

Hisense **KELON** **Ronshen**

海信科龍電器股份有限公司

Hisense Kelon Electrical Holdings Company Limited

Stock Code: 00921



2008
Interim Report

The Board of Directors (the "Board") of Hisense Kelon Electrical Holdings Company Limited (the "Company") announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008 (the "Period"). The condensed consolidated income statement, condensed consolidated statement of change in equity and condensed consolidated cash flow statement of the Group for the Period, and condensed consolidated balance sheet of the Group as at 30 June 2008, together with selected explanatory notes, are set out as follows. These interim financial statements have not been audited but have been reviewed by the Company's Audit Committee.

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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 2008

	Notes	For the six months ended 30 June	
		2008	2007
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Turnover	3	5,046,920	4,853,981
Cost of sales		(4,179,139)	(4,022,551)
Gross profit		867,781	831,430
Other income and gains		107,154	203,287
Distribution costs		(646,108)	(648,747)
Administrative expenses		(209,938)	(229,567)
Other operating expenses		(5,955)	(11,411)
Profit from operations		112,934	144,992
Share of results of associates		7,861	(966)
Finance costs		(51,006)	(48,019)
Profit before income tax	4	69,789	96,007
Income tax (expense)/credit	5	(7,164)	585
Profit for the period		62,625	96,592
Attributable to:			
Equity holders of the Company		63,255	117,374
Minority interests		(630)	(20,782)
		62,625	96,592
Dividends	6	—	—
Earnings per share attributable to equity holders of the Company	7		
— Basic and diluted		RMB0.06	RMB0.12

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

(FORMERLY KNOWN AS GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED)

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

	<i>Notes</i>	30 June 2008	31 December 2007
		RMB'000	RMB'000
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	8	1,375,224	1,383,062
Investment properties		36,877	38,192
Intangible assets		167,690	168,112
Payments for leasehold land held for own use under operating leases		293,355	305,392
Interests in associates		94,220	82,839
Available-for-sale financial assets		1,990	1,220
Goodwill		—	—
Deferred tax assets		10,544	11,300
		1,979,900	1,990,117
Current assets			
Inventories		1,168,841	940,284
Trade and other receivables	9	1,504,000	1,307,209
Taxation recoverable		944	585
Other financial assets		11,847	9,479
Pledged bank deposits		40,248	70,133
Cash and cash equivalents		164,204	76,395
		2,890,084	2,404,085
Non-current assets held for sale	10	—	20,369
Total assets		4,869,984	4,414,571
LIABILITIES			
Current liabilities			
Trade and other payables	11	3,785,202	3,093,181
Trade deposits received		455,595	406,379
Other financial liabilities		9,759	6,158
Provisions		144,197	144,006
Taxation payable		27,824	27,856
Other liabilities		37,943	55,793
Bank borrowings	17	969,938	1,310,972
		5,430,458	5,044,345
Total current liabilities		5,430,458	5,044,345
Non-current liabilities		—	—
Other liabilities		—	—
Total liabilities		5,430,458	5,044,345
Net current liabilities		(2,540,374)	(2,640,260)
Total assets less current liabilities		(560,474)	(629,774)
TOTAL NET LIABILITIES		(560,474)	(629,774)

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CONDENSED CONSOLIDATED BALANCE SHEET — *Continued*

At 30 June 2008

	<u>Notes</u>	30 June 2008	31 December 2007
		RMB'000	RMB'000
		(Unaudited)	(Audited)
Capital and reserves attributable to equity holders of the Company			
Share capital		992,007	992,007
Share premium		1,195,597	1,195,597
Statutory reserves		114,581	114,581
Capital reserve		266,672	266,672
Foreign exchange reserve		35,865	29,111
Accumulated losses		<u>(3,319,485)</u>	<u>(3,382,740)</u>
		(714,763)	(784,772)
Minority interests		<u>154,289</u>	<u>154,998</u>
TOTAL EQUITY		<u>(560,474)</u>	<u>(629,774)</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 2008

	Share capital	Share premium	Statutory reserves	Capital reserve	Foreign exchange reserve	Accu- mulated 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 2008 (Audited)	992,007	1,195,597	114,581	266,672	29,111	(3,382,740)	(784,772)	154,998	(629,774)
Exchange differences on translation	—	—	—	—	6,754	—	6,754	—	6,754
Additional capital injections to subsidiaries (note)	—	—	—	—	—	—	—	(79)	(79)
Profit for the period	—	—	—	—	—	63,255	63,255	(630)	62,625
As at 30 June 2008 (Unaudited)	<u>992,007</u>	<u>1,195,597</u>	<u>114,581</u>	<u>266,672</u>	<u>35,865</u>	<u>(3,319,485)</u>	<u>(714,763)</u>	<u>154,289</u>	<u>(560,474)</u>
At 1 January 2007 (Audited)	992,007	1,195,597	114,581	309,733	14,956	(3,621,452)	(994,578)	266,647	(727,931)
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 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>265,018</u>	<u>19,749</u>	<u>(3,504,078)</u>	<u>(917,126)</u>	<u>209,149</u>	<u>(707,977)</u>

Note: During the period, the Group unilaterally made additional capital injections into certain subsidiaries as agreed by minority investors. Therefore, the relative shareholding held by minority investors were decreased accordingly.

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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 2008

	For the six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	114,879	119,168
Net cash generated from investing activities	129,187	418,137
Net cash used in financing activities	(154,037)	(447,776)
Net increase in cash and cash equivalents	90,029	89,529
Cash and cash equivalents at beginning of the period	76,395	142,247
Effect of foreign exchange rate changes	(2,220)	(1,129)
Cash and cash equivalents at end of the period representing bank balances and cash	164,204	230,647

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

(FORMERLY KNOWN AS GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

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.

In December 2006, a share reform scheme (the "Share Reform Scheme") was set up for converting the Company's domestic legal person shares, which were not freely transferable, into the Company's freely transferable A shares (the "Transferable Shares"). Pursuant to the provisions in the Share Reform Scheme, Hisense Air-Conditioner undertakes that it will make advance allocation of shares to respective A shares shareholders on behalf of other domestic legal person shareholders who have not explicitly given consent to participate in the Share Reform Scheme. As a result, Hisense Air-Conditioner obtained 238,872,074 Transferable Shares of the Company subject to certain selling restrictions on 29 March 2007 when the Share Reform Scheme was approved by in the A shares general meeting.

On 28 March 2008, the proposed Acquisition of White Goods Assets of Hisense Air-Conditioner (the "Acquisition") was rejected by the Merger and Reorganisation Review Committee of the CSRC (China Securities Regulatory Commission). Pursuant to the Share Reform Proposal completed on 29 March 2007, Hisense Air-Conditioner made a compensation of 9,725,059 shares calculated based on 0.5 shares for every 10 transferable A shares held by such holders as registered on 10 April 2008 as that the Acquisition was not completed by 29 March 2008. The share held by Hisense Air-Conditioner was reduced to 229,147,015 shares, representing 23.10% of the Company's total share capital.

On 10 April 2008 and 19 June 2008, two domestic legal person shareholders joined to convert their non-freely transferable shares into the Transferable Shares of the Company. Pursuant to the provisions in the Share Reform Scheme, these domestic legal person shareholders availed 5,228,907 A shares to Hisense Air-Conditioner. Accordingly, the total number of A shares held by Hisense Air-Conditioner were increased to 234,375,922 shares, representing 23.63% of the Company's total share capital. Hisense Air-Conditioner was the substantial shareholder of the Company as at 30 June 2008.

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, comprising the Company and its subsidiaries, is principally engaged in the manufacture and sale of refrigerators and air-conditioners.

The address of the registered office and principal place of business 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 entities.

30 June 2008

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

As at 30 June 2008, the Group's current liabilities exceeded its current assets by approximately RMB2,540 million (2007: RMB2,640 million) in which the Group has outstanding short-term loans in the aggregate of approximately RMB970 million (2007: RMB1,311 million). After taking into consideration of the existing banking facilities available, operating advances from related companies, the Company's management 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 therefore 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.

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 2007. These condensed consolidated financial statements and notes thereon do not include all of the information required for a 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 2007 annual financial statements.

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 the same accounting policies adopted in the 2007 annual financial statements. The Group has adopted the following new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2008.

IFRIC — Interpretation 11	Group and Treasury Share Transactions
IFRIC — Interpretation 12	Service Concession Arrangements
IFRIC — Interpretation 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new and revised IFRSs did not result in significant changes to the Group's accounting policies.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2008

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES — Continued

The Group has not yet adopted the following new and revised standards, amendments and interpretations that have been issued but are not yet effective. The Board of the Company anticipated that the application of these new and revised IFRSs will have no material impact on the financial statements of the Group.

IAS 1 (Revised)	Presentation of Financial Statements ¹
IAS 23 (Revised)	Borrowing Costs ¹
IAS 27 (Revised)	Consolidated and Separate Financial Statements ³
IAS 32 and IAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
IFRS 1 and IAS 27 Amendments	Cost of a Subsidiary in the Separate Financial Statements of a Parent on First-time Adoption of IFRSs ¹
IAS 39 Amendment	Eligible Hedge Items ³
IFRS 2 Amendment	Share-based Payments — Vesting Conditions and Cancellations ¹
IFRS 3 (Revised)	Business Combinations ³
IFRS 8	Operating Segments ¹
IFRIC — Interpretation 13	Customer Loyalty Programmes ²
IFRIC — Interpretation 15	Agreements for the Construction of Real Estate ¹
IFRIC — Interpretation 16	Hedges of a Net Investment in a Foreign Operation ⁴

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2008

³ Effective for annual periods beginning on or after 1 July 2009

⁴ Effective for annual periods beginning on or after 1 October 2008

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2008

3. 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 2008 (Unaudited)						
Refrigerators	Air-conditioners	Freezers	Product components	Elimination	Consolidated	
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
REVENUE						
External sales	2,321,288	2,199,985	276,516	249,131	—	5,046,920
Inter-segment sales	—	—	—	281,475	(281,475)	—
Total revenue	<u>2,321,288</u>	<u>2,199,985</u>	<u>276,516</u>	<u>530,606</u>	<u>(281,475)</u>	<u>5,046,920</u>

Inter-segment sales are charged at prevailing market rates.

RESULT						
Segment result	123,754	6,775	11,645	(14,707)	—	127,467
Unallocated corporate expenses						(14,533)
Profit from operations						112,934
Share of results of associates						7,861
Finance costs						(51,006)
Profit before income tax						69,789
Income tax expense						(7,164)
Profit for the period						<u>62,625</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2008

3. SEGMENT INFORMATION — Continued

	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	
REVENUE						
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.

RESULT						
Segment result	95,482	22,544	(1,976)	40,047	—	156,097
Unallocated corporate expenses						(11,105)
Profit from operations						144,992
Share of results of associates						(966)
Finance costs						(48,019)
Profit before income tax						96,007
Income tax credit						585
Profit for the period						<u>96,592</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	
	2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
The PRC		
Mainland China	3,044,951	2,678,696
Hong Kong	156,796	172,297
	<u>3,201,747</u>	2,850,993
Europe	536,414	591,011
America	442,396	765,231
Others	866,363	646,746
	<u>5,046,920</u>	<u>4,853,981</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. Therefore, presentation of segment assets by geographical locations is not shown.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2008

4. PROFIT BEFORE INCOME TAX

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

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	105,529	123,419
Depreciation of investment properties	1,315	1,247
Amortisation of payments for leasehold land held for own use under operating leases	6,580	7,390
Amortisation of other intangible assets	3,985	2,028
Impairment loss on trade and other receivables	3,082	8,472
Write down of inventories to net realisable value	422	1,540
Rental income from investment properties (net of direct operating expenses)	(1,069)	(5,659)
Share of income tax of associates	2,980	1,790
Loss/(Gain) on disposal of property, plant and equipment, net	(4,818)	28
Gain on disposal of payments for leasehold land held for own use under operating leases	—	(9,304)
Gain on disposal of non-current assets held for sale	(52,888)	—
Gain on disposal of investment properties	—	(57,679)
Partial recovery of an impaired receivable	—	(57,072)
	105,529	123,419

5. INCOME TAX EXPENSE/(CREDIT)

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Income taxes consist of:		
Current tax		
— PRC enterprise income tax	6,408	2,950
— Hong Kong Profits Tax	—	85
Deferred tax	756	(3,620)
Income tax (credit)/expense	7,164	(585)

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 2008

5. INCOME TAX EXPENSE/(CREDIT) — Continued

On 16 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 took effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate changed 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 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 2008.

6. DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

7. EARNINGS 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 2008 of RMB63,255,000 (six months ended 30 June 2007: net profit attributable to equity holders of the Company of RMB117,374,000) and 992,006,563 shares (six months ended 30 June 2007: 992,006,563 shares) outstanding during the period.

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

8. ACQUISITION AND DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately RMB120,193,000 (six months ended 30 June 2007: RMB95,147,000) and disposed property, plant and equipment of approximately RMB46,491,000 (six months ended 30 June 2007: RMB59,568,000).

9. TRADE AND OTHER RECEIVABLES

	30 June 2008	31 December 2007
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables (i)	790,463	442,835
Notes receivable	19,338	2,740
Other receivables	386,119	540,497
Amounts due from Greencool Enterprise and its affiliates (ii)	72,061	72,061
Amounts due from companies suspected to be connected with Mr. Gu (ii)	214,217	214,217
Amounts due from Hisense Group (Note 14 III (a))	16,075	28,821
Amounts due from associates (Note 14 III (b))	11	322
Amounts due from other related companies (Note 14 III (c))	5,716	5,716
	1,504,000	1,307,209

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2008

9. TRADE AND OTHER RECEIVABLES — Continued

- (i) As at 30 June 2008, included in trade receivable was an amount of RMB82,213,000 (2007: RMB73,072,000) being pledged for bank borrowings.
- (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 14). As at 30 June 2008, impairment loss of approximately RMB18,985,000 (2007: RMB18,985,000) and RMB344,968,000 (2007: 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:

	<u>Gross amount</u>	<u>Impairment loss</u>	<u>Net amount</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 30 June 2008 (Unaudited)			
Within three months	603,179	—	603,179
Three to six months	159,260	1,205	158,055
Six months to one year	19,183	2,328	16,855
One to two years	31,274	19,086	12,188
Two to three years	39,051	38,865	186
Over three years	99,586	99,586	—
	<u>951,533</u>	<u>161,070</u>	<u>790,463</u>
As at 31 December 2007 (Audited)			
Within three months	396,038	—	396,038
Three to six months	34,126	948	33,178
Six months to one year	13,695	1,507	12,188
One to two years	14,394	13,021	1,373
Two to three years	48,336	48,278	58
Over three years	123,693	123,693	—
	<u>630,282</u>	<u>187,447</u>	<u>442,835</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.

10. NON-CURRENT ASSETS HELD FOR SALE

The Group classifies non-current assets (or disposal groups) as held for sale if their 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. The sale transaction for assets classified as held for sale at 31 December 2007 has been completed during the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2008

11. TRADE AND OTHER PAYABLES

	30 June 2008	31 December 2007
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade payables	1,610,140	1,152,853
Notes payable	473,229	770,960
Other payables	489,624	616,756
Accruals	241,123	165,679
Amounts due to Greencool Enterprise and its affiliates (i)	13,050	13,050
Amounts due to companies suspected to be connected with Mr. Gu (i)	114,716	118,461
Amounts due to Hisense Group (Note 14 III (a))	760,570	205,184
Amounts due to associates (Note 14 III (b))	74,154	40,200
Amounts due to other related companies (Note 14 III (c))	8,596	10,038
	3,785,202	3,093,181

- (i) On 13 December 2006, the share transfer transaction between Greencool Enterprise and Hisense Air-Conditioner was completed (the "Share Transfer"). Upon the completion of Share Transfer, 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 14).

The aging analysis of trade payables is as follows:

	30 June 2008	31 December 2007
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within one year	1,414,947	995,092
One to two years	86,240	70,838
Two to three years	84,360	64,796
Over three years	24,593	22,127
	1,610,140	1,152,853

12. LITIGATION SETTLEMENT

The Group is currently involved in a number of legal disputes. During the period, the Group paid RMB1,789,000 (six months ended 30 June 2007: RMB1,863,000) for litigation settlement.

30 June 2008

13. DISPOSAL DURING THE PERIOD

On 7 January 2008, the Company disposed of its 100% shareholding in a subsidiary, Jilin Kelon Electric Co., Ltd (“Jilin Kelon”) for a consideration of approximately of RMB30,000,000 in which RMB29,500,000 was used for the settlement of liabilities of Jilin Kelon. The remaining balance of RMB500,000 was settled in cash.

Details of the identifiable assets and liabilities disposed and the sales consideration are as follows:

	<i>RMB'000</i>
Sale proceeds	500
Net book value of net assets disposed	<u>(10,789)</u>
Loss on disposal of Jilin Kelon	<u><u>(10,289)</u></u>

The assets and liabilities disposed of at the date of disposal were as follows:

Property, plant and equipment	31,563
Payments for leasehold land held for own use under operating leases	5,519
Trade and other receivables	706
Inventories	1,186
Cash and cash equivalents	85
Trade and other payables	(10,270)
Bank borrowings	<u>(18,000)</u>
Net book value of net assets disposed	<u><u>10,789</u></u>

14. 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 2008, Hisense Air-Conditioner held 234,375,922 shares of the Company, representing 23.63% 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 Co., Ltd and certain of its subsidiaries (hereinafter collectively referred to as the “Hisense Group”). The Business Co-operation Framework Agreement is valid for a term of one year commencing from 1 January 2008, 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 14 II(b).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2008

14. 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:

Name of related parties	Relationship
Hisense Air-Conditioner	The substantial shareholder of the Company
Hisense Group Co., Ltd.	The holding company of Hisense Air-Conditioner
Hisense Electric Co., Ltd. ("Hisense Electric")	A fellow subsidiary of Hisense Air-Conditioner
Qingdao Hisense Marketing Company Limited ("Hisense Agent")	A subsidiary of Hisense Air-Conditioner
Hisense (Zhejiang) Air-Conditioner Co., Ltd. ("Hisense Zhejiang")	A subsidiary of Hisense Air-Conditioner
Hisense (Shandong) Air-Conditioner Co., Ltd. ("Hisense Shandong")	A subsidiary of Hisense Air-Conditioner
Hisense (Nanjing) Electric Co., Ltd. ("Hisense Nanjing")	A subsidiary of Hisense Air-Conditioner
Hisense (Beijing) Electric Co., Ltd. ("Hisense Beijing")	A subsidiary of Hisense Air-Conditioner
Qingdao Hisense Moulds Co., Ltd. ("Hisense Moulds")	A fellow subsidiary of Hisense Air-Conditioner
Guangdong Hisense Multimedia Co., Ltd. ("Hisense Multimedia")	A fellow subsidiary of Hisense Air-Conditioner
Savor Household Electrical Appliance Service Industry Co., Ltd. ("Savor Service")	A fellow subsidiary of Hisense Air-Conditioner

30 June 2008

14. RELATED PARTY TRANSACTIONS — *Continued*I. Relationship with related parties — *Continued*

Names of related parties	Relationship
Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. ("Chongqing Rongsheng")	An associate of the Group
Guangzhou Attend Logistics Co., Ltd. ("Attend Logistics")	An associate of the Group
Huayi Compressor Holdings Company Limited ("Huayi")	An associate of the Group
Jiaxibeila Compressor Company Limited ("Jiaxibeila")	A subsidiary of an associate of the Group
Kelon Europe 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 Xiling Group Company Limited ("Hangzhou Xiling")	A minority investor of Hangzhou Kelon before 5 December 2007
Xi'an Gaoke (Group) Limited ("Xi'an Gaoke")	A minority investor of Xi'an Kelon

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2008

14. RELATED PARTY TRANSACTIONS — Continued
II. Transactions with related parties
(a) Transactions with Hisense Group

The Group had the following significant transactions with Hisense Group:

	Notes	For the six months ended 30 June	
		2008	2007
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
Sales of goods/raw materials to			
— Hisense Shandong	(i)	74,136	—
— Hisense Air-Conditioner	(i)	—	58,197
— Hisense Zhejiang	(i)	12,604	7,471
— Hisense Beijing	(i)	44,378	34,564
— Hisense Nanjing	(i)	5,368	—
— Hisense Multimedia	(i)	113	—
Loan interest paid to			
— Hisense Agent		—	5,543
Purchases of goods/raw materials from			
— Hisense Air-Conditioner	(i)	—	48,971
— Hisense Shandong	(i)	93,368	—
— Hisense Zhejiang	(i)	395,755	289,575
— Hisense Beijing	(i)	40,355	—
— Hisense Nanjing	(i)	93,061	29,550
Repair and maintenance service provided by			
— Savor Service	(i)	1,326	—
Management fee paid to			
— Hisense Multimedia		253	—
Sales of moulds to			
— Hisense Shandong	(i)	2,328	—
— Hisense Zhejiang	(i)	882	—
— Hisense Beijing	(i)	1,106	—
— Hisense Nanjing	(i)	1,476	—
— Hisense Moulds	(i)	1,899	—
— Hisense Air-Conditioner	(i)	—	3,079
Loan and note payables guarantee provided by Hisense Group — amount as at 30 June		764,000	400,000

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — *Continued*

30 June 2008

14. RELATED PARTY TRANSACTIONS — *Continued*II. Transactions with related parties — *Continued*

(b) Transactions with associates

The Group had the following significant transactions with associates:

	Notes	For the six months ended 30 June	
		2008	2007
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Sales of goods/raw materials to			
— Chongqing Rongsheng	(i)	—	42,550
— Huayi and Jiaxibeila	(i)	—	18
Purchases of goods/raw materials from			
— Huayi and Jiaxibeila	(ii)	124,932	112,235
Service fee charged to			
— Attend Logistics		26	16
Logistics management fee/warehouse rental paid to			
— Attend Logistics	(iii)	4,096	29,553
Water and electricity expenses paid to			
— Attend Logistics		—	26

(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 Logistics entered into a logistics service agreement, pursuant to which Attend Logistics 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 charged at a pre-determined rate agreed by both parties.

(c) Transactions with other related parties

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

	Notes	For the six months ended 30 June	
		2008	2007
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Water and electricity expenses paid to			
— Chengdu Engine	(i)	—	4,441
Lease payment in respect of plant and equipment to			
— Hangzhou Xiling	(ii)	—	3,000

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

(ii) Lease payment in respect of plant and equipment to Hangzhou Xiling is determined by reference to an equipment lease agreement entered into between Hangzhou Kelon and Hangzhou Xiling. The lease was terminated by a mutual agreement signed on 14 October 2007.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2008

14. RELATED PARTY TRANSACTIONS — Continued
III. Balances with related parties
(a) Balances with Hisense Group

	30 June 2008	31 December 2007
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Included in trade and other receivables, net		
— Hisense Agent	61	47
— Hisense Air-Conditioner	—	675
— Hisense Shandong	8,013	—
— Hisense Zhejiang	5,503	—
— Hisense Nanjing	881	—
— Hisense Beijing	353	28,066
— Savor Service	81	33
— Hisense Moulds	1,001	—
— Hisense Multimedia	182	—
	16,075	28,821
Included in trade and other payables		
— Hisense Air-Conditioner	—	58
— Hisense Shandong	370,779	54,487
— Hisense Agent	28,531	38,785
— Hisense Nanjing	1	545
— Hisense Zhejiang	361,204	109,236
— Savor Service	55	2,073
	760,570	205,184

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — *Continued*

30 June 2008

14. RELATED PARTY TRANSACTIONS — *Continued*III. Balances with related parties — *Continued*

(b) Balances with associates

	30 June 2008 <i>RMB'000</i> (Unaudited)	31 December 2007 <i>RMB'000</i> (Audited)
Included in trade and other receivables, net		
— Chongqing Rongsheng	—	317
— Attend Logistics	11	5
	<u>11</u>	<u>322</u>
Included in trade and other payables		
— Attend Logistics	4,788	7,998
— Chongqing Rongsheng	—	207
— Huayi and Jiaxibeila	69,366	31,995
	<u>74,154</u>	<u>40,200</u>

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

(c) Balances with other related companies

	30 June 2008 <i>RMB'000</i> (Unaudited)	31 December 2007 <i>RMB'000</i> (Audited)
Included in trade and other receivables, net		
— Kelon Europe	5,716	5,716
	<u>5,716</u>	<u>5,716</u>
Included in trade and other payables		
— Chengdu Engine	—	109
— Hangzhou Xiling	1,138	2,471
— Jiangxi Combine	5,100	5,100
— Xi'an Gaoke	2,358	2,358
	<u>8,596</u>	<u>10,038</u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2008

14. RELATED PARTY TRANSACTIONS — Continued**IV. Key management personnel compensation**

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Basic salaries, allowances and benefits-in-kind	1,738	1,529
Defined contribution pension cost	25	45
	1,763	1,574

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 19 individuals (six months ended 30 June 2007: 11 individuals).

15. CAPITAL COMMITMENTS

	30 June	31 December
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Capital expenditure for acquisition of property, plant and equipment contracted for but not provided in the financial statements	61,745	90,831

16. 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.

17. BANK BORROWINGS

As at 30 June 2008, the Group has outstanding short-term bank loans in the aggregate of approximately RMB970 million (2007: RMB1,311 million) of which no amounts (2007: RMB18 million) were overdue.

30 June 2008

18. SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2008:

- (a) On 27 April 2008, the Company entered into a joint venture agreement (the "Joint Venture Agreement") with Whirlpool (Hong Kong) Limited (the "Whirlpool HK") to establish a joint venture company (the "JV Company") for the purpose of developing, manufacturing, selling washing machines and refrigerators and its component parts and other electrical appliances; and provision of after-sale and related consultation services. Pursuant to the Joint Venture Agreement the share capital of the JV Company will be RMB450,000,000. The Company agreed to invest the sums of RMB225,000,000 as capital contribution to the JV Company. The JV Company will be owned as to 50% by the Company and 50% by Whirlpool HK.

The JV agreement constitutes a major transaction under Chapter 14 of the Listing Rules and is subject to the shareholders' approval requirement in the Extraordinary General Meeting to be held on 26 August 2008.

- (b) On 30 July 2008, the Company entered into a Supply Financing Framework Agreement (the "Supply Financing Framework Agreement") with Hisense (Hong Kong) Company Limited (the "Hisense Hong Kong") under which Hisense Hong Kong shall provide financing to the Company to purchase raw materials and electrical appliance components from overseas suppliers. The Company expects that the annual maximum for the purchase of raw materials and electrical appliance components through Hisense Hong Kong under the Supply Financing Framework Agreement to be US\$100 million during the term of the Supply Financing Framework Agreement.

The Supply Financing Framework Agreement constitutes financial assistance to be provided by a connected person to the Company pursuant to Chapter 14A of the Listing Rules and will be exempt from the independent shareholders' approval requirements pursuant to R14A.65(4) of the Listing Rules. However, the transactions contemplated under the financing framework agreement constitute continuing connected transactions under the Rules Governing Listing of Securities on the Shenzhen Stock Exchange and are subject to the independent shareholders' further approval.

- (c) On 31 July 2008, the Company and Hisense Finance Co., Ltd (the "Hisense Finance") entered into a the financial service agreement (the "Financial Services Agreement"), pursuant to which Hisense Finance has agreed to provide the Group, through itself and/or any of its subsidiaries, with deposit services (with the maximum of RMB500million), loan services (with the maximum of RMB 1billion) and draft discount services.

The Company expects that during the term of the Financial Services Agreement, the maximum daily balance of the deposits placed by the Group with Hisense Finance at any time shall not exceed RMB 500,000,000, the maximum balance of loan to be provided by Hisense Finance to the Group shall not exceed RMB1 billion and the annual service fee payable to Hisense Finance for the provision of draft discount services shall not exceed the maximum of RMB25,000,000.

The transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company under the Listing Rules and the maximum transaction amounts for the provision of deposit and loan services by Hisense Finance to the Group should be aggregated for the purpose of Rules 14A.25 to 14A.27 of the Listing Rules. And such transactions are subject to the independent shareholders' further approval.

19. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 21 August 2008.

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

(FORMERLY KNOWN AS GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED)

SUPPLEMENTARY INFORMATION

30 June 2008

DIFFERENCES BETWEEN IFRS AND PRC GAAP AS APPLICABLE TO THE GROUP

The consolidated shareholders' equity of the Group prepared under IFRS and that prepared under PRC GAAP have the following major differences:

	30 June 2008	31 December 2007
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Equity attributable to equity holders of the Company as per condensed consolidated financial statements prepared under IFRS	(714,763)	(784,772)
Adjustment on restructuring cost expensed	19,097	11,684
Adjustment on dilution loss on share reform of an associate	16,317	16,317
Adjustment on amortisation of trademark	(16,712)	(16,712)
Equity attributable to equity holders of the Company as per consolidated financial statements prepared under PRC GAAP	(696,061)	(773,483)

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

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Net profit attributable to equity holders of the Company as per condensed consolidated financial statements prepared under IFRS	63,255	117,374
Adjustment on restructuring costs expensed	7,413	—
Net profit attributable to equity holders of the Company as per consolidated income statement prepared under PRC GAAP	70,668	117,374

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

H

INTERIM DIVIDEND

Pursuant to the resolutions passed on the meeting of Board of the Company held on 21 August 2008, the Board does not recommend the payment of any interim dividend for the six months ended 30 June 2008. No interim dividend was paid for the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW

During the Reporting Period, the macro-economic environment became more challenging to domestic enterprises in view of continued appreciation of Renminbi and the increasing capital pressure and climbing financing costs resulting from the contractionary monetary policy adopted by the State to tame inflation. Against the background of shuttling energy and raw materials prices, CPI (Consumer Price Index) and PPI (Producer Price Index) remained obstinately high, and the market of refrigerating products, particularly the air-conditioner sector, was subject to unprecedented challenges, posting a significant year-on-year downturn for the industry. During the first half of 2008, the business conditions for enterprises both in the domestic market and the international market grew bleak. Under the influence of the above factors, the Company has experienced significantly higher operating pressure as compared to the previous reporting period.

Under the abovementioned unfavorable operating environment, the Company adhered to its operating objective of "Creating product advantages, Improving the quality of product, Strengthening the productivity, Accelerating cash flow and Reinforcing personnel training". The internal potentials of product design, quality, production and capital management were deeply explored through incessantly increasing the labor productivity, smoothing the technological workflow, improving the product quality level and further enhancing the profitability of products. On the other hand, the core competitive strengths of the enterprise have been reinforced with the introduction of talents, technological cooperation and innovation of technologies. During the Reporting Period, the Company recorded the revenue from its principal operations of RMB5,046,920,000, representing a year-on-year growth of 3.97%; profit from operation of RMB112,934,000, representing a decrease of 22.11% as compared to the corresponding period last year; profit for the period of RMB62,625,000, representing a decrease of 35.17% as compared to the corresponding period of 2007; and the profit attributable to the equity holders of the Company of RMB63,255,000.

ANALYSIS OF OPERATION STRUCTURE

During the Reporting Period, of the revenue from the Company's principal operations, the air-conditioners business accounted for 43.59% of the total turnover of the Company, representing an increase of 0.32% as compared to the corresponding period last year; the refrigerators business accounted for 45.99% of the total turnover, representing an increase of 1.50% as compared to the corresponding period last year; and the remaining 10.42% of the total turnover was generated from the sales of freezers and product components, representing an increase of 40.50% as compared to the corresponding period last year.

The domestic sales accounted for 60.33% of the total turnover of the Company, representing an increase of 13.67% as compared to the corresponding period last year; and the overseas sales accounted for 39.67% of the total turnover of the Company, representing a decrease of 7.97% as compared to the corresponding period last year.

Air-conditioners Business

During the Reporting Period, due to the negative factors such as increasing costs in the air-conditioner sector, anticipated decline in market sales and higher inventory pressure on sales channels, the Company changed its product mix on a timely basis in response to the market demand, and continued to launch new products equipped with the energy-saving function of high efficiency. Through accelerating its fund flow, shortening the delivery lead time and soothing the pressure from the fund embezzlement, the Company mitigated its operating risks. Meanwhile, the Company upheld its operating strategy of being a technology-oriented enterprise by strengthening the technological development. With the self-development of key technologies and optimization of the overall product designs, the product design costs was remarkably reduced, thus further affirming the energy-saving advantages of Kelon's double-efficiencies air-conditioner products. On the other hand, with focusing on product planning and the implementation of product life cycle management, the number of product lines complying with the new energy efficiency standards have increased and the product refinement project was launched so as to enhance the competitiveness of products.

MANAGEMENT DISCUSSION AND ANALYSIS — *Continued***Air-conditioners Business** — *Continued*

Generally, the Company's strategies for stable operation was worked out by the implementation of the measures above. Under the unfavorable industry environment, the turnover from the sales of air-conditioners during the first half of the year posted a slight increase of 0.32% as compared to the corresponding period last year. Meanwhile, due to the improvement in the structure of export products, the profitability of export products has increased.

Refrigerators Business

During the Reporting Period, the Company has effectively improved the following aspects relating to refrigerator products: optimization of procedures, quality control, new product development and mechanism adjustments. Through focusing on the breakthroughs in technology, optimizing the production process and reducing consumption, this segment of business has accomplished a highly effective production and there was a satisfactory performance of the cost control taken during the first half of the year. The deterioration of a single machine recorded a year-on-year decrease of 10% due to the strengthening of the quality control process. Also, the Company continued to step up its efforts in the breakthroughs of new products and the depth of research and development as well as the self-development and the introduction of cooperation with other parties. The double-door refrigerators were successfully launched in market. The introduction of Toshiba's multi-door refrigerators, the technological level of which was at the advanced level within the industry, expanded the Series SBS products of the Company and perfected the product lines of refrigerators. The changes of the distributorship structure have strengthened the cooperation with distributors while the changes of the product mix has also facilitated the products to meet the market demand.

The above-mentioned vigorous measures has brought the positive effects on the refrigerators business with respect to the cost reduction, improvement of quality and technological innovation. In addition, the full support of the State's policy of "Introduction of Household Appliances to Rural Areas" and the reinforcement in product development and construction of network have enabled the expansion of the refrigerator business to the third- and fourth-tier markets. As such, the sales of refrigerators of the Company in the domestic market recorded a notable increase during the Reporting Period as compared to the corresponding period last year despite the negative impacts of the external factors on the operation of the refrigerator business. In respect of exports, the Company took the initiative to reduce the proportion of the orders for the products with low profitability. This improved the sales structure of export products in which the proportion of the sales of medium-to-high-end products increased and thus the overseas market for large-volume refrigerators was expanded. Despite a slight decrease in the revenue from the export of refrigerators for the first half of the year as compared to the corresponding period last year, the overall profitability of the export refrigerator products was further enhanced.

Changes in Profit Composition in the Reporting Period

During the Reporting Period, the Company has transferred the six land use rights and the industrial plants located in Ronggui, Shunde, Foshan. From this, the Company obtained a gain from the disposal of such idle assets of RMB52,888,000 to Jilin Yinqiao Group Company Limited. The Company has also disposed of its 100% equity interest in Jilin Kelon which has ceased production and lost the ability to continue its business in 2006. A loss amounting to RMB10,289,000 was incurred due to such equity disposal.

Analysis of the Impacts on the Results

The management of the Company is of the view that, despite the significant impacts of the challenging external environment on the business of the Company resulting in an unsatisfactory growth in the revenue from the principal business of the Company, the impacts on the results of the Company brought by the negative factors were offset to a certain extent as the Company has taken the following measures to improve the quality of operation during the Reporting Period.

Analysis of the Impacts on the Results — *Continued*

- (1) The competitiveness of the two largest series of products of the Company, particularly the refrigerators, was substantially enhanced by further improving the research and development system, stepping up the efforts in recruiting the talents in high-end technologies, enlarging the depth of research and development and upgrading the efficiency of products and commencing the introduction of technologies;
- (2) By streamlining the procedures and improving the techniques, the labour productivity was further enhanced and the export and delivery lead time was substantially shortened. Through strengthening the internal fundamental management, the product-value-adding plan was promoted by focusing on the benchmark projects of the industry so that the technological level, quality and production of the products were able to be maintained at an advanced level among the industry;
- (3) The results of the cost control measures has been further improved during the Reporting Period by ways of strengthening the cost management as well as the tracking and analysis of the uses of the costs;
- (4) The acceleration of cash flow saw a satisfactory performance. Through reducing the level of capital used in all areas, strictly controlling the liquidity risk and increasing the capital utilization efficiency, the management level of the liquidity of the Company was significantly upgraded as compared to the corresponding period last year.

OUTLOOK

The management of the Company is of the view that the external business environment for the Company will remain challenging. In view of the continual high raw material prices, the cyclical recession in the industry and the macro-economic consolidations which are beyond the Company's control, the appreciation of Renminbi and non-tariff barriers have increased the risks exposed to the export business of home appliances enterprises. The competition in the global home appliances market will further intensify.

The implementation of energy-saving and emissions management policies by the State and the more stringent mandatory efficiency standards for refrigerating products will facilitate the elimination process for the low-quality refrigerators and air-conditioning products and motivate the enhancement of product structures. As a technology-leading enterprise in the home appliance industry in the PRC, the Company possesses long-term advantages in terms of energy-saving technologies, which in turn allows the Company to capture better development opportunities.

In response to the development trend of the industry, the Company will focus on the following aspects during the second half of the year:

1. To step up efforts in the introduction of technologies and co-development and to pursue R&D efforts in depth for prominent technology innovations with the objective to further strengthening the leadership position of the Company in the refrigerating industry through in-depth research in energy-saving technologies;
2. To perfect the quality control standards with increased the weight of quality performances in the performance assessment of key positions, and to strengthen the supervision and control of the key quality control area, in order to enhance the quality standard of production and ensure the improvement of quality;
3. To strengthen sales and marketing efforts and reinforce the marketing research in order to develop the sales and marketing management system and operating mechanism which can adapt to market competition, enhance the quality of services and optimize product portfolio. This is paralleled by the efforts to further adhere to the customer market through continued reinforcement of the strategic relations with overseas customers (especially major customers) to secure sizeable orders, as well as efforts to continually enhance its export product structure in order to increase the profitability;
4. To accelerate the cash flow and mitigate the operation risks. To strengthen management of the receivables, to reinforce inventory control and to lessen the inventory pressure by shortening delivery lead time with the objective to enhancing the response to changes in market demand.

LIQUIDITY AND SOURCES OF CAPITAL

Net cash generated from operating activities of the Group was approximately RMB114,879,000 for the six months ended 30 June 2008.

As at 30 June 2008, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB204,452,000 and bank loans amounting to approximately RMB969,938,000.

Total capital expenditures of the Company for the six months ended 30 June 2008 amounted to approximately RMB125,018,599.

TOTAL ASSETS TO TOTAL LIABILITIES RATIO

As at 30 June 2008, the total assets to total liabilities ratio of the Group was 89.68%.

TRUST DEPOSITS

As at 30 June 2008, 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.

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2008, the Group had approximately 22,960 employees, mainly comprising 2,886 technicians, 6,920 marketing staff (including promotion staff), 423 financial staff, 821 administrative staff, and 11,910 production staff. Among the Group's employees, there are 4 doctorate graduates, 85 master graduates and 1,911 graduates with bachelor's degree, 466 employees with official titles of middle rank or above. Besides, the Group has 16 retired staff. For the six months ended 30 June 2008, the Group's staff payroll amounted to RMB306 million (corresponding period in 2007 amounting to RMB327 million).

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2008, the Group had plant and equipment and investment properties amounting to approximately RMB562 million (31 December 2007: RMB717 million) pledged as security for the Group's bank borrowings.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

Since substantially all of the Group's overseas sales and purchases in the Reporting Period were denominated in foreign currency, the Group had certain exposure to exchange rate fluctuation, and the financial instruments such as export note discounts and inward/outward documentary bills were used to hedge risk of exchange rate.

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; having made 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 2008, there was no change in the share capital structure of the Company. As at 30 June 2008, 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 2008, there were 43,765 shareholders in total, of which the top ten/substantial shareholders were as follows:

<u>Name of Shareholder</u>	<u>Nature of Shareholder</u>	<u>No. of Shares Held</u>	<u>Percentage to the total issued share capital of the Company</u>	<u>Percentage to the relevant class of issued shares of the Company</u>	<u>No. of shares held subject to trading moratorium</u>	<u>No. of Pledged or Frozen Shares</u>
Qingdao Hisense Air-conditioning Company Limited	A Shares subject to selling restrictions	234,375,922	23.63%	78.57%	234,375,922	0
The Hongkong and Shanghai Banking Corporation Limited	Foreign Shareholder	92,881,829	9.36%	20.21%	0	Unknown
Foshan City Shunde District Economic Consultancy Company	A Shares subject to selling restrictions	63,923,804	6.44%	21.43%	63,923,804	0
Shenyin Wanguo Securities (H.K.) Limited	Foreign Shareholder	55,097,000	5.55%	11.99%	0	Unknown
Bank of China (Hong Kong) Limited	Foreign Shareholder	48,839,000	4.92%	10.63%	0	Unknown
Guotai Junan Securities (Hong Kong) Limited	Foreign Shareholder	40,920,000	4.12%	8.90%	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
BOCI Securities Limited	Foreign Shareholder	8,216,000	0.83%	1.79%	0	Unknown
Sun Hung Kai Investment Services Limited	Foreign Shareholder	8,045,000	0.81%	1.75%	0	Unknown

Notes: As at 30 June 2008, 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 seven shareholders among the top 10 shareholders above held short positions in the issued share capital of the Company.

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable Shares Held	Class of Shares
The Hongkong and Shanghai Banking Corporation Limited	92,881,829	H shares
Shenyin Wanguo Securities (H.K.) Limited	55,097,000	H shares
Bank of China (Hong Kong) Limited	48,839,000	H shares
Guotai Junan Securities (Hong Kong) Limited	40,920,000	H shares
First Shanghai Securities Limited	25,860,000	H shares
Hang Seng Securities Limited	20,235,000	H shares
BOCI Securities Limited	8,216,000	H shares
Sun Hung Kai Investment Services Limited	8,045,000	H shares
CITIBANK N.A.	7,294,984	H shares
Chiyu Banking Corporation Limited	6,873,000	H shares

Remarks: The Company is not aware that the top ten holders of the tradable shares are connected with each other nor any of them constitutes a party acting in concert as defined in the "Administrative Measures for Information Disclosure of the Shareholders of Listed Companies".

INTERESTS OF DIRECTORS, SUPERVISORS AND EXECUTIVE OFFICERS IN THE SHARES

As at 30 June 2008, none of the directors of the sixth Board, supervisors or the executive officers 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 pursuant to Section 352 of the SFO.

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 of the Company for the period ended 30 June 2008.

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 further consummate the corporate governance structure and upgrade corporate management level, proceed the Company's standardized operations, and better safeguard the interests of corporations and shareholders, the Company has formulated and perfected the "Rules on the Work of the Board of Directors", "Rules on The Work of the Supervisors Committee" and "Rules on the Work of Independent Non-executive Directors", "Rules on the Work of Independent Non-executive Directors Regarding Annual Report" and "Rules on the Work of the Auditor Committee of the Board Regarding Annual Report".

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 from 28 April 2005 to 10 May 2005, and has remained suspended since 10:00 a.m. on 16 June 2005, initially following various press releases regarding the investigation by the China Securities Regulatory Commission on Greencool Technology Holdings Limited in connection with the possible misappropriation of funds of the Company. Greencool Technology Holdings Limited was then an indirect shareholder of the Company controlled by Mr. Gu Chu Jun, who was the then executive director and chairman of the Company and the controlling shareholder of Guangdong Greencool Enterprise Development Company Limited, the then single largest shareholder of the Company.

The Company has reviewed the relevant documents in relation to the suspension of trading of the H Shares, the events leading to such suspension and the actions taken by the Company and has submitted a resumption proposal to the Stock Exchange for review. The Company received a letter from the Stock Exchange dated 5 June 2008 agreeing that trading in the H shares of the Company be allowed to resume subject to the fulfillment of the conditions as set out in its letter to the satisfaction of the Stock Exchange prior to the resumption of trading in the H shares of the Company. Please refer to the announcement of the Company dated 6 June 2008 for details of such conditions.

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

Foshan City, Guangdong, the PRC, 21 August 2008

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

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

I. PARTICULARS OF THE CHANGES IN SHAREHOLDINGS IN THE COMPANY OF DIRECTORS, SUPERVISORS AND 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 increased during the Reporting Period</u>	<u>No. of shares decreased during the Reporting Period</u>	<u>No. of shares held at the end of the Reporting Period</u>	<u>Reasons for Changes</u>
Wang Jiu Cun	Vice President	15,456	690	—	16,146	Allotment of 690 donated shares under the Share Reform Proposal of Hisense Air-Conditioning during the Reporting Period

At the end of the Reporting Period, Wang Jiu Cun (Vice President) held 16,146 shares of the Company of which 12,109 shares were subject to selling restrictions and 4,037 shares were free of selling restrictions. Save and except for the shares held by Wang Jiu Cun, none of the other Directors, supervisors and senior managements of the Company holds any shares of the Company.

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

The second meeting 2008 of the sixth session of the Board considered and approved the appointment of Mr. Shi Yong Chang as the vice president of the Company on 30 January 2008.

The third meeting 2008 of the sixth session of the Board considered and approved the resignation of Mr. Yang Yun Duo as the vice chairman and a director of the Company due to personal reason, and the nomination of Mr. Zhang Ming as a director of the Company on 26 February 2008. The second extraordinary general meeting 2008 of the Company considered and approved the appointment of Mr. Zhang Ming as a director of the Company on 16 April 2008.

The sixth meeting 2008 of the sixth session of the Board considered and approved the appointment of Mr. Zhou Xiao Tian as the vice president of the Company on 3 March 2008.

The fourteenth meeting 2008 of the sixth session of the Board considered and approved the appointment of Mr. Chen Zhen Wen as the secretary and qualified accountant of the Company on 29 May 2008.

SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARES INTERIM RESULTS ANNOUNCEMENT (PREPARED IN ACCORDANCE WITH PRC GAAP) — Continued**III. INVESTMENTS OF THE COMPANY DURING THE REPORTING PERIOD**

1. **During the Reporting Period, the Company did not raise any funds and no fund raised during any previous period was used during the Reporting Period.**
2. **Material non-fund-raising investment during the Reporting Period**

The material investment in Hisense-Whirlpool (Zhejiang) Electric Appliances Co. to be established under the Joint Venture Agreement entered into between the Company and Whirlpool (Hong Kong) on 27 April 2008 was approved by the Board of the Company. The Joint Venture Agreement will be submitted at the 2008 third extraordinary general meeting of the Company held on 26 August 2008 for shareholders' consideration and approval. The relevant filing and approval procedures are currently underway.

IV. PROFIT FORECAST FOR THE NEXT REPORTING PERIOD

The Company anticipated that it will realize profit for the period from 1 July 2008 to 30 September 2008. It is estimated that the Company will realize the profit for the period from January 2008 to September 2008. Details of the financial information will be disclosed in the third quarterly report of 2008 of the Company.

V. THE PROGRESS OF LIABILITY SETTLEMENT

During the Reporting Period, the liability settlement panel of the Company has been actively working on settlement. Up to date, the Company has received the first trial judgment in the fourteen cases out of the 20 legal proceedings initiated by the Company against the liable parties, namely, Mr. Gu Chujun and Guangdong Greencool (the then substantial shareholder and its subsidiaries), certain third party companies and other related parties (with the total targeted claim amount of RMB520,679,400), and the three judgments of three litigations of which (with the total targeted claim amount of RMB183,694,800) had come into force. (For details, please refer to "Relevant Litigations and Arbitrations of the Company" set out in Part VI to this section).

VI. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY DURING THE REPORTING PERIOD**1. General status of the litigations**

As of the date of this report, the Company and its subsidiaries had a total of 235 outstanding litigations, involving the total claim amount of RMB817,110,400 and US\$13,750,719.19.

Among the litigations above, the Company and its subsidiaries acted as plaintiffs in a total of 28 cases, involving the total claim amount of RMB741,349,000, and as defendants in a total of 207 cases, involving the total claim amount of RMB75,761,400 and US\$13,750,719.19.

Among the outstanding litigations involving the Company and its subsidiaries, there were a total of 20 litigations and arbitrations involving the claim amount of more than RMB10,000,000 each (with the total claim amount of RMB738,314,300 and US\$13,750,719.19) and a total of 215 litigations involving the claim amount of less than RMB10,000,000 each (with the total claim amount of RMB78,796,100).

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

VI. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY DURING THE REPORTING PERIOD — Continued

2. New litigations

From 1 January 2008 to the date of this report, the Company and its subsidiaries were involved in a total of 117 new litigations with the total claim amount of RMB25,974,400 and US\$1,494,391.21.

The Company and its subsidiaries acted as plaintiffs in a total of 7 cases (of which 2 litigations were settled, involving the total claim amount of RMB487,800), the total claim amount of which was RMB4,067,900. The Company and its subsidiaries acted as defendants in a total of 110 cases (of which 10 litigations were settled, involving the total claim amount of RMB1,636,800), the total claim amount of which was RMB21,906,500.

Among the new litigations above, only 1 litigation involved the claim amount of more than RMB10,000,000, the total claim amount of which was US\$1,494,391.21 (equivalent to approximately RMB10,460,700), and there was a total of 116 litigations with the claim amount of less than RMB10,000,000 each, the total claim amount of which was RMB25,974,400.

The background information of the new litigations involving the targeted claim amount of more than RMB10,000,000 each is set out below:

In RMB ten thousand

No.	Name of Case	Targeted Claim		Development
		Amount	Case Particulars	
1	Litigation initiated by Home Depot against Kelon USA regarding the sale and purchase contract	US\$1,494,391.21	This case is a dispute over the sale and purchase contract. The total claim amount demanded by the Plaintiff is US\$1,494,391.21 (the principal of US\$1,143,171.38 plus the interest of US\$351,219.83 (calculated based on the annual interest rate of 18%)).	The parties have entered into a settlement agreement on 16 June 2008, pursuant to which the Company has settled the first two payments of US\$152,060.10 on a timely basis. The case is closed.

3. The status of completed litigations

From 1 January 2008 to the date of this report, the Company and its subsidiaries were involved in a total of 27 completed litigations with the total claim amount of RMB193,554,700 and US\$1,494,391.21.

The Company and its subsidiaries acted as plaintiffs in a total of 6 cases, involving the total claim amount of RMB184,685,400 and as defendants in a total of 21 cases, involving the total claim amount of RMB8,869,300 and US\$1,494,391.21.

Among the closed cases involving the Company and its subsidiaries, there were a total of 4 litigations each involving the claim amount of more than RMB10,000,000, the total claim amount of which was RMB183,694,800 and US\$1,494,391.21, and a total of 23 litigations each involving the claim amount of less than RMB10,000,000, the total claim amount of which was RMB9,859,900.

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

VI. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY FOR THE REPORTING PERIOD — Continued

3. The status of completed litigations — Continued

Background information of the litigations involving the targeted claim amount of more than RMB10,000,000:

In RMB ten thousand

No.	Name of Case	Targeted Claim Amount	Case Particulars	Development
1	Litigation initiated by Home Depot against Kelon USA regarding the sale and purchase contract	US\$1,494,391.21	The case is a dispute over the sale and purchase contract. The total claim amount demanded by the Plaintiff is US\$1,494,391.21 (the principal of US\$1,143,171.38 plus the interest of US\$351,219.83 (calculated based on the annual interest rate of 18%)).	The parties have entered into a settlement agreement on 16 June 2008, pursuant to which the Company has settled the first two payments of US\$152,060.10 on a timely basis. The case is closed.
2	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Tianjin Greencool, Tianjin Aike and Gu Chu Jun and others	9,000.00	As authorized by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the Company to misappropriate RMB90 million of the plaintiff.	The Court made a judgment in favour of the Company's allegation. The judgment of the case has come into force.
3	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Tianjin Greencool and Gu Chu Jun	7,500.00	As authorized by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the Company to misappropriate RMB75 million of the plaintiff.	The Court made a judgment in favour of the Company's allegation. The judgment of the case has come into force.

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

VI. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY FOR THE REPORTING PERIOD — Continued

3. The status of completed litigations — Continued

No.	Name of Case	Targeted Claim		Case Particulars	Development
		Amount			
4	Litigation initiated by the Company and its Anhui Branch against Guangdong Greencool, Gu Chu Jun and Hefei Weixi	1,869.48		As authorized by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the Company to facilitate that Hefei Weixi took delivery of a large number of air-conditioners and refrigerators from the plaintiff without making any payment during the period from 31 December 2003 to August 2005, and the defaulted payments of RMB16,075,400 and RMB2,619,400 due to the Anhui Branch and the Company, respectively, have not yet been settled. The connected transaction above was conducted without going through the normal internal approval procedures of the Company and no announcement has been issued on it. Therefore, it is attributive to the misuse of Guangdong Greencool and Gu Chu Jun of their controlling position in the Company against the interests of the plaintiff.	The court ruled that Hefei Weixi should pay the damages of RMB11,723,263.82 to the Company and its Anhui Branch. The judgment of the case has come into force.

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

VI. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY DURING THE REPORTING PERIOD - Continued

4. Development of the material litigations each involving the targeted claim amount of more than RMB10,000,000, which subsisted from the previous year or pending

In RMB ten thousand

Litigation involving Greencool Companies and the specified third parties

No.	Name of Case	Targeted Claim	Case Particulars	Development
		Amount		
1	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Jiangxi Kesheng	1,863.00	As authorized by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the Company to avoid the regulatory restrictions on connected transaction and misappropriate RMB18.63 million of the plaintiff on 20 February 2005 by making use of the name of Jiangxi Kesheng, which infringed the legal interests of the plaintiff.	The Company has received the judgment of the first trial, under which the Court made a judgment in favour of the Company's allegation. The counterparty lodged an appeal, which is pending the results of review.
2	Litigation initiated by Shenzhen Kelon against Guangdong Greencool, Tianjin Lixin, Shenzhen Greencool and Gu Chu Jun	8,960.03	As authorized 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 payments by two installments to Tianjin Lixin on 26 April 2005 and 27 April 2005 respectively, and Tianjin Lixin transferred such amounts to Shenzhen Greencool. The plaintiff did not receive any steel supply from Tianjin Lixin. Guangdong Greencool and Gu Chu Jun misused their controlling positions in the Company to infringe the legal interests of the plaintiff.	The hearing was first commenced in Intermediate People's Court of Foshan City on 27 June 2007, and re-commenced on 11 August 2008. The case is now pending judgment.

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

VI. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY FOR THE REPORTING PERIOD — Continued

4. Development of the material litigations each involving the targeted claim amount of more than RMB10,000,000, which subsisted from the previous year or pending — Continued

Litigation involving Greencool Companies and the specified third parties

No.	Name of Case	Targeted Claim Amount	Case Particulars	Development
3	Litigation initiated by Kelon Fittings against Guangdong Greencool, Jiangxi Greencool, Shenzhen Greencool and Gu Chu Jun	9,741.22	As authorized 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 Tianjin Xiangrun. 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 supply from Tianjin Xiangrun. Guangdong Greencool and Gu Chu Jun misused their controlling position in the Company to misappropriate RMB97.4122 million of the plaintiff.	The hearing was re-commenced again on 11 August 2008. This case is now pending judgment.
4	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Shenzhen Greencool Technology	3,200.00	From 31 March 2003 to 14 April 2003, under the manipulation of Gu Chu Jun and his Greencool Companies, the plaintiff transferred an accumulative amount of RMB32 million to Shenzhen Greencool Technology, and no repayment has been made to date. As such transfers of funds were not made based on any transactions, the act by the controlling shareholder and its associated companies constitutes an embezzlement of the listed company's funds.	The Company has received the judgment of the first trial, under which the Court made a judgment in favour of the Company's allegation. The counterparty has already lodged an appeal, which is pending the results of review.

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

VI. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY FOR THE REPORTING PERIOD — Continued

4. **Development of the material litigations each involving the targeted claim amount of more than RMB10,000,000, which subsisted from the previous year or pending — Continued**

Litigation involving Greencool Companies and the specified third parties

No.	Name of Case	Targeted Claim		Case Particulars	Development
		Amount			
5	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Shenzhen Greencool Environmental	3,300.00		From 6 May 2003 to 23 June 2003, under the manipulation of Guangdong Greencool and Gu Chu Jun, Kelon Air-Conditioner transferred an accumulative amount of RMB33 million to Shenzhen Greencool Environmental and no repayment has been made to date. As such transfers of funds transferred from the plaintiff to Shenzhen Greencool Environmental were not based on any transactions, Guangdong Greencool and Gu Chu Jun misused their controlling position in the Company to infringe the rights of the plaintiff.	The Company has received the judgment of the first trial, under which the Court made a judgment in favour of the Company's allegation. The counterparty has already lodged an appeal, which is pending the results of review.

Note: For details of the development of other material litigations which subsisted from the previous periods and pending, please refer to the 2007 annual results announcement and annual report published on 24 April 2008 and 29 April 2008, respectively and the announcements on the development of significant litigations dated 2 June 2008, 23 June 2008, 3 July 2008 and 18 August 2008 respectively.

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

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

1. No acquisition of assets, takeovers and mergers were made by the Company during the Reporting Period.
2. Disposal of assets by the Company during the Reporting Period.

Unit: RMB (in ten thousand)

Transaction counterpart	Disposed assets	Date of disposal	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	Connected transaction or not	Completion of transfer of title of relevant assets	Completion of transfer of relevant indebtedness
Jilin Yinqiao Group Company Limited	100% equity interest in Jilin Kelon	7 January 2008	50	0	-1,057	No	Yes	Yes

VIII. RELATED PARTIES TRANSACTIONS RELATING TO THE PURCHASE AND SALES OF GOODS AND PROVISION OF SERVICES

Unit: RMB

Related parties	Subject matters transaction	Sale of goods and provision of services to related parties		Purchase of goods and receipt of services from related parties	
		Transaction amount	Percentage to the total amount of similar transactions	Transaction amount	Percentage to the total amount of similar transactions
Hisense Beijing	Sales of refrigerator finished products	44,377,948	0.82%		
Hisense Nanjing	Sales of refrigerator finished products	5,368,400	0.10%		
Hisense Shandong	Sales of air-conditioner finished products	66,428,227	1.23%		
Hisense Shandong	Sales of materials for air-conditioners	7,708,599	0.14%		
Hisense Zhejiang	Sales of materials for air-conditioners	12,604,570	0.23%		
Hisense Beijing	Purchase of refrigerator finished products			40,354,941	0.90%
Hisense Nanjing	Purchase of refrigerator finished products			93,061,111	2.07%

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

VIII. RELATED PARTIES TRANSACTIONS RELATING TO THE PURCHASE AND SALES OF GOODS AND PROVISION OF SERVICES - Continued

Related parties	Subject matters transaction	Sale of goods and provision of services to related parties		Purchase of goods and receipt of services from related parties	
		Transaction amount	Percentage to the total amount of similar transactions	Transaction amount	Percentage to the total amount of similar transactions
Hisense Shandong	Purchase of air-conditioner finished products			91,184,775	2.03%
Hisense Zhejiang	Purchase of air-conditioner finished products			394,664,342	8.80%
Hisense Shandong	Purchase of materials for air-conditioners			2,184,118	0.05%
Hisense Zhejiang	Purchase of materials for air-conditioners			1,091,012	0.02%
Huayi Compressor	Purchase of compressors			40,546,602	0.90%
Jiaxi Beila	Purchase of compressors			84,384,959	1.88%
Hisense Beijing	Sales of moulds	1,105,983	0.02%		
Hisense Nanjing	Sales of moulds	1,475,726	0.03%		
Hisense Shandong	Sales of moulds	2,327,774	0.04%		
Hisense Zhejiang	Sales of moulds	882,051	0.02%		
Hisense Mould	Sales of moulds	1,898,547	0.04%		
Hisense Multimedia	Provision of services	112,810	0.00%		
Total		144,290,635	2.67%	747,471,860	16.65%

Note: For the details of the principles of pricing and the terms of payment, please refer to the Business Co-operation Framework Agreement and Compressors Purchase and Supply Framework Agreement, which were set out in the announcement dated 8 January 2008 and the circular dated 28 January 2008 on continuing connected transactions.

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

IX. MATERIAL CONTRACTS AND THEIR PERFORMANCE DURING THE REPORTING PERIOD

1. During the Reporting Period, no material custody, contracting or lease of assets of other companies or custody, contracting or lease of assets of the Company by other companies was incurred or subsisted from the previous reporting period.
2. During the Reporting Period, the following external guarantees were incurred and subsisted from the previous reporting period by the Company.

Unit: RMB (in ten thousand)

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

Guaranteed party	Date (the date of the agreement)	Guaranteed amount	Type of guarantee	Period of guarantee	Completion or not	Whether in favour of any related party (yes or no)
Zhejiang Kelon Air-conditioners Sales Company Limited	March 2008	2,000.00		Six months	No	No
Total actual guaranteed amount during the Reporting Period						2,000
Total balance of the actual guaranteed amount at the end of the Reporting Period (A)						2,000
Guarantees made by the Company to its subsidiaries						
Total actual guaranteed amount to subsidiaries during the Reporting Period						68,546.01
Total balance of the actual guaranteed amount to subsidiaries at the end of the Reporting Period (B)						30,230.75
Total guarantee made by the Company (including the guarantees to subsidiaries)						
Total guaranteed amount (A+B)						30,230.75
Percentage of the total guaranteed amount to the net assets of the Company						46.98%
Attributable to:						
Guaranteed amount provided to shareholders, actual controlling parties and their related parties (C)						0
Guaranteed amount provided directly or indirectly to the guaranteed with the gearing ratio over 70% (D)						29,571.57
Total guaranteed amount more than 50% of the net asset (E)						0
Total guarantee amount of the abovementioned three guarantees* (C+D+E)						29,571.57

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

DEFINITIONS

In this announcement, unless the context otherwise requires, 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 Holdings 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 Shandong"	Hisense (Shandong) Air-Conditioner Co., Ltd.
"Hisense Beijing"	Hisense (Beijing) Electrical Co., Ltd.
"Hisense Nanjing"	Hisense (Nanjing) Electrical Co., Ltd.
"Hisense Mould"	Qingdao Hisense Mould Company Limited
"Hisense Multimedia"	Guangdong Hisense Multimedia Company Limited
"Hisense International Marketing"	Qingdao Hisense International Marketing Company Limited
"Hisense Hitachi"	Qingdao Hisense Hitachi Air-Conditioner Co., Ltd.
"Hisense Import & Export"	Qingdao Hisense Import and Export Company Limited
"Hisense Chengdu"	Hisense (Chengdu) Refrigerator 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.
"Kelon Air-Conditioner"	Guangdong Kelon Air-Conditioner Co., Ltd.
"Kelon Fittings"	Guangdong Kelon Fittings Co., Ltd.
"Kelon Freezer"	Hisense Ronshen (Guangdong) Freezer 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 (PREPARED IN ACCORDANCE WITH PRC GAAP) — Continued

DEFINITIONS — Continued

"Kelon Household Electrical Appliances"	Foshan Shunde District Kelon Household Electrical Appliances Co., Ltd.
"Kelon Mould"	Guangdong Kelon Mould Company Limited
"Kelon Property"	Foshan Hisense Kelon Property Development Co., Ltd.
"Kelon Development"	Kelon Development Company Limited
"Rongsheng Plastic"	Foshan Shunde District Rongsheng Plastic Products Co., Ltd.
"Qingdao Saiwei"	Qingdao Saiwei Household Electrical Appliances Service Co., Ltd.
"Huaao Electronics"	Guangdong Huaao Electronics Company Limited
"Wangao I&E"	Foshan Shunde District Wangao Import & Export., Ltd.
"Weili Electrical Appliances"	Guangdong Kelon Weili Electrical Appliances Company Limited
"Kelon Jiake"	Foshan Shunde District Kelon Jiake Electronics., 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.
"Hangzhou Kelon"	Hangzhou Kelon Electrical Co., Ltd.
"Zhuhai Kelon"	Zhuhai Kelon Electrical Co., Ltd.
"Jilin Kelon"	Jilin Kelon Electrical Co., Ltd.
"Chongqing Kelon"	Chongqing Rongsheng Kelon Refrigerator Sales Co., Ltd.
"Shangqiu Kelon"	Shangqiu Kelon Electrical Co., Ltd.
"Yingkou Kelon"	Hisense Ronshen (Yingkou) Refrigerator Co., Ltd.
"Xi'an Kelon"	Xi'an Kelon Cooling Co., Ltd.
"Kelon Electric Appliances"	Kelon Electric Appliances Company Limited
"Kelon Japan"	Kelon (Japan) Limited
"Sichuan Kelon Sales"	Sichuan Rongsheng Kelon Sales Refrigerator Company Limited
"Wuhu Motors"	Wuhu Ecan Motors Company Limited
"Huayi Compressor"	Huayi Compressor Holdings Company Limited

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

DEFINITIONS — *Continued*

"Jiaxi Beila"	Jiaxi Beila Compressor Company Limited
"Huayi Jingzhou"	Huayi Compressor (Jingzhou) Company Limited
"Jiangxi Kesheng"	Jiangxi Kesheng Industry and Trading 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.
"Shen zhen Greencool"	Greencool Procurement (Shenzhen) Co., Ltd.
"Tianjin Xiangrun"	Tianjin Xiangrun Trading Development Company Limited
"Tianjin Lixin"	Tianjin Lixin Commercial Trading Development Company Limited
"Yangzhou Greencool"	Yangzhou Greencool Venture Capital Company Limited
"Jiangxi Keda"	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
"Pearl River Refrigerator"	Pearl River Electric Refrigerator Company Limited
"Hefei Weixi"	Hefei Weixi Home Appliances Co., Ltd.
"Zhuhai Greencool"	Zhuhai Greencool Refrigeration and Engineering Co., Limited
"Jiangxi Greencool"	Jiangxi Greencool Electrical Appliance Company Limited
"Beijing Greencool"	Beijing Greencool Refrigerant Replacement Engineering Co., Limited
"Shenzhen Greencool Technology"	Greencool Technology Development (Shenzhen) Company Limited
"Shenzhen Greencool Environmental"	Greencool Technology Environmental Protection Engineering (Shenzhen) Co., Ltd.
"Tianjin Aike"	Aike Enterprises (Tianjin) Co., Ltd.
"Tianjin Greencool"	Greencool Refrigerant (China) Company Limited
"Hangxiao Ganggou"	Zhejiang Hangzhou Hangxiao Ganggou Holdings Company Limited
"CSRC"	China Securities Regulatory Commission
"Shenzhen Stock Exchange"	Shenzhen Stock Exchange

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

DEFINITIONS — Continued

"Intermediate People's Court of Foshan City"	Intermediate People's Court of Foshan City
"Superior People's Court of Guangdong Province"	Superior People's Court of Guangdong Province
"Attend Logistics"	Guangzhou Attend Logistics Company Limited
"Beijing Hengsheng"	Beijing Hengsheng Xin Chuang Technology Company Limited
"Beijing Tiandi"	Beijing Kelon Tiandi IT Network Company Limited
"Beijing Shikong"	Beijing Kelon Shikong Information Technology Company Limited
"Wetherell Development"	Wetherell Development Company Limited
"Xi'an Gaoke"	Xi'an Gaoke (Group) Limited
"Chengdu Engine"	Chengdu Engine (Group) Company Limited
"Jiangxi Combine"	Jiangxi Kelon Combine Electrical Appliances Company Limited
"Shunde Yunlong"	Shunde Yunlong Consultany
"Deheng Lawyer"	Beijing Deheng Law firm
"Tianjin Taijin Yunye"	Tianjin Taijin Yunye Company Limited
"Shangqiu Bingxiong"	Shangqiu Bingxiong Freezing Facilities Company Limited
"Hangzhou Xiling"	Hangzhou Xiling Group Company Limited

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BALANCE SHEET

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Assets	Notes	30 June 2008		31 December 2007	
		Consolidation	Parent	Consolidation	Parent
Current assets:					
Bank balance and cash	1	204,452,548.16	49,597,525.47	146,527,807.16	47,055,872.14
Transactional financial assets	2	11,847,260.00	—	9,479,410.00	—
Notes receivable	3	19,337,966.23	818,849.50	2,740,000.00	100,000.00
Trade receivables	4	1,035,942,347.74	399,237,219.15	618,566,012.70	388,208,800.61
Prepayments	5	56,204,129.84	25,562,878.31	72,847,598.00	336,124,026.29
Interests receivable		—	—	—	—
Dividends receivable		—	—	—	—
Other receivables	6	376,099,892.64	1,031,684,986.66	593,172,778.27	1,109,850,412.61
Inventories	7	1,168,840,662.02	840,317,826.77	940,284,389.70	615,051,793.84
Non-current assets due within one year		—	—	—	—
Other current assets	8	24,025,191.99	21,520,194.60	15,376,482.03	13,541,212.89
Total current assets		2,896,749,998.62	2,368,739,480.46	2,398,994,477.86	2,509,932,118.38
Non-current assets:					
Available-for-sale fixed assets		—	—	—	—
Held-to-maturity investments		—	—	—	—
Long-term receivable		—	—	—	—
Long-term equity investments	9	139,349,653.23	1,734,353,935.79	128,924,101.80	1,901,334,592.62
Investment properties	10	36,877,397.14	19,823,321.00	38,192,137.43	20,728,217.00
Fixed assets	11	1,268,058,197.66	331,216,386.29	1,234,496,001.63	380,412,420.05
Construction in progress	12	86,142,907.96	24,474,598.09	137,105,983.23	17,303,509.63
Construction materials		—	—	—	—
Disposal of fixed assets		—	—	5,149,749.16	5,125,440.00
Productive biological assets		—	—	—	—
Intangible assets	13	444,333,439.34	281,677,181.00	464,944,203.67	291,605,318.88
Development costs		—	—	—	—
Goodwill		—	—	—	—
Long-term deferred expenditures	14	2,008,803.48	—	2,222,788.48	—
Deferred income tax assets	15	10,543,532.65	—	11,299,667.77	—
Other non-current assets		—	—	—	—
Total non-current assets		1,987,313,931.46	2,391,545,422.17	2,022,334,633.17	2,616,509,498.18
Total assets		4,884,063,930.08	4,760,284,902.63	4,421,329,111.03	5,126,441,616.56

Company legal representative:

Tang Ye Guo

Principal in charge of accounting:

Liu Chun Xin

Principal of the accounting department:

Chen Zhen Wen

BALANCE SHEET — *Continued*

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Liabilities and Shareholders' equity	Notes	30 June 2008		31 December 2007	
		Consolidation	Parent	Consolidation	Parent
Current liabilities:					
Short-term loans	17	969,937,690.65	623,000,000.00	1,310,971,970.91	895,000,000.00
Transactional financial liabilities	18	9,759,018.30	—	6,157,782.89	—
Notes payable	19	473,229,000.00	466,000,000.00	770,959,940.00	733,959,940.00
Trade payables	20	2,411,404,150.04	110,054,763.88	1,352,524,482.02	164,747,880.81
Advance from customers	21	455,596,025.18	563,393,452.32	417,174,192.88	473,580,561.40
Staff remuneration payable	22	100,677,094.25	41,074,777.49	91,851,650.73	39,546,709.70
Taxation payable	23	(138,897,297.35)	(51,665,427.54)	(65,430,540.63)	(20,372,408.90)
Interests payable		2,783,708.75	2,211,143.75	4,405,858.84	1,748,914.38
Dividends payable		2,067.02	—	2,067.02	—
Other payables	24	608,131,026.04	2,000,835,837.19	658,716,749.14	1,843,584,601.17
Non-current liabilities due within one year		—	—	—	—
Other current liabilities	25	351,075,354.25	281,317,015.61	292,682,611.12	233,115,295.19
Total current liabilities		5,243,697,837.13	4,036,221,562.70	4,840,016,764.92	4,364,911,493.75
Non-current liabilities:					
Long-term loans		—	—	—	—
Bonds payable		—	—	—	—
Long-term payables	26	37,942,534.72	33,342,534.72	55,792,534.72	55,592,534.72
Specific payables		—	—	—	—
Provisions	27	144,196,913.20	130,330,693.88	144,005,574.26	129,085,638.25
Deferred income tax liabilities		—	—	—	—
Other non-current liabilities		—	—	—	—
Total non-current liabilities		182,139,447.92	163,673,228.60	199,798,108.98	184,678,172.97
Total liabilities		5,425,837,285.05	4,199,894,791.30	5,039,814,873.90	4,549,589,666.72
Shareholders' equity:					
Share capital	28	992,006,563.00	992,006,563.00	992,006,563.00	992,006,563.00
Capital reserve	29	1,538,356,635.50	1,723,121,352.12	1,538,356,635.50	1,723,121,352.12
Less: Treasury shares		—	—	—	—
Surplus reserve	30	114,580,901.49	114,580,901.49	114,580,901.49	114,580,901.49
Unappropriated profit	31	(3,376,893,015.18)	(2,269,318,705.28)	(3,447,561,785.51)	(2,252,856,866.77)
Exchange differences on foreign currency translation		35,886,890.35	—	29,133,511.65	—
Equity attributable to the holders of the parent		(696,062,024.84)	560,390,111.33	(773,484,173.87)	576,851,949.84
Minority interests		154,288,669.87	—	154,998,411.00	—
Total shareholders' equity		(541,773,354.97)	560,390,111.33	(618,485,762.87)	576,851,949.84
Total liabilities and shareholders' equity		4,884,063,930.08	4,760,284,902.63	4,421,329,111.03	5,126,441,616.56

Company legal representative:
Tang Ye GuoPrincipal in charge of accounting:
Liu Chun XinPrincipal of the accounting department:
Chen Zhen Wen

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INCOME STATEMENT

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Items	Notes	January — June 2008		January — June 2007	
		Consolidation	Parent	Consolidation	Parent
1. Operating revenue	32	5,395,083,810.62	2,924,404,243.99	5,143,093,658.70	3,008,976,014.95
Including: Revenue from principal operations		5,047,834,025.92	2,616,170,109.30	4,854,805,311.94	2,652,889,338.65
Revenue from other operations		347,249,784.70	308,234,134.69	288,288,346.76	356,086,676.30
2. Operating cost	32	4,486,812,041.06	2,319,372,102.40	4,260,504,815.42	2,409,380,783.38
Including: Costs of principal operations		4,178,716,693.43	2,128,136,641.69	4,012,802,317.79	2,230,197,385.58
Costs of other operations		308,095,347.63	191,235,460.71	247,702,497.63	179,183,397.80
Sales tax and surcharges		914,522.24	387,486.06	824,341.83	545,510.69
Distribution costs	33	646,108,301.36	553,459,837.98	648,747,489.21	581,231,499.93
Administrative expenses		158,665,826.84	30,549,407.45	159,128,698.23	31,007,049.38
Financial expenses	34	80,494,653.28	65,627,346.65	65,938,272.20	50,926,160.97
Asset impairment losses	35	3,503,942.93	1,692,057.84	(7,832,507.25)	(49,841,907.84)
Add: Gains/losses on changes in fair value		(1,719,499.78)	—	—	—
Gains on investments	36	(1,732,068.81)	(25,649,834.84)	(965,560.89)	(976,168.75)
Including: Gains on investments in associates and joint ventures		7,861,172.24	7,985,867.97	(965,560.89)	(976,168.75)
Exchange gains		—	—	—	—
3. Operating profits		15,132,954.32	(72,333,829.23)	14,816,988.17	(15,249,250.31)
Add: Non-operating income	37	68,024,805.56	58,902,815.29	92,602,570.83	11,143,454.79
Less: Non-operating expenses	37	5,955,287.94	3,030,824.57	11,410,826.28	4,432,663.22
Including: Losses on disposal of non-current assets		2,342,710.33	—	6,706,771.31	264,292.00
4. Total profit		77,202,471.94	(16,461,838.51)	96,008,732.72	(8,538,458.74)
Less: Income tax expense	38	7,163,575.91	—	(584,510.32)	—
5. Net profit		70,038,896.03	(16,461,838.51)	96,593,243.04	(8,538,458.74)
Net profit attributable to the holders of the parent		70,668,770.33	(16,461,838.51)	117,374,959.22	(8,538,458.74)
Profit or loss of minority shareholders		(629,874.30)	—	(20,781,716.18)	—
6. Earnings per share					
(1) Basic earnings per share	16	0.0712	—	0.1183	—
(2) Diluted earnings per share	16	0.0712	—	0.1183	—

Company legal representative:
Tang Ye GuoPrincipal in charge of accounting:
Liu Chun XinPrincipal of the accounting department:
Chen Zhen Wen

CASH FLOW STATEMENT

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Items	Notes	January — June 2008		January — June 2007	
		Consolidation	Parent	Consolidation	Parent
1. cash flows generated from operating activities:					
Cash received from sales of goods and rendering of services		2,838,567,028.55	358,651,917.66	2,213,646,170.52	353,446,568.92
Refund of tax and levies		117,320,223.78	—	66,151,966.11	—
Cash received from other operating activities		138,681,100.62	1,582,102,818.34	121,653,862.95	100,510,571.66
Sub-total of cash inflows from operating activities		3,094,568,352.95	1,940,754,736.00	2,401,451,999.58	453,957,140.58
Cash paid for purchases of goods and services		2,143,346,550.66	1,009,814,091.11	1,554,216,464.31	106,416,465.86
Cash paid to and on behalf of employees		306,006,530.92	106,807,310.89	275,792,675.62	100,250,993.48
Tax paid		134,429,201.96	80,131,592.09	91,241,674.81	60,651,418.88
Cash paid for other operating activities	39	395,907,048.96	455,395,732.71	408,912,345.62	335,396,718.30
Sub-total of cash outflows from operating activities		2,979,689,332.50	1,652,148,726.80	2,330,163,160.36	602,715,596.52
Net cash flows generated from operating activities		114,879,020.45	288,606,009.20	71,288,839.22	(148,758,455.94)
2. Cash flows generated from investing activities:					
Cash received from investment returns		560,000.00	280,000.00	—	—
Cash received from investment revenues		—	—	—	—
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		226,215,314.09	36,691,070.00	255,807,904.23	231,270,396.60
Net cash received from disposals of subsidiaries and other operation units		—	—	—	—
Cash received from other investing activities		—	—	3,953,425.25	1,539,476.96
Sub-total of cash inflows from investing activities		226,775,314.09	36,971,070.00	259,761,329.48	232,809,873.56
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		92,738,518.86	5,426,002.01	60,559,630.81	4,294,917.06
Cash paid for investments		4,850,000.00	5,313,475.20	—	—
Net increase in secured loans		—	—	—	—
Net Cash paid for obtaining subsidiaries and other operation units		—	—	—	—
Cash paid for other investing activities		—	—	—	—
Sub-total of cash outflows from investing activities		97,588,518.86	10,739,477.21	60,559,630.81	4,294,917.06
Net cash flows generated from investing activities		129,186,795.23	26,231,592.79	199,201,698.67	228,514,956.50

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CASH FLOW STATEMENT — *Continued*

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Items	Notes	January — June 2008		January — June 2007	
		Consolidation	Parent	Consolidation	Parent
3. Cash flows generated from financing activities:					
Cash contribution from investments		—	—	—	—
Including: Cash contribution from minority shareholders' investments by subsidiaries		—	—	—	—
Cash received from borrowings		731,566,337.21	65,000,000.00	480,846,541.15	252,000,000.00
Cash received from issue of bonds		—	—	—	—
Net increase in policyholder deposits and investments		—	—	—	—
Cash received from other financing activities		29,884,233.68	25,335,567.05	217,460,195.24	146,221,284.46
Sub-total of cash inflows from financing activities		761,450,570.89	90,335,567.05	698,306,736.39	398,221,284.46
Cash paid for repayment of borrowings		883,130,225.76	348,000,000.00	843,458,446.25	350,415,709.05
Cash paid for distribution of dividends, profit or interest expenses		32,357,387.53	29,295,948.66	36,937,973.44	31,773,768.02
Including: dividends and profit paid to minority shareholders by subsidiaries		—	—	—	—
Cash paid for other financing activities		—	—	—	—
Sub-total of cash outflows from financing activities		915,487,613.29	377,295,948.66	880,396,419.69	382,189,477.07
Net cash flows generated from financing activities		(154,037,042.40)	(286,960,381.61)	(182,089,683.30)	16,031,807.39
4. Effect of foreign exchange rate changes on cash		(2,219,798.60)	—	—	—
5. Net increase in cash and cash equivalents		87,808,974.68	27,877,220.38	88,400,854.59	95,788,307.95
Add: Balance of cash and cash equivalents at the beginning of the year		76,395,270.52	21,593,661.71	142,246,506.14	54,118,987.38
Balance of cash and cash equivalents at the end of the year		164,204,245.20	49,470,882.09	230,647,360.73	149,907,295.33

Company legal representative:
Tang Ye GuoPrincipal in charge of accounting:
Liu Chun XinPrincipal of the accounting department:
Chen Zhen Wen

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Unit: RMB

January – June 2008

Items	Equity attributable to shareholders of the parent							
	Share capital	Capital reserve	Less: Treasury share	Surplus reserve	Unappropriated profit	Others (Exchange difference on foreign currency translation)	Minority interests	Total shareholders' equity
1. Closing Balance of previous year	992,006,563.00	1,538,356,635.50	—	114,580,901.49	(3,447,561,785.51)	29,133,511.65	154,998,411.00	(618,485,762.87)
Add: Changes in accounting policies	—	—	—	—	—	—	—	—
Correction for error in previous period	—	—	—	—	—	—	—	—
2. Opening balance of the year	992,006,563.00	1,538,356,635.50	—	114,580,901.49	(3,447,561,785.51)	29,133,511.65	154,998,411.00	(618,485,762.87)
3. Changes in amounts in the year ("—" for decrease)	—	—	—	—	70,668,770.33	6,753,378.70	(709,741.13)	76,712,407.90
(1) Net profit	—	—	—	—	70,668,770.33	—	(629,874.30)	70,038,896.03
(2) Gains and losses directly accounted for as shareholders' equity	—	—	—	—	—	6,753,378.70	(79,866.83)	6,673,511.87
1. Net changes in fair value of available-for-sale financial assets	—	—	—	—	—	—	—	—
2. Effect of changes in other owners' equity in investee under equity method	—	—	—	—	—	—	—	—
3. Income tax effect related to items included in shareholders' equity	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	6,753,378.70	(79,866.83)	6,673,511.87
Sub-total of (1) and (2) above	—	—	—	—	70,668,770.33	6,753,378.70	(709,741.13)	76,712,407.90
(3) Shareholder contributions and capital reductions	—	—	—	—	—	—	—	—
1. Shareholder capital contributions	—	—	—	—	—	—	—	—
2. Amount of share-based payment included in shareholders' equity	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(4) Profit appropriation	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(5) Internal transfer of shareholders' equity	—	—	—	—	—	—	—	—
1. Transfer to share capital from capital reserve	—	—	—	—	—	—	—	—
2. Transfer to share capital from surplus reserve	—	—	—	—	—	—	—	—
3. Compensation of losses by surplus reserve	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
4. Closing balance of the year	992,006,563.00	1,538,356,635.50	—	114,580,901.49	(3,376,893,015.18)	35,886,890.35	154,288,669.87	(541,773,354.97)

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY — Continued

Unit: RMB

Items	January — June 2007							
	Equity attributable to shareholders of the parent							
	Share capital	Capital reserve	Less: Treasury share	Surplus reserve	Unappropriated profit	Others (Exchange difference on foreign currency translation)	Minority interests	Total shareholders' equity
1. Closing Balance previous year	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	—	—	—	—	78,639,458.26	—	—	78,639,458.26
Correction for error in previous period	—	—	—	—	—	—	—	—
2. Opening balance of the year	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)
3. Changes in amounts in the year ("—" for decrease)	—	(44,715,098.40)	—	—	117,374,959.23	4,792,263.18	(57,497,611.55)	19,954,512.46
(1) Net profit	—	—	—	—	117,374,959.23	—	—	117,374,959.23
(2) Gains and losses directly accounted for as shareholders' equity	—	(44,715,098.40)	—	—	—	4,792,263.18	(57,497,611.55)	(97,420,446.77)
1. Net changes in fair value of available-for-sale financial assets	—	—	—	—	—	—	—	—
2. Effect of changes in other owners' equity in investee under equity method	—	—	—	—	—	—	—	—
3. Income tax effect related to items included in shareholders' equity	—	—	—	—	—	—	—	—
4. Others	—	(44,715,098.40)	—	—	—	4,792,263.18	(57,497,611.55)	(97,420,446.77)
Sub-total of (1) and (2) above	—	(44,715,098.40)	—	—	117,374,959.23	4,792,263.18	(57,497,611.55)	19,954,512.46
(3) Shareholder contributions and capital reduction	—	—	—	—	—	—	—	—
1. Shareholder capital contributions	—	—	—	—	—	—	—	—
2. Amount of share-based payment included in shareholders' equity	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(4) Profit appropriation	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(5) Internal transfer of shareholders' equity	—	—	—	—	—	—	—	—
1. Transfer to share capital from capital reserve	—	—	—	—	—	—	—	—
2. Transfer to share capital from surplus reserve	—	—	—	—	—	—	—	—
3. Compensation of losses by surplus reserve	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
4. Closing balance of the year	992,006,563.00	1,563,387,028.80	—	114,580,901.49	(3,580,582,273.19)	19,770,655.68	182,463,514.36	(708,373,609.86)

PARENT COMPANY'S STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Unit: RMB

Items	January — June 2008							Total shareholders' equity
	Equity attributable to shareholders of the parent							
	Share capital	Capital reserve	Less: Treasury share	Surplus reserve	Unappropriated profit	Others	Minority interests	
1. Closing Balance of previous year	992,006,563.00	1,723,121,352.12	—	114,580,901.49	(2,252,856,866.77)	—	—	576,851,949.84
Add: Changes in accounting policies	—	—	—	—	—	—	—	—
Correction for error in previous period	—	—	—	—	—	—	—	—
2. Opening balance of the year	992,006,563.00	1,723,121,352.12	—	114,580,901.49	(2,252,856,866.77)	—	—	576,851,949.84
3. Changes in amounts in the year ("—" for decrease)	—	—	—	—	(16,461,838.51)	—	—	(16,461,838.51)
(1) Net profit	—	—	—	—	(16,461,838.51)	—	—	(16,461,838.51)
(2) Gains and losses directly accounted for as shareholders' equity	—	—	—	—	—	—	—	—
1. Net changes in fair value of available-for-sale financial assets	—	—	—	—	—	—	—	—
2. Effect of changes in other owners' equity in investee under equity method	—	—	—	—	—	—	—	—
3. Income tax effect related to items included in shareholders' equity	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
Sub-total of (1) and (2) above	—	—	—	—	(16,461,838.51)	—	—	(16,461,838.51)
(3) Shareholder contributions and capital reductions	—	—	—	—	—	—	—	—
1. Shareholder capital contributions	—	—	—	—	—	—	—	—
2. Amount of share-based payment included in shareholders' equity	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(4) Profit appropriation	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(5) Internal transfer of shareholders' equity	—	—	—	—	—	—	—	—
1. Transfer to share capital from capital reserve	—	—	—	—	—	—	—	—
2. Transfer to share capital from surplus reserve	—	—	—	—	—	—	—	—
3. Compensation of losses by surplus reserve	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
4. Closing balance of the year	992,006,563.00	1,723,121,352.12	—	114,580,901.49	(2,269,318,705.28)	—	—	560,390,111.33

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PARENT COMPANY'S STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY — *Continued*

Unit: RMB

Items	January — June 2007							Total shareholders' equity
	Share capital	Capital reserve	Less: Treasury share	Surplus reserve	Unappropriated profit	Others	Minority interests	
1. Closing balance of prior 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	—	—	—	—	67,057,062.40	—	—	67,057,062.40
Correction for error in prior period	—	—	—	—	—	—	—	—
2. Opening balance of the year	992,006,563.00	2,004,088,829.83	—	114,580,901.49	(3,864,577,892.35)	—	—	(753,901,598.03)
3. Changes in amounts in the year ("—" for decrease)	—	(43,006.32)	—	—	(8,538,458.75)	—	—	(8,581,465.07)
(1) Net profit	—	—	—	—	(8,538,458.75)	—	—	(8,538,458.75)
(2) Gains and losses directly accounted for as shareholders' equity	—	(43,006.32)	—	—	—	—	—	(43,006.32)
1. Net changes in fair value of available-for-sale financial assets	—	—	—	—	—	—	—	—
2. Effect of changes in other owners' equity in investee under equity method	—	—	—	—	—	—	—	—
3. Income tax effect related to items included in shareholders' equity	—	—	—	—	—	—	—	—
4. Others	—	(43,006.32)	—	—	—	—	—	(43,006.32)
Sub-total of (1) and (2) above	—	(43,006.32)	—	—	(8,538,458.75)	—	—	(8,581,465.07)
(3) Shareholder contributions and capital reduction	—	—	—	—	—	—	—	—
1. Shareholder capital contributions	—	—	—	—	—	—	—	—
2. Amount of share-based payment included in Shareholders' equity	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(4) Profit appropriation	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(5) Internal transfer of shareholders' equity	—	—	—	—	—	—	—	—
1. Transfer to share capital from capital reserve	—	—	—	—	—	—	—	—
2. Transfer to share capital from surplus reserve	—	—	—	—	—	—	—	—
3. Compensation of losses by surplus reserve	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
4. Closing balance of the year	992,006,563.00	2,004,045,823.51	—	114,580,901.49	(3,873,116,351.10)	—	—	(762,483,063.10)

NOTES TO THE FINANCIAL STATEMENTS

1 January 2008 to 30 June 2008

Unless otherwise specified, expressed in RMB

I. COMPANY PROFILE

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 RMB ordinary 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 major shareholder of the Company, Guangdong Kelon (Rongsheng) Group Company Limited (hereinafter referred to as "Rongsheng Group", previously held 34.06% interest) entered into a share transfer agreement and a supplementary agreement of the share transfer agreement with Shunde Greencool Enterprise Development Company Limited (renamed as "Guangdong Greencool Enterprises Development Company Limited" in 2004, hereinafter referred to as "Guangdong Greencool"), in connection with the transfer of 20.64% equity interests in the Company to Guangdong Greencool by Rongsheng Group. In April 2002, Rongsheng Group transferred its 6.92%, 0.71% and 5.79% equity interests in 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 major shareholder of the Company, no longer held any shares of the Company.

On 14 October 2004, Guangdong Greencool was transferred 5.79% equity interests in the Company held by Shunde Xin Hong Enterprise Company Limited. Upon completion of the share transfer, the percentage of equity interests in the Company held by Guangdong Greencool increased to 26.43%.

On 13 December 2006, 26.43% equity interests in the Company held by Guangdong Greencool were transferred to Qingdao Hisense Air-Conditioning Company Limited (hereinafter referred to as "Hisense Air-conditioning"). Upon completion of the Share transfer, Guangdong Greencool, the former single major shareholder of the Company, no longer held any shares of the Company.

The Company's share reform proposal was approved on the A shareholders' meeting held on 29 January 2007 and approved by the Ministry of Commerce of the PRC on 22 March 2007. The shareholding of the largest shareholder, Qingdao Hisense, in the Company changed to 24.61% after such share reform.

As CSRC approval was not adopted with regard to the Company's plan to issue shares to the controlling shareholder Hisense Air-conditioning for purchasing assets and the related transactions, as at 28 March 2008, Hisense Air-conditioning had not yet fulfilled the commitment to the share reform, triggering the condition for additional donated shares as set forth in the Share Reform Plan. Hisense Air-conditioning additionally donated 9,725,059 A shares to all shareholders of non-restricted circulating A shares and directors, supervisors and executives holding circulating A shares of the Company who are registered on the registration day of additional donated equity. This is equivalent to additionally donating 0.5 share for every 10 shares on the basis of the total number of 194,501,000 shares of the Company's circulating A shares before the implementation of the Share Reform Plan. Hisense Air-conditioning has already completed the procedure for the above additional donation of shares on 11 April 2008. The shareholding of Hisense Air-conditioning, the largest shareholders of the Company, turned into 23.63%.

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

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

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NOTES TO THE FINANCIAL STATEMENTS — Continued

1 January 2008 to 30 June 2008

Unless otherwise specified, expressed in RMB

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE TO ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The Company has prepared the financial statements on a going concern basis and recognized and measured transactions and matters actually occurred in accordance with the Accounting Standards for Business Enterprises — Basis Standards and other accounting standard issued by the Ministry of Finance on 15 February 2006, and the Accounting Standards for Business Enterprises — Application Guidelines, Accounting Standards for Business Enterprises Interpretations and other related requirements issued subsequently (hereinafter referred to as “Accounting Standards for Business Enterprises”). The preparation of financial statements in conformity with the PRC Accounting Standards requires the use of estimates and assumptions, which may affect the disclosure of assets, liabilities and contingent liabilities as at the date of financial report and the income and expenses of the Reporting Period. The financial statement prepared by the Company complies with the requirements of the Accounting Standards for Business Enterprises and truly and completely reflects the financial position, operating results, cash flow and other related information of the Company.

III. BUSINESS COMBINATION AND COMBINED FINANCIAL STATEMENTS

1. Controlling subsidiaries:

Name of controlling company	Place of registration	Nature of Business	Registered Capital	Actual Investment Amount at the End of the Period	Actual Net Investment Balance to the Subsidiary	Shareholding of the Company			Percentage of Voting Rights
						Direct	Indirect	Total	
Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. (“Ronshen Refrigerator”)	Foshan	Manufacture and sale of refrigerators	US\$26,800,000	210,300,783.49	210,300,783.49	70%	30%	100%	100%
Guangdong Kelon Air-conditioner Co., Ltd. (“Kelon Air-conditioner”)	Foshan	Manufacture and sale of air-conditioners	US\$36,150,000	281,000,000.00	281,000,000.00	60%	—	60%	60%
Hisense Ronshen (Guangdong) Freezer Co. Ltd. (“Kelon Freezer”)	Foshan	Manufacture and sale of freezers	RMB237,000,000	37,568,060.24	37,568,060.24	44%	56%	100%	100%
Foshan Shunde District Kelon Household Electrical Appliances Co. Ltd. (“Kelon Household Electrical Appliances”)	Foshan	Manufacture and sale of household appliances	RMB10,000,000	2,500,000.00	2,500,000.00	25%	75%	100%	100%
Guangdong Kelon Fittings Company Limited (“Kelon Fittings”)	Foshan	Manufacture and sale of refrigerator and air-conditioner fittings	US\$5,620,000	44,112,870.99	44,112,870.99	70%	30%	100%	100%
Foshan Shunde District Rongsheng Plastic Products Co., Ltd. (“Rongsheng Plastic”)	Foshan	Manufacture of plastic fittings	US\$15,827,400	85,137,695.30	85,137,695.30	44.92%	25.13%	70.05%	70.05%

NOTES TO THE FINANCIAL STATEMENTS — Continued

1 January 2008 to 30 June 2008
 Unless otherwise specified, expressed in RMB

III. BUSINESS COMBINATION AND COMBINED FINANCIAL STATEMENTS — Continued
1. Controlling subsidiaries: — Continued

Name of controlling company	Place of registration	Nature of Business	Registered Capital	Actual Investment Amount at the End of the Period	Actual Net Investment Balance to the Subsidiary	Shareholding of the Company			Percentage of Voting Rights
						Direct	Indirect	Total	
Guangdong Kelon Mould Company Limited ("Kelon Mould")	Foshan	Manufacture of moulds	US\$15,056,000	80,966,212.60	80,966,212.60	40.22%	29.89%	70.11%	70.11%
Guangdong Huao Electronics Company Limited ("Huao Electronics")	Foshan	Research and development, manufacture and sale of electronic products	RMB10,000,000	7,000,000.00	7,000,000.00	—	70%	70%	70%
Foshan Shunde Kelon Property Development Co., Ltd ("Kelon Property")	Foshan	Enterprise consultancy management, catering, household decoration design	RMB1,000,000	4,927,821.38	4,927,821.38	—	100%	100%	100%
Foshan Shunde District Wangao Import & Export Co., Ltd. ("Wangao I&E")	Foshan	Import and export	RMB3,000,000	3,000,000.00	3,000,000.00	20%	80%	100%	100%
Foshan Shunde District Kelon Jiake Electronics Co., Ltd ("Kelon Jiake")	Foshan	IT and communication technology, and micro-electronics technology development	RMB60,000,000	60,000,000.00	60,000,000.00	70%	30%	100%	100%
Guangdong Kelon Weili Electrical Appliances Co., Ltd ("Weili Electrical Appliances")	Zhongshan	Production of intelligent washing machines, air-conditioners intelligent and after-sale services and technology consultation for its products, 70% products for domestic sale	RMB200,000,000.00	—	—	55%	25%	80%	80%
Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon")	Chengdu	Manufacture and sale of refrigerators	RMB200,000,000	212,524,888.35	212,524,888.35	75%	25%	100%	100%
Hisense Ronshen Yingkou Refrigerator Co., Ltd. ("Yingkou Kelon")	Yingkou	Manufacture and sale of refrigerators	RMB200,000,000	146,386,890.57	146,386,890.57	42%	36.79%	78.79%	78.79%

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NOTES TO THE FINANCIAL STATEMENTS — Continued

1 January 2008 to 30 June 2008

Unless otherwise specified, expressed in RMB

III. BUSINESS COMBINATION AND COMBINED FINANCIAL STATEMENTS — Continued

1. Controlling subsidiaries: — Continued

Name of controlling company	Place of registration	Nature of Business	Registered Capital	Actual Investment Amount at the End of the Period	Actual Net Investment Balance to the Subsidiary	Shareholding of the Company			Percentage of Voting Rights
						Direct	Indirect	Total	
Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon")	Nanchang	Manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small household appliances	US\$29,800,000	249,976,918.51	249,976,918.51	60%	40%	100%	100%
Jiangxi Kelon Combine Electrical Appliances Company Limited ("Jiangxi Combine") *1	Nanchang	Research and development, manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small household appliances	RMB20,000,000	11,000,000.00	11,000,000.00	—	55%	55%	55%
Hangzhou Kelon Electrical Co., Ltd. ("Hangzhou Kelon")	Hangzhou	Research and development and production of high efficiency, energy saving and environmental friendly refrigerators, technology for environmental friendly refrigerators, information consultation, warehousing, and sale of products made by the Company	RMB24,000,000	24,000,000.00	24,000,000.00	100%	—	100%	100%
Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd ("Yangzhou Kelon")	Yangzhou	Production of energy saving and environmental friendly refrigerators and other energy saving cooling appliances, and sale of products made by the Company	US\$29,800,000	230,036,617.94	230,036,617.94	74.33%	25.67%	100%	100%

NOTES TO THE FINANCIAL STATEMENTS — Continued

1 January 2008 to 30 June 2008

Unless otherwise specified, expressed in RMB

III. BUSINESS COMBINATION AND COMBINED FINANCIAL STATEMENTS — Continued**1. Controlling subsidiaries: — Continued**

Name of controlling company	Place of registration	Nature of Business	Registered Capital	Actual Investment Amount at the End of the Period	Actual Net Investment Balance to the Subsidiary	Shareholding of the Company			Percentage of Voting Rights
						Direct	Indirect	Total	
Shangqiu Kelon Electrical Co., Ltd. ("Shangqiu Kelon")	Shangqiu	Research and development, manufacture and sale of household and commercial air-conditioners, refrigerators, freezers, small household appliances and parts and accessories, and provision of relevant information and technical consultancy services	RMB150,000,000	150,000,000.00	150,000,000.00	—	100%	100%	100%
Zhuhai Kelon Electrical Co., Ltd. ("Zhuhai Kelon")	Zhuhai	Research and development and manufacture of electric refrigerators, air-conditioners, freezers, small household appliances and related accessories	US\$29,980,000	241,197,677.58	241,197,677.58	75%	25%	100%	100%
Xi'an Kelon Cooling Co., Ltd. ("Xi'an Kelon")	Xi'an	Development, manufacture, design and production of chlorofluorocarbon-free refrigerator (freezer) cooling compressor products; sale of products of the Company and conducting after-sale services, research and manufacture, development and production of new cooling compressor products subject to the market demands	RMB202,000,000	107,729,620.45	107,729,620.45	60%	—	60%	60%
Shenzhen Kelon Procurement Co., Ltd. ("Shenzhen Kelon")	Shenzhen	Domestic supply of commercial resources (excluding franchised, controlled and monopolized products), import and export, provision of warehouse and storage, information consultation and technology services (excluding those restricted items)	RMB100,000,000	100,000,000.00	100,000,000.00	95%	5%	100%	100%

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NOTES TO THE FINANCIAL STATEMENTS — Continued

1 January 2008 to 30 June 2008

Unless otherwise specified, expressed in RMB

III. BUSINESS COMBINATION AND COMBINED FINANCIAL STATEMENTS — Continued

1. Controlling subsidiaries: — Continued

Name of controlling company	Place of registration	Nature of Business	Registered Capital	Actual Investment Amount at the End of the Period	Actual Net Investment Balance to the Subsidiary	Shareholding of the Company			Percentage of Voting Rights
						Direct	Indirect	Total	
Beijing Hengsheng Xin Chuang Technology Company Limited ("Beijing Hengsheng")	Beijing	Research and development of industrial and commercial intelligent system	RMB30,000,000	24,000,000.00	24,000,000.00	80%	—	80%	80%
Beijing Kelon Tiandi IT Network Company Limited ("Beijing Tiandi")	Beijing	Operation items are under free-option, excluding those prohibited by laws and regulations	RMB5,000,000	5,000,000.00	5,000,000.00	—	78%	78%	78%
Beijing Kelon Shikong Information Technology Company Limited ("Beijing Shikong")	Beijing	Operation items are under free-option, excluding those prohibited by laws and regulations	RMB5,000,000	5,000,000.00	5,000,000.00	—	78%	78%	78%
Pearl River Electric Refrigerator Company Limited ("Pearl River Refrigerator")	Hong Kong	Trading in materials and parts for refrigerators	HK\$400,000	351,912.00	351,912.00	—	100%	100%	100%
Kelon Electric Appliances Company Limited ("Kelon Electric Appliances")	Hong Kong	Property investment	HK10,000	8,797.80	8,797.80	—	100%	100%	100%
Kelon Development Company Limited ("Kelon Development")	Hong Kong	Investment holdings	HK\$5,000,000	11,200,000.00	11,200,000.00	100%	—	100%	100%
Wetherell Development Limited ("Wetherell Development")	British Virgin Islands	Advertising agency	US\$1	6.6	6.60	—	100%	100%	100%

NOTES TO THE FINANCIAL STATEMENTS — Continued

1 January 2008 to 30 June 2008
Unless otherwise specified, expressed in RMB

III. BUSINESS COMBINATION AND COMBINED FINANCIAL STATEMENTS — Continued
1. Controlling subsidiaries: — Continued

Name of controlling company	Place of registration	Nature of Business	Registered Capital	Actual Investment Amount at the End of the Period	Actual Net Investment Balance to the Subsidiary	Shareholding of the Company			Percentage of Voting Rights
						Direct	Indirect	Total	
Kelon (Japan) Limited ("Kelon Japan") *1	Japan	Technical research and trading in electrical household appliances	JP¥1,100,000,000	26,822,733.53	26,822,733.53	—	100%	100%	100%
Kelon (USA) Inc. ("Kelon USA")	USA	Business liaison	US\$100	2,054,119.14	2,054,119.14	—	100%	100%	100%
Kelon International Incorporation ("Kelon Int")	British Virgin Islands	Investment holding and sale of household electrical appliance	US\$1	6.87	6.87	—	100%	100%	100%
Sichuan Rongsheng Kelon Refrigerator Sales Company Limited ("Sichuan Kelon Sales")	Chengdu	Sale of refrigerator	RMB2,000,000	1,520,000.00	1,520,000.00	76%	—	76%	76%
Wuhu Ecan Motors Company Limited ("Ecan Motors")	Wuhu	Production and sale of motor starter and permanent-magnet current brushless motor, micro alternating current machine and electrical equipment	US\$7,210,000	20,645,369.57	20,645,369.57	40%	40%	80%	80%
Kelon Europe Industrial Design Limited ("Kelon Europe") *1	United Kingdom	Business liaison	—	—	—	—	100%	100%	100%
Hisense (Chengdu) Refrigerator Co., Ltd. ("Hisense Chengdu")	Chengdu	Manufacture of household electric appliances, refrigerating equipment, sale of the Company's products and provision of related after-sale services	RMB5,000,000.00	1,939,890.00	1,939,890.00	75%	25%	100%	100%

(1) *1 The Company holds 100% shareholdings of Kelon Europe, 100% shareholdings of Kelon Japan, 55% shareholdings of Jiangxi Combine. The above companies have not been consolidated in the combined financial statements as they are too small in size and are being impaired and adjusted.

(2) The Company holds 60% shareholdings of Kelon Air-conditioner, 70% shareholdings of Huaao Electronics, but as the Company has committed to bear 100% of the losses of these companies, the long term equity investment was accounted for based on 100% beneficiary control.

(3) Changes in the scope of consolidation for the Reporting Period are as follows:

The Company has transferred its 100% shareholdings in Jilin Kelon to Jilin Yinqiao Group Co., Ltd and Jilin Kelon was therefore no longer within the scope of consolidation during the Reporting Period.

NOTES TO THE FINANCIAL STATEMENTS — Continued

1 January 2008 to 30 June 2008

Unless otherwise specified, expressed in RMB

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS**1. Accounting regulations and standards**

The accounting policies adopted by the Company are in accordance with "Accounting Standards for Business Enterprises" and the supplementary regulations enacted by PRC Ministry of Finance.

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 accounts 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 preparation for the consolidated accounting report

Subsidiaries under the control of the Company are within the scope of consolidation. Where the subsidiary adopts accounting policies different from those of the Company, adjustments are made in accordance with the accounting policies of the Company before consolidation. Where the accounting period of the subsidiary is different from that of the Company, the financial statements of the subsidiary will be adjusted in accordance with the accounting period of the parent company.

The equity method is used for acquisition of subsidiaries under the same controlling party by the Company, and the income, expenses and profits incurred from the beginning of the year to the date of consolidation are included in the consolidated statement of income, and the assets and liabilities that the merging party obtains in a business combination shall be measured on the basis of their carrying amount in the merged party on the date of combination. The purchase method is adopted for acquisition of subsidiaries not under the same controlling party to consolidate the accounts of the subsidiary from the dates of obtaining control over the subsidiary, and the identifiable assets and liabilities of the subsidiaries acquired are measured at fair value.

On the basis of full off-set, the unrealized profit and loss of the investments, inter-company accounts and internal transactions between the Company's controlled subsidiaries and associates of beneficiary control are consolidated individually taking into the account of minority interests. Minority interests refer to third parties not being the Company and its subsidiaries who are entitled to a share of profit (or loss) in the subsidiaries of the Company. The equity method is adopted for joint ventures under the Company.

NOTES TO THE FINANCIAL STATEMENTS — Continued

1 January 2008 to 30 June 2008
 Unless otherwise specified, expressed in RMB

IV. SIGNIFICANT 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 "Unappropriated profit".

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

8. Cash equivalents

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

9. Financial assets

Financial assets are initially classified as: Financial assets measured at their fair values and variation included into the current profits and losses, receivables, financial assets available for sale and held-to-maturity investments. The classification of financial assets depends on the intention and capability of holding of the Company and its subsidiaries.

(1) Financial assets measured at their fair values and variation included into the current profits and losses

Financial assets measured at their fair values and variation included into the current profits and losses, including transactional financial assets and financial assets designated to be measured at their fair values and whose variation is included into the current profits and losses.

(2) Receivables

Receivables refers to non-derivative financial assets that are not quoted and has fixed or defined recoverable value, including notes receivable, trade receivables, interests receivable, dividends receivable and other receivables.

(3) Financial assets available for sale

Financial assets available for sale include non-derivative financial assets designated as available for sale upon initial recognition and assets not classified as financial assets measured at their fair values and variation included into the current profits and losses, receivables and held-to-maturity investments. Financial assets to be disposed of within 12 months from the balance sheet date are classified as other current assets.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

1 January 2008 to 30 June 2008

Unless otherwise specified, expressed in RMB

IV. SIGNIFICANT 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 with fixed maturity date, recoverable or defined amount which are held by the Company and its subsidiaries with definite intention and capacity. Held-to-maturity investments maturing within 12 months are classified as non-current assets maturing in one year on the balance sheet.

(5) Recognition and measurement

When the Company and its subsidiaries become a party of financial instrument contracts, the financial assets are initially recognized at fair value. For Financial assets measured at their fair values and variation included into the current profits and losses, the related transaction fees at acquisition are directly accounted for in the profit and loss of the period. The related transaction fees of other financial assets are accounted for as initially recognized amount. Where the contractual rights to receiving cash flow of certain financial assets are terminated or the ownership of the financial assets are substantially transferred to the transferee, the financial assets will ceased to be recognized.

Financial assets measured at their fair values and variation included into the current profits and losses and financial assets available for sale are subsequently measured at fair value.

The fair value of financial assets measured at their fair values and variation included into the current profits and losses are accounted for profit and loss of fair value changes; interests or cash dividends received during the asset-holding period are recognized as investment gains; upon disposal, the difference between the fair value and the carrying amount is recognized as investment profit and loss and profit and loss of changes in fair value is simultaneously adjusted.

Gain and loss from changes in fair value of financial assets available for sale (excluding impairment loss and exchange differences from financial assets in foreign currency) are directly accounted for shareholders' equity and is accounted for the profit and loss of the current period when the financial assets ceased to be recognized.

Receivables and held-to-maturity investments are amortized at cost using the actual interest method.

(6) Financial assets impairment

Except for financial assets measured at their fair values and variation included into the current profits and losses, the Company and its subsidiaries review the carrying value of the financial assets at the balance sheet date if there is any objective evidence that a certain financial asset is impaired, and impairment provision is made.

Where there is a relatively significant or non-temporary decrease in the fair value of financial assets available for sale, the accumulated loss arising from the decrease in fair value from the original amount directly included in the shareholders' equity is accounted for in the impairment loss. For equity instruments available for sale already recognized for impairment loss, the previously recognized impairment loss is reversed and accounted for in shareholders' equity when the fair value subsequently increases and is objectively related to the events happened after the previously recognized impairment loss.

NOTES TO THE FINANCIAL STATEMENTS — Continued

1 January 2008 to 30 June 2008
Unless otherwise specified, expressed in RMB

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS — Continued**9. Financial assets — Continued****(6) Financial assets impairment — Continued**

Where financial assets measured at amortized costs are impaired, the carrying amount of the financial assets are reduced to the present value of anticipated future cash flow (excluding future credit loss that has not happened yet), the reduced amount is recognized as impairment loss of asset and is accounted for in the profit and loss of the period. Where there is objective evidence that the value of the financial assets is recovered, and is objectively related to the events happened after the previously recognized impairment loss, the previously recognized impairment loss is reversed and accounted for in the profit and loss of the period.

For equity instruments investments that are not quoted on the active market and whose fair value cannot be reliably measured, impairment loss is not reversed when the value is recovered during subsequent periods.

10. Provision for bad debts**(1) Criteria for recognition of bad debts**

- a. The irrecoverable amount (including trade and other receivables, similarly hereinafter) 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

Provisions for general bad debts and special bad debts are accounted for using the allowance method and provided based on with the recoverability of accounts receivable as at period end.

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

1 January 2008 to 30 June 2008

Unless otherwise specified, expressed in RMB

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS — *Continued***10. Provision for bad debts** — *Continued***(2) Accounting for provision for bad debts** — *Continued*

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

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

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 month, amortization 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 recognized on a weighted average basis.

Inventories are kept on a periodic inventory system. Inventories at period-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.

12. Long term equity investments

Long term equity investments include the Company's equity investments in subsidiaries, the Company's equity investments in joint ventures and associates, and the Company's long term equity investments in the investee that has no control, joint control or significant influence and is not quoted on the active market and the fair value cannot be measured reliably.

(a) Subsidiaries

Subsidiaries are investees in which the Company has power to govern the investees' financial and operating policies and receive benefits from its operating activities. In determining whether control can be exerted on the investee, the potential voting power of bonds convertible during the period, share options exercisable during the period of the investee are also considered. The investments in subsidiaries are set out as the amount recognized in the individual financial statements of the Company using the cost method, and is consolidated after being adjusted using the equity method when preparing the financial statements.

Long term equity investments accounted for using the cost method are measured in accordance with initial investment costs. Cash dividends or profits declared for distribution by the investee are recognized as investment gains for the period. Investment gains recognized are restricted to the allocated accumulated net profits generated after the investment is accepted by the investee, and the part of profit or cash dividend received exceeding the above amount is accounted for as recovery of initial investment costs.

NOTES TO THE FINANCIAL STATEMENTS — Continued

1 January 2008 to 30 June 2008
 Unless otherwise specified, expressed in RMB

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS — Continued**12. Long term equity investments — Continued****(b) Joint ventures and associates**

Joint ventures are investees on which the Company and other parties exert joint control; associates are investee in which in the Company exert significant influence on its financial and operating decisions. Investments in joint ventures and associates are initially recognized at actual cost, and subsequently measured using the equity method. Where the initial investment cost exceeds the share of the fair value of the recognizable net assets of the investee, the difference is included in the initial investment cost; where the initial investment cost is below the share of the fair value of the recognizable net assets of the investee, the difference is accounted for in the profit and loss for the period and the cost of the long term equity investment is simultaneously adjusted. When the equity method is used for accounting, the investment profit and loss for the period is recognized based on the share of the net profit and loss of the investee by the Company. Upon recognition of net loss of the investee, the carrying value of the long term equity investment and other long term equities that actually form net investment in the investee are debited to zero as a limit. However, where the Company has the additional liability to loss and where it conforms to the conditions of recognizing anticipated liabilities as required by the standard of contingent liabilities, the investment loss and anticipated liabilities are continually recognized. Changes of shareholders' equity of the investee other than net profit and loss are directly accounted for in the capital reserve for the part attributable in proportion to the Company's shareholding, assuming there is no change to the shareholding proportion. Profits or cash dividends distributed by the investee are set off against the carrying value of the long term equity investment upon the time of distribution in accordance with the part attributable to the Company. Unrealized profit and loss from transactions between the Group and the investee are set off within the scope of the equity of the investee held by the Company. However, when the assets transferred in the transaction are impaired, the corresponding unrealized loss is not set off.

(c) Other long term equity investments

For investees in which the Company has no control, joint control or significant influence, and which are not quoted on the active market and whose fair value cannot be reliably measured, they are accounted for using the cost method.

(d) Impairment of long term equity investments

Where the recoverable amount of long term equity investment is less than the carrying value, the carrying value is reduced to its recoverable amount.

13. Investment properties

The investment properties of the Company are classified as leased land use rights, land use rights held and intended for transfer after appreciation, and leased buildings.

The Company adopts the cost method for subsequent measurement of investment properties, and the depreciation or amortization method takes reference from the depreciation method for buildings under fixed assets and amortization method of land use rights under intangible assets, and method for impairment provision and calculation take reference from fixed assets and intangible assets.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

1 January 2008 to 30 June 2008

Unless otherwise specified, expressed in RMB

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS — *Continued***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 down 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:

<u>Category</u>	<u>Estimated rate of residual value</u>	<u>Estimated Useful life (year)</u>	<u>Annual depreciation rate</u>
Buildings and structures	0-5%	20-50	2-4.75%
Machinery and equipment	5%	10-20	4.75%-9.50%
Electronic equipment, fixtures and furniture	5%	5	19%
Motor vehicles	5%	5	19%
Moulds	0%	3	33.33%

Provision for impairment of fixed assets

At the end of each period, 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.

15. Construction in progress

Construction in progress is stated at actual cost incurred for the construction. Actual 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 construction project is suspended for a long period and is not expected to be resumed within three years; the construction project is technically and physically obsolete and its economic benefits to the Company is uncertain; or 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.

NOTES TO THE FINANCIAL STATEMENTS — Continued

1 January 2008 to 30 June 2008
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IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS — Continued**16. Intangible assets**

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

Intangible assets shall be amortised evenly by installments within the estimated tenure of use from the month of acquisition and shall be stated in the profit and loss. Where the estimated tenure of use exceeds the benefited tenure provided in the relevant contract or the valid tenure required by law, the term of amortisation shall not be longer than the benefited tenure or the valid tenure whichever is the shorter. Where it is impossible to foresee the term for which the intangible asset would generate economic benefits to the Group, the intangible asset is deemed as an intangible asset with indefinite life of use and is subject to review of life of use for each accounting period. When there is evidence that its life of use is definite, it will be reclassified as intangible asset with definite life of use. Intangible assets with indefinite life of use are not amortized.

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.

18. Impairment of assets

Goodwill and intangible assets with indefinite life of use separately set out in the financial statements are tested annually for impairment, notwithstanding whether there is evidence of impairment. Fixed assets, intangible assets, investment properties measured by the cost method and long term equity investments are tested for impairment if there is evidence of impairment at the balance sheet date. When the test result shows that the recoverable value of the asset is lower than its carrying value, provision is made for the difference and accounted for in impairment loss. The recoverable value is calculated as the fair value of the asset minus the higher of the net value after disposal fee and the estimated future cash flow of the asset. Provision for asset impairment is calculated and recognized on an individual basis. Where it is difficult to estimate the recoverable amount of an individual asset, the recoverable amount is determined for the asset group which the asset belongs. An asset group refers to the smallest group of assets capable of generating cash inflow individually.

NOTES TO THE FINANCIAL STATEMENTS — Continued

1 January 2008 to 30 June 2008

Unless otherwise specified, expressed in RMB

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS — Continued**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 separately as an asset only when it is reasonably certain that the amount will be received. The compensation recognised shall not exceed the carrying amount of the liability recognised.

20. Borrowing costs

Borrowing costs represent costs incurred in connection with the borrowing of funds, including interest, amortisation of discount and premium, auxiliary costs, and exchange differences incurred from borrowings in foreign currencies. 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 remunerations

Staff remunerations mainly include wages, bonus, allowances and compensation, staff benefits, social insurance premiums and housing fund, labour union expenditures and staff education fees, and other expenditures related to receiving the services provided by the staff. Staff remuneration is recognized for the period during which service is provided by the staff, and is included in the related asset costs and expenditures in accordance with the item benefiting from the provision of service by the staff.

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

1 January 2008 to 30 June 2008
Unless otherwise specified, expressed in RMB

IV. SIGNIFICANT 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 tax

Income tax is provided under tax payable method.

The Company determines its tax base upon acquisition of assets and liabilities. Where there is a difference between the carrying value of the assets and liabilities and the tax base, the deferred income tax assets or deferred income tax liabilities incurred as such are recognized as required. The Company recognizes deferred income tax assets arising from deductible temporal differences to the extent of the income tax payable probably available to off set the deductible temporal differences. For deductible loss and tax deduction that can be carried forward, the Company recognizes the corresponding deferred income tax assets to the extent of the future income tax payable probably available to off set the deductible loss and tax deduction.

At the balance sheet date, current income tax liabilities (or assets) incurred in the current and previous periods are measured at the anticipated income tax payable (or recoverable) amount calculated in accordance with the requirements of the tax laws. Deferred income tax assets and deferred income tax liabilities are measured at the applicable tax rates of the expected period of recovering the assets or settling the liabilities in accordance with the requirements of the tax laws. At the balance sheet date, the carrying value of the deferred income tax assets is reviewed. Where it is probable that the amount of taxable income in the future periods will not be sufficient to set off the benefits of the deferred income tax assets, the carrying value of the deferred income assets will be reduced. Where it is probable that the taxable income will be sufficient, the reduced amount will be reversed.

25. Changes in accounting policies and accounting estimates

Pursuant to the requirements of "Memorandum No. 1 on Implementation of New Accounting Standards by Listed Companies on the Shenzhen Securities Exchange" issued by the Shenzhen Securities Exchange, bank acceptance notes received or made in the course of economic activities as payment for goods are not accounted for as receipt or payment of cash. During the prior years, the Company has accounted for them as cash received for sale of goods and provision of services and cash paid for purchase of goods and provision of services on the statement of cash flow. The Company has adjusted this accounting policy and no longer accounted for them as cash inflow on the statement of cash flow.

During the Reporting Period, the Company has adopted the retrospective restatement method to restate the financial statements of the corresponding periods of 2007. Due to changes in this accounting policy, cash received for sale of goods and provision of services for January to June 2007 decreased by RMB2,349,311,094.64, and cash paid for purchase of goods and provision of services decreased by RMB2,349,311,094.64.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

1 January 2008 to 30 June 2008

Unless otherwise specified, expressed in RMB

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. According to the notice of the Circular Guo Ke Fa Huo (2008) No. 362, hi-tech qualifications for enterprises inside or outside the state hi-tech industrial development zones which were recognized according to the former measures for the recognition by the end of 2007 and still within the effective date, shall be effective, but such enterprises may share enterprise income tax preferential policies according to the relevant provisions of the Enterprise Income Tax Law and its regulations on the implementation after having been qualified by re-recognition pursuant to the Measures for the Administration of the Recognition of Hi-tech Enterprises and the Guidelines for the Administration of the Recognition of Hi-tech Enterprises. Currently, the Company is in the process of re-recognition as a hi-tech enterprise according to the Measures for the Recognition and is subject to a tax rate of 25% before completion of the re-recognition procedure, and will be entitled to a preferential tax rate of hi-tech enterprises of 15% after re-recognition.

The Company's sino-foreign joint venture subsidiaries established in the economy and technology development zones or high-tech development zones in cities such as Foshan, Zhuhai, Wuhu and Xi'an are subject to an effective EIT rate of 12.5-18%.

The Company's other subsidiaries established in Mainland China are subject to an EIT rate of 25%.

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 taxes

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 0.5-1% 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.

Land use tax is levied in accordance with the related requirements of the Notice of Bureau of Local Taxation of Shunde, Foshan Municipal on Reconfirmation of Land Grading for Land Use Tax and Applicable Tax Amount.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

1 January 2008 to 30 June 2008

Unless otherwise specified, expressed in RMB

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES, THE END OF PERIOD IS 30 JUNE 2008 AND THE BEGINNING OF PERIOD IS 31 DECEMBER 2007)**1. Bank Balance and cash**

<u>Items</u>	<u>Items</u>	<u>Amount in original currencies</u>	<u>Exchange rate</u>	<u>At the end of the period</u>	<u>At the beginning of the period</u>
Cash	RMB	586,704.85	1.00000	586,704.85	1,299,300.03
	HKD	759.52	0.87978	668.21	28,169.97
	USD	4.94	6.86080	33.88	—
Sub-total		—	—	<u>587,406.94</u>	<u>1,327,470.00</u>
Bank deposit	RMB	103,921,287.12	1.00000	103,921,287.12	39,536,311.34
	HKD	6,266,675.60	0.87978	5,513,295.86	17,294,001.99
	USD	4,764,628.10	6.86080	32,689,160.50	18,157,692.06
	EUR	1,988,793.92	10.8071	21,493,094.78	79,795.13
Sub-total		—	—	<u>163,616,838.26</u>	<u>75,067,800.52</u>
Other monetary assets	RMB	39,814,453.41	1.00000	39,814,453.41	70,087,731.60
	EUR	—	0.87978	—	18.87
	USD	63,236.00	6.86080	<u>433,849.55</u>	<u>44,786.17</u>
Sub-total		—	—	<u>40,248,302.96</u>	<u>70,132,536.64</u>
Total		—	—	<u><u>204,452,548.16</u></u>	<u><u>146,527,807.16</u></u>

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

1 January 2008 to 30 June 2008

Unless otherwise specified, expressed in RMB

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES, THE END OF PERIOD IS 30 JUNE 2008 AND THE BEGINNING OF PERIOD IS 31 DECEMBER 2007) —
*Continued***2. Transactional financial assets**

Item	At the end of the period	At the beginning of the period	Method of fair value determination
1. Transactional bond investments	—	—	
2. Transactional equity instrument investments	—	—	
3. Designated financial assets measured at their fair values and variation included into the current profits and losses	—	—	
4. Derivative financial assets *	11,847,260.00	9,479,410.00	
5. Others	—	—	
Total	11,847,260.00	9,479,410.00	

The Company has no material restriction for realizing its investments in transactional financial assets.

* It is mainly the undue foreign exchange forward contracts entered between the Company and banks. The amount is calculated based on the difference between the quoted price of the undue foreign exchange forward contracts and the forward exchange rate on 30 June 2008 and recognised as transactional financial assets or liabilities.

3. Notes receivable

Type	At the end of the period	At the beginning of the period
Bank acceptance notes:		
— discounted	—	—
— pledged	—	—
— non-pledged	18,937,966.23	2,690,000.00
Commercial acceptance notes:		
— discounted	—	—
— pledged	—	—
— non-pledged	400,000.00	50,000.00
Total	19,337,966.23	2,740,000.00

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES, THE END OF PERIOD IS 30 JUNE 2008 AND THE BEGINNING OF PERIOD IS 31 DECEMBER 2007) — Continued

4. Trade receivables

a. The risks of trade receivables are classified as follows:

Category	At the end of the period			At the beginning of the period		
	Amount	Percentage of the total amount	Provisions for bad debts	Amount	Percentage of the total amount	Provisions for bad debts
I. Significant single-item amount*	155,331,785.05	12.64%	—	—	—	—
II. Receivables not significant on a single-item basis but significant for the risk of the group of items upon grouping according to credit risk characteristics**	167,477,122.67	13.63%	159,906,452.25	180,650,669.66	21.79%	180,650,669.66
III. Greencool Companies	38,689,983.28	3.15%	22,726,941.64	38,689,983.28	4.67%	22,726,941.64
IV. Other not significant	866,918,273.45	70.58%	9,841,422.82	609,850,753.97	73.54%	7,247,782.91
Total	<u>1,228,417,164.45</u>	<u>100.00%</u>	<u>192,474,816.71</u>	<u>829,191,406.91</u>	<u>100.00%</u>	<u>210,625,394.21</u>
Total of the 5 largest	411,140,723.86	33.47%	7,199,755.96	236,561,930.43	28.53%	27,038,712.40
Amount receivable for appropriation by related parties	<u>16,009,891.40</u>	<u>1.30%</u>	<u>—</u>	<u>29,265,176.35</u>	<u>3.53%</u>	<u>—</u>

* Significant single-item receivables are classified as such when they account for 10% or more of the total amount of trade receivables.

** Receivables not significant on a single-item basis but significant for the risk of the group of items upon grouping according to credit risk characteristics are classified as such when the age analysis is over one year.

(1) There was no amount due from shareholders whose shareholding is no less than 5% at the end of the period. See Appendix 8.3.(1).

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES, THE END OF PERIOD IS 30 JUNE 2008 AND THE BEGINNING OF PERIOD IS 31 DECEMBER 2007) — *Continued***4. Trade receivables** — *Continued***a. The risks of trade receivables are classified as follows:** — *Continued*

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

Name of companies	At the end of the period	
	Amount	Provisions for bad debts
Hefei Weixi Electrical Appliance Co., Ltd ("Hefei Weixi")	18,229,589.24	7,805,094.62
Wuhan Changrong Electrical Appliance Company Limited ("Wuhan Changrong")	20,460,394.04	14,921,847.02
Total	38,689,983.28	22,726,941.64

There was no change in the amount at the end of the period from the amount at the beginning of the period.

- (3) Particulars of the 5 largest trade receivables and the corresponding provisions for bad debts are as follows:

Name of companies	At the end of the period	
	Amount	Provisions for bad debts
WHIRL POOL	155,331,785.06	—
GOME	89,345,629.42	7,199,755.96
HI GROUP PLC	85,194,604.74	—
Zhejiang Kelon Air-condition Sales Co., Ltd	42,823,558.65	—
TARGET STORES	38,445,145.99	—
Total	411,140,723.86	7,199,755.96

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4. Trade receivables — Continued

a. The risks of trade receivables are classified as follows: — Continued

- (4) See Appendix 8.3.(1) and 8.3.(3) for particular of related parties.
- (5) Balance of trade receivables at the end of the period increased by 67.47% from the beginning of the period, since the Reporting Period was a peak season for the sales of the Company.

b. Aging analysis of trade receivables are as follows:

Age	At the end of the period			At the beginning of the period		
	Amount	Percentage of total amount	Provision for bad debt	Amount	Percentage of total amount	Provision for bad debt
Within three months	921,358,896.89	75%	—	582,810,692.01	70.28%	—
Three months to six months	76,964,464.34	6.27%	2,769,309.37	15,680,620.17	1.89%	1,568,062.02
Six months to one year	23,356,026.85	1.9%	6,501,443.03	11,359,441.79	1.37%	5,679,720.89
One to two years	31,748,279.25	2.58%	24,177,608.83	18,618,870.65	2.25%	13,135,070.46
Two to three years	39,051,092.86	3.18%	23,088,051.22	77,033,540.53	9.29%	66,554,299.09
Over three years	135,938,404.26	11.07%	135,938,404.26	123,688,241.76	14.92%	123,688,241.75
Total	<u>1,228,417,164.45</u>	<u>100.00%</u>	<u>192,474,816.71</u>	<u>829,191,406.91</u>	<u>100.00%</u>	<u>210,625,394.21</u>

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NOTES TO THE FINANCIAL STATEMENTS — Continued

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4. Trade receivables — Continued

b. Aging analysis of trade receivables are as follows: — Continued

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

Category	At the end of the period			At the beginning of the period		
	Amount	Percentage of the total amount	Provisions for bad debts	Amount	Percentage of the total amount	Provisions for bad debts
I. Significant single-item amount	150,505,658.36	25.94%	7,199,755.96	65,912,961.57	11.34%	7,827,718.87
II. Receivables not significant on a single-item basis but significant for the risk of the group of items upon grouping according to credit risk characteristics	150,112,036.82	25.88%	150,112,036.82	152,230,097.57	26.18%	152,230,097.57
III. Greencool Companies	38,689,983.28	6.67%	22,726,941.64	38,689,983.28	6.65%	22,726,941.64
IV. Other not significant	240,826,493.55	41.51%	858,218.44	324,655,006.95	55.83%	10,494,490.68
Total	<u>580,134,172.01</u>	<u>100.00%</u>	<u>180,896,952.86</u>	<u>581,488,049.37</u>	<u>100.00%</u>	<u>193,279,248.76</u>
Total of the 5 largest	240,202,361.05	41.40%	32,121,602.98	198,096,445.91	34.07%	7,827,718.87
Amount receivable for appropriation by related parties	4,968,455.060	0.86%	—	4,772.00	0.00%	—

5. Prepayments

Age	At the end of the period		At the beginning of the period	
	Amount	Percentage of total amount	Amount	Percentage of total amount
Within one year	55,044,665.47	97.94%	71,861,982.53	98.65%
One to two years	182,313.23	0.32%	39,440.93	0.05%
Two to three years	374,597.46	0.67%	510,284.79	0.70%
Over three years	602,553.68	1.07%	435,889.75	0.60%
Total	<u>56,204,129.84</u>	<u>100.00%</u>	<u>72,847,598.00</u>	<u>100.00%</u>

There was no prepayment to shareholders whose shareholding is no less than 5%.

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Continued

6. Other receivables

a. The risk analysis of other receivables are as follows:

Category	At the end of the period			At the beginning of the period		
	Amount	Percentage of the total amount	Provisions for bad debts	Amount	Percentage of the total amount	Provisions for bad debts
I. Significant single-item amount*	—	—	—	—	—	—
II. Receivables not significant on a single-item basis but significant for the risk of the group of items upon grouping according to credit risk characteristics**	69,089,195.22	9.29%	26,417,513.29	166,896,682.02	17.35%	23,946,725.06
III. Greencool Companies	611,538,997.88	82.19%	341,516,669.69	611,538,997.88	63.58%	341,516,669.69
IV. Other not significant	63,405,882.52	8.52%	—	183,481,581.58	19.07%	3,281,088.46
Total	<u>744,034,075.62</u>	<u>100.00%</u>	<u>367,934,182.98</u>	<u>961,917,261.48</u>	<u>100.00%</u>	<u>368,744,483.21</u>
Total of the 5 largest	406,032,163.45	54.57%	256,350,118.20	406,032,163.45	42.21%	256,350,118.20
Amount receivable for appropriation by related parties	4,455,375.57	0.60%	4,455,375.57	4,492,371.98	0.47%	4,455,375.57

* Significant single-item receivables are classified as such when they account for 10% or more of the total amount of other receivables.

** Receivables not significant on a single-item basis but significant for the risk of the group of items upon grouping according to credit risk characteristics are classified as such when the age analysis is one year or more.

(1) There was no amount due from shareholders whose shareholding 5% or more at the end of the period.

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES, THE END OF PERIOD IS 30 JUNE 2008 AND THE BEGINNING OF PERIOD IS 31 DECEMBER 2007) — Continued**6. Other receivables — Continued****a. The risk analysis of other receivables are as follows: — Continued**

- (2) The Company has made provision for the bad debts of other receivables from Greencool Companies and the Specified Third Party Companies as follows:

Name of companies	At the end of the period		At the beginning of the period	
	Amount	Provisions for bad debts	Amount	Provisions for bad debts
Guangdong Greencool	13,754,600.00	7,962,961.47	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	12,289,357.71	11,313,119.16
Jiangxi Kesheng Trading Company Limited ("Jiangxi Kesheng")	27,462,676.72	21,390,370.86	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	121,496,535.45	64,813,858.20
Tianjin Xiangrun Trading Development Company Limited ("Tianjin Xiangrun")	96,905,328.00	48,706,110.00	96,905,328.00	48,706,110.00
Tianjin Lixin Trading Development Company Limited ("Tianjin Lixin")	89,600,300.00	44,800,150.00	89,600,300.00	44,800,150.00
Greencool Technology Development (Shenzhen) Company Limited ("Shenzhen Greencool Technology")	32,000,000.00	—	32,000,000.00	—
Greencool Environmental Engineering Shenzhen Company Limited ("Shenzhen Greencool Environmental")	33,000,000.00	—	33,000,000.00	—
Jiangxi Keda Plastic Technology Co., Ltd. ("Jiangxi Keda")	13,000,200.00	6,500,100.00	13,000,200.00	6,500,100.00
Zhuhai Longjia Refrigerating Plant Co., Ltd. ("Zhuhai Longjia")	28,600,000.00	14,300,000.00	28,600,000.00	14,300,000.00

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Continued

6. Other receivables — *Continued*

a. The risk analysis of other receivables are as follows: — *Continued*

(2) — *Continued*

Name of companies	At the end of the period		At the beginning of the period	
	Amount	Provisions for bad debts	Amount	Provisions for bad debts
Zuhai Defa Air-conditioner Fittings Company Limited ("Zuhai Defa")	21,400,000.00	10,700,000.00	21,400,000.00	10,700,000.00
Wuhan Changrong Electrical Appliance Company Limited ("Wuhan Changrong")	20,000,000.00	10,000,000.00	20,000,000.00	10,000,000.00
Beijing Deheng Solicitors ("Beijing Deheng")	4,000,000.00	3,000,000.00	4,000,000.00	3,000,000.00
Finance Bureau of Yangzhou Economic Development Zone	40,000,000.00	40,000,000.00	40,000,000.00	40,000,000.00
Shangqiu Bingxiong Freezing Facilities Co., Ltd. ("Shangqin Bingxiong")	58,030,000.00	58,030,000.00	58,030,000.00	58,030,000.00
Total	<u>611,538,997.88</u>	<u>341,516,669.69</u>	<u>611,538,997.88</u>	<u>341,516,669.69</u>

(3) Particulars of the 5 largest other trade receivables and the corresponding provisions for bad debts are as follows:

Name of companies	At the end of the period	
	Amount	Provisions for bad debts
Jinan San Ai Fu	121,496,535.45	64,813,858.20
Tianjin Xiangrun	96,905,328.00	48,706,110.00
Tianjin Lixin	89,600,300.00	44,800,150.00
Shangqiu Bingxiong	58,030,000.00	58,030,000.00
Finance Bureau of Yangzhou Economic Development Zone	40,000,000.00	40,000,000.00
Total	<u>406,032,163.45</u>	<u>256,350,118.20</u>

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NOTES TO THE FINANCIAL STATEMENTS — Continued

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(4) See Appendix 8.3.(3) for particulars of related parties.

b. Aging analysis of other receivables is as follows:

Age	At the end of the period			At the beginning of the period		
	Amount total	Percentage of amount	Provision for Bad Debt	Amount total	Percentage of amount	Provision for Bad Debt
Within one year	63,405,882.52	8.52%	—	183,481,581.58	19.07%	3,281,088.46
One to two years	44,477,987.67	5.98%	54,584,450.23	67,802,710.48	7.05%	4,066,845.99
Two to three years	482,204,397.32	64.81%	215,727,981.08	660,468,257.15	68.66%	345,449,747.42
Over three years	153,945,808.11	20.69%	97,621,751.67	50,164,712.27	5.22%	15,946,801.34
Total	<u>744,034,075.62</u>	<u>100.00%</u>	<u>367,934,182.98</u>	<u>961,917,261.48</u>	<u>100.00%</u>	<u>368,744,483.21</u>

The risk analysis of company figures of other receivables are as follows:

Category	Amount at the end of the period			Amount at the beginning of the period		
	Amount	Percentage of the total amount	Provisions for bad debts	Amount	Percentage of the total amount	Provisions for bad debts
I. Significant single-item amount	471,334,990.25	44.61%	—	500,559,716.17	44.08%	—
II. Receivables not significant on a single-item basis but significant for the risk of the group of items upon grouping according to credit risk characteristics	49,480,958.53	4.68%	14,770,966.56	21,118,075.18	1.86%	15,515,125.39
III. Greencool Companies	15,754,600.00	1.49%	9,962,961.47	15,754,600.00	1.39%	9,962,961.47
IV. Other not significant	519,954,437.21	49.22%	106,071.30	598,068,320.82	52.67%	172,212.70
Total	<u>1,056,524,985.99</u>	<u>100.00%</u>	<u>24,839,999.33</u>	<u>1,135,500,712.17</u>	<u>100.00%</u>	<u>25,650,299.56</u>
Total of the 5 largest	727,479,863.80	68.86%	—	749,894,446.06	66.04%	—
Amount receivable for appropriation by related parties	80,174.85	0.01%	—	1,465,365.98	0.13%	1,455,375.57

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7. Inventories and provision for inventories

Item	At the end of the period	At the beginning of the period
1. Raw materials	243,827,517.00	241,844,938.09
2. Work-in-progress	44,605,576.73	54,220,154.70
3. Storage goods	947,111,767.20	715,882,969.12
Total	1,235,544,860.93	1,011,948,061.91

Consists of: Amount of capitalised borrowing costs — —

Provision for inventories:

Provision for inventories	At the beginning of the period	Increase for the period	Decrease for the period			Percentage to balance at the end of period	At the end of the period
			Reverse on appreciation of asset value	Reversal for other reasons	Total		
Raw Materials	48,821,443.16	814,246.53	641,464.47	2,224,845.49	2,866,309.96	6.13%	46,769,379.73
Work-in-progress	11,256,714.99	—	—	38,537.89	38,537.89	0.34%	11,218,177.10
Storage goods	11,585,514.06	249,432.31	—	3,118,304.29	3,118,304.29	35.77%	8,716,642.08
Total	71,663,672.21	1,063,678.84	641,464.47	5,381,687.67	6,023,152.14	9.03%	66,704,198.91

8. Other current assets

Category	At the end of the period	At the beginning of the period
Deferred rent	—	67,944.39
Reconstructing costs to be written-off	19,097,360.20	11,683,889.84
Others	4,927,831.79	3,624,647.80
Total	24,025,191.99	15,376,482.03

Reconstructing costs fee accounted for 79.49% of the balance at the end of the period, which represented agency fees incurred from the seasoned offering to the Company's major shareholder. It will be transferred into capital reserve after the seasoned offering.

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9. Long-term equity investments

Item	At the end of the period			At the beginning of the period		
	Carrying balance	Provision for impairment	Carrying value	Carrying balance	Provision for impairment	Carrying value
Long-term equity investments						
Among which:						
Investment in subsidiaries	37,822,732.64	11,000,000.00	26,822,732.64	39,548,353.44	11,000,000.00	28,548,353.44
Investment in associates	110,536,920.59	—	110,536,920.59	99,155,748.36	—	99,155,748.36
Other equity investment	1,990,000.00	—	1,990,000.00	1,220,000.00	—	1,220,000.00
Total	<u>150,349,653.23</u>	<u>11,000,000.00</u>	<u>139,349,653.23</u>	<u>139,924,101.80</u>	<u>11,000,000.00</u>	<u>128,924,101.80</u>

Among which, particulars of joint ventures and associates are as follows:

Name of investee	Place of registration	Nature of business	Registered capital	Percentage of shareholding	Percentage of voting rights	Total assets at the end of period	Total operating income for the period	Net profit for the period
I. Associates								
1. Huayi Compressor Holdings Company Limited ("Huayi Compressor")	PRC	Manufacture and sale of compressors	RMB324,581,218	18.26%	18.26%	2,668,296,289.44	1,872,406,686.22	43,641,468.48
2. Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. ("Chongqing Rongsheng")	PRC	Sales of refrigerators and after-sales services	RMB1,000,000	28%	28%	—	—	—
3. Guangzhou Antaida Logistic Co., Ltd. ("Antaida")	PRC	Integrated logistic and warehousing	RMB10,000,000	20%	20%	48,180,142.14	13,305,716.46	84,679.15
4. Qingdao Hisense International Marketing Co., Ltd.	PRC	Import and export of goods and technologies etc.	RMB20,000,000	19%	19%	—	—	—

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<u>Name of investee</u>	<u>Percentage to registered capital of investee</u>	<u>Initial investment cost</u>	<u>At the beginning of the period</u>	<u>Changes in equity for the period</u>	<u>Accumulated changes in equity</u>	<u>At the end of the period</u>
Japan Kelon	100%	31,716,666.40	28,548,353.44	(1,725,620.80)	(4,893,933.76)	26,822,732.64
Combine	55%	11,000,000.00	11,000,000.00	—	—	11,000,000.00
Total		<u>42,716,666.40</u>	<u>39,548,353.44</u>	<u>(1,725,620.80)</u>	<u>(4,893,933.76)</u>	<u>37,822,732.64</u>

Kelon Europe, Kelon (Japan) and Combine, controlling subsidiaries of the Company, are not consolidated into the financial statements as they are too small in size and are being impaired and adjusted.

Initial investment cost of Japan Kelon is HK\$30,488,000.00, and RMB28,548,353.44 at exchange rate at the beginning of the period, and RMB26,822,732.64 at exchange rate at the end of the period; changes in equity for the period and the accumulated changes are caused by changes in exchange rate.

b. Investments in associates

<u>Name of investee</u>	<u>Percentage to registered capital of investee</u>	<u>Initial investment cost</u>	<u>At the beginning of the period</u>	<u>Changes in equity for the period</u>	<u>Accumulated changes in equity</u>	<u>At the end of the period</u>
Chongqing Rongsheng	28%	280,000.00	404,695.74	(404,695.74)	(280,000.00)	—
Antaida	20%	2,000,000.00	4,255,158.90	16,935.83	2,272,094.73	4,272,094.73
Huayi Compressor*1	18.26%	118,013,641.00	94,495,893.72	7,968,932.14	(15,548,815.14)	102,464,825.86
Hisense International Marketing	19.00%	3,800,000.00	—	3,800,000.00	3,800,000.00	3,800,000.00
Total		<u>124,093,641.00</u>	<u>99,155,748.36</u>	<u>11,381,172.23</u>	<u>(9,756,720.41)</u>	<u>110,536,920.59</u>

*1 The investee, Huayi Compressor, completed share reform on 20 December 2006, the Company's original shareholding percentage was 22.725%. After completion of the share reform, the number of shares remained unchanged, and the shareholding percentage was diluted to 18.26%. As the Company still exerted significant influence on Huayi Compressor, the equity method was adopted for accounting purposes.

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NOTES TO THE FINANCIAL STATEMENTS — Continued

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES, THE END OF PERIOD IS 30 JUNE 2008 AND THE BEGINNING OF PERIOD IS 31 DECEMBER 2007) — Continued

9. Long-term equity investments — Continued

c. Other equity investments accounting for with the cost method:

<u>Name of investee</u>	<u>Investment duration</u>	<u>Percentage to registered capital of investee</u>	<u>Initial investment cost</u>	<u>At the beginning of the period</u>	<u>Increase for the period</u>	<u>Decrease for the period</u>	<u>At the end of the period</u>
Fujian Kelon Air-condition Sales Co., Ltd	10	2%	100,000.00	100,000.00	—	—	100,000.00
Foshan Huabao Air-condition Sales Co., Ltd	Long-term	2%	40,000.00	40,000.00	—	—	40,000.00
Xinjiang Hisense Kelon Electrical Sales Co., Ltd	10	2%	100,000.00	100,000.00	—	—	100,000.00
Zhibo Hisense Kelon Electrical Sales Co., Ltd	10	2%	120,000.00	120,000.00	—	120,000.00	—
Hunan Hisense Kelon Electrical Sales Co., Ltd	20	2%	200,000.00	200,000.00	—	—	200,000.00
Qingdao Hisense Kelon Electrical Sales Co., Ltd	10	2%	300,000.00	300,000.00	—	—	300,000.00
Yantai Hisense Kelon Electrical Sales Co., Ltd	10	2%	160,000.00	160,000.00	—	160,000.00	—
Linyi Hisense Kelon Appliances Air-condition Marketing Co., Ltd	10	2%	200,000.00	200,000.00	—	—	200,000.00
Chengdu Hisense Kelon Appliances Air-condition Marketing Co., Ltd	10	2%	240,000.00	—	240,000.00	—	240,000.00
Kunming Hisense Kelon Appliances Air-condition Marketing Co., Ltd	10	2%	80,000.00	—	80,000.00	—	80,000.00

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9. Long-term equity investments — Continued

c. Other equity investments accounting for with the cost method: — Continued

<u>Name of investee</u>	<u>Investment duration</u>	<u>Percentage to registered capital of investee</u>	<u>Initial investment cost</u>	<u>At the beginning of the period</u>	<u>Increase for the period</u>	<u>Decrease for the period</u>	<u>At the end of the period</u>
Weifang Hisense Kelon Appliances Air-condition Marketing Co., Ltd	10	2%	100,000.00	—	100,000.00	—	100,000.00
Shanxi Hisense Kelon Appliances Air-condition Marketing Co., Ltd	10	2%	160,000.00	—	160,000.00	—	160,000.00
Shenyang Hisense Kelon Appliances Air-condition Marketing Co., Ltd	10	2%	100,000.00	—	100,000.00	—	100,000.00
Xuzhou Hisense Kelon Appliances Air-condition Marketing Co., Ltd	10	2%	100,000.00	—	100,000.00	—	100,000.00
Chongqing Hisense Kelon Appliances Air-condition Marketing Co., Ltd	10	2%	270,000.00	—	270,000.00	—	270,000.00
Subtotal			<u>2,270,000.00</u>	<u>1,220,000.00</u>	<u>1,050,000.00</u>	<u>280,000.00</u>	<u>1,990,000.00</u>

d. Changes in provision for impairment

<u>Name of investee</u>	<u>At the beginning of the period</u>	<u>Increase for the period</u>	<u>Decrease for the period</u>	<u>At the end of the period</u>
Combine	11,000,000.00	—	—	11,000,000.00

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9. Long-term equity investments — Continued

d. Changes in provision for impairment — Continued

Details of long-term investment companies are as follows:

Item	At the end of the period			At the beginning of the period		
	Carrying balance	Provision for impairment	Carrying value	Carrying balance	Provision for impairment	Carrying value
Long-term investment						
Among which: Investments in subsidiaries	1,681,208,656.20	59,381,641.00	1,621,827,015.20	1,860,745,181.00	59,381,641.00	1,801,363,540.00
Investments in associates	110,536,920.59	—	110,536,920.59	98,751,052.62	—	98,751,052.62
Other equity investment	1,990,000.00	—	1,990,000.00	1,220,000.00	—	1,220,000.00
Total	<u>1,793,735,576.79</u>	<u>59,381,641.00</u>	<u>1,734,353,935.79</u>	<u>1,960,716,233.62</u>	<u>59,381,641.00</u>	<u>1,901,334,592.62</u>

Among which, particulars of joint ventures and associates are as follows:

Name of investee	Place of registration	Nature of business	Registered capital	Percentage of shareholding	Percentage of voting rights	Total assets at the end of period	Total operating income for the period	Net profit for the period
I. Associates								
1. Huayi Compressor	PRC	Manufacture and sale of compressors	RMB324,581,218	18.26%	18.26%	2,668,296,289.44	1,872,406,686.22	43,641,468.48
2. Guangzhou Antaida	PRC	Integrated logistic and warehousing	RMB10,000,000	20%	20%	48,180,142.14	13,305,716.46	84,679.15
3. Qingdao Hisense International Marketing Co., Ltd	PRC	Import and export of goods and technologies etc.	RMB20,000,000	19%	19%	—	—	—

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9. Long-term equity investments — Continued

a Investments in subsidiaries

Name of investee	Percentage of registered capital of investee	At the beginning of the period	Increase for the period	Decrease for the period	At the end of the period
Ronshen Refrigerator	70%	155,552,426.00	—	—	155,552,426.00
Kelon Air-conditioner	60%	281,000,000.00	—	—	281,000,000.00
Kelon Fittings	70%	32,634,554.00	—	—	32,634,554.00
Kelon Mould	40%	49,860,000.00	463,475.20	—	50,323,475.20
Rongsheng Plastic	45%	53,270,064.00	—	—	53,270,064.00
Chengdu Kelon	45%	171,388,000.00	—	—	171,388,000.00
Yingkou Kelon	42%	84,000,000.00	—	—	84,000,000.00
Beijing Hengsheng	80%	24,000,000.00	—	—	24,000,000.00
Kelon Development	100%	11,200,000.00	—	—	11,200,000.00
Kelon Jiake	70%	42,000,000.00	—	—	42,000,000.00
Sichuan Kelon Sales	76%	1,520,000.00	—	—	1,520,000.00
Kelon Freezer	44%	15,668,880.00	—	—	15,668,880.00
Wangao Company	20%	600,000.00	—	—	600,000.00
Kelon Household Electrical Appliance	25%	2,500,000.00	—	—	2,500,000.00
Jiangxi Kelon	60%	147,763,896.00	—	—	147,763,896.00
Jilin Kelon	90%	180,000,000.00	—	180,000,000.00	—
Hangzhou Kelon	100%	24,000,000.00	—	—	24,000,000.00
Yangzhou Kelon	74.33%	178,026,998.00	—	—	178,026,998.00
Zhuhai Kelon	75%	189,101,850.00	—	—	189,101,850.00
Xi'an Kelon	60%	107,729,620.00	—	—	107,729,620.00
Shenzhen Kelon	95%	95,000,000.00	—	—	95,000,000.00
Wuhu Motors	40%	12,428,893.00	—	—	12,428,893.00
Weili Electrical Appliances	55%	—	—	—	—
Hisense Chengdu	100%	1,500,000.00	—	—	1,500,000.00
Total		<u>1,860,745,181.00</u>	<u>463,475.20</u>	<u>180,000,000.00</u>	<u>1,681,208,656.20</u>

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NOTES TO THE FINANCIAL STATEMENTS — Continued

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES, THE END OF PERIOD IS 30 JUNE 2008 AND THE BEGINNING OF PERIOD IS 31 DECEMBER 2007) — Continued**9. Long-term equity investments — Continued****b. Investments in associates**

Name of investee	Percentage of registered capital of investee	Initial investment cost	At the beginning of the period	Changes in equity during the period	Changes in accumulated equity	At the end of the period
Antaida	20%	2,000,000.00	4,255,158.90	16,935.83	2,272,094.73	4,272,094.73
Huayi Compressor	18.26%	118,013,641.00	94,495,893.72	7,968,932.14	(15,548,815.14)	102,464,825.86
Hisense International Marketing	19.00%	3,800,000.00	—	3,800,000.00	3,800,000.00	3,800,000.00
Total		123,813,641.00	98,751,052.62	11,785,867.97	(9,476,720.41)	110,536,920.59

As the Company exercises substantial influence over Huayi Compressor, Huayi Compressor is accounted for by using equity method.

c. Other equity investments accounting for with the cost method:

Name of investee	Investment duration	Percentage to registered capital of investee	Initial investment cost	At the beginning of the period	Increase for the period	Decrease for the period	At the end of the period
Fujian Kelon Air-Condition Sales Co., Ltd	10	2%	100,000.00	100,000.00	—	—	100,000.00
Foshan Huabao Air-condition Sales Co., Ltd	long-term	2%	40,000.00	40,000.00	—	—	40,000.00
Xinjiang Hisense Kelon Electrical Sales Co., Ltd	10	2%	100,000.00	100,000.00	—	—	100,000.00
Zhibo Hisense Kelon Electrical Sales Co., Ltd	10	2%	120,000.00	120,000.00	—	120,000.00	—
Hunan Hisense Kelon Electrical Sales Co., Ltd	20	2%	200,000.00	200,000.00	—	—	200,000.00
Qingdao Hisense Kelon Electrical Sales Co., Ltd	10	2%	300,000.00	300,000.00	—	—	300,000.00

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9. Long-term equity investments — Continued

c. Other equity investments accounting for with the cost method: — Continued

<u>Name of investee</u>	<u>Investment duration</u>	<u>Percentage to registered capital of investee</u>	<u>Initial investment cost</u>	<u>At the beginning of the period</u>	<u>Increase for the period</u>	<u>Decrease for the period</u>	<u>At the end of the period</u>
Yantai Hisense Kelon Electrical Sales Co., Ltd	10	2%	160,000.00	160,000.00	—	160,000.00	—
Linyi Hisense Kelon Electrical Sales Co., Ltd	10	2%	200,000.00	200,000.00	—	—	200,000.00
Chengdu Hisense Kelon Appliances Air-condition Marketing Co., Ltd	10	2%	240,000.00	—	240,000.00	—	240,000.00
Kunming Hisense Kelon Appliances Air-condition Marketing Co., Ltd	10	2%	80,000.00	—	80,000.00	—	80,000.00
Weifang Hisense Kelon Appliances Air-condition Marketing Co., Ltd	10	2%	100,000.00	—	100,000.00	—	100,000.00
Shanxi Hisense Kelon Appliances Air-condition Marketing Co., Ltd	10	2%	160,000.00	—	160,000.00	—	160,000.00
Shenyang Hisense Kelon Appliances Air-condition Marketing Co., Ltd	10	2%	100,000.00	—	100,000.00	—	100,000.00
Xuzhou Hisense Kelon Appliances Air-condition Marketing Co., Ltd	10	2%	100,000.00	—	100,000.00	—	100,000.00
Chongqing Hisense Kelon Appliances Air-condition Marketing Co., Ltd	10	2%	270,000.00	—	270,000.00	—	270,000.00
Subtotal			<u>2,270,000.00</u>	<u>1,220,000.00</u>	<u>1,050,000.00</u>	<u>280,000.00</u>	<u>1,990,000.00</u>

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Name of investee	At the beginning of the period	Increase during the period	Decrease for the period	At the end of the period
Kelon Air-conditioner	59,381,641.00	—	—	59,381,641.00
Total	<u>59,381,641.00</u>	<u>—</u>	<u>—</u>	<u>59,381,641.00</u>

10. Investment properties

Items	At the beginning of the period	Increase for the period	Decrease for the period	At the end of the period
1. Total original value	57,355,366.18	—	—	57,355,366.18
Buildings and structures	57,355,366.18	—	—	57,355,366.18
2. Accumulated depreciation or accumulated amortisation	19,163,228.75	1,314,740.29	—	20,477,969.04
Buildings and structures	19,163,228.75	1,314,740.29	—	20,477,969.04
3. Total accumulated amount of provision for impairment of investment properties	—	—	—	—
Buildings and structures	—	—	—	—
4. Total book value of investment properties	<u>38,192,137.43</u>			<u>36,877,397.14</u>
Buildings and structures	38,192,137.43			36,877,397.14

- (1) As at 30 June 2008, the Company pledged the property located at No. 13, Ronggang Road, Shunde District for bank loans. The original value of the pledged asset is RMB13,982,230.43, and the net value is RMB2,251,693.00.

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11. Fixed assets and accumulated depreciation

Fixed assets, at cost	At the beginning of the year	Increase for the period	Decrease for the period	At the end of the year
Buildings and structures	1,156,032,135.16	43,619,265.12	122,089,529.40	1,077,561,870.88
Machinery and equipment	1,694,046,773.84	101,697,743.07	80,622,379.14	1,715,122,137.77
Electronic equipment, fixtures and furniture	245,200,106.58	9,539,985.91	12,581,901.04	242,158,191.45
Motor vehicles	37,106,354.07	751,961.52	20,219,728.09	17,638,587.50
Moulds	227,795,564.80	53,720,463.19	2,393,830.02	279,122,197.97
Total	3,360,180,934.45	209,329,418.81	237,907,367.69	3,331,602,985.57
Accumulated depreciation	At the beginning of the year	Increase for the period	Decrease for the period	At the end of the year
Buildings and structures	449,645,322.90	33,805,635.41	57,971,085.41	425,479,872.90
Machinery and equipment	1,166,763,603.79	36,330,008.60	66,522,070.06	1,136,571,542.33
Electronic equipment, fixtures and furniture	202,456,721.19	5,858,490.62	10,610,475.12	197,704,736.69
Motor vehicles	31,967,249.38	898,157.75	19,751,267.63	13,114,139.50
Moulds	129,308,591.67	28,636,832.40	1,129,443.26	156,815,980.81
Total	1,980,141,488.93	105,529,124.78	155,984,341.48	1,929,686,272.23
Provision for impairment	At the beginning of the year	Increase for the period	Decrease for the period	At the end of the year
Buildings and structures	8,499,578.08	—	1,459,428.57	7,040,149.51
Machinery and equipment	129,351,873.68	137,449.95	9,979,915.31	119,509,408.32
Electronic equipment, fixtures and furniture	1,300,190.90	215,855.32	137,883.31	1,378,162.91
Motor vehicles	302,915.56	286,520.15	106,779.19	482,656.52
Moulds	6,088,885.67	—	640,747.25	5,448,138.42
Total	145,543,443.89	639,825.42	12,324,753.63	133,858,515.68
Net	1,234,496,001.63			1,268,058,197.66

(1) The increase in fixed assets during the period includes transfer from construction in progress of RMB153,253,129.06.

(2) The decrease in fixed assets with respect to buildings and structures is mainly due to disposal of the properties at Nos. 120 and 129 Rongqi Dadaobei Road, Nos. 1, 2 and 6 Huanxin Road, No. 71 Zhenhua Road and Nos. 22 and 24 Rongxin Road.

(3) As of 30 June 2008, the original value of the Company's pledged buildings and structures is RMB645,001,448.06, and the net value is RMB381,010,738.17.

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The Company's figures of fixed assets and accumulated depreciation are as follows:

Fixed assets, at cost	At the beginning of the year	Increase for the period	Decrease for the period	At the end of the year
Buildings and structures	552,492,040.16	32,998.70	72,328,892.58	480,196,146.28
Machinery and equipment	159,322,829.33	61,160.00	53,950,021.55	105,433,967.78
Furniture, fixtures and office equipment	91,578,490.57	792,878.42	5,416,270.11	86,955,098.88
Motor vehicles	25,169,680.35	—	17,513,201.66	7,656,478.69
Moulds	—	—	—	—
Total	828,563,040.41	887,037.12	149,208,385.90	680,241,691.63
Accumulated depreciation	At the beginning of the year	Increase for the period	Decrease for the period	At the end of the year
Buildings and structures	236,567,153.60	19,306,969.83	51,319,075.58	204,555,047.85
Machinery and equipment	107,199,427.19	2,387,092.00	46,981,074.07	62,605,445.12
Furniture, fixtures and office equipment	74,949,924.47	2,306,939.62	5,140,669.73	72,116,194.36
Motor vehicles	22,054,124.52	515,049.53	16,526,326.14	6,042,847.91
Moulds	—	—	—	—
Total	440,770,629.78	24,516,050.98	119,967,145.52	345,319,535.24
Provision for impairment	At the beginning of the year	Increase for the period	Decrease for the period	At the end of the year
Buildings and structures	—	—	—	—
Machinery and equipment	7,379,686.47	—	3,674,220.48	3,705,465.99
Furniture, fixtures and office equipment	304.11	—	—	304.11
Motor vehicles	—	—	—	—
Moulds	—	—	—	—
Total	7,379,990.58	—	3,674,220.48	3,705,770.10
Net	380,412,420.05			331,216,386.29

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12. Construction in progress

<u>Project name</u>	<u>At the beginning of the period</u>	<u>Increase for the period</u>	<u>Transfer to fixed assets during the period</u>	<u>Other decrease for the period</u>	<u>At the end of the period</u>	<u>Source of capital</u>
Project for reconstruction of Yangzhou Kelon factories	59,358,536.38	25,728,177.96	22,413,496.96	11,710,554.27	50,962,663.11	Self-raised
Project for reconstruction of Huabo Complex	246,400.00	—	—	—	246,400.00	Self-raised
Project for staff quarters of Kelon Electrical Appliances	16,790,050.63	7,438,147.46	—	—	24,228,198.09	Self-raised
Project for reconstruction of Hisense Chengdu Kelon factories	63,695,303.56	26,551,824.09	89,735,014.96	—	512,112.69	Self-raised
Project for Xi'an Power Control Company compressor production line	9,044,256.34	—	—	—	9,044,256.34	Self-raised
Others	30,060,971.43	28,725,917.31	41,104,617.14	3,603,278.69	14,078,992.91	Self-raised
Total	179,195,518.34	88,444,066.82	153,253,129.06	15,313,832.96	99,072,623.14	

(1) There is no capitalisation of borrowing costs in increase of construction in progress during the year.

(2) Provision for impairment of construction in progress is set out below:

<u>Project name</u>	<u>At the beginning of the period</u>	<u>Increase for the period</u>	<u>Decrease for the year</u>			<u>At the end of the period</u>
			<u>Reversal on appreciation of asset value</u>	<u>Reversal for other reasons</u>	<u>Total</u>	
Project for reconstruction of Yangzhou Kelon factories	13,811,879.00	—	—	13,811,879.00	13,811,879.00	—
Project for Xi'an Power Control Company Compressor Production line	9,044,256.34	—	—	—	—	9,044,256.34
Others	19,233,399.77	—	—	15,347,940.93	15,347,940.93	3,885,458.84
Total	42,089,535.11	—	—	29,159,819.93	29,159,819.93	12,929,715.18

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13. Intangible assets

Items	At the beginning of the period	Increase for the period	Decrease for the period	At the end of the period	Remarks
A. Total original value	1,181,339,909.24	9,661,429.89	127,332,543.17	1,063,668,795.96	
1. Land use rights	582,948,113.71	—	125,645,632.30	457,302,481.41	
2. Trademarks	521,857,698.95	—	—	521,857,698.95	
3. Know-how	43,711,180.00	4,825,599.00	—	48,536,779.00	
4. Others	32,822,916.58	4,835,830.89	1,686,910.87	35,971,836.60	
B. Accumulated amortisation	385,125,130.74	15,398,344.19	112,458,693.14	288,064,781.79	
1. Land use rights	228,592,358.04	6,579,680.30	112,047,982.27	123,124,056.07	
2. Trademarks	134,130,255.55	—	—	134,130,255.55	
3. Know-how	—	2,936,780.00	—	2,936,780.00	
4. Others	22,402,517.15	5,881,883.89	410,710.87	27,873,690.17	
C. Accumulated provision for impairment of intangible assets	331,270,574.83	—	—	331,270,574.83	
1. Land use rights	40,610,868.58	—	—	40,610,868.58	
2. Trademarks	286,061,116.40	—	—	286,061,116.40	
3. Know-how	—	—	—	—	
4. Others	4,598,589.85	—	—	4,598,589.85	
D. Total book value of intangible assets	464,944,203.67			444,333,439.34	
1. Land use rights	313,744,887.09			293,567,556.76	
2. Trademarks	101,666,327.00			101,666,327.00	
3. Know-how	43,711,180.00			45,599,999.00	
4. Others	5,821,809.58			3,499,556.58	

(1) The original carrying value of the land use rights pledged for bank loans as of 30 June 2008 was RMB260,385,998.57, while the net value was RMB181,385,260.34.

14. Long-term deferred expenditures

Classification	Original amount	At the beginning of the period	Increase for the period	Amortisation for the period	Accumulated amortisation	At the end of the period	Remaining term for amortization
Others	6,513,820.10	2,222,788.48	18,800.00	232,785.00	4,505,016.62	2,008,803.48	1-4 years
Total	6,513,820.10	2,222,788.48	18,800.00	232,785.00	4,505,016.62	2,008,803.48	

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES, THE END OF PERIOD IS 30 JUNE 2008 AND THE BEGINNING OF PERIOD IS 31 DECEMBER 2007) — Continued**15. Deferred income tax assets**

Items	At the end of the period	At the beginning of the period	Description
Provision for bad debts	211,262.97	303,078.15	
Provision for inventories	84,110.81	85,343.62	
Provision for impairment of fixed assets	5,456,432.78	8,235,802.68	
Deductible loss	5,796,252.41	4,117,055.67	
Other temporary differences	(1,004,526.32)	(1,441,612.35)	
Total	10,543,532.65	11,299,667.77	

16. Provision for impairment of assets

Items	At the beginning of the year	Amount of the period	Decrease for the year		At the end of the period
			Reversal	Write-off	
1. Provision for bad debts	579,369,877.42	3,714,597.49	632,868.93	22,042,606.31	560,408,999.67
2. Provision for inventories	71,663,672.21	1,063,678.84	641,464.47	5,381,687.67	66,704,198.91
3. Provision for impairment of long-term equity investments	11,000,000.00	—	—	—	11,000,000.00
4. Provision for impairment of fixed assets	145,543,443.89	639,825.42	—	12,324,753.63	133,858,515.68
5. Provision for impairment of construction in progress	42,089,535.11	—	—	29,159,819.93	12,929,715.18
6. Provision for impairment of intangible assets	331,270,574.83	—	—	—	331,270,574.83
Total	1,180,937,103.46	5,418,101.75	1,274,333.40	68,908,867.54	1,116,172,004.27

17. Short term loans

Nature of loan	Currency	At the end of the period		At the beginning of the period	
		Original amount	RMB equivalent	Original amount	RMB equivalent
Guaranteed loan	RMB	362,916,134.40	362,916,134.40	148,160,319.00	148,160,319.00
Secured loan	RMB	543,521,556.25	543,521,556.25	953,221,901.34	953,221,901.34
Pledged loan	RMB	—	—	186,589,750.57	186,589,750.57
Credit loan	RMB	—	—	5,000,000.00	5,000,000.00
Bank acceptance notes financing	RMB	63,500,000.00	63,500,000.00	18,000,000.00	18,000,000.00
Total			969,937,690.65		1,310,971,970.91

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Items	At the end of the period	At the beginning of the period
1. Issued transactional bonds	—	—
2. Designated financial liabilities measured at their fair values and variation included into the current through profits or losses	—	—
3. Derivative financial Liabilities*	9,759,018.30	6,157,782.89
4. Others	—	—
Total	9,759,018.30	6,157,782.89

* It is mainly the undue foreign exchange forward contracts entered between the Company and banks. The amount is calculated based on the difference between the quoted price of the undue foreign exchange forward contracts and the forward exchange rate and on 30 June 2008 and recognised as transactional financial assets or liabilities.

19. Notes payable

Classification	At the end of the period	Amount due within one year
Bank acceptance notes	415,749,000.00	415,749,000.00
Commercial acceptance notes	57,480,000.00	57,480,000.00
Total	473,229,000.00	473,229,000.00

(1) The period-end balance of notes payable included no amount due to shareholders holding 5% or above of the share capital of the Company.

(2) The balance at the end of the period decreased by 38.62% compared to that at the beginning of the year.

20. Trade payables

Age of account	At the end of the period		At the beginning of the period	
	Amount	Percentage of total amount	Amount	Percentage of total amount
Within one year	2,219,944,978.90	92.06%	1,208,344,799.78	89.34%
One to two years	86,239,632.22	3.58%	53,354,398.45	3.95%
Two to three years	80,576,290.48	3.34%	70,801,361.57	5.23%
Over three years	24,643,248.44	1.02%	20,023,922.22	1.48%
Total	2,411,404,150.04	100.00%	1,352,524,482.02	100.00%

The period-end balance of trade payables include no amount due to shareholders holding 5% or more of the share capital of the Company.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

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The amount at year-end was RMB455,596,025.18, which included no amount due to shareholders holding 5% or above of the voting rights of the Company.

22. Staff remuneration payables

Items	At the end of the period	At the beginning of the period
A. Salaries, bonuses, allowances and subsidies	88,683,669.14	86,304,894.14
B. Staff welfare fund	4,841,283.80	845,690.99
C. Social insurance premium	1,649,817.66	967,677.56
1. Medical insurance premium	593,773.71	399,116.29
2. Basic endowment insurance premiums	869,963.70	494,469.61
3. Annuity	—	—
4. Unemployment insurance premium	77,648.22	51,095.71
5. Occupational injury insurance premium	35,557.38	11,201.22
6. Childbirth insurance premium	72,874.65	11,794.73
D. Housing provident fund employee education expenses	594,135.62	222,075.43
E. Labor union expenses and	4,222,924.11	3,311,864.46
F. Others	685,263.92	199,448.15
Total	100,677,094.25	91,851,650.73

23. Taxes payables

Tax	At the end of the period	At the beginning of the period
Value-added tax (Value-added tax to be credited)	(172,453,538.44)	(124,669,162.92)
Business tax	57,893.96	20,805,127.33
Urban Construction Tax	3,027.62	23,188.79
Education fees additional Charges	4,838.35	938.05
Enterprise Income tax	26,879,835.58	27,258,186.65
Real estate tax	2,873,275.55	2,929,020.22
Individual Income tax	2,872,090.79	1,697,593.46
Land use tax	764,797.58	2,965,155.33
Water system construction fund	4,459.54	1,347,345.40
Other	96,022.12	2,212,067.06
Total	(138,897,297.35)	(65,430,540.63)

NOTES TO THE FINANCIAL STATEMENTS — Continued

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Age of account	At the end of the period		At the beginning of the period	
	Amount	Percentage of total amount	Amount	Percentage of total amount
	RMB	%	RMB	%
Within one year	275,052,603.95	45.23%	525,735,822.47	79.81%
One to two years	189,500,466.35	31.16%	50,104,789.20	7.61%
Two to three years	76,495,211.54	12.58%	50,835,300.66	7.72%
Over three years	67,082,744.20	11.03%	32,040,836.81	4.86%
Total	<u>608,131,026.04</u>	<u>100.00%</u>	<u>658,716,749.14</u>	<u>100.00%</u>

The year-end balance included no amount due to shareholders holding 5% or more of the voting rights of the Company.

25. Other current liabilities

Items	At the end of the period	At the beginning of the period	Reasons for not settled
Installation fee	36,817,251.79	45,311,366.51	Provision made for the unpaid installation cost of sold products
Sales discounts	140,778,451.33	111,935,891.68	Incurred but not paid
Transportation fee	4,164,184.06	4,890,136.24	Incurred but not paid
Audit and listing fee	6,072,455.63	13,735,267.37	Provision made for audit fee and listing fee
Entertainment fee	28,857,777.92	32,187,877.18	Incurred but not paid
Capital utilization fee	28,483,822.05	28,483,822.05	Incurred but not paid
Others	105,901,411.47	56,138,250.09	Incurred but not paid
Total	<u>351,075,354.25</u>	<u>292,682,611.12</u>	

Capital utilization expenses represent the interest paid to Hisense Marketing for the capital occupancy. See Appendix 8.3.(5) for details.

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Payables items	At the end of the period	At the beginning of the period
Pension liabilities*	6,320,169.82	30,820,169.82
Special long-term payables**	31,622,364.90	24,532,364.90
Others	—	440,000.00
Total	37,942,534.72	55,792,534.72

* Pension liabilities represent the contributions paid by the employees and the Company, which are payable to the Employees after their retirement or resignation.

** Special long-term payables mainly represent the state debenture projects capital for technical advancement and Industry upgrade and other government exclusive financial grant.

27. Provision

Items	Balance at the end of the period	Balance at the beginning of the period
Litigation costs	10,586,082.46	11,516,899.81
Provision for maintenance*	133,610,830.74	132,488,674.45
Total	144,196,913.20	144,005,574.26

* The provision for maintenance is the estimated product quality guarantee fund. The Company provides for a three-year warranty for its products sold. During the warranty period, the Company will offer a free warranty service to the customers concerned. According to the industry's experience and past data, the warranty costs are calculated and provided based on the remaining years of offered warranty and the average repair fee per unit.

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28. Share capital

Items	Increase (decrease) for the period						Sub-total	At the end of the period
	At the beginning of the period	Number of placing share	Number of bonus shares	Capitalized reserve fund	Additional issues	Others		
A. Restricted circulating shares								
1. Promoter shares	—	—	—	—	—	—	—	—
Including: State owned shares	—	—	—	—	—	—	—	—
State legal person shares	—	—	—	—	—	—	—	—
Domestic legal person shares	—	—	—	—	—	—	—	—
Overseas legal person shares	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
2. Non-promoter shares	—	—	—	—	—	—	—	—
Including: State owned shares	—	—	—	—	—	—	—	—
State legal person shares	238,872,074.00	—	(9,725,059)	—	—	5,228,907	—	234,375,922.00
Domestic legal person shares	75,703,561.00	—	—	—	—	(11,779,757)	—	63,923,804.00
Overseas legal person shares	—	—	—	—	—	—	—	—
Internal staff shares	—	—	—	—	—	—	—	—
Transferred allotted shares	—	—	—	—	—	—	—	—
Securities investment fund allotment	—	—	—	—	—	—	—	—
Strategic investment allotment	—	—	—	—	—	—	—	—
General legal person allotment	—	—	—	—	—	—	—	—
Unlisted individual shares	—	—	—	—	—	—	—	—
Others	11,592.00	—	517	—	—	—	—	12,109.00
3. Preference stock	—	—	—	—	—	—	—	—
Total number of restricted circulating shares	314,587,227.00	—	—	—	—	—	—	298,311,835.00

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES, THE END OF PERIOD IS 30 JUNE 2008 AND THE BEGINNING OF PERIOD IS 31 DECEMBER 2007) —
Continued

Items	Increase (decrease) for the period							At the end of the period
	At the beginning of the period	Number of placing share	Number of bonus shares	Capitalized reserve fund	Additional issues	Others	Sub-total	
B. Non-restricted circulating shares								
1. Domestic listed ordinary shares denominated in RMB	217,829,528.00	—	9,724,542	—	—	6,550,850	—	234,104,920.00
2. Domestic listed foreign shares	—	—	—	—	—	—	—	—
3. Overseas listed foreign shares	459,589,808.00	—	—	—	—	—	—	459,589,808.00
Total number of non-restricted circulating shares	<u>677,419,336.00</u>	—	—	—	—	—	—	<u>693,694,728.00</u>
C. Total number of shares	<u>992,006,563.00</u>	—	—	—	—	—	—	<u>992,006,563.00</u>

- As at 28 March 2008, Hisense Air-Conditioning has not yet fulfilled the commitment for the assets reorganisation of the Company, triggering the condition for additional donated shares. On 11 April 2008, Hisense Air-Conditioning fulfilled the commitment to donate shares and additionally donated shares to holders of all unconditional transferable A shares of the Company shown on the register as at the date of registration of share donation, as well as directors, supervisors and senior management of the Company holding transferable A shares of the Company.
- Dong Heng Consultancy completed the share registration on 10 April 2008 and returned 486,044 shares to Hisense Air-Conditioning, which were listed for trading on 20 May 2008.
- Economic Consultancy completed the share registration on 19 June 2008 and returned 4,742,863 shares to Hisense Air-Conditioning. 49,600,330 shares out of the shares held have fulfilled the conditions for release from restrictions but were not listed for trading.

29. Capital reserve

Items	At the beginning of the period	Increase for the period	Decrease for the period	At the end of the period	Reason and basis
Share premium	1,468,501,786.00	—	—	1,468,501,786.00	
Other capital reserve	69,854,849.50	—	—	69,854,849.50	
Total	<u>1,538,356,635.50</u>	<u>—</u>	<u>—</u>	<u>1,538,356,635.50</u>	

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NOTES TO THE FINANCIAL STATEMENTS — Continued

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30. Surplus reserve

Items	At the beginning of the period	Increase for the period	Decrease for the period	At the end of the period
Statutory common reserve	114,580,901.49	—	—	114,580,901.49

31. Unappropriated profits

At the beginning of the period	Increase for the period	Decrease for the period	At the end of the period
(3,447,561,785.51)	70,668,770.33	—	(3,376,893,015.18)

32. Operating revenue

Details of Operating revenue and cost of sales classified by product segment are as follows:

Items	Current period		Preceding period	
	Operating revenue	Operating cost	Operating revenue	Operating cost
1. Revenue from principal operations				
Refrigerators	2,321,923,395.70	1,872,212,847.99	2,287,485,790.92	1,921,191,428.91
Air-conditioners	2,199,988,811.08	1,840,814,409.01	2,192,929,461.67	1,783,620,101.02
Freezer	276,515,808.20	235,030,786.66	157,912,236.48	139,669,604.60
Small electrical appliances and others	249,406,010.94	230,658,649.77	216,477,822.87	168,321,183.26
Sub-total:	<u>5,047,834,025.92</u>	<u>4,178,716,693.43</u>	<u>4,854,805,311.94</u>	<u>4,012,802,317.79</u>
2. Revenue from other operations				
Materials	347,249,784.70	308,095,347.63	288,288,346.76	247,702,497.63
Sub-total:	<u>347,249,784.70</u>	<u>308,095,347.63</u>	<u>288,288,346.76</u>	<u>247,702,497.63</u>
Total	<u>5,395,083,810.62</u>	<u>4,486,812,041.06</u>	<u>5,143,093,658.70</u>	<u>4,260,504,815.42</u>
The aggregate amount of the top five sales revenue	998,363,230.23		1,000,077,917.64	
Percentage to the sales revenue	19.78%		20.60%	

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32. Operating revenue — Continued

Details of Operating revenue and cost of sales classified by product segment are as follows:

Items	Current period		Preceding period	
	Operating revenue	Operating cost	Operating revenue	Operating cost
1. Revenue from principal operations				
Refrigerators	1,585,904,432.99	1,290,061,881.71	1,485,802,677.04	1,249,065,762.95
Air-conditioners	989,216,492.20	804,683,096.15	1,137,791,083.67	956,503,787.46
Freezer	41,049,184.11	33,391,663.83	28,557,327.03	24,007,211.74
Small electrical appliances and others	—	—	738,250.91	620,623.43
Sub-total:	<u>2,616,170,109.30</u>	<u>2,128,136,641.69</u>	<u>2,652,889,338.65</u>	<u>2,230,197,385.58</u>
2. Revenue from other operations				
Materials	191,531,589.89	190,184,695.52	184,578,015.00	170,360,496.53
Others	3,328,020.83	1,050,765.19	11,305,982.75	8,822,901.27
Service income	113,374,523.97	—	160,202,678.55	—
Sub-total:	<u>308,234,134.69</u>	<u>191,235,460.71</u>	<u>356,086,676.30</u>	<u>179,183,397.80</u>
Total	<u>2,924,404,243.99</u>	<u>2,319,372,102.40</u>	<u>3,008,976,014.95</u>	<u>2,409,380,783.38</u>

33. Distribution expenses

The amount incurred during the report period was RMB646,108,301.36, which was similar to the corresponding period last year.

34. Financial expenses

Item	Current period	Preceding Period
Interest expenses	32,061,157.43	34,054,911.39
Less: Interest income	541,895.93	3,172,673.61
Exchange losses	34,949,549.27	22,379,014.89
Others	14,025,842.51	12,677,019.53
Total	<u>80,494,653.28</u>	<u>65,938,272.20</u>

Interest expense increased by 56.17% compared to the corresponding period last year, mainly due to appreciation of Renminbi.

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35. Asset impairment losses

Items	Current period	Preceding period
1. Bad debt loss	3,081,728.56	(48,985,858.96)
2. Impairment loss on inventories	422,214.37	11,500,159.29
3. Impairment loss on fixed assets	—	16,112,344.10
4. Impairment loss on construction in progress	—	10,545,832.80
5. Impairment loss on intangible assets	—	2,995,015.52
Total	3,503,942.93	(7,832,507.25)

36. Investment profit

Classification	Current period	Preceding period	Note
Loss from transfer of shares	(10,568,465.43)	—	
Changes in net profit of investee recognised by equity method at the end of the year	7,861,172.24	(965,560.89)	
Other revenues	975,224.38	—	
Total	(1,732,068.81)	(965,560.89)	

- The profits distributed by associates or joint ventures are the paper gain enjoyed by the Company in accordance with the proportion of shares held. There is no major restriction on the inward remittance of investment profits.
- During the Reporting Period, the Company and Kelon Freezer transferred their 100% shareholdings in Jilin Kelon to Jilin Yinqiao Group Co., Ltd, and the transfer incurred an investment loss of RMB10,568,465.43 in total.

37. Non-operating income/expenses**1. Non-operating income**

Items	Current period	Preceding period
Gain on disposal of non-current assets	59,670,049.73	73,712,677.34
Penalty income and default income	4,329,227.11	5,104,412.62
Gains from debt restructuring	264,193.24	3,763,685.42
Government subsidy	1,494,873.22	1,038,063.04
Inventory profit	—	2,395,341.81
Others	2,266,462.26	6,588,390.60
Total	68,024,805.56	92,602,570.83

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37. Non-operating income/expenses — Continued

2. Non-operating expenses

Items	Current period	Preceding period
Loss on disposal of non-current assets	2,342,710.33	6,706,771.31
Penalty outlay	496,004.13	420,429.19
Loss from debt restructuring	—	52,469.39
Charitable contribution expenses	130,000.00	—
Others	2,986,573.48	4,231,156.39
Total	5,955,287.94	11,410,826.28

1. The Company has transferred 6 land use rights and industrial premises at the office in Ronggang Road, Ronggui, Shunde, Foshan, and the disposal of these idle assets generated a gain on disposal of RMB52.89 million for the Company.

38. Income tax

a. Composition of income tax expense

Items	Current period	Preceding period
Income tax expense of the current period	6,407,440.79	3,036,172.78
Including: income tax expense incurred in the current year	6,407,440.79	3,036,172.78
Yearly income tax amount before current adjustment	—	—
Deferred income tax expenses	756,135.12	(3,620,683.10)
Including: deferred income tax incurred in the current year	756,135.12	(3,620,683.10)
Yearly deferred income tax amount before current adjustment	—	—
Effect of tax rate changes	—	—
Total	7,163,575.91	(584,510.32)

39. Other cash related to operation activities

As at 30 June 2008, cash paid for other operating activities in the combined cash flow statement was RMB395,907,000, representing mainly operating fees and management fees.

40. Cash and cash equivalents

Items	Current period	Preceding period
1. Monetary assets	204,452,548.16	146,527,807.16
Less: Guarantees	40,248,302.96	70,132,536.64
Cash and cash equivalents	164,204,245.20	76,395,270.52

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

1 January 2008 to 30 June 2008

Unless otherwise specified, expressed in RMB

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES, THE END OF PERIOD IS 30 JUNE 2008 AND THE BEGINNING OF PERIOD IS 31 DECEMBER 2007) —

Continued

41. Relevant information on obtaining or disposing of subsidiaries and other operation units***I. Obtaining subsidiaries and other operation units***

1. During the Reporting Period, the Company and the staff of its branch and distributors made a joint investment to set up 7 companies. The actual paid up capital of Hisense Kelon Electrical Sales Company Limited in these 7 companies are 2% in average. Since the share-holding ratio is low and it has no control or major influence to these 7 companies, the Company adopted cost method to account for the investment in these 7 companies.

II. Dispose of Subsidiaries and Other Operation Units

On 7 January 2008, the Company and its wholly owned subsidiary, Hisense Rongshen (Guangdong) Refrigerator Co., Ltd signed an "Equity Transfer Agreement" with Jilin Yinqiao Group Co., Ltd (hereinafter referred to as "Yinqiao Group") for the transfer of their 100% shareholdings (90% Hisense Electrical and 10% Rongshen Refrigerators) in Jilin Kelon Electric Co., Ltd at a consideration of RMB30 million. At the same time, it was agreed that the Company and Rongshen Refrigerators would take up all the carrying debts of Jilin Kelon at the execution of the agreement. This share transfer incurred an investment loss of RMB10.57 million.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

1 January 2008 to 30 June 2008
 unless otherwise specified, expressed in RMB

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

42. **Supplementary information on statement of cash flow**

<u>Supplementary information</u>	<u>Current period</u>	<u>Preceding period</u>	<u>Notes</u>
1. Reconciliation of net profit to cash flows from operating activities:			
Net profit	70,038,896.03	96,593,243.04	
Add: Provision for impairment of assets	3,503,942.93	(65,781,761.93)	
Depreciation of fixed assets, oil/gas assets and productive biological assets	105,529,124.78	96,725,032.86	
Amortisation of intangible assets	15,398,344.19	19,842,269.25	
Amortisation of long-term deferred expenditures	723,978.51	20,641,790.57	
Loss from disposals of fixed assets, intangible assets and other long-term assets	(57,327,339.40)	(73,712,677.34)	
Losses on retirement of fixed assets	—	6,635,683.25	
Loss from change in fair value	1,719,499.78	—	
Financial expenses	32,061,157.43	32,401,091.48	
Investment loss	1,732,068.81	965,560.89	
Reduction of deferred income tax assets	756,135.12	—	
Increase of deferred income tax liabilities	—	—	
Decrease in inventories	(223,596,799.03)	(162,106,515.74)	
Decrease in operating receivable	(151,177,984.13)	(436,423,786.08)	
Increase in operating payable	315,517,995.43	535,508,908.97	
Others	—	—	
Total	114,879,020.45	71,288,839.22	
2. Major investing and financing activities not involving cash receipts and payment:	—	—	
Liabilities convert into assets equity	—	—	
Convertible company bonds due within one year	—	—	
Financial lease fixed assets	—	—	
3. Net change of cash and cash equivalents:	—	—	
Cash at the end of the period	164,204,245.20	230,647,360.73	
Less: Cash at the beginning of the period	76,395,270.52	142,246,506.14	
Add: Cash equivalents at the end of the period	—	—	
Less: Cash equivalent at the beginning of the period	—	—	
Net increase of cash and cash equivalents	<u>87,808,974.68</u>	<u>88,400,854.59</u>	

A**NOTES TO THE FINANCIAL STATEMENTS — Continued**

1 January 2008 to 30 June 2008
 unless otherwise specified, expressed in RMB

VII. LEASES

- (1) The Company has no fixed assets rented in or out in the form of financing lease.
- (2) Book values of leased assets of the Company as an operating lessor are as follows:

Category of operating leased asset	Book value at the end of the period	Book value at the beginning of the year
1. Buildings	17,420,987.00	38,192,137.43

- (3) Enterprises as operating lessees should disclose the following information with respect to its operating leases:

Remaining lease term	Current period	Preceding period
Within one year	2,376,318.97	2,195,616.74
Two to five years	1,012,183.23	456,594.34
Total	3,388,502.20	2,652,211.08

VIII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The transfer procedure of all of the 26.43% equity interests of the Company held by Guangdong Greencool to Hisense Air-conditioning was completed on 13 December 2006. Following the transfer, Hisense Air-conditioner has become the sole controlling shareholder of Kelon Electric.

There occurred a series of connected transactions and abnormal cash flow during the period from October 2001 to July 2005 between Guangdong Greencool Enterprise Development Limited (the former controlling shareholder of the Company) and its related parties (hereinafter referred to as the "Greencool Companies"). The above transactions and capital embezzlement was investigated by the relevant authority. In addition, abnormal cash inflow and outflow also occurred between the Company and Tianjin Lixin (Please refer to note Appendix 8.1(4) for details) during the period from October 2001 to July 2005. These items involved the accounts receivable from and account payable to Greencool and the specified third parties on 30 June 2008.

Please refer to Appendix 8.2 for details of the connected transactions between the Company and Hisense Group in 2008.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

1 January 2008 to 30 June 2008
 unless otherwise specified, expressed in RMB

VIII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS — *Continued***1. Related party relationships****(1) Related parties with controlling interests include**

<u>Name of related parties</u>	<u>Enterprise category</u>	<u>Legal representative</u>	<u>Registered Capital</u>	<u>Business Scope</u>	<u>Shares or interests held</u>	<u>Relationship with the Company</u>
Hisense Air-conditioner	Sino-foreign joint venture company	Tang Ye Guo	674,790,000	*	23.63%	Controlling shareholder
Hisense Group	Solely State-owned	Zhou Hou Jian	806,170,000	**	—	Ultimate controlling shareholder
Combine	Limited liability company	Fang Zhi Guo	20,000,000	***	55.00%	Unconsolidated subsidiary of the Company

* Manufacture of air-conditioners, moulds and after-sale service.

** Trust Operation of State-Owned Property of manufacture, sale and services of household appliances and communication products.

*** Research, manufacture and sale of air-conditioners, household electrical appliances and after-sale service.

(2) Greencool Companies

<u>Name of related parties</u>	<u>Relationship with the Company</u>
Guangdong Greencool	Former controlling shareholder of the Company
Greencool Environmental Protection Engineering (Shenzhen)	Related party of Guangdong Greencool
Greencool Technology Development (Shenzhen)	Related party of Guangdong Greencool
Greencool Procurement (Shenzhen)	Related party of Guangdong Greencool
Hainan Greencool	Related party of Guangdong Greencool
Jiangxi Greencool Electrical Appliance Company Limited ("Jiangxi Greencool")	Related party of Guangdong Greencool

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

1 January 2008 to 30 June 2008
 unless otherwise specified, expressed in RMB

VIII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS — *Continued***1. Related party relationships** — *Continued***(3) Related parties with no controlling interests include:**

<u>Name of related parties</u>	<u>Relationship with the Company</u>
Huayi Compressor	Associate of the Company
Chongqing Kelon	Associate of the Company
Antaida	Associate of the Company
Xi'an Gaoke Group Company ("Xi'an Gaoke")	Minority shareholder of Xi'an Kelon
Hangzhou Xileng Group Company Limited ("Hangzhou Xileng")	Minority shareholder of Hangzhou Kelon before 5 December 2007
Jiaxibeila Compressor Company Limited ("Jiaxibeila")	Subsidiary of an associate
Shunde Yunlong Consultancy	Minority shareholder of Huaao Electronics
Hisense Marketing	Subsidiary of controlling shareholders
Hisense Zhejiang	Subsidiary of controlling shareholders
Hisense Nanjing	Subsidiary of controlling shareholders
Hisense Beijing	Subsidiary of controlling shareholders
Hisense Shandong	Subsidiary of controlling shareholders
Qingdao Hisense Import & Export Co., Ltd.	Subsidiary of ultimate controlling shareholders
Qingdao Hisense Mould Company Limited ("Hisense Mould")	Subsidiary of ultimate controlling shareholders
Qingdao Saiwei Household Electrical Appliances Service Co., Ltd. ("Qingdao Saiwei")	Subsidiary of ultimate controlling shareholders
Guangdong Hisense Multimedia Company Limited ("Hisense Multimedia")	Subsidiary of ultimate controlling shareholders
Hisense-Hitachi Air-conditioner System Co., Ltd.	Subsidiary of ultimate controlling shareholders

(4) The Greencool Companies had a series of transactions or abnormal cash inflow/outflow through the following "Specified Third Party Companies"

<u>Name of related parties</u>	<u>Relationship with the Company</u>
Jiangxi Kesheng	Specified third party companies
Jinan San'ai'fu	Specified third party companies
Tianjin Xiangrun	Specified third party companies
Tianjin Lixin	Specified third party companies
Jiangxi Keda Plastic Technology Company Limited ("Jiangxi Keda")	Specified third party companies
Hefei Weixi	Specified third party companies
Zhuhai Longjia	Specified third party companies
Zhuhai Defa	Specified third party companies
Wuhan Changrong	Specified third party companies
Tianjin Taijin Yunye Company Limited ("Tianjin Taijin Yunye")	Specified third party companies
Beijing De Heng Solicitors	Specified third party companies
Shangqiu Bingxiang	Specified third party companies

NOTES TO THE FINANCIAL STATEMENTS — Continued

1 January 2008 to 30 June 2008
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VIII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS — Continued**1. Related party relationships — Continued****(5) Movements in the Company's share capital or equity held by related parties with controlling interest**

<u>Name of related party</u>	<u>At the beginning of the period</u>	<u>Increase during the period</u>	<u>Decrease during the period</u>	<u>At the end of the period</u>
Hisense Air-conditioner	238,872,074.00	5,228,907.00	9,725,059.00	234,375,922.00

2. Transactions with related parties**(1) Purchases of goods**

<u>Items</u>	<u>Name of companies</u>	<u>Current period</u>	<u>Preceding period</u>
Purchases of products from	Huayi Compressor	40,546,602.25	32,994,550.14
	Jiaxi Beila	84,384,958.71	79,240,407.33
	Hisense Air-conditioner	—	48,971,490.07
	Hisense Shandong	93,368,892.37	—
	Hisense Zhejiang	395,755,354.59	289,575,366.20
	Hisense Nanjing	93,061,111.95	29,549,628.57
	Hisense Beijing	40,354,941.86	—
Total		747,471,861.73	480,331,442.31

(2) Sale of Goods

<u>Item</u>	<u>Company name</u>	<u>Current period</u>	<u>Preceding period</u>
Sale of goods	Chongqing Kelon	—	42,549,554.69
	Hisense Zhejiang	12,604,569.97	7,470,510.94
	Hisense Nanjing	5,368,400.08	—
	Hisense Beijing	44,377,947.60	34,563,838.25
	Hisense Air-conditioner	—	58,196,959.40
	Hisense Shandong	74,136,825.91	—
	Huayi Compressor	—	17,661.49
	Hisense Marketing	112,809.84	—
Total		136,600,553.40	142,798,524.77
Percentage to total sales		2.71%	2.94%

NOTES TO THE FINANCIAL STATEMENTS — Continued

1 January 2008 to 30 June 2008
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VIII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS — Continued**2. Transactions with related parties — Continued****(3) Sales of moulds**

<u>Items</u>	<u>Company name</u>	<u>Current period</u>	<u>Preceding period</u>
Sales of moulds	Hisense Nanjing	1,475,726.50	—
	Hisense Beijing	1,105,982.91	—
	Hisense Zhejiang	882,051.28	—
	Hisense Shandong	2,327,774.44	—
	Hisense Moulds	1,898,547.01	—
	Hisense Air-conditioner	—	3,078,974.38
Total		7,690,082.14	3,078,974.38

(4) Use of land and buildings

A subsidiary of the Company, Jiangxi Kelon, has since October 2003 used the land and buildings of Jiangxi Greencool located in Jiangxi Kelon Greencool Industrial Park. Another subsidiary of the Company, Zhuhai Kelon, has established its small refrigerator manufacturing facility in the land and buildings of the Company's substantial shareholder Greencool. As at 30 June 2008, Jiangxi Kelon and Zhuhai Kelon had not signed any asset rent agreement with the counterparty.

(5) Other transactions

<u>Items</u>	<u>Current period</u>	<u>Preceding period</u>
— Logistics management fee paid to Antaida	4,095,928.44	29,594,589.93
— Electric and water utilities paid to Chengdu Engine	—	4,440,560.87
— Equipment rent paid to Hangzhou Xileng	—	3,000,000.00
— Services fee paid to Guangzhou Antaida	25,904.27	—
— Services provided by Qingdao Saiwei	1,326,870.04	—
— Management fees received from Hisense Multimedia	253,418.80	—
— Provision of information services (call centre) commissioned to Hisense Group	1,664,635.69	—

(6) Guarantees

As at 30 June 2008, Hisense Group Co. Ltd., the beneficial controller of the Company, provided the Company with guarantees for the borrowings of RMB298,000,000 and for the bank acceptance notes of RMB466,000,000.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

1 January 2008 to 30 June 2008
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VIII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS — *Continued***3. Transactions with related companies and “Special Third Party Companies”****(1) Transactions with the related companies under control of the Company**

<u>Items</u>	<u>Name of related companies</u>	<u>At the end of the period</u>	<u>At the beginning of the period</u>
Trade receivables	Hisense Air-conditioner	—	749,987.71
Other payables	Combine	5,099,880.00	5,099,880.00

(2) Transactions with Greencool Companies

<u>Items</u>	<u>Name of related companies</u>	<u>At the end of the period</u>	<u>At the beginning of the period</u>
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
Other payables	Jiangxi Greencool	13,000,000.00	13,000,000.00

(3) Transactions with the related companies not controlled by the Company

<u>Items</u>	<u>Name of related companies</u>	<u>At the end of the period</u>	<u>At the beginning of the period</u>
Trade receivables	Chongqing Kelon	—	424,410.21
	Hisense Marketing	60,614.68	20,163.00
	Hisense Zhejiang	5,503,470.25	—
	Guangzhou Antaida Logistic Co. Ltd.	10,773.19	4,772.00
	Hisense Beijing	352,492.50	28,065,843.43
	Hisense Nanjing	881,000.00	—
	Hisense Shandong	8,013,253.27	—
	Hisense Moulds	1,006,300.00	—
	Hisense Multimedia	181,987.51	—
Other receivables	Shunde Yunlong	4,455,375.57	4,455,375.57
	Hisense Marketing	—	27,006.00
	Qingdao Saiwei	80,174.85	9,990.41
Trade payables	Huayi Compressor	9,940,321.10	11,586,357.99
	Huayi (Jingzhou)	1,059,188.00	—
	Jiaxi Beila	58,166,591.84	20,208,615.83
	Hisense Marketing	47,152.00	47,152.00
	Hisense Nanjing	1,200.00	2,708.98
	Hisense Zhejiang	361,203,762.38	109,236,376.72
	Hisense Shandong	370,779,072.00	54,486,956.95

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

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VIII. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS — *Continued***3. Transactions with related companies and “Special Third Party Companies”** — *Continued***(3) Transactions with the related companies not controlled by the Company** — *Continued*

<u>Items</u>	<u>Name of related companies</u>	<u>At the end of the period</u>	<u>At the beginning of the period</u>
Advance from customers	Hisense Marketing	7,004,855.84	10,206,688.31
	Hisense Nanjing	—	542,576.24
	Qingdao Saiwei	—	45,112.00
Other payables	Antaida	4,787,464.27	7,612,684.75
	Xi’an Gaoke	1,785,476.00	1,785,476.00
	Chengdu Engine	—	108,840.00
	Huayi Compressor	200,000.00	200,000.00
	Qingdao Saiwei	38,000.00	2,004,769.33
	Chongqing Kelon	—	206,908.08

(4) Transactions with specified third party companies

<u>Items</u>	<u>Company name</u>	<u>At the end of the period</u>	<u>At the beginning of the period</u>
Trade receivables	Hefei Weixi	18,229,589.24	18,229,589.24
	Wuhan Changrong	20,460,394.04	20,460,394.04
Other receivables	Jiangxi Kesheng	27,462,676.72	27,462,676.72
	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	4,000,000.00	4,000,000.00
	Finance Bureau of Yangzhou Economic Development Zone Shangqiu	40,000,000.00	40,000,000.00
	Bingxiong	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

(5) Sales agency fees

As at 30 June 2008, the capital utilization fee payable to Hisense Marketing was RMB28,483,822.05.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

1 January 2008 to 30 June 2008
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IX. CONTINGENT MATTER

As at the date of approval of the auditors' report, the pending litigations involving the Company are summarized as follows:

(1) Cases with the Company as the plaintiff

Plaintiff	Defendants	Reason	Total amounts involved
The Company	Greencool and Gu Chujun	Fraud in purchase; capital infringement	607,839,500.00
The Company	Xian Kelon Refrigerating Co., Ltd.	Purchase amount not yet settled	99,984,100.00
The Company	Beijing Diamond Advertising Company Limited	Business fee is not yet settled	5,000,000.00
The Company	Beijing Deheng Solicitors	Legal service fee is not yet settled	4,000,000.00
The Company	Hangxiao Steel Structure Co., Ltd.	Fail to complete works before the expiry date, request settlement of a default fee	11,547,000.00
The Company	Zhongshan City Fusha Town Industrial Development Co., Ltd., Zhongshan City Fusha Town Shunchang Industrial Co., Ltd., Kelon Development Co., Ltd., Zhongshan City Fusha Town Local People's Government	Refund of land sale proceeds	9,398,240.00
The Company	Others		3,580,100.00
Total			<u>741,348,940.00</u>

(2) Cases with the Company as the defendant

Plaintiff	Defendant	Reason	Amount involved (total)
Material supplier	The Company	Disputes in sale contracts	16,520,900.00
85 small shareholders	The Company	Claims of reimbursement due to false statement	23,860,000.00
Zhejiang Hang Xiao Steel Structure Co., Ltd.	The Company	Construction fees not yet settled	19,853,000.00
CNA/MC Co., Ltd.	The Company	Dispute over product quality	*USD13,750,719.19
Company staff	The Company	Labor dispute	7,903,720.00
Henan Bingxiong Ice Cube Co., Ltd. and Henan Bingxiong Air-conditioner Co., Ltd.	Greencool and The Company	Failure to perform contract responsibilities on time	5,840,000.00
Others	The Company	Claims for loss	1,783,800.00
Total			<u>170,102,354.22</u>

* On 30 June 2008, USD1 = RMB6.8608.

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NOTES TO THE FINANCIAL STATEMENTS — Continued

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X. GUARANTEES, PLEDGE AND IMPAWN

1. Guarantees

- (1) As at 30 June 2008, the guaranteed amount provided by the Company for its controlling subsidiaries and by its controlling subsidiaries for the Company was RMB816,215,100 and the actual guaranteed amount was RMB1,590,461,600, among which, the guaranteed amount provided by the Company for entities with a gearing ratio of over 70% was RMB805,929,800 and the actual guaranteed amount provided by the Company for entities with a gearing ratio of over 70% was RMB1,499,591,100.
- (2) As at 30 June 2008, balances of loan guarantees provided by Hisense Group Company Limited, being a related party, for the Company and its subsidiary amounted to RMB298,000,000, and the bank acceptance notes with a warranty balance of RMB466,000,000.
- (3) According to the resolution of the first meeting of the 7th Board of Director meetings held on 7 January 2008, the Company proposed to provide a loan warranty of RMB442,000,000 to 23 distributors. The actual warranty incurred amounted to RMB20,000,000 for the Reporting Period.

Apart from the above warranty matters, the Company has no other warranty matters.

2. Pledges

- (1) Fixed asset pledges see Appendix VI Note 11.
- (2) Intangible asset pledge see Appendix VI Note 13.

3. Impawn

There was no impawn for the Reporting Period.

XI. COMMITMENT

Below is the capital expenditures commitment entered into and not recognised in the financial statement as at the balance sheet date:

Capital commitment	At the end of the period	At the beginning of the period
House, building and machine	61,744,566.98	90,831,251.43

XII. OTHER SIGNIFICANT EVENTS

1. Assets reorganization

As at 28 March 2008, the Company's plan to issue shares to specific objects for purchasing assets and the related transactions was not approved by the CSRC. On 19 May 2008, the Board of Directors passed the "Supplemental Agreement to the Agreement of Acquisition of the White Goods Assets of Qingdao Hisense Air-Conditioning Co., Ltd. by Hisense Kelon Electrical Holdings Company Limited through Issue of New Shares (A Shares)", pursuant to which, it was agreed that the "Agreement of Acquisition of the White Goods Assets of Qingdao Hisense Air-Conditioning Co., Ltd. by Hisense Kelon Electrical Holdings Company Limited through Issue of New Shares (A Shares)" entered into between the Company and Qingdao Hisense Air-Conditioning Co., Ltd. on 28 December 2007 was terminated. The Board of Directors also passed the "Framework Agreement of Acquisition of the White Goods Assets of Qingdao Hisense Air-Conditioning Co., Ltd. by Hisense Kelon Electrical Holdings Company Limited through Issue of New Shares (A Shares)".

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

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XII. OTHER SIGNIFICANT EVENTS — *Continued***1. Assets reorganization** — *Continued*

On 18 July 2008, the Board of Directors passed the "Agreement to Suspend the Asset Organization" between the Company and Hisense Air-Conditioning to terminate the agreed significant asset reorganization under the "Framework Agreement of Acquisition of the White Goods Assets of Qingdao Hisense Air-Conditioning Co., Ltd. by Hisense Kelon Electrical Holdings Company Limited through Issue of New Shares (A Shares)".

2. Hisense — Whirlpool project

On 27 April 2008, the Company signed a "Joint Venture Agreement" with Whirlpool (Hong Kong) Limited to establish the joint venture company, 海信 • 惠而浦 (浙江) 電器有限公司 (Hisense — Whirlpool (Zhejiang) Electric Appliances Co., Ltd). The total registered share capital of the joint venture company will be in the sum of RMB450,000,000. The joint venture company will be owned as to 50% by the Company and 50% by Whirlpool (Hong Kong). The establishment of the joint venture company did not constitute a connected transaction.

XIII. SUBSEQUENT IMPORTANT MATTERS**1. Framework agreement of agency financing purchasing**

At the 19th meeting of 2008 of the 6th Board of Directors of the Company held on 30 July 2008 in the form of written resolutions, the "Framework Agreement of Agency Financing Purchasing" entered into between the Company and Hong Kong Hisense and the connected transactions contemplated therein were passed. It was expected that the cap of agency financing purchasing by Hong Kong Hisense during the term of the agreement (that is, one year from the date of passing the agreement at a shareholders' meeting) was USD100 million.

The form of agency financing purchasing: the Company or the Company in the name of Hong Kong Hisense enters into a purchasing agreement with the supplier, where the terms shall be determined by the Company and the supplier only, and Hong Kong Hisense will, at the request of the Company, pay the supplier upon receipt of the payment notice from the Company. After the goods are declared with the custom, the Company will pay Hong Kong Hisense against the invoice denominated in foreign currency issued in accordance with the financing terms determined with Hong Kong Hisense.

After arm's length negotiation between the parties with reference of the pricing of similar market transactions, the actual pricing policy is: Hong Kong Hisense will issue invoices in the amount equal to the aggregate of the value of goods from the suppliers, plus the agency fees of Hong Kong Hisense in the amount of 1% of the value of goods, plus the interests of loan charged by the lending bank to Hong Kong Hisense.

2. Financial services agreement

At the 21st meeting of 2008 of the 6th Board of Directors of the Company held on 31 July 2008 in the form of written resolutions, the "Financial Services Agreement" entered into between the Company and Hisense Finance Co., Ltd and the connected transactions contemplated therein were passed. It was expected that during the term of the Financial Service Agreement, the maximum balance of the deposits placed with Hisense Finance shall not exceed the cap of RMB500 million, the maximum balance of loan shall not exceed the cap of RMB1 billion, and the discount interest for the provision of draft discount services shall not exceed the cap of RMB25 million.

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NOTES TO THE FINANCIAL STATEMENTS — Continued

1 January 2008 to 30 June 2008
unless otherwise specified, expressed in RMB

XIV. EXTRAORDINARY LOSS AND PROFIT

Nature or content	Current period	Preceding period
1. Loss and profit from disposal of non-current assets		
Including: Income from disposal of fixed asset	59,670,049.73	73,712,677.35
Proceeds from transfer of intangible assets	—	—
Proceeds from transfer of equity	—	—
Sub-total	59,670,049.73	73,712,677.35
(2) Expense for disposal of long-term assets		
Including: Net loss in disposal of fixed assets	2,342,710.33	6,706,771.31
Net loss in disposal of intangible assets	—	—
Loss from Share transfer	10,568,465.43	—
Sub-total	12,911,175.76	6,706,771.31
Net profit or loss from disposal of non-current assets	46,758,873.97	67,005,906.04
2. Government subsidy recorded in the profits and losses of the current period (except government subsidy closely related to the Company's business, and of which the amount is determined according to the State's unified standard)	1,494,873.22	1,038,063.04
3. Provision for impairment on various assets made because of force majeure such as natural disaster	—	—
4. Gain or loss on debt restructuring	264,193.24	3,763,685.42
5. Gain or loss from estimated debts not related to the Company's main operation	—	—
6. Net non-operating income other than above	—	—
(1) Non-operating income:	6,595,689.75	14,088,145.03
(2) Less: Non-operating expenses:	3,612,577.61	4,739,044.25
Total extraordinary loss and profit before tax and minority interests	51,501,052.57	81,156,755.28
Less: Income tax corresponding to extraordinary loss and profit	1,485,034.97	828,369.33
Less: Effect of minority interests	43,968.48	(863,358.61)
Total extraordinary loss and profit after deducting minority interests	49,972,049.12	81,191,744.56

XV. RETURN ON NET ASSETS

Profit for the period	Return on net assets			
	Fully diluted		Weighted average	
	Current period	Preceding period	Current period	Preceding period
Net profit attributable to equity holders of the Company	N/A	N/A	N/A	N/A
Net profit attributable to equity holders of the Company less of extraordinary items	N/A	N/A	N/A	N/A

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

1 January 2008 to 30 June 2008
 unless otherwise specified, expressed in RMB

XVI. EARNINGS PER SHARE

	Earnings per share			
	Basic earnings per share		Diluted earnings per share	
	Current period	Preceding period	Current period	Preceding period
Profit for the period				
Net profit attributable to equity holders of the Company	0.0712	0.1183	0.0712	0.1183
Net profit attributable to equity holders of the Company less of extraordinary items	0.0209	0.0365	0.0209	0.0365

Items	Current period	Preceding period
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Calculation of basic earnings per share and diluted earnings per share

(I) Numerator:		
Net profit after tax	70,668,770.33	117,374,959.22
Adjustments: Preference stock dividend and other instrumental effects	—	—
Profit and loss attributable to equity holders of the Company in the calculation of earnings per share	70,668,770.33	117,374,959.22
Adjustments:		
Dividend and interest related to dilutive potential ordinary shares	—	—
Change in proceeds or expense arising from conversion of dilutive potential ordinary shares	—	—
Profit and loss attributable to equity holders of the Company in the accounting of diluted earnings per share	70,668,770.33	117,374,959.22
(II) Denominator:		
Weighted average of outside ordinary shares of the current period in the accounting of basic earnings per share	992,006,563.00	992,006,563.00
Add: Weighted average when all dilutive potential ordinary shares are converted to ordinary shares	—	—
Weighted average of outside ordinary shares of the current period in the accounting of diluted earnings per share	992,006,563.00	992,006,563.00
(III) Earnings per share		
Basic earnings per share		
Net profit attributable to equity holders of the Company	0.0712	0.1183
Net profit attributable to equity holders of the Company less of extraordinary items	0.0209	0.0365
Diluted earnings per share		
Net profit attributable to equity holders of the Company	0.0712	0.1183
Net profit attributable to equity holders of the Company less of extraordinary items	0.0209	0.0365

A**NOTES TO THE FINANCIAL STATEMENTS — Continued**

1 January 2008 to 30 June 2008
 unless otherwise specified, expressed in RMB

XVII. DIFFERENCES RECONCILIATION TABLE FOR FINANCIAL REPORT PREPARED ACCORDING TO DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS

As the Company issued H shares, when preparing the financial report according to the Accounting Standards for Business Enterprises, it also followed the International Financial Reporting Standards. The overseas accounting firm hired by the Company is BDO McCabe Lo Limited. Differences in net assets and net profits in the financial report were prepared according to domestic and overseas accounting standards:

	<i>Unit: RMB'000</i>	
	<u>Net asset</u>	<u>Net profit</u>
Based on International Financial Reporting Standards	(714,763)	63,255
1. Agency fee for corporate restructuring.	19,097	7,413
2. Adjustments on amortization loss on share reform of an associate.	16,317	—
3. Adjustment on amortization of intangible assets.	(16,712)	—
Based on Accounting Standards for Business Enterprises*	(696,061)	70,668

* Net assets and net profits based on Accounting Standards for Business Enterprises do not include minority interests or minority profit and loss.

XVIII. APPROVAL OF THE FINANCIAL STATEMENT

The Company's financial statements are approved by the Board of the Company on 21 August 2008.