) Freezer Co., Ltd. ("Kelon Freezer")	Foshan	RMB237,000,000	44%	56%	100%	Manufacture and sale of freezers	Sino-foreign joint venture	Yes

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VI. RANGE OF CONSOLIDATED FINANCIAL STATEMENTS, HOLDINGS SUBSIDIARIES AND ASSOCIATES – Continued**

1. Details of the Company's subsidiaries as at 30 June 2007 are as follows: – Continued

Name of subsidiary	Place of registration	Registered capital	Shareholding Percentage of the Company			Main businesses	Nature of business	Whether consolidated
			Direct	Indirect	Total			
Shunde Kelon Household Appliances Co., Ltd. ("Kelon Household Appliances")	Foshan	RMB10,000,000	25%	75%	100%	Manufacture and sale of house appliances	Company with limited liability	Yes
Shunde Wangao Import & Export Co., Ltd. ("Wangao Company")	Foshan	RMB3,000,000	20%	80%	100%	Imports & exports	Company with limited liability	Yes
Shunde Kelon Building Services Co., Ltd. ("Kelon Services")	Foshan	RMB1,000,000	-	100%	100%	Corporate consulting and management, catering service, household decoration design	Company with limited liability	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, small household appliances	Sino-foreign joint venture	Yes
Shunde Huao Electronics Co., Ltd. ("Huao Electronics")	Foshan	RMB10,000,000	-	70%	70%	R&D, manufacture and sale of electronic products	Company with limited liability	Yes
Jilin Kelon Electrical Co., Ltd. ("Jilin Kelon")	Jilin	RMB200,000,000	90%	10%	100%	Development, manufacture and sale of refrigerators, air-conditioners, freezers, and household appliances	Company with limited liability	Yes
Kelon (USA) Inc. ("Kelon USA")	USA	US\$100	-	100%	100%	Business contact	Foreign company	Yes
Hangzhou Kelon Electrical Co., Ltd. ("Hangzhou Kelon")	Hangzhou	US\$24,100,000	40%	30%	70%	R&D and manufacture of high-efficiency, energy-saving, eco-friendly refrigerators, information consulting, storage and sale of Company products	Sino-foreign joint venture	Yes
Hisense Rongsheng (Yangzhou) Refrigerator Co., Ltd. ("Yangzhou Kelon")	Yangzhou	US\$29,800,000	74.33%	25.67%	100%	Manufacture of energy-saving, eco-friendly refrigerators and other energy-saving refrigeration products, sales of Company products	Sino-foreign joint venture	Yes

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE VI. RANGE OF CONSOLIDATED FINANCIAL STATEMENTS, HOLDINGS SUBSIDIARIES AND ASSOCIATES – Continued**1. Details of the Company's subsidiaries as at 30 June 2007 are as follows: – *Continued*

Name of subsidiary	Place of registration	Registered capital	Shareholding Percentage of the Company			Main businesses	Nature of business	Whether consolidated
			Direct	Indirect	Total			
Zhuhai Kelon Electrical Co., Ltd. ("Zhuhai Kelon")	Zhuhai	US\$29,980,000	75%	25%	100%	R&D and manufacture of refrigerators, air-conditioners, freezers, small household appliances and relevant fittings	Sino-foreign joint venture	Yes
Shangqiu Kelon Electrical Co., Ltd. ("Shangqiu Kelon")	Shangqiu	RMB150,000,000	-	100%	100%	R&D, manufacture and sale of household and commercial air-conditioners, refrigerators, freezers, small household appliances and relevant fittings, and relevant information and technical consulting services	Company with limited liability	Yes
Jiangxi Combine Electrical Appliance Co., Ltd. ("Combine") * 1	Nanchang	RMB20,000,000	-	55%	55%	R&D, manufacture and sale of commercial air-conditioners, freezers, small household appliances	Company with limited liability	No
Xi'an Kelon Refrigeration Co., Ltd. ("Xi'an Kelon")	Xi'an	RMB202,000,000	60%	-	60%	Development, manufacture and design of Freon-free refrigerators (freezers) and refrigeration compressors; sale of Company products and after-sale services, development and manufacture of market-oriented novel refrigeration compressors	Sino-foreign joint venture	Yes
Kaifeng Kelon Air-Conditioning Co., Ltd. ("Kaifeng Kelon")	Kaifeng	RMB60,000,000	-	70%	70%	Manufacture, sale and R&D of air-conditioning products	Company with limited liability	Yes
Wuhu Yingjia Motor Co., Ltd. ("Yingjia Motor")	Wuhu	US\$7,210,000	40%	40%	80%	Manufacturer and sale of motors, magneto current brushless motors, micro AC motors and electrical appliances	Sino-foreign joint venture	Yes



**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE VI. RANGE OF CONSOLIDATED FINANCIAL STATEMENTS, HOLDINGS SUBSIDIARIES AND ASSOCIATES – Continued**1. Details of the Company's subsidiaries as at 30 June 2007 are as follows: – *Continued*

Name of subsidiary	Place of registration	Registered capital	Shareholding Percentage of the Company			Main businesses	Nature of business	Whether consolidated
			Direct	Indirect	Total			
Shenzhen Kelon Purchase Co., Ltd. ("Shenzhen Kelon")	Shenzhen	RMB200,000,000	95%	5%	100%	Domestic business, material supply and sale (excluding products under exclusive agency); imports & exports; provision of storage, information consulting and technical services (excluding restricted projects)	Company with limited liability	Yes
Guangdong Kelon Weili Electrical Co., Ltd. ("Weili Electrical")	Zhongshan	RMB200,000,000	55%	25%	80%	Manufacture of smart washing machines and air-conditioners, after-sale services and technical consulting, 70% sold domestically	Sino-foreign joint venture	Yes
Kelon Japan Co., Ltd. ("Kelon Japan")*	Japan	JPY1,100,000,000	-	100%	100%	Technical research and trading of household appliances	Foreign company	No
Kelon Europe Industrial Design Limited ("Kelon Europe") <sup>2</sup>	UK	-	-	100%	100%	Business contact	Foreign company	No
Sichuan Rongsheng Refrigerator Sale Co., Ltd. ("Sichuan Kelon")	Chengdu	RMB2,000,000	76%	-	76%	Sale of refrigerators	Company with limited liability	Yes
Beijing Hengsheng Technologies Co., Ltd. ("Beijing Hengsheng")	Beijing	RMB30,000,000	80%	-	80%	R&D of industrial and commercial smart systems	Company with limited liability	Yes
Beijing Kelon Tiandi Intelligent Network Technology Co., Ltd. ("Beijing Tiandi")	Beijing	RMB5,000,000	-	78%	78%	Businesses not prohibited by law	Company with limited liability	Yes
Beijing Kelon Shikong Information System Technology Co., Ltd. ("Beijing Shikong")	Beijing	RMB5,000,000	-	78%	78%	Businesses not prohibited by law	Company with limited liability	Yes
Hisense Chengdu (Refrigerator) Co., Ltd. ("Hisense Chengdu")	Chengdu	RMB5,000,000	75%	25%	100%	Manufacture of household appliances and refrigeration equipment, sale of Company products, and after-sales service	Sino-foreign joint venture	Yes

\*1. The investment costs of the Company in Kelon Japan and Combine are RMB29,666,000 and RMB11,000,000 respectively.

\*2. Kelon Europe, Kelon Japan and Combine are very small in asset size and are not included into the consolidation range for the current year.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VI. RANGE OF CONSOLIDATED FINANCIAL STATEMENTS, HOLDINGS SUBSIDIARIES AND ASSOCIATES – Continued**

2. Basic information of the Company's associates is as follows:

Name of associate	Place of registration	Registered capital	Shareholding Percentage of the Company			Main businesses	Nature of business
			Direct	Indirect	Total		
Huayi Compressor Holdings Co., Ltd. ("Huayi")	PRC	RMB260,854,000	18.26%	-	18.26%	Manufacture and sale of compressors	Joint stock company with limited liability
Chongqing Kelon Rongsheng Refrigerator Sale Co., Ltd. ("Chongqing Kelon")	PRC	RMB1,000,000	-	28%	28%	Sale and after-sale services of refrigerators	Company with limited liability
Guangzhou Antaida Logistic Co., Ltd. ("Antaida")	PRC	RMB10,000,000	20%	-	20%	Integrated logistics	Company with limited liability

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED)****Note 1. Cash and cash equivalents**

Items		Closing balance			Opening balance		
		Original currency	Conversion Exchange rate	In RMB	Original currency	Conversion Exchange rate	In RMB
Cash	RMB	244,350.95	1.0000	244,350.95	204,329.74	1.0000	204,329.74
	HKD	30,000.00	0.9730	29,191.20	30,000.00	1.0047	30,140.10
	USD	0.75	7.6075	5.71	55.75	7.8087	435.33
	Others			74.06			78.45
	Subtotal			273,621.92			234,983.62
Bank deposit	RMB	173,885,415.43	1.0000	173,885,415.43	105,422,046.14	1.0000	105,422,046.14
	HKD	5,728,117.53	0.9730	5,573,687.48	5,709,884.09	1.0047	5,736,562.67
	USD	6,399,087.15	7.6075	48,681,055.50	3,911,641.23	7.8087	30,544,829.24
	JPY	96,254.00	0.0617	5,940.70			-
	EUR	199,886.95	10.2975	2,058,335.87	29,058.14	10.2665	298,326.02
	Others			169,303.86			9,758.46
Subtotal			230,373,738.84			142,011,522.53	
Other monetary assets	RMB	30,344,807.47	1.0000	30,344,807.47	248,173,813.93	1.0000	248,173,813.93
	HKD			-	148.24	1.0047	148.93
	USD	59,422.61	7.6075	452,057.50	10,641.64	7.8087	83,097.37
Subtotal			30,796,864.97			248,257,060.23	
Total			261,444,225.73			390,503,566.38	

\* Other monetary assets are security deposit, and mortgaged deposit used to issue bank acceptance bills, commercial acceptance bills and letters of credit and to secure bank loans.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 2. Notes receivable**

<u>Type</u>	<u>Closing balance</u>	<u>Opening balance</u>
Bank acceptance notes:		
– Discounted	36,900,252.00	–
– Pledged	8,340,000.00	28,200,000.00
– Non pledged	90,772,660.45	49,117,440.80
Commercial acceptance notes:		
– Discounted	–	–
– Pledged	–	–
– Non pledged	2,680,000.00	–
Total	<u>138,692,912.45</u>	<u>77,317,440.80</u>

The notes receivables increased by 79.38% at the end of the period compared with the beginning of the period, primarily because the payments for domestic sales of the Company were settled mainly with bank acceptance bills. Increase of revenues from domestic sales of the Company in the first half of the year led to the increase of notes receivable.

**Note 3. Trade receivables**

Details of consolidated trade receivables are set out as follows:

<u>Age</u>	<u>Closing balance</u>			<u>Opening balance</u>		
	<u>Amount</u>	<u>Percentage in total</u>	<u>Provision for bad debts</u>	<u>Amount</u>	<u>Percentage in total</u>	<u>Provision for bad debts</u>
Within three months	802,673,583.99	75.87%	–	280,031,134.56	47.03%	–
Three to six months	6,947,303.90	0.66%	657,725.60	68,655,030.57	11.53%	8,259,564.01
Six months to one year	8,112,985.74	0.77%	3,342,669.65	35,064,379.04	5.89%	16,542,737.76
Subtotal within one year	817,733,873.63	77.30%	4,000,395.25	383,750,544.17	64.45%	24,802,301.77
One to two years	29,146,484.51	2.76%	28,464,469.56	85,838,674.86	14.42%	69,875,633.22
Two to three years	85,340,070.30	8.07%	69,510,485.60	20,204,958.59	3.39%	20,204,958.59
Over three years	125,692,722.00	11.88%	125,692,722.00	105,606,603.86	17.74%	105,606,603.86
Total	<u>1,057,913,150.44</u>	<u>100.00%</u>	<u>227,668,072.41</u>	<u>595,400,781.48</u>	<u>100.00%</u>	<u>220,489,497.44</u>

Trade receivables increased by 121% at the end of the period compared with the beginning of the period, primarily because the significant increase in revenue from principal activities in the Report Period led to an increase in the trade receivables.

(1) The consolidated amounts of trade receivables in top five places are as follows:

	<u>Closing balance</u>		<u>Opening balance</u>	
	<u>Amount</u>	<u>Percentage in total</u>	<u>Amount</u>	<u>Percentage in total</u>
Total of top five	303,635,027.29	28.70%	127,807,259.42	21.47%

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 3. Trade receivables – Continued**

- (2) The shareholder monies with more than 5% (inclusive 5%) shares receivable at the end of the period were RMB1,505,236.25 (see Note VIII 3 (1) for details).
- (3) Guangdong Greencool and related parties ("Greencool Companies") conducted a series of connected transactions with the Company from October 2001 to July 2005, with abnormal cash inflows and outflows. At the same time, Greencool Companies also conducted a series of businesses with the Company with abnormal cash inflows and outflows through Specific Third Parties such as Tianjin Lixin Trading Development Co., Ltd. ("Specific Third Parties"). Details of provisions withdrawn for specific bad debts of trade receivables of Greencool Companies and Specific Third Parties are as follows:

Name of Company	Closing balance	
	Amount	Provision for bad debts
Hefei Weixi Electrical Co., Ltd. ("Hefei Weixi")	18,229,589.24	7,805,094.62
Wuhan Changrong Electrical Appliance Co., Ltd. ("Wuhan Changrong")	20,460,394.04	14,921,847.02
Total	<u>38,689,983.28</u>	<u>22,726,941.64</u>

Details of trade receivables of the Company are as follows:

Age	Closing balance			Opening balance		
	Amount	Percentage in total	Provision for bad debts	Amount	Percentage in total	Provision for bad debts
Within three months	403,978,789.88	64.05%	-	194,075,750.78	46.52%	-
Three to six months	3,003,848.20	0.48%	238,315.86	8,148,423.73	1.95%	814,842.37
Six months to one year	5,668,398.70	0.90%	1,434,199.35	5,789,380.94	1.39%	2,894,690.47
Subtotal within one year	412,651,036.78	65.43%	1,672,515.21	208,013,555.45	49.86%	3,709,532.84
One to two years	21,856,054.85	3.47%	21,856,054.85	89,086,450.72	21.35%	73,123,409.08
Two to three years	76,084,550.16	12.06%	60,121,508.52	16,370,958.37	3.92%	16,370,958.37
Over 3 years	120,118,892.96	19.05%	120,118,893.04	103,747,934.58	24.87%	103,747,934.58
Total	<u>630,710,534.75</u>	<u>100.00%</u>	<u>203,768,971.62</u>	<u>417,218,899.12</u>	<u>100.00%</u>	<u>196,951,834.87</u>

There were no trade receivable from shareholder which owns more than 5% (inclusive 5%) of the total share capital.

**Note 4. Other receivables**

Details of consolidated other receivables are as follows:

Age	Closing balance			Opening balance		
	Amount	Percentage in total	Provision for bad debts	Amount	Percentage in total	Provision for bad debts
Within one year	233,778,913.97	26.55%	1,149,109.72	66,643,136.54	7.19%	3,681,420.24
One to two years	368,859,893.09	41.89%	177,614,245.06	808,237,698.18	87.20%	435,927,721.65
Two to three years	226,664,832.86	25.74%	140,293,325.22	12,037,266.32	1.30%	11,264,633.24
Over three years	51,234,859.88	5.82%	51,234,859.88	39,993,289.46	4.31%	5,311,633.61
Total	<u>880,538,499.80</u>	<u>100.00%</u>	<u>370,291,539.88</u>	<u>926,911,390.50</u>	<u>100.00%</u>	<u>456,185,408.74</u>

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 4. Other receivables – Continued**

The consolidated amounts of other receivable in top five places are as follows:

	Closing balance		Opening balance	
	Amount	Percentage in total	Amount	Percentage in total
Total of the top five	434,106,567.53	49.30%	534,887,296.08	57.71%

(1) The shareholder monies with more than 5% (inclusive 5%) other shares receivable at the end of the period were RMB97,206.00 (see Note VIII 3 (1) for details).

(2) Details of provisions withdrawn for specific bad debts of other receivables of Greencool and Specific Third Parties are as follows:

Including: Greencool Companies and "Specific Third Parties"

Name of Company	Closing balance	
	Amount	Provision for bad debts
Guangdong Greencool	13,754,600.00	7,962,961.47
Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool")	12,289,357.71	11,313,119.16
Jiangxi Kesheng Trading Co., Ltd. ("Jiangxi Kesheng")	27,462,676.72	21,390,370.86
Jinan San'ai'fu Chemical Co., Ltd. ("Jinan San'ai'fu")	121,496,535.45	64,813,858.20
Tianjin Xiangrun Trading Development Co., Ltd. ("Tianjin Xiangrun")	96,905,328.00	48,706,110.00
Tianjin Lixin Trading Development Co., Ltd. ("Tianjin Lixin")	89,600,300.00	44,800,150.00
Jiangxi Keda Plastic Technology Co., Ltd. ("Jiangxi Keda")	13,000,200.00	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 Co., Ltd. ("Zhuhai Defa")	21,400,000.00	10,700,000.00
Wuhan Changrong	20,000,000.00	10,000,000.00
Beijing De Heng Solicitors	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 Co., Ltd.	58,030,000.00	58,030,000.00
Total	<u>546,538,997.88</u>	<u>341,516,669.69</u>

Other related parties:

Name of Company	Closing balance	
	Amount	Provision for bad debts
Shunde Yunlong Consultancy	4,455,375.57	4,455,375.57

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 4. Other receivables – Continued**

Details of Company amounts of other receivables are as follows:

Age	Closing balance			Opening balance		
	Amount	Percentage in total	Provision for bad debts	Amount	Percentage in total	Provision for bad debts
Within one year	1,114,617,035.19	97.38%	1,255,297.66	1,297,501,542.09	86.08%	3,253,506.15
One to two years	14,670,362.42	1.28%	9,474,415.05	196,318,174.98	13.02%	94,309,996.43
Two to three years	14,271,367.60	1.25%	14,271,367.60	11,611,669.18	0.77%	10,942,351.69
Over three years	990,829.87	0.09%	990,829.87	1,952,603.47	0.13%	1,952,603.47
Total	<u>1,144,549,595.08</u>	<u>100.00%</u>	<u>25,991,910.18</u>	<u>1,507,383,989.72</u>	<u>100.00%</u>	<u>110,458,457.74</u>

There were no other receivable from shareholder who owns more than 5%(inclusive 5%) of the total share capital.

**Note 5. Prepayments**

Age	Closing balance		Opening balance	
	Amount	Percentage in total	Amount	Percentage in total
Within one year	59,065,272.89	95.41%	80,902,487.23	98.68%
One to two years	1,613,080.45	2.61%	239,170.39	0.29%
Two to three years	576,820.01	0.93%	540,322.02	0.66%
Over three years	651,012.78	1.05%	298,686.28	0.36%
Total	<u>61,906,186.13</u>	<u>100.00%</u>	<u>81,980,665.92</u>	<u>100.00%</u>

The consolidated amounts of prepayments in top five places are as follows:

Item	Closing balance		Opening balance	
	Amount	Percentage in total	Amount	Percentage in total
Total of top five	34,078,100.13	55.05%	55,631,471.98	67.86%

There were no prepayments to shareholder who owns more than 5%(inclusive 5%) of the total share capital.

**NOTES TO THE FINANCIAL STATEMENTS**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) - Continued****Note 6. Subsidy receivable**

Item	Closing balance	Opening balance
Export tax refund receivable	10,752,014.56	5,021,210.04

**Note 7. Inventory and provision for impairment loss on inventories**

Type	Closing balance		Opening balance	
	Book balance	Provision for impairment loss on inventories	Book balance	Provision for impairment loss on inventories
Raw materials	292,767,048.55	54,264,851.56	245,529,272.47	61,479,234.24
Work-in-process	54,147,249.69	12,485,481.61	46,413,227.41	12,485,014.20
Storage goods	872,666,315.41	21,032,546.76	750,377,339.50	48,518,968.32
Total	1,219,580,613.65	87,782,879.93	1,042,319,839.38	122,483,216.76

Details of provision for impairment loss on inventories:

Item	Opening balance	Increase during the period	Decrease during the current year		Closing balance
			Amount returned due to rise of asset value	Amount transferred for other reasons	
Raw materials	61,479,234.24	9,628,522.65	-	16,842,905.32	54,264,851.57
Work-in-process	12,485,014.20	140,381.61	-	139,914.20	12,485,481.61
Storage goods	48,518,968.32	1,731,255.03	-	29,217,676.60	21,032,546.75
Total	122,483,216.76	11,500,159.29	-	46,200,496.12	87,782,879.93

The significant decrease of provision for impairment loss on inventories is ascribable to the Company's stepped-up disposal of irrational inventories such as aged raw materials and substandard products, thereby transferring the corresponding provision for impairment loss on inventories.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 8. Long-term equity investments**

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

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in associates	94,289,225.75	-	94,289,225.75	95,297,792.96	-	95,297,792.96
Investment in subsidiaries*	40,666,043.52	11,000,000.00	29,666,043.52	41,630,378.96	11,000,000.00	30,630,378.96
Total	<u>134,955,269.27</u>	<u>11,000,000.00</u>	<u>123,955,269.27</u>	<u>136,928,171.92</u>	<u>11,000,000.00</u>	<u>125,928,171.92</u>

\* The Company's holdings subsidiaries Kelon Europe, Kelon Japan and Combine are very small in asset size, therefore they are not included into the range of consolidated financial statements.

a. *Investment in associates*

Name of investee	Percentage in registered capital of investee	Initial investment cost	Opening balance	Change in equity	Accumulated change in equity	Closing balance
Chongqing Rongsheng	28%	280,000.00	384,664.55	10,607.86	115,272.41	395,272.41
Antaida	20%	2,000,000.00	4,118,121.36	159,906.47	2,278,027.83	4,278,027.83
Huayi	18.26%	118,013,641.00	90,795,007.05	(1,179,081.54)	(28,397,715.49)	89,615,925.51
Total		<u>120,293,641.00</u>	<u>95,297,792.96</u>	<u>(1,008,567.21)</u>	<u>(26,004,415.25)</u>	<u>94,289,225.75</u>

The invested entity Huayi completed equity split reform on 20 December 2006. The Company originally held 22.725% equity of Huayi, which remained the same in number after the reform but was diluted to 18.26%. As the Company had significant influence on Huayi, equity method was still adopted for accounting.

b. *Investment in subsidiaries*

Name of investee	Percentage in registered capital of investee	Initial investment cost	Opening balance	Change in equity	Accumulated change in equity	Closing balance
Kelon Japan	100%	31,716,666.40	30,630,378.96	(964,335.44)	(2,050,622.88)	29,666,043.52
Combine	55%	11,000,000.00	11,000,000.00	-	-	11,000,000.00
Total		<u>42,716,666.40</u>	<u>41,630,378.96</u>	<u>(964,335.44)</u>	<u>(2,050,622.88)</u>	<u>40,666,043.52</u>

Kelon Japan was worth HK\$30,488,000.00, which was converted into RMB30,630,378.96 at the beginning of the period and RMB29,666,043.52 at the end of the period. The change in equity in the current period arose from the change in exchange rate.



**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 8. Long-term equity investments – Continued**

(1) Details of consolidated long-term equity investments are as follows: – Continued

c. Changes in provision for impairment

	<u>Opening balance</u>	<u>Increase during the period</u>	<u>Reversal during the period</u>	<u>Closing balance</u>
Provision for impairment of long-term investments				
Combine	11,000,000.00	-	-	11,000,000.00

(2) Details of Company amounts of long-term equity investments are as follows:

Item	<u>Closing balance</u>			<u>Opening balance</u>		
	<u>Book balance</u>	<u>Provision for impairment</u>	<u>Book value</u>	<u>Book balance</u>	<u>Provision for impairment</u>	<u>Book value</u>
Long-term equity investments						
Including: Investment						
in subsidiaries	1,297,222,081.31	-	1,297,222,081.31	1,214,334,081.31	-	1,214,334,081.31
Investment in associate	93,893,953.34	-	93,893,953.34	94,913,128.41	-	94,913,128.41
Total	<u>1,391,116,034.65</u>	<u>-</u>	<u>1,391,116,034.65</u>	<u>1,309,247,209.72</u>	<u>-</u>	<u>1,309,247,209.72</u>

a. Investment in associates

<u>Name of investee</u>	<u>Percentage in registered capital of investee</u>	<u>Initial investment cost</u>	<u>Opening balance</u>	<u>Change in equity</u>	<u>change in equity</u>	<u>Accumulated Closing balance</u>
Huayi	18.26%	118,013,641.00	90,795,007.05	(1,179,081.54)	(28,397,715.49)	89,615,925.51
Antaida	20.00%	2,000,000.00	4,118,121.36	159,906.47	2,278,027.83	4,278,027.83
Total		<u>120,013,641.00</u>	<u>94,913,128.41</u>	<u>(1,019,175.07)</u>	<u>(26,119,687.66)</u>	<u>93,893,953.34</u>

The invested entity Huayi completed equity split reform on 20 December 2006. The Company originally held 22.725% equity of Huayi, which remained the same in number after the reform but was diluted to 18.26%. As the Company had significant influence on Huayi, equity method was still adopted for accounting.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 8. Long-term equity investments – Continued**

(2) Details of Company amounts of long-term equity investments are as follows: – Continued

## b. Investment in subsidiaries

Name of investee	Percentage in registered capital of investee	Initial investment cost	Opening balance	Increase during the period	Decrease during the period	Closing balance
Rongsheng Refrigerator	70%	155,552,426.00	466,580,370.14	-	-	466,580,370.14
Kelon Air-Conditioner	60%	214,403,766.00	(345,145,530.22)	-	-	(345,145,530.22)
Kelon Fittings	70%	32,634,554.00	12,773,689.19	-	-	12,773,689.19
Kelon Mould	40%	49,860,000.00	60,420,180.80	-	-	60,420,180.80
Rongsheng Plastic	45%	53,270,064.00	153,817,523.65	-	-	153,817,523.65
Chengdu Kelon	75%	90,000,000.00	39,498,998.12	81,388,000.00	-	120,886,998.12
Yingkou Kelon	42%	84,000,000.00	39,968,364.19	-	-	39,968,364.19
Beijing Hengsheng	80%	24,000,000.00	13,115,220.85	-	-	13,115,220.85
Kelon Development	100%	11,200,000.00	(376,539,889.61)	-	-	(376,539,889.61)
Kelon Jiake	70%	42,000,000.00	(16,179,390.79)	-	-	(16,179,390.79)
Sichuan Kelon	76%	1,520,000.00	835,353.24	-	-	835,353.24
Kelon Freezer	44%	104,280,000.00	47,106,384.41	-	-	47,106,384.41
Wangao Company	20%	600,000.00	(31,189,351.58)	-	-	(31,189,351.58)
Kelon Household Appliances	25%	2,500,000.00	(82,731,627.99)	-	-	(82,731,627.99)
Jiangxi Kelon	60%	147,763,896.00	(70,293,817.02)	-	-	(70,293,817.02)
Jilin Kelon	90%	180,000,000.00	61,160,130.49	-	-	61,160,130.49
Hangzhou Kelon	40%	24,000,000.00	4,750,564.89	-	-	4,750,564.89
Yangzhou Kelon	74%	178,026,998.00	59,859,707.26	-	-	59,859,707.26
Zhuhai Kelon	75%	189,101,850.00	170,601,904.33	-	-	170,601,904.33
Xi'an Kelon	60%	107,729,620.00	32,921,833.24	-	-	32,921,833.24
Shenzhen Kelon	95%	95,000,000.00	50,800,386.30	-	-	50,800,386.30
Yingjia Motor	40%	12,428,893.00	123,470.21	-	-	123,470.21
Kelon Weili	55%	-	(12,916,327.13)	-	-	(12,916,327.13)
Hisense Chengdu	75%	1,500,000.00	-	1,500,000.00	-	1,500,000.00
Subtotal		1,801,372,067.00	279,338,146.97	82,888,000.00	-	362,226,146.97
Add: Provision - accrued liabilities of invested entities			934,995,934.34	-	-	934,995,934.34
Total			1,214,334,081.31	82,888,000.00	-	1,297,222,081.31

(1) The opening balance and closing balance contain the equity contained in indirectly controlled shares.

(2) As at 30 June 2007, Pearl River Refrigerator pledged its 20% equity of Rongsheng Refrigerator to Shanghai Pudong Development Bank Guangzhou Branch for a net loan of RMB60,000,000; the Company pledged its 70% equity of Kelon Fittings to Shanghai Pudong Development Bank Guangzhou Branch for a net loan of RMB49,786,500; the Company pledged its 42% equity of Rongsheng Refrigerator to Industrial Bank Guangzhou Branch for a net loan of RMB90,000,000.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 8. Long-term equity investments – Continued**

(2) Details of Company amounts of long-term equity investments are as follows: – Continued

## b. Investment in subsidiaries – Continued

- (3) The RMB81,388,000.00 new investment of the Company was used to buy 30% equity of Chengfa Group in Chengdu Kelon in the period, after which the Company controls 100% equity of Chengdu Kelon. Also, the Company and its subsidiary Pearl River Refrigerator set up Hisense Chengdu in the period, and the Company invested RMB1,500,000 in Hisense Chengdu in April 2007.
- (4) The Company's subsidiaries Kelon Air-Conditioner, Wangao Company, Kelon Household Appliances, Kelon Development, Jiangxi Kelon, Jiake Electronic and Huao Electronics became insolvent, and the Company undertook to the aforesaid companies to provide them with financial support so that they could carry out future business plans and repay debts due. The Company undertook guarantee obligation for the bank loan of Yangzhou Kelon, therefore the Company's long-term equity investments in the loss-making companies continued to be written down after being written down to zero in book value, and the resulting credit balance of the long-term equity investments was stated as liabilities under "Provision" in the balance sheet. The negative amount in the year was reclassified into RMB934,995,934.34.

**Note 9. Investment properties**

Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
<b>I. Original value</b>				
1. Buildings and structures	28,201,086.90	64,157,254.94	28,201,086.90	64,157,254.94
2. Land use right	-	-	-	-
Total	28,201,086.90	64,157,254.94	28,201,086.90	64,157,254.94
<b>II. Accumulated depreciation and accumulated amortisation</b>				
1. Buildings and structures	629,949.24	26,957,471.94	629,949.24	26,957,471.94
2. Land use right	-	-	-	-
Total	629,949.24	26,957,471.94	629,949.24	26,957,471.94
<b>III. Provision for impairment loss on fixed assets</b>				
1. Buildings and structures	1,427,636.07	-	1,427,636.07	-
2. Land use right	-	-	-	-
Total	1,427,636.07	-	1,427,636.07	-
<b>IV. Net book value</b>	<u>26,143,501.59</u>			<u>37,199,783.00</u>

The opening balance of investment properties are the buildings and structures transferred from the original fixed assets and used for lease in accordance with the "Accounting Standards for Business Enterprises". The increase in the period is the reclassified transfer from fixed assets, and decrease in the period is disposal of the property of Hong Kong Kelon Electrical.

As at 30 June 2007, the original book value of investment properties mortgaged by the Company for bank loan was RMB50,639,451.83, and the net book value was RMB27,869,137.36.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 10. Fixed assets, accumulated depreciation and provision for impairment**

Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
<b>I. Original value</b>				
Including: Buildings and structures	1,295,506,351.06	154,002,290.29	189,715,343.75	1,259,793,297.60
Machinery	1,874,697,683.45	59,587,071.39	31,021,068.68	1,903,263,686.16
Electronic equipment, fixtures and furniture	258,467,281.13	4,369,995.09	2,295,239.62	260,542,036.6
Motor vehicles	45,708,411.16	142,179.00	5,510,385.11	40,340,205.05
Mould	225,923,955.56	40,019,316.77	3,144,170.46	262,799,101.87
<b>Total</b>	<b>3,700,303,682.36</b>	<b>258,120,852.54</b>	<b>231,686,207.62</b>	<b>3,726,738,327.28</b>
<b>II. Accumulated depreciation</b>				
Including: Buildings and structures	480,823,594.70	36,353,251.77	54,699,494.60	462,477,351.87
Machinery	1,269,149,328.15	54,619,665.86	14,295,766.21	1,309,473,227.80
Electronic equipment, fixtures and furniture	218,438,678.38	3,809,425.34	1,188,152.70	221,059,951.02
Motor vehicles	36,889,079.53	810,947.00	3,669,847.12	34,030,179.41
Mould	116,571,258.17	26,798,661.75	1,579,493.77	141,790,426.15
<b>Total</b>	<b>2,121,871,938.93</b>	<b>122,391,951.72</b>	<b>75,432,754.40</b>	<b>2,168,831,136.25</b>
<b>III. Provision for impairment</b>				
Including: Buildings and structures	33,893,040.37	-	25,393,462.29	8,499,578.08
Machinery	147,556,567.19	16,049,999.95	9,292,834.96	154,313,732.18
Electronic equipment, fixtures and furniture	3,566,371.49	-	950,477.93	2,615,893.56
Motor vehicles	2,066,670.04	-	1,345,318.33	721,351.71
Mould	22,181,175.70	62,344.15	1,683.23	22,241,836.62
<b>Total</b>	<b>209,263,824.79</b>	<b>16,112,344.10</b>	<b>36,983,776.74</b>	<b>188,392,392.15</b>
<b>IV. Net book value</b>	<b>1,369,167,918.64</b>			<b>1,369,514,798.88</b>

(1) In the increase of fixed assets during the period, the amount transferred from construction in progress is RMB208,162,086.32.

(2) As at 30 June 2007, the original book value of fixed assets mortgaged by the Company for bank loan was RMB1,283,853,392.31, and the net book value was RMB732,775,725.21.

(3) The net book value of fixed assets to be disposed of was RMB32,705,320.00 (see Note 12 (2) for details).

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 11. Construction in progress**

<u>Original value of construction in progress</u>	<u>Opening balance</u>	<u>Increase during the current period</u>	<u>Fixed assets acquired through transfer in the period</u>	<u>Other decrease in the period</u>	<u>Closing balance</u>
Plant reconstruction of Yangzhou Kelon	227,698,617.56	27,555,087.77	180,184,716.08	48,597,932.86	26,471,056.39
Production line project of Jiangxi Kelon	39,569,666.76	-	-	39,569,666.76	-
Compressor production line of Xi'an Kelon	9,044,256.34	-	-	-	9,044,256.34
Refrigerator buildings and production line project of Hisense Chengdu	-	2,283,887.20	-	-	2,283,887.20
Others	60,993,668.12	31,507,409.29	27,977,370.24	-	64,523,707.17
<b>Total</b>	<b><u>337,306,208.78</u></b>	<b><u>61,346,384.26</u></b>	<b><u>208,162,086.32</u></b>	<b><u>88,167,599.62</u></b>	<b><u>102,322,907.10</u></b>
<b>Provision for impairment on construction in progress</b>		<b><u>Opening balance</u></b>	<b><u>Increase during the current period</u></b>	<b><u>Decrease during the current period</u></b>	<b><u>Closing balance</u></b>
Plant reconstruction of Yangzhou Kelon		13,811,879.00	-	5,713,860.00	8,098,019.00
Production line project of Jiangxi Kelon		23,244,968.30	-	23,244,968.30	-
Compressor production line of Xi'an Kelon		-	9,044,256.34	-	9,044,256.34
Others		16,529,593.30	1,501,576.46	-	18,031,169.76
<b>Total</b>		<b><u>53,586,440.60</u></b>	<b><u>10,545,832.80</u></b>	<b><u>28,958,828.30</u></b>	<b><u>35,173,445.10</u></b>
<b>Net value</b>		<b><u>283,719,768.18</u></b>			<b><u>67,149,462.00</u></b>

The Company disposed of the production line project of Jiangxi Kelon in the Report Period, thereby transferring the corresponding provision for impairment.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 12. Intangible assets**

<u>Item</u>	<u>Opening balance</u>	<u>Increase during the current period</u>	<u>Decrease during the current period</u>	<u>Closing balance</u>
<b>I. Original value</b>				
1. Land use right	471,731,222.44	64,746,900.00	7,285,622.93	529,192,499.51
2. Trademark	521,857,698.95	-	-	521,857,698.95
3. Non-patent technology	536,779.00	-	-	536,779.00
4. Software system	33,734,272.50	2,670,000.00	-	36,404,272.50
5. Others	17,100.00	-	-	17,100.00
Total	<u>1,027,877,072.89</u>	<u>67,416,900.00</u>	<u>7,285,622.93</u>	<u>1,088,008,349.96</u>
<b>II. Accumulated amortisation</b>				
1. Land use right	138,920,179.92	8,993,052.82	2,641,038.32	145,272,194.42
2. Trademark	134,130,255.55	-	-	134,130,255.55
3. Non-patent technology	376,887.22	68,524.98	-	445,412.20
4. Software system	23,130,527.74	1,957,787.48	-	25,088,315.22
5. Others	5,532.90	1,333.74	-	6,866.64
Total	<u>296,563,383.33</u>	<u>11,020,699.02</u>	<u>2,641,038.32</u>	<u>304,943,044.03</u>
<b>III. Provision for impairment</b>				
1. Land use right	23,421,758.81	-	-	23,421,758.81
2. Trademark	286,061,116.40	-	-	286,061,116.40
3. Non-patent technology	-	-	-	-
4. Software system	3,322,848.29	2,995,015.52	-	6,317,863.81
5. Others	-	-	-	-
Total	<u>312,805,723.50</u>	<u>2,995,015.52</u>	<u>-</u>	<u>315,800,739.02</u>
<b>IV. Net book value</b>	<u><u>418,507,966.06</u></u>			<u><u>467,264,566.91</u></u>

- (1) Under the new standards, land use right already stated as construction in progress and fixed assets should be separately recognised as intangible assets if it complies with the intangible assets standards. The land use right transferred from construction in progress to intangible assets in the period was RMB46,800,000.00, and the land use right transferred from fixed assets to intangible assets was RMB17,946,900.00.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 12. Intangible assets – Continued**

(2) As at the end of the Report Period, the following assets of the Company were assets to be disposed of:

<u>Name of asset</u>	<u>Book value</u>			<u>Contract value</u>
	<u>Fixed Assets</u>	<u>Intangible assets</u>	<u>Total</u>	
Six pieces of land of Refrigerator Factory one and Metal Factory	13,762,003.00	9,235,462.00	22,997,465.00	91,200,000.00
Marketing Building one	3,276,480.00	357,086.00	3,633,566.00	5,438,000.00
Household Appliance Park	15,666,837.00	7,469,324.00	23,136,161.00	29,000,000.00
Total	<u>32,705,320.00</u>	<u>17,061,872.00</u>	<u>49,767,192.00</u>	<u>125,638,000.00</u>

The Company concluded a transfer contract with the buyer concerning the aforesaid assets, but the mortgage was not removed, so the assets were not delivered.

**Note 13. Long-term deferred expenditure**

<u>Item</u>	<u>Leasehold improvement</u>	<u>Others</u>	<u>Total</u>
<b>Balance as at 1 January 2007</b>	182,096.52	698,355.00	880,451.52
Increase during the current period	-	268,926.40	268,926.40
Amortisation for the current period	60,698.84	172,086.16	232,785.00
<b>Balance as at 30 June 2007</b>	<u>121,397.68</u>	<u>795,195.24</u>	<u>916,592.92</u>
Remaining amortisation period	One to three years	One to three years	

**Note 14. Deferred tax assets**

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Loss deductible for income tax	13,635,558.10	11,755,682.57
Impairment loss on fixed assets	9,631,049.49	9,631,049.49
Others	1,740,807.57	-
Total	<u>25,007,415.16</u>	<u>21,386,732.06</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Unless otherwise specified, expressed in RMB)

### NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued

#### Note 15. Details of provision for impairment on assets

Item	Opening balance	Increased during the period	Decrease during the current period		Closing balance
			Reversed	Rewritten off	
Provision for bad debts	676,674,906.18	11,797,895.84	60,783,754.80	29,729,434.93	597,959,612.29
Including: Provision for bad debts of trade receivables	220,489,497.44	11,611,007.55	-	4,432,432.58	227,668,072.41
Provision for bad debts of other receivables	456,185,408.74	186,888.29	60,783,754.80	25,297,002.35	370,291,539.88
Provision for impairment loss on inventories	122,483,216.76	11,500,159.29	-	46,200,496.12	87,782,879.93
Provision for impairment on long-term equity investments	11,000,000.00	-	-	-	11,000,000.00
Provision for impairment on investment properties	1,427,636.07	-	-	1,427,636.07	-
Provision for impairment on fixed assets	209,263,824.79	16,112,344.10	-	36,983,776.74	188,392,392.15
Provision for impairment on construction in progress	53,586,440.60	10,545,832.80	-	28,958,828.30	35,173,445.10
Provision for impairment on intangible assets	312,805,723.50	2,995,015.52	-	-	315,800,739.02
Total	<u>1,387,241,747.90</u>	<u>52,951,247.55</u>	<u>60,783,754.80</u>	<u>143,300,172.16</u>	<u>1,236,109,068.49</u>

#### Note 16. Short-term bank loans

Type of loan	Currency	Closing balance		Opening balance	
		Original currency	In RMB	Original currency	In RMB
Guaranteed loans	RMB	295,903,550.80	295,903,550.80	263,708,629.32	263,708,629.32
Mortgaged loans	RMB	521,100,000.00	521,100,000.00	599,493,619.20	599,493,619.20
Pledged loans	RMB	229,486,539.47	229,486,539.47	255,800,000.00	255,800,000.00
Credit loans	RMB	10,700,000.00	10,700,000.00	59,700,000.00	59,700,000.00
Bank acceptance notes discounted	RMB	36,900,251.15	36,900,251.15	218,000,000.00	218,000,000.00
Commercial notes discounted	RMB	100,000,000.00	100,000,000.00	160,000,000.00	160,000,000.00
Total			<u>1,194,090,341.42</u>		<u>1,556,702,248.52</u>

(1) Short-term loans decreased significantly, primarily because the Company stepped up capital management, positively disposed of invalid capital occupation and enhanced the efficiency of capital operations.

(2) As at 30 June 2007, the overdue balance of short-term bank loans was RMB170,005,260.80.



**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 17. Notes payable**

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Bank acceptance notes	302,890,000.00	487,927,200.00
Commercial acceptance notes	39,940.00	20,120,187.22
Total	<u>302,929,940.00</u>	<u>508,047,387.22</u>

(1) No arrear was due to any shareholder holding 5% (inclusive 5%) shares.

(2) Notes payable decreased by 40% at the end of the period as compared with the beginning of the period, primarily because a large quantity of notes payable matured at the end of the period and the Company paid the notes payable.

**Note 18. Trade payables**

The closing balance was RMB2,413,762,657.22, including RMB10,068,633.02 arrears payable to shareholders holding more than 5% (inclusive 5%) shares (see Note VIII 3 (1) for details).

**Note 19. Advance from customers**

The closing balance was RMB685,520,200.55, without any payables to shareholders holding more than 5% (inclusive 5%) shares.

**Note 20. Accrued Payroll**

<u>Item</u>	<u>Opening balance</u>	<u>Increase during the current period</u>	<u>Amount paid during the period</u>	<u>Closing balance</u>
Salary, bonus, subsidy and allowance	31,170,713.47	296,494,394.89	270,401,289.83	57,263,818.53
Staff welfare	977,300.17	7,763,424.14	8,738,161.80	2,562.51
Social insurance	646,041.68	17,175,931.24	16,660,023.98	1,161,948.94
Union fee and staff education fee	1,728,296.02	2,286,349.71	1,335,966.12	2,678,679.61
Others	-	3,453,558.79	2,257,447.73	1,196,111.06
Total	<u>34,522,351.34</u>	<u>327,173,658.77</u>	<u>299,392,889.46</u>	<u>62,303,120.65</u>

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 21. Taxes payable**

<u>Taxation</u>	<u>Closing balance</u>	<u>Opening balance</u>
Value added tax	(216,335,757.32)	(137,955,315.88)
Business tax	46,138.77	8,193,596.39
Enterprise income tax	28,876,956.87	25,823,702.61
Municipal Construction tax	33,570.75	45,716.28
Stamp tax	16,180.40	(72,705.22)
Property tax	3,425,978.15	271,865.72
Personal income tax	2,171,491.04	471,314.23
Land use tax	618,000.00	4,070,164.79
Contract tax	1,275,016.22	-
Total	<u>(179,872,425.12)</u>	<u>(99,151,661.08)</u>

Taxes payable decreased by RMB80,720,764.04 at the end of the period as compared with the beginning of the period, primarily because increase in input VAT was not deducted at the end of the period.

**Note 22. Other payables**

The closing balance was RMB683,920,301.88, without any arrears due to shareholders holding more than 5% (inclusive 5%) shares.

**Note 23. Other current liabilities**

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Installation costs	102,136,881.02	55,511,614.50
Interest expenses	12,712,531.43	18,446,920.52
Sales discounts	126,534,495.32	90,838,732.79
Freight	5,899,926.38	3,781,825.99
Audit and listing expenses	14,873,967.27	15,508,531.04
Business related expenses	25,531,495.67	20,451,092.40
Bonuses	21,686,220.50	22,650,751.24
Fund occupation fee	25,342,627.40	19,799,822.42
Others	24,475,315.22	18,535,082.91
Total	<u>359,193,460.21</u>	<u>265,524,373.81</u>

In the period, the revenue from principal activities increased significantly, and sale related installation costs, sales discounts, freight and business related expenses all increased as compared with the beginning of the period.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 24. Provision**

Item	Closing balance	Opening balance
Litigation cost	8,712,299.81	4,212,299.81
Provision for warranty cost <sup>(1)</sup>	169,463,784.50	165,782,783.11
Total	178,176,084.31	169,995,082.92

- (1) Provision for warranty cost is the expected deposit for product quality. The Company provides 3-year warranty for the quality of products sold. The Company provides free maintenance service in the warranty period. According to industry experience and past data, provision for warranty cost is estimated and withdrawn as per the remaining warranty period and average unit repair expense.

**Note 25. Long-term payables**

Item	Closing balance	Opening balance
Pension liabilities <sup>(1)</sup>	21,942,209.42	32,619,896.33
Special long-term payables <sup>(2)</sup>	24,941,610.40	27,952,397.90
Total	46,883,819.82	60,572,294.23

- (1) Pension liabilities refers to retirement pension which is withdrawn from the salary paid to the employee and the salary reserved by the Company, and which is distributed to the employee after retirement or resignation.
- (2) Special long-term payables were mainly treasury bonds and other government grants obtained by the Company to achieve technological and industrial upgrading.

**Note 26. Share capital**

Changes in share capital during the period are as follows:

Item	Opening balance	Increase (Decrease) during the period					Subtotal	Closing balance
		Converted from capital reserve	Share reform	Equity reform	Others	Subtotal		
<b>I. Shares with sale limitations</b>								
Shares held by domestic legal persons	337,915,755				(23,340,120)	(23,340,120)	314,575,635	
Shares held by domestic natural persons	71,000				(59,408)	(59,408)	11,592	
	337,986,755	-	-	-	(23,399,528)	(23,399,528)	314,587,227	
<b>II. Shares without sale limitations</b>								
Ordinary shares denominated in RMB	194,430,000				23,399,528	23,399,528	217,829,528	
Overseas listed foreign shares	459,589,808					-	459,589,808	
	654,019,808	-	-	-	23,399,528	23,399,528	677,419,336	
<b>III. Total shares</b>	992,006,563	-	-	-	-	-	992,006,563	

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 26. Share capital – Continued**

The par value per share is RMB1.00.

The share reform scheme of the Company was passed at the A Share related general meeting of the Company held on 29 January 2007 and was approved by the Ministry of Commerce on 21 March 2007. According to the reform scheme, the non-floating shareholder Hisense Air-Conditioner agreed to grant 1.2 shares for every 10 shares held by A Share floating shareholders, and the total number of shares after executing consideration was 23,340,120.

**Note 27. Capital reserve**

<u>Item</u>	<u>Opening balance</u>	<u>Increase during the current period</u>	<u>Decrease during the current period</u>	<u>Closing balance</u>
Share premium	1,468,501,786.00	-	-	1,468,501,786.00
Provision for donation of non-cash asset	17,696,745.00	-	-	17,696,745.00
Price difference between related party transactions	17,712,651.00	-	-	17,712,651.00
Equity investment reserves	81,741,354.60	-	44,715,098.40	37,026,256.20
Others	22,449,590.60	-	-	22,449,590.60
Total	<u>1,608,102,127.20</u>	<u>-</u>	<u>44,715,098.40</u>	<u>1,563,387,028.80</u>

Capital reserve decreased, primarily because the difference between the purchase price of 30% equity of Chengdu Kelon and the identifiable net asset share wrote down the capital reserve.

**Note 28. Revenue reserve**

<u>Item</u>	<u>Opening balance</u>	<u>Increase during the current period</u>	<u>Decrease during the current period</u>	<u>Closing balance</u>
Statutory revenue reserve	114,580,901.49	-	-	114,580,901.49
Including: General revenue reserve	114,580,901.49	-	-	114,580,901.49
Statutory common welfare fund	-	-	-	-

The statutory revenue reserve can be used for the collective welfare of the employees of the Company.

**Note 29. Accumulated profits**

<u>Item</u>	<u>Opening balance</u>	<u>Increase during the current period</u>	<u>Decrease during the current period</u>	<u>Closing balance</u>
Accumulated profits	(3,697,957,232.42)	117,374,959.23	-	(3,580,582,273.19)

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 30. Operating revenue and cost**

(1) Operating revenue and cost of sales

Item	January to June 2007	January to June 2006
Revenue from principal activities	<b>4,854,805,311.94</b>	3,586,846,097.13
Other operating income	<b>288,288,346.76</b>	170,339,472.31
Total operating income	<b><u>5,143,093,658.70</u></b>	<u>3,757,185,569.44</u>
Costs of sale	<b>4,012,802,317.79</b>	2,848,113,421.07
Other operating expenses	<b>247,702,497.63</b>	137,007,904.01
Total operating expense	<b><u>4,260,504,815.42</u></b>	<u>2,985,121,325.08</u>

(2) By produce segment

Classification	January to June 2007		January to June 2006	
	Revenue	Cost	Revenue	Cost
Refrigerator	<b>2,287,485,790.92</b>	<b>1,921,191,428.91</b>	1,663,326,079.04	1,242,265,269.73
Air-conditioner	<b>2,192,929,461.67</b>	<b>1,783,620,101.02</b>	1,585,836,004.81	1,333,540,065.09
Freezer	<b>157,912,236.48</b>	<b>139,669,604.60</b>	143,722,679.87	132,720,072.17
Others	<b>216,477,822.87</b>	<b>168,321,183.26</b>	193,961,333.41	139,588,014.08
Total	<b><u>4,854,805,311.94</u></b>	<b><u>4,012,802,317.79</u></b>	<u>3,586,846,097.13</u>	<u>2,848,113,421.07</u>

The consolidated amounts of sales revenue in top five places are as follows:

	January to June 2007		January to June 2006	
	Amount	Percentage in total	Amount	Percentage in total
Total of top five	<b><u>1,000,077,917.64</u></b>	<b><u>20.60%</u></b>	<u>2,049,133,769.92</u>	<u>57.13%</u>

Details of the Company's revenue/cost of principal activities are as follows:

Classification	January to June 2007		January to June 2006	
	Revenue	Cost	Revenue	Cost
Refrigerator	<b>1,485,802,677.04</b>	<b>1,249,065,762.95</b>	1,086,048,638.86	912,587,964.27
Air-conditioner	<b>1,137,791,083.67</b>	<b>956,503,787.46</b>	964,768,104.43	817,513,489.95
Freezer	<b>28,557,327.03</b>	<b>24,007,211.74</b>	82,723,237.08	64,375,417.06
Others	<b>738,250.91</b>	<b>620,623.43</b>	31,491,682.15	16,185,255.72
Total	<b><u>2,652,889,338.65</u></b>	<b><u>2,230,197,385.58</u></b>	<u>2,165,031,662.52</u>	<u>1,810,662,127.00</u>

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 31. Distribution costs**

The distribution costs in the Report Period was RMB648,747,489.21, representing an increase in RMB89,961,500.00 compared with the same period of the preceding year, primarily because of the significant increase of exports in the Report Period, resulting in an increase of international marketing expenses such as shipping expense; and increased marketing scale in China, resulting in an increase of marketing expenses, as for promotions and brand advertising.

**Note 32. Administrative expenses**

The administrative expenses in the Report Period was RMB159,128,698.23, representing a decrease of RMB16,598,700 compared with the same period in 2006, primarily because the Company took a series of measures which was gradually implemented in the year to cut down expenses.

**Note 33. Finance costs**

<u>Type</u>	<u>January to June 2007</u>	<u>January to June 2006</u>
Interest expenses	<b>34,054,911.39</b>	62,771,272.16
Less: Interest income	<b>3,172,673.61</b>	3,999,722.20
Exchange profit or loss	<b>22,379,014.89</b>	13,933,234.76
Discount	<b>7,428,251.56</b>	10,692,061.93
Others	<b>5,248,767.97</b>	6,836,734.84
Total	<b><u>65,938,272.20</u></b>	<u>90,233,581.49</u>

The Company further controlled the financing scale in the Report Period, contributing to a decrease of interest expenses compared with the same period of the preceding year.

**Note 34. Provision for impairment on assets**

	<u>January to June 2007</u>	<u>January to June 2006</u>
Loss from bad debts	<b>(48,985,858.96)</b>	(17,521,977.54)
Impairment loss on inventories	<b>11,500,159.29</b>	-
Impairment loss on fixed assets	<b>16,112,344.10</b>	-
Impairment loss on construction in progress	<b>10,545,832.80</b>	-
Impairment loss on intangible assets	<b>2,995,015.52</b>	-
Total	<b><u>(7,832,507.25)</u></b>	<u>(17,521,977.54)</u>

In 2005, the Company withdrew RMB84,427,600 provision for bad debts for the RMB168,855,100 receivable from Shunde Jiegao Investment Company by specific identification. On 31 May 2007, the Company and Shunde Jiegao Investment Company concluded a creditor's right transfer agreement, under which the Company transferred its creditor's right over Shunde Jiegao Investment Company to Shunde Shunrong Investment Co., Ltd. at the price of RMB142,000,000, thereby written off the corresponding provision for bad debts. The said transfer had an influence of RMB-57,072,400 on the Company's loss from bad debts.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 35. Investment income**

Details of consolidated investment income are as follows:

<u>Type</u>	<u>January to June 2007</u>	<u>January to June 2006</u>
Gain/(loss) on investment in associates	(965,560.89)	(2,255,593.00)
Other income on investment	-	37,479.00
Total	<u>(965,560.89)</u>	<u>(2,218,114.00)</u>

Details of Company amounts of investment income are as follows:

<u>Type</u>	<u>January to June 2007</u>	<u>January to June 2006</u>
Investment income in subsidiaries	-	188,417,337.67
Investment income in associates	(976,168.75)	(2,289,608.23)
Total	<u>(976,168.75)</u>	<u>186,127,729.44</u>

**Note 36. Non-operating income and expenses**1. *Non-operating income*

<u>Item</u>	<u>January to June 2007</u>	<u>January to June 2006</u>
Gain on disposal of fixed assets	73,712,677.34	846,306.48
Revenue from amercement	4,977,331.65	3,226,504.47
Insurance compensations	127,080.97	471,080.23
Revenue from government subsidy	1,038,063.04	422,087.38
Inventory gain	2,395,341.81	-
Revenue from debt restructuring	3,763,685.42	-
Others	6,588,390.60	1,566,694.65
Total	<u>92,602,570.83</u>	<u>6,532,673.21</u>

2. *Non-operating expenses*

<u>Item</u>	<u>January to June 2007</u>	<u>January to June 2006</u>
Net loss from fixed assets disposal	6,635,683.25	2,121,947.68
Net loss from disposal of intangible assets	71,088.06	-
Loss from debt restructuring	52,469.39	-
Abnormal losses	-	8,443,336.60
Amercement outlay	420,429.19	1,263,044.19
Others	4,231,156.39	1,585,753.64
Total	<u>11,410,826.28</u>	<u>13,414,082.11</u>

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE VII. NOTES TO PRINCIPAL ACCOUNTS IN THE FINANCIAL STATEMENTS (THE FOLLOWING DATA ARE CONSOLIDATED DATA UNLESS OTHERWISE SPECIFIED) – Continued****Note 37. Income tax expenses**

	January to June 2007	January to June 2006
Current income tax expense	3,036,172.78	1,009,974.04
Deferred income tax expense	<u>(3,620,683.10)</u>	<u>-</u>
Total	<u><u>(584,510.32)</u></u>	<u><u>1,009,974.04</u></u>

**Note 38. Cash and cash equivalents****Consolidated**

Type	January to June 2007	January to June 2006
Cash and cash equivalents	261,444,225.73	395,634,342.82
Less: Security deposit	<u>30,796,865.00</u>	<u>204,387,761.53</u>
	<u><u>230,647,360.73</u></u>	<u><u>191,246,581.29</u></u>

**Company**

Type	January to June 2007	January to June 2006
Cash and cash equivalents	154,685,866.24	168,566,054.78
Less: Security deposit	<u>4,778,570.91</u>	<u>89,080,969.43</u>
	<u><u>149,907,295.33</u></u>	<u><u>79,485,085.35</u></u>

**Note 39. Other cash paid relating to operating activities**

As at 30 June 2007, other cash paid relating to operating activities as set out in the consolidated cash flow statement was RMB408,912,300, primarily consisting of operating expense and management expense.



**NOTES TO THE FINANCIAL STATEMENTS**

(Unless otherwise specified, expressed in RMB)

**NOTE VIII. RELATED PARTIES AND TRANSACTIONS**

As at 13 December 2006, Guangdong Greencool transferred its 26.43% equity of the Company to Hisense Air-Conditioner, and the equity transfer formalities were completed. Hisense Air-Conditioner became the controlling shareholder of the Company. After share reform in 2007, Hisense Air-Conditioner held 24.08% equity of the Company.

**1. Related parties***(1) Related companies with control relations*

<u>Name of related company</u>	<u>Type of business</u>	<u>Legal representative</u>	<u>Registered capital</u>	<u>Business scope</u>	<u>Shares or equity held</u>	<u>Relation with the company</u>
Hisense Air-Conditioner	Sino-foreign joint venture	Tang Yeguo	674,790,000	*	24.08%	Controlling shareholder
Combine	Company with limited liability	Fang Zhiguo	20,000,000	**	55.00%	Subsidiary not merged with the Company

\* Manufacture and after-sale services of refrigerators and moulds.

\*\* R&D, manufacture and sale of air-conditioners and small household appliances, and after-sale services.

*(2) Related parties with no controlling interests*

<u>Name of related parties</u>	<u>Relation with the company</u>
Huayi	Associate of the Company
Chongqing Kelon	Associate of the Company
Antaida	Associate of the Company
Chengdu Engine (Group) Co., Ltd. ("Chengdu Engine")	Minority shareholder of Chengdu Kelon
Chengdu Xinxing Electrical Appliance Holdings Co., Ltd. ("Chengdu Xinxing")	Subsidiary of a minority shareholder of Chengdu Kelon
Xi'an Gaoke (Group) Limited	Minority shareholder of Xi'an Kelon
Hangzhou Xileng Group Co., Ltd. ("Hangzhou Xileng")	Minority shareholder of Hangzhou Kelon
Jiaxibeila Compressor Co., Ltd. ("Jiaxibeila")	Subsidiary of an associate of the Company
Shunde Yunlong Consultancy	Minority shareholder of Huao Electronics
Qingdao Hisense Marketing Co., Ltd. ("Hisense Marketing")	Subsidiary of the controlling shareholder of the Company
Hisense (Zhejiang) Air-conditioner Co., Ltd. ("Hisense Zhejiang")	Subsidiary of the controlling shareholder of the Company
Hisense (Nanjing) Electrical Co., Ltd. ("Hisense Nanjing")	Subsidiary of the controlling shareholder of the Company
Hisense (Beijing) Electrical Co., Ltd. ("Hisense Beijing")	Subsidiary of the controlling shareholder of the Company
Qingdao Hisense Imports & Exports Co., Ltd. ("Hisense Imports & Exports")	Subsidiary of the controlling shareholder of the Company
Qingdao Hisense Hitachi Air-conditioning System Co., Ltd. ("Hisense Hitachi")	Subsidiary of the controlling shareholder of the Company
Hisense Group Co., Ltd. ("Hisense Group")	Ultimate controlling shareholder of the Company

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE VIII. RELATED PARTIES AND TRANSACTIONS – Continued****1. Related parties – Continued***(3) Share or equity held by related parties with control relations and changes in such share or equity – Continued*

<u>Related parties</u>	<u>Opening balance</u>	<u>Increase during the current period</u>	<u>Decrease during the current period</u>	<u>Closing balance</u>
Hisense Air-Conditioner	262,212,194	-	23,340,120	238,872,074

The equity split reform scheme of the Company was passed at the A Share related general meeting of the Company held on 29 January 2007 and was approved by the Ministry of Commerce on 21 March 2007. According to the reform scheme, the non-floating shareholder Hisense Air-Conditioner agreed to grant 1.2 shares for every 10 shares held by A Share floating shareholders, and the total number of shares after executing consideration was 23,340,120.

**2. Related parties transactions***(1) Purchase of goods*

<u>Item</u>	<u>Name of Company</u>	<u>January to June 2007</u>	<u>January to June 2006</u>
Purchase of goods	Chengdu Xinxing	-	6,458,175.77
	Huayi	32,994,550.14	66,773,526.35
	Jiaxibeila	79,240,407.33	-
	Hisense Air-Conditioner	48,971,490.07	56,988.03
	Hisense Zhejiang	289,575,366.20	53,526,175.69
	Hisense Nanjing	29,549,628.57	5,519,658.12
	Hisense Beijing	-	2,454,200.90
Total		<u>480,331,442.31</u>	<u>134,788,724.86</u>

*(2) Sale of goods*

<u>Item</u>	<u>Name of Company</u>	<u>January to June 2007</u>	<u>January to June 2006</u>
Sale of goods	Chengdu Xinxing	-	3,320,028.25
	Chongqing Kelon	42,549,554.69	-
	Hisense Zhejiang	7,470,510.94	7,038,620.87
	Hisense Air-Conditioner	58,196,959.40	-
	Hisense Beijing	34,563,838.25	-
	Huayi	17,661.49	113,129.97
Total		<u>142,798,524.77</u>	<u>10,471,779.09</u>

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE VIII. RELATED PARTIES AND TRANSACTIONS – Continued****2. Related party transactions – Continued**(3) *Sale of moulds*

<u>Item</u>	<u>Name of Company</u>	<u>January to June 2007</u>	<u>January to June 2006</u>
Sale of moulds	Hisense Electrical	-	2,554,273.50
	Hisense Air-Conditioner	<b>3,078,974.38</b>	-
Total		<b><u>3,078,974.38</u></b>	<b><u>2,554,273.50</u></b>

(4) *Sale agency*

As at 30 June 2007, the balance of Company's advance from customers from Hisense Marketing was RMB205,891,547.54, and the capital occupation fee payable to Hisense in January to June 2007 was RMB5,542,804.98.

(5) *Use of land and properties*

The Company's subsidiary Jiangxi Kelon began in October 2003 to use the land, buildings and structures of Jiangxi Greencool in Jiangxi Kelon Greencool Industrial Park, and the Company's another subsidiary Zhuhai Kelon built its small refrigerator manufacturing base in the land and buildings of the major shareholder Guangdong Greencool. As at 30 June 2007, Jiangxi Kelon and Zhuhai Kelon had not yet concluded asset lease agreements with the other parties.

(6) *Use of trademark*

On 3 April 2003, the Company and Greencool (China) concluded a trademark licensing agreement ("Licensing Agreement"), under which Greencool (China) authorised the Company and its subsidiaries to use the "Combine" trademark free of charge. In the year, the Company and its subsidiaries only sold some "Combine" air-conditioners overstocked in the preceding year.

(7) *Other transactions*

<u>Item</u>	<u>January to June 2007</u>	<u>January to June 2006</u>
Other fees received from (or paid to) related parties		
Interest revenue received from Chengdu Xinxing	-	992,970.00
Logistic administrative expenses paid to Antaida	<b>29,594,589.93</b>	19,381,000.00
Water and electricity fees paid to Chengdu Engine	<b>4,440,560.87</b>	-
Advance receipt of equipment lease fee from Hangzhou Xileng	<b>3,000,000.00</b>	3,000,000.00

(8) *Guarantee*

As at 30 June 2007, the guarantee balance of the Company's effective controller Hisense Group for the Company's loans was RMB400,000,000.

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE VIII. RELATED PARTIES AND TRANSACTIONS – Continued****3. Transactions with related parties***(1) Transactions with related parties with controlling interests*

<u>Item</u>	<u>Name of related parties</u>	<u>Closing balance</u>	<u>Opening balance</u>
Trade receivables	Hisense Air-Conditioner	1,505,236.25	335,121.67
Other receivables	Hisense Air-Conditioner	97,206.00	-
Trade payables	Hisense Air-Conditioner	10,068,633.02	8,790,332.47
Advance from customers	Hisense Air-Conditioner	-	490,796.57
Other trade payables	Combine	5,099,880.00	5,099,880.00

*(2) Transactions with related parties with no controlling interests*

<u>Item</u>	<u>Name of related parties</u>	<u>Closing balance</u>	<u>Opening balance</u>
Trade receivables	Chongqing Kelon	107,070.00	107,070.00
	Hisense Marketing	1,661.74	436,224.01
	Hisense Zhejiang	2,284,067.12	590,285.77
	Antaida	17,859.44	8,166.40
	Hisense Hitachi	-	334,540.80
	Hisense Beijing	8,232,640.56	-
	Hisense Imports & Exports	3,863.70	-
Prepayments	Hisense Nanjing	-	730,450.00
	Chengdu Engine	-	47,000,000.00
Other receivables	Antaida	-	31,635.44
	Chengdu Engine	-	190,964.00
	Chengdu Xinxing	-	34,000,000.00
	Shunde Yunlong Consultancy	4,455,375.57	4,525,832.74
	Hisense Marketing	-	103,506.00
Trade payables	Huayi	14,639,338.26	13,739,250.30
	Chengdu Xinxing	-	11,815,976.65
	Jiaxibeila	40,604,960.18	12,905,409.58
	Hisense Beijing	1,606.17	1,284.40
	Hisense Nanjing	2,342.52	279,020.60
	Hisense Zhejiang	184,766,004.20	-
	Antaida	17,741.50	-
Advance from customers	Chongqing Kelon	3,943,820.39	4,082,988.12
	Hisense Marketing	205,891,547.54	290,164,676.95
	Hisense Nanjing	13,373,299.91	-
	Hangzhou Xileng Electrical	500,000.00	-
Other payables	Antaida	7,099,683.40	20,651,902.63
	Xi'an Gaoke (Group) Limited	1,785,476.00	1,785,476.00
	Hangzhou Xileng Group	18,771,728.50	15,772,269.71
	Chengdu Engine	108,840.00	5,308,840.00
	Huayi	200,000.00	200,000.00
	Jiaxibeila	-	100,000.00
	Chongqing Kelon	4,400.00	-
	Qingdao Savor	178,868.90	-

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

(Unless otherwise specified, expressed in RMB)

**NOTE IX. LAWSUITS**

As at the report date, the unsettled lawsuits of the Company are as follows:

**(1) Lawsuits with the Company as plaintiff**

<u>Plaintiff</u>	<u>Defendant</u>	<u>Subject</u>	<u>Amount involved (total)</u>
The Company	Guangzhou Youyicheng Business Operations Co., Ltd.	Project arrears	4,500,000.00
The Company	Beijing Diamond Advertising Co., Ltd.	Service fee not returned	5,000,000.00
The Company	Beijing De Heng Solicitors	Legal service fee not returned	4,000,000.00
The Company	Hangxiao Steel Structure Ltd.	Forfeit for delayed completion	11,547,000.00
The Company	Greencool and Gu Zhouju	Fraudulence in purchase and capital infringement	790,625,000.00
The Company	Xi'an Kelon	Interest for overdue payment for goods	99,984,100.00
The Company	Shangqiu Kelon Electrical Co., Ltd.	Legal cost for overdue payment for goods	25,660,900.00
The Company	Others		2,999,700.00
Total			<u>944,316,700.00</u>

**(2) Lawsuits with the Company as defendant**

<u>Plaintiff</u>	<u>Defendant</u>	<u>Subject</u>	<u>Amount involved (total)</u>
Material supplier	The Company	Outstanding loan	29,541,981.67
Kaifeng Economic and Technological Development Company	The Company	Dispute relating to joint venture contract	27,160,000.00
Hangxiao Steel Structure Ltd.	The Company	Project arrears	19,853,000.00
CNA INTERNATIONAL, INC/MC, APPLIANCE CORPORATION	The Company	Dispute over product quality	*USD 13,750,719.19
Domestic commercial banks	The Company	Outstanding loans	60,662,215.00
Company staff	The Company	Labour dispute	6,277,827.30
Henan Bing Xiong Ice Maker Co., Ltd. and Henan Bing Xiong Air-Conditioner Co., Ltd.	Greencool and the Company	Contract obligations not performed in due time	5,840,000.00
Administration Committee of Shangqiu Economic Development Zone	Greencool and the Company	Investment agreement not performed in due time	Cancellation of investment agreement and return of land
Others	The Company		10,408,173.14
Total			<u>264,351,793.35</u>

\* 30 June 2007, USD1 = RMB7.6075.

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE X. OTHER MATERIAL EVENTS****1. Land use right of Shangqiu Kelon**

Shangqiu Kelon's minority shareholder Shangqiu Bing Xiong Freezing Facilities Co., Ltd. ("Shangqiu Bing Xiong") concluded *Land Transfer Agreement* with Shangqiu Kelon and Administration Committee of Shangqiu Economic and Technological Development Zone in July 2004, under which agreement Shangqiu Bing Xiong transferred the right to use 200-mu land south of Nanjing Road, Shangqiu City, and Shangqiu Kelon should establish a project on the said land transferred thereto, in order to manufacture 2,000,000 ice makers per annum and effectuate an annual sales volume of RMB2,500,000,000 of icemakers, and manufacture 1,600,000 freezers per annum and effectuate an annual sales volume of RMB1,200,000,000 of freezers. The Administration Committee of Shangqiu Economic and Technological Development Zone reserved the right to take back the remaining land if the said project was not completed. Shangqiu Kelon obtained the land use permit, but "3-access and 1-level" (access to water, electricity and road and level land) were not realized, so Shangqiu Kelon did not use the said land and did not attain the specified targets.

Also, Shangqiu Kelon received a notice from the local court in August 2005, to the effect that the Administration Committee of Shangqiu Economic and Technological Development Zone instituted legal proceedings against Shangqiu Kelon in the local court, requesting to take back the 200-mu land located in Shangqiu Economic and Technological Development Zone and transferred by Shangqiu Bing Xiong to Shangqiu Kelon. The local court seized the right to use the said land. Shangqiu Kelon withdrew RMB18,207,006.81 provision for impairment of the said land use right. The case was under trial as at 30 June 2007.

**2. Yangzhou Kelon**

In June 2003, the Company and Yangzhou Economic Development Zone concluded *Project Investment Agreement*, under which Yangzhou Economic Development Zone provided the Company with 729,000-M<sup>2</sup> land in the Zone at the transfer price of RMB45,000,000, and the Company obtained the land use permit on 12 December 2003. In August 2003, the Company's subsidiary Yangzhou Kelon and the Development Zone Sub-bureau of Yangzhou National Land and Resources Bureau concluded *Agreement on the Transfer of Right to Use State-own Land*, under which the transferor transferred the 729,000-M<sup>2</sup> land at the price of RMB102,073,860.00. Yangzhou Kelon paid RMB45,000,000 to the Development Zone Sub-bureau of Yangzhou National Land and Resources Bureau in November 2003 and paid RMB40,000,000 to the Finance Bureau of Yangzhou Economic Development Zone.

Yangzhou Kelon originally stated RMB102,073,860 as land cost. On 31 December 2005, Yangzhou Kelon claimed, according to the lawyer's opinions, that the actual purchase price of the said land should be RMB45,000,000 plus relevant taxes RMB1,800,000, i.e. the book value of the said land should be RMB46,800,000, therefore the Company wrote down the land cost by RMB55,273,860.

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE X. OTHER MATERIAL EVENTS – Continued****3. Greencool Companies and Specific Third Parties**

Guangdong Greencool, the Company's original major shareholder, and related parties ("Greencool Companies") conducted a series of connected transactions with Tianjin Lixin Trading Development Co., Ltd., etc. ("Specific Third Parties") from October 2001 to July 2005, with abnormal cash inflows and outflows. The aforesaid transactions and capital appropriated are under investigation by relevant departments. Such events involve the receivables and payables of the Company, Greencool Companies and Specific Third Parties as at 30 June 2007.

*(1) Greencool Companies*

<u>Name of Company</u>	<u>Relation with the company</u>
Guangdong Greencool	Former controlling shareholder of the Company
Greencool Environmental Protection Engineering (Shenzhen) Co., Ltd. ("Shenzhen Greencool Environmental")	Connected party of Guangdong Greencool
Greencool Technology Development (Shenzhen) Co., Ltd. ("Shenzhen Greencool Technology")	Connected party of Guangdong Greencool
Greencool Procurement (Shenzhen) Co., Ltd. ("Shenzhen Greencool Procurement")	Connected party of Guangdong Greencool
Hainan Greencool	Connected party of Guangdong Greencool
Jiangxi Greencool Electrical Co., Ltd. ("Jiangxi Greencool")	Connected party of Guangdong Greencool
Hefei Meiling Holdings Ltd. ("Hefei Meiling")	Connected party of Guangdong Greencool
Yangzhou Yaxing Motor Coach Co., Ltd. ("Yangzhou Yaxing")	Connected party of Guangdong Greencool

*(2) Specific Third Parties*

<u>Name of Company</u>	<u>Relation with the company</u>
Jiangxi Kesheng	Specific Third Party
Jinan San'ai'fu	Specific Third Party
Tianjin Xiangrun	Specific Third Party
Tianjin Lixin	Specific Third Party
Jiangxi Keda Plastic Technology Co., Ltd. ("Jiangxi Keda")	Specific Third Party
Hefei Weixi	Specific Third Party
Zuhai Longjia	Specific Third Party
Zuhai Defa	Specific Third Party
Wuhan Changrong	Specific Third Party
Tianjin Taijin Yunye Co., Ltd. ("Tianjin Taijin")	Specific Third Party
Beijing De Heng Solicitors	Specific Third Party
Shangqiu Bing Xiong Freezing Facilities Co., Ltd. ("Shangqiu Bing Xiong")	Specific Third Party

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE X. OTHER MATERIAL EVENTS – Continued****3. Greencool Companies and Specific Third Parties – Continued***(3) Transactions with Greencool Companies*

<u>Item</u>	<u>Name of Company</u>	<u>Closing balance</u>	<u>Opening balance</u>
Trade receivables	Meiling Electrical	-	6,975.00
Other receivables	Guangdong Greencool	13,754,600.00	13,754,600.00
	Shenzhen Greencool Environmental	33,000,000.00	33,000,000.00
	Shenzhen Greencool Technology	32,000,000.00	32,000,000.00
	Hainan Greencool	12,289,357.71	12,289,357.71
Trade payables	Meiling Electrical	50,125.18	50,125.18
Other payables	Jiangxi Greencool	13,000,000.00	13,000,000.00

*(4) Transactions with Specific Third Parties*

<u>Item</u>	<u>Name of Company</u>	<u>Closing balance</u>	<u>Opening balance</u>
Trade receivables	Hefei Weixi	18,229,589.24	18,229,589.24
	Wuhan Changrong	20,460,394.04	20,460,394.04
Prepayments	Hefei Weixi	465,213.00	465,213.00
Other receivables	Jiangxi Kesheng	27,462,676.72	27,462,676.72
	Jinan San'ai'fu	121,496,535.45	121,496,535.45
	Tianjin Xiangrun	96,905,328.00	96,905,328.00
	Tianjin Lixin	89,600,300.00	89,600,300.00
	Jiangxi Keda	13,000,200.00	13,000,200.00
	Zhuhai Longjia	28,600,000.00	28,600,000.00
	Zhuhai Defa	21,400,000.00	21,400,000.00
	Wuhan Changrong	20,000,000.00	20,000,000.00
	Beijing De Heng Solicitors	4,000,000.00	4,000,000.00
	Finance Bureau of Yangzhou Economic Development Zone	40,000,000.00	40,000,000.00
	Shangqiu Kelon	58,030,000.00	58,030,000.00
Other payables	Zhuhai Longjia	28,316,425.03	28,316,425.03
	Zhuhai Defa	21,400,000.00	21,400,000.00
	Tianjin Taijin	65,000,000.00	65,000,000.00



**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE XI. GUARANTEES, MORTGAGES AND PLEDGES****1. Guarantees**

- (1) As at 30 June 2007, the guarantee balance of the Company for its holdings subsidiaries was RMB279,620,800 and the total guarantee was RMB603,913,700; of them, the guarantee balance provided for holdings subsidiaries whose liability-asset ratio exceeded 70% was RMB246,951,900, and the total guarantee provided for holdings subsidiaries whose liability-asset ratio exceeded 70% was RMB471,611,800.
- (2) The balance of loan guarantee provided by the connected party Hisense Group Co., Ltd. for the Company and its subsidiaries was RMB400,000,000 as at 30 June 2007.
- (3) In the Report Period, the Company did not provide guarantee for companies outside the consolidation range; the management of the Company did not find other external guarantee than the aforesaid guarantees.

**2. Mortgages**

- (1) For details about mortgages with fixed assets, see Note VII 10.
- (2) For details about mortgages with intangible assets, see Note VII 12.

**3. Pledges**

- (1) For details about pledges with long-term equity investments, see Note VII 8.

**NOTE XII. UNDERTAKINGS**

Following are the capital expenditure undertakings signed but not required to be recognised in the financial statements on the balance sheet date:

**1. Capital undertakings**

	<u>30 June 2007</u>	<u>31 December 2006</u>
Purchase of houses, buildings and machinery	<u>33,675,848.76</u>	<u>14,004,000.00</u>

**2. Operating lease undertakings**

According to the irrevocable operating lease contracts already concluded, the minimum future rents payable as at 30 June 2007 are as follows:

<u>Duration</u>	<u>30 June 2007</u>	<u>31 December 2006</u>
Within one year	<u>2,769,508.50</u>	2,589,965.37
Two to five years	<u>1,076,519.18</u>	1,116,463.59
	<u>3,846,027.68</u>	<u>3,706,428.96</u>

**3. External investment undertakings**

None

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE XIII. RETURN ON EQUITY AND EARNINGS PER SHARE**

January to June 2007	Return on equity (%)		Earnings per share (RMB/share)	
	Fully diluted	Weighted average	Basic earnings per share	Diluted earnings per share
Net profits attributable to common shareholders	N/A	N/A	0.1183	0.1183
Net profits attributable to common shareholders less non-recurring profit or loss	N/A	N/A	0.0365	0.0365

The respective indices are calculated with reference to the Information Disclosure Guidelines for Companies with Publicly Issued Securities, Rule No. 9.

**NOTE XIV. NON-RECURRING PROFIT OR LOSS**

Item	January to June 2007
Gains from disposal of non-current assets	67,005,906.03
Non-operating net revenue/expense other than the aforesaid items	14,185,838.52
Total non-operating profit or loss	<u>81,191,744.55</u>

Non-recurring profit or loss are recognised according to Q & A No. 1 on Regulation Governing Information Disclosure of Publicly Listed Companies-Non-recurring Profit or loss (amended 2007).

**NOTE XV. COMPARATIVE DATA**

The Company has restated the financial statements of the same period in 2006 in accordance with the new "Accounting Standards for Business Enterprises" and application guidelines thereof issued by the Ministry of Finance, in order to comply with the presentation form in the current period.

**NOTE XVI. COMPARISON OF DIFFERENCES OF FINANCIAL STATEMENTS PREPARED UNDER PRC ACCOUNTING STANDARDS AND HONG KONG ACCOUNTING STANDARDS**

These financial statements were prepared under PRC accounting standards, different from those prepared under IFRS.

Item	January to June 2007	Unit: RMB'000
	Net Profit	30 June 2007 Net Assets
Amounts in financial statements prepared under PRC accounting standards	117,374	(890,837)
Adjustments under IFRS:		
- Adjustment of reassessed added value and relevant depreciation of fixed assets	-	(11,142)
- Adjustment of amortisation of intangible assets	-	16,712
- Adjustment of minority interests of subsidiaries	-	(26,684)
- Adjustment of diluted losses of share reform of associates	-	(16,317)
Amounts in financial statements prepared under IFRS	<u>117,374</u>	<u>(928,268)</u>

**NOTES TO THE FINANCIAL STATEMENTS – Continued***(Unless otherwise specified, expressed in RMB)***NOTE XVII. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements of the Company were approved by the Board on 23 August 2007.

**NOTE XVIII. COMPARISON OF FINANCIAL INFORMATION IN THE TRANSITION PERIOD BETWEEN OLD AND NEW ACCOUNTING STANDARDS****1. Adjustments in the comparative income statement in January to June 2006**

Item	Before adjustment	After adjustment
Operation cost	3,152,049,382.31	2,985,121,325.08
Administrative expenses	(8,722,650.19)	175,727,385.58
Impairment loss	-	(17,521,977.54)
Investment income	(521,053.00)	(2,218,114.00)
Non-operating incomes	6,110,585.83	6,532,673.21
Subsidy income	422,087.38	-

**2. Net profit adjustments in January to June 2006**

	Amount
Net profit in January to June 2006 (under the old accounting standards)	(35,741,727.54)
Consolidated amount of retrospective adjustments of project impacts	(1,697,061.00)
Including: Investment income	(1,697,061.00)
	(37,438,788.54)
Net profit in January to June 2006 (under the new accounting standards)	(37,438,788.54)
Reference information if the new accounting standards are implemented completely	-
Consolidated amount of other project impacts	-
	-
Simulative net profit January - June 2006	(37,438,788.54)