

Hisense 海信科龙

海信科龍電器股份有限公司

Hisense Kelon Electrical Holdings Company Limited

Stock Code: 00921



INTERIM REPORT 2009

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 (collectively refer to as the "Group") for the six months ended 30 June 2009 (the "Reporting Period"). The condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows of the Group for the Reporting Period, and condensed consolidated statement of financial position of the Group as at 30 June 2009, 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

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

| | Notes | For the six months ended 30 June | |
|-----------------------------------------------|-------|----------------------------------|------------------------|
| | | 2009 | 2008 |
| | | RMB'000 (Unaudited) | RMB'000 (Unaudited) |
| Revenue | 3 | 4,435,760 | 5,046,920 |
| Cost of sales | | (3,492,737) | (4,179,139) |
| Gross profit | | 943,023 | 867,781 |
| Other income and gains | | 49,822 | 107,154 |
| Distribution costs | | (597,099) | (646,108) |
| Administrative expenses | | (162,049) | (209,938) |
| Other operating expenses | | (28,408) | (5,955) |
| Profit from operations | | 205,289 | 112,934 |
| Share of results of associates | | 8,350 | 7,861 |
| Share of results of jointly controlled entity | | (3,086) | — |
| Finance costs | | (38,530) | (51,006) |
| Profit before income tax expense | 4 | 172,023 | 69,789 |
| Income tax expense | 5 | (22,311) | (7,164) |
| Profit for the period | | 149,712 | 62,625 |
| Attributable to: | | | |
| Equity holders of the Company | | 149,236 | 63,255 |
| Minority interests | | 476 | (630) |
| | | 149,712 | 62,625 |
| Dividends | 6 | — | — |
| Earnings per share | 7 | | |
| — Basic and diluted | | RMB0.15 | RMB0.06 |

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

| | For the six months ended 30 June | |
|-------------------------------------------------------------------------------------|----------------------------------|-------------|
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Profit for the period | 149,712 | 62,625 |
| Other comprehensive income for the period: | | |
| Exchange differences on translation of financial statements of foreign subsidiaries | 31 | 6,754 |
| Share of reserves of associates | 128 | — |
| | 159 | 6,754 |
| Total comprehensive income for the period | 149,871 | 69,379 |
| Attributable to: | | |
| Equity holders of the Company | 149,395 | 70,009 |
| Minority interests | 476 | (630) |
| Total comprehensive income for the period | 149,871 | 69,379 |

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HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

| | <i>Notes</i> | 30 June 2009 | 31 December 2008 |
|---------------------------------------------------------------------|--------------|-------------------------------|-----------------------------|
| | | <i>RMB'000</i> (Unaudited) | <i>RMB'000</i> (Audited) |
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 1,369,675 | 1,363,074 |
| Investment properties | | 35,010 | 35,565 |
| Payments for leasehold land held for own use under operating leases | | 280,305 | 286,835 |
| Interests in associates | | 95,068 | 86,589 |
| Interests in jointly controlled entity | | 30,664 | 33,750 |
| Available-for-sale financial assets | | 4,550 | 4,550 |
| Intangible assets | | 152,879 | 167,135 |
| Deferred tax assets | | 9,145 | 13,647 |
| | | <u>1,977,296</u> | <u>1,991,145</u> |
| Total non-current assets | | 1,977,296 | 1,991,145 |
| Current assets | | | |
| Inventories | | 566,920 | 505,528 |
| Trade and other receivables | 9 | 1,605,868 | 1,050,415 |
| Taxation recoverable | | 584 | 943 |
| Other financial assets | | — | 6,019 |
| Pledged bank deposits | | 27,254 | 23,240 |
| Cash and cash equivalents | | 262,526 | 110,216 |
| | | <u>2,463,152</u> | <u>1,696,361</u> |
| Total current assets | | 2,463,152 | 1,696,361 |
| Total assets | | <u>4,440,448</u> | <u>3,687,506</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 10 | 2,936,163 | 2,178,071 |
| Trade deposits received | | 322,795 | 354,243 |
| Other financial liabilities | | 4,493 | 13,611 |
| Provisions | | 94,405 | 114,215 |
| Taxation payable | | 45,135 | 27,342 |
| Other liabilities | | 31,762 | 43,704 |
| Borrowings | | 1,714,452 | 1,814,948 |
| | | <u>5,149,205</u> | <u>4,546,134</u> |
| Total current liabilities | | 5,149,205 | 4,546,134 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION — *Continued*

At 30 June 2009

| | 30 June | 31 December |
|---------------------------------------------------------------------------|--------------------|-------------|
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Net current liabilities | (2,686,053) | (2,849,773) |
| NET LIABILITIES | (708,757) | (858,628) |
| 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 | 266,766 | 266,638 |
| Foreign exchange reserve | 37,922 | 37,891 |
| Accumulated losses | (3,465,400) | (3,614,636) |
| Equity attributable to equity holders of the Company | (858,527) | (1,007,922) |
| Minority interests | 149,770 | 149,294 |
| TOTAL EQUITY | (708,757) | (858,628) |

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HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

| | Share capital | Share premium | Statutory reserves | Capital reserve | Foreign exchange reserve | Accumulated losses | Equity attributable to equity holders of the Company | Minority interests | Total equity |
|---------------------------------------------------------------------------------------------|------------------|------------------|-----------------------|--------------------|--------------------------------|-----------------------|------------------------------------------------------------------|-----------------------|------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| As at 1 January 2008 (Audited) | 992,007 | 1,195,597 | 114,581 | 266,672 | 29,111 | (3,382,740) | (784,772) | 154,998 | (629,774) |
| Changes in equity for six months ended 30 June 2008: | | | | | | | | | |
| Additional capital injections to subsidiaries (Note) | — | — | — | — | — | — | — | (79) | (79) |
| Total comprehensive income for the period | | | | | | | | | |
| — Profit for the period | — | — | — | — | — | 63,255 | 63,255 | (630) | 62,625 |
| — Exchange differences on translation of financial statements of foreign subsidiaries | — | — | — | — | 6,754 | — | 6,754 | — | 6,754 |
| 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> |
| As at 1 January 2009 (Audited) | 992,007 | 1,195,597 | 114,581 | 266,638 | 37,891 | (3,614,636) | (1,007,922) | 149,294 | (858,628) |
| Changes in equity for six months ended 30 June 2009: | | | | | | | | | |
| Total comprehensive income for the period | | | | | | | | | |
| — Profit for the period | — | — | — | — | — | 149,236 | 149,236 | 476 | 149,712 |
| — Exchange differences on translation of financial statements of foreign subsidiaries | — | — | — | — | 31 | — | 31 | — | 31 |
| — Share of reserves of associates | — | — | — | 128 | — | — | 128 | — | 128 |
| As at 30 June 2009 (Unaudited) | <u>992,007</u> | <u>1,195,597</u> | <u>114,581</u> | <u>266,766</u> | <u>37,922</u> | <u>(3,465,400)</u> | <u>(858,527)</u> | <u>149,770</u> | <u>(708,757)</u> |

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

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

| | For the six months ended 30 June | |
|------------------------------------------------------------------------------------|----------------------------------|----------------|
| | 2009 | 2008 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) |
| Net cash generated from operating activities | 129,165 | 114,879 |
| Net cash (used in)/generated from investing activities | (89,266) | 129,187 |
| Net cash generated from/(used in) financing activities | 112,525 | (154,037) |
| Net increase in cash and cash equivalents | 152,424 | 90,029 |
| Cash and cash equivalents at beginning of the period | 110,216 | 76,395 |
| Effect of foreign exchange rate changes | (114) | (2,220) |
| Cash and cash equivalents at end of the period representing bank balances and cash | 262,526 | 164,204 |

30 June 2009

1. GENERAL INFORMATION

Hisense Kelon Electrical Holdings Company Limited (the "Company") is a public limited company 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.

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 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 Scheme 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 was increased to 234,375,922 shares, representing 23.63% of the Company's total share capital.

As at 30 June 2009, Hisense Air-Conditioner held 250,173,722 shares representing 25.22% of the Company's total share capital and continued to be the major single largest shareholder of the Company.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2009

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

As at 30 June 2009, the Group's current liabilities exceeded its current assets by approximately RMB2,686 million in which the Group has outstanding short-term loans in the aggregate of approximately RMB1,714 million. After taking into consideration the existing banking facilities available and operating advances from related companies, the Company's management is 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 2008. 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 2008 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 2008 annual financial statements. The Group has adopted the following new and revised IFRSs that are effective for accounting periods beginning on or after 1 January 2009.

| | |
|---------------------------------|-------------------------------------------------------------------------------|
| IFRSs (Amendments) | Improvements to IFRSs ¹ |
| IFRSs (Amendments) | Improvements to IFRSs 2009 ² |
| Amendments to IAS 32 and IAS 1 | Puttable Financial Instruments and Obligations Arising on Liquidation |
| Amendments to IFRS 1 and IAS 27 | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| Amendments to IFRS 7 | Improving Disclosures about Financial Instruments |
| IAS 1 (Revised) | Presentation of Financial Statements |
| IAS 23 (Revised) | Borrowing Costs |
| Amendments to IFRS 2 | Share-based Payment — Vesting Conditions and Cancellations |
| IFRS 8 | Operating Segments |
| IFRIC — Interpretation 13 | Customer Loyalty Programmes |
| IFRIC — Interpretation 15 | Agreements for the Construction of Real Estate |
| IFRIC — Interpretation 16 | Hedges of a Net Investment in a Foreign Operation |

¹ Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate

30 June 2009

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES — *Continued*

As a result of the adoption of IAS 1 (Revised), details of changes in equity during the period arising from transactions with equity holders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in these interim financial statements and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

Except for as stated above, the adoption of the new and revised IFRSs did not result in significant changes to the Group's accounting policies.

The Group has not yet applied the following revised standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company are in the process of making an assessment of the potential impact of the application of these revised standards, amendments and interpretations and it is so far concluded that the application of these revised standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

| | |
|------------------------------------------------------|----------------------------------------------------------------------------------------|
| IFRSs (Amendments) | Improvements to IFRSs ¹ |
| IFRSs (Amendments) | Improvements to IFRSs 2009 ² |
| IFRS 1 (Revised) | First-time Adoption of International Financial Reporting Standards ³ |
| Amendments to IFRS 1 | Additional Exemptions for First-time Adopters ⁴ |
| Amendment to IAS 39 | Eligible Hedged Items ³ |
| Amendments to IFRS 2 | Share-based Payment – Group Cash-settled Share-based Payment Transactions ⁴ |
| Amendments to IFRIC — Interpretation 9 and IAS 39 | Embedded Derivatives ⁵ |
| IAS 27 (Revised) | Consolidated and Separate Financial Statements ³ |
| IFRS 3 (Revised) | Business Combinations ³ |
| IFRIC – Interpretation 17 | Distributions of Non-cash Assets to Owners ³ |
| IFRIC – Interpretation 18 | Transfers of Assets from Customers ⁶ |

¹ Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate

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

⁴ Effective for annual periods beginning on or after 1 January 2010

⁵ Effective for annual periods ending on or after 30 June 2009

⁶ Effective for transfers of assets from customers received on or after 1 July 2009

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2009

3. SEGMENT INFORMATION

The Group manages its business by divisions which are organised by a mixture of both business lines and geography. On the first time adoption of IFRS 8, Operating Segments and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has identified the following four reportable segments: Refrigerators, Air-conditioners, Freezers and Product components.

Segment information for the period is set out below:

| | For the six months ended 30 June 2009 (Unaudited) | | | | | Consolidated RMB'000 |
|---------------------|---------------------------------------------------|----------------------|----------------|-----------------------|------------------|-------------------------|
| | Refrigerators | Air- conditioners | Freezers | Product components | Elimination | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| Revenue | | | | | | |
| External sales | 2,513,841 | 1,387,484 | 359,366 | 175,069 | — | 4,435,760 |
| Inter-segment sales | — | — | — | 182,367 | (182,367) | — |
| Total revenue | <u>2,513,841</u> | <u>1,387,484</u> | <u>359,366</u> | <u>357,436</u> | <u>(182,367)</u> | <u>4,435,760</u> |

Inter-segment sales are charged at prevailing market rates.

| | | | | | | |
|-----------------------------------------------|----------------|---------------|---------------|---------------|---|-----------------|
| Result | | | | | | |
| Segment result | <u>149,931</u> | <u>14,676</u> | <u>40,799</u> | <u>15,022</u> | — | 220,428 |
| Unallocated corporate expenses | | | | | | <u>(15,139)</u> |
| Profit from operations | | | | | | 205,289 |
| Share of results of associates | | | | | | 8,350 |
| Share of results of jointly controlled entity | | | | | | (3,086) |
| Finance costs | | | | | | <u>(38,530)</u> |
| Profit before income tax expense | | | | | | 172,023 |
| Income tax expense | | | | | | <u>(22,311)</u> |
| Profit for the period | | | | | | <u>149,712</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — *Continued*

30 June 2009

3. SEGMENT INFORMATION — *Continued*

| | For the six months ended 30 June 2008 (Unaudited) | | | | | |
|---------------------|---------------------------------------------------|----------------------|----------------|-----------------------|------------------|------------------|
| | Refrigerators | Air- conditioners | Freezers | Product components | Elimination | Consolidated |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 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 expense | | | | | | 69,789 |
| Income tax expense | | | | | | (7,164) |
| Profit for the period | | | | | | <u>62,625</u> |

4. PROFIT BEFORE INCOME TAX EXPENSE

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

| | For the six months ended 30 June | |
|-------------------------------------------------------------------------------------|----------------------------------|--------------------------------|
| | 2009 RMB'000 (Unaudited) | 2008 RMB'000 (Unaudited) |
| Depreciation of property, plant and equipment | 101,954 | 105,529 |
| Depreciation of investment properties | 1,292 | 1,315 |
| Amortisation of payments for leasehold land held for own use under operating leases | 6,542 | 6,580 |
| Amortisation of intangible assets | 3,337 | 3,985 |
| Impairment loss on trade and other receivables | 4,118 | 3,082 |
| Write down of inventories to net realisable value | 3,584 | 422 |
| Impairment loss on property, plant and equipment | 9,169 | — |
| Loss/(gain) on disposal of property, plant and equipment, net | 6,508 | (4,818) |
| Gain on disposal of non-current assets held for sale | — | (52,888) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2009

5. INCOME TAX EXPENSE

| | For the six months ended 30 June | |
|-------------------------------------|-----------------------------------------|--------------------|
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Income taxes consist of: | | |
| Current tax | | |
| — PRC Enterprise Income Tax ("EIT") | 17,810 | 6,408 |
| Deferred tax | 4,501 | 756 |
| Income tax expense | 22,311 | 7,164 |

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

The Company, Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. and Guangdong Kelon Mould Co., Ltd are entitled to a preferential tax rate of 15% as "high technology" company for 2008.

Hisense Ronshen Yangzhou Refrigerator Co., Ltd. ("Yangzhou Kelon"), Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon"), and Hisense Ronshen (Guangdong) Freezer Co., Ltd. ("Kelon Freezer") are foreign invested enterprises, enjoying the 5-year tax holiday starting from the first profit making year with full exemption for the first two years, followed by half exemption for the consecutive three years.

Other subsidiaries of the Group, which are established and operating in the PRC are subject to EIT at a standard rate of 25% for the six months ended 30 June 2009.

6. DIVIDENDS

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Company for the six months ended 30 June 2009 of RMB149,236,000 (six months ended 30 June 2008: RMB63,255,000) and the weighted average number of shares in issue during the period of 992,006,563 shares (six months ended 30 June 2008: 992,006,563 shares).

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 RMB142,672,000 (six months ended 30 June 2008: RMB120,193,000) and disposed property, plant and equipment of approximately RMB25,767,000 (six months ended 30 June 2008: RMB46,491,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — *Continued*

30 June 2009

9. TRADE AND OTHER RECEIVABLES

| | 30 June 2009 | 31 December 2008 |
|----------------------------------------------------------------------------------------------------------------------------------|------------------|---------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Audited) |
| Trade receivables (Note) | 763,177 | 458,947 |
| Notes receivable | 235,443 | 62,453 |
| Other receivables | 171,848 | 207,646 |
| Amounts due from Greencool Enterprise and its affiliates | 72,061 | 72,061 |
| Amounts due from companies suspected to be connected with Mr. Gu | 213,217 | 213,217 |
| Amounts due from Hisense Company Limited and its subsidiaries (collectively referred to as "Hisense Group") (Note 13 III (a)) | 150,111 | 36,086 |
| Amounts due from associates (Note 13 III (b)) | 11 | 5 |
| | 1,605,868 | 1,050,415 |

Note: As at 30 June 2009, included in trade receivables was an amount of RMB87,646,000 (2008: RMB179,279,000) being pledged for bank borrowings.

The aging analysis of trade receivables is as follows:

| | 30 June 2009 | 31 December 2008 |
|-----------------------------------------------------|-----------------|---------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Audited) |
| Within three months | 674,103 | 412,441 |
| Three to six months | 65,044 | 36,832 |
| Six months to one year | 23,522 | 9,541 |
| Over one year | 169,605 | 160,500 |
| Less: Provision for impairment of trade receivables | (169,097) | (160,367) |
| | 763,177 | 458,947 |

Normal credit term of 30 days is granted to customers. Sales are usually settled by cash on delivery for small and new customers. Trade receivables are non-interest bearing.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2009

10. TRADE AND OTHER PAYABLES

| | 30 June 2009 | 31 December 2008 |
|----------------------------------------------------------------|-------------------------|---------------------|
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Trade payables | 1,432,415 | 819,919 |
| Notes payable | 280,963 | 445,750 |
| Other payables | 613,187 | 469,080 |
| Accruals | 193,194 | 184,363 |
| Amounts due to Greencool Enterprise and its affiliates | 13,050 | 13,050 |
| Amounts due to companies suspected to be connected with Mr. Gu | 114,939 | 114,939 |
| Amounts due to Hisense Group (Note 13 III (a)) | 141,885 | 79,990 |
| Amounts due to associates (Note 13 III (b)) | 139,072 | 43,522 |
| Amounts due to other related companies (Note 13 III (c)) | 7,458 | 7,458 |
| | 2,936,163 | 2,178,071 |

The aging analysis of trade payables is as follows:

| | 30 June 2009 | 31 December 2008 |
|--------------------|-------------------------|---------------------|
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Within one year | 1,283,628 | 638,531 |
| One to two years | 27,496 | 76,948 |
| Two to three years | 92,268 | 25,298 |
| Over three years | 29,023 | 79,142 |
| | 1,432,415 | 819,919 |

11. LITIGATION SETTLEMENT

The Group is currently involved in a number of legal disputes. During the period, the Group paid RMB15,092,000 (six months ended 30 June 2008: RMB1,789,000) for litigation settlement.

30 June 2009

12. DISPOSAL DURING THE PERIOD

On 7 January 2008, the Group disposed of its 100% shareholding in a subsidiary, Jilin Kelon Electric Co., Ltd (“Jilin Kelon”) for a consideration of approximately 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>(11,068)</u> |
| Loss on disposal of Jilin Kelon | <u>(10,568)</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 | 5,515 |
| Intangible assets | 4 |
| Trade and other receivables | 706 |
| Inventories | 1,186 |
| Cash and cash equivalents | 85 |
| Trade and other payables | (9,991) |
| Bank borrowings | <u>(18,000)</u> |
| Net book value of net assets disposed | <u>11,068</u> |

13. RELATED PARTY TRANSACTIONS

The Group entered into the following material related party transactions.

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:

| <u>Name of related parties</u> | <u>Relationship</u> |
|-------------------------------------------------------------------------|------------------------------------------------|
| Hisense Air-Conditioner | The substantial shareholder of the Company |
| Hisense Company Limited | The holding company of Hisense Air-Conditioner |
| Qingdao Hisense Marketing Co., Limited (“Hisense Marketing”) | A subsidiary of Hisense Air-Conditioner |
| Hisense Electric Co., Limited (“Hisense Electric”) | A fellow subsidiary of Hisense Air-Conditioner |
| Hisense (Zhejiang) Air-Conditioner Co., Limited (“Hisense Zhejiang”) | A subsidiary of Hisense Air-Conditioner |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2009

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

| Name of related parties | Relationship |
|-----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| Hisense (Shandong) Air-Conditioner Co., Limited ("Hisense Shandong") | A subsidiary of Hisense Air-Conditioner |
| Hisense (Nanjing) Electric Co., Limited ("Hisense Nanjing") | A subsidiary of Hisense Air-Conditioner |
| Hisense (Beijing) Electric Co., Limited ("Hisense Beijing") | A subsidiary of Hisense Air-Conditioner |
| Qingdao Hisense Moulds Co., Limited ("Hisense Moulds") | A fellow subsidiary of Hisense Air-Conditioner |
| Guangdong Hisense Multimedia Co., Limited ("Hisense Multimedia") | A fellow subsidiary of Hisense Air-Conditioner |
| Qingdao Hisense Electronic Technology Services Co., Limited ("Hisense Electronic") | A fellow subsidiary of Hisense Air-Conditioner |
| Savor Household Electrical Appliance Service Industry Co., Limited ("Savor Service") | A fellow subsidiary of Hisense Air-Conditioner |
| Hisense International (HK) Co., Limited ("Hisense International") | A fellow subsidiary of Hisense Air-Conditioner |
| Hisense Finance Company Limited ("Hisense Finance") | A fellow subsidiary of Hisense Air-Conditioner |
| Guangzhou Attend Logistics Co., Limited ("Attend Logistics") | An associate of the Company |
| Huayi Compressor Holdings Company Limited ("Huayi") | An associate of the Company |
| Jiaxibeila Compressor Company Limited ("Jiaxibeila") | A subsidiary of Huayi |
| Jiangxi Combine Electrical Appliance Co., Limited ("Jiangxi Combine") | An unconsolidated subsidiary of the Company |
| Xi'an Gaoke (Group) Limited ("Xi'an Gaoke") | A minority investor of Xi'an Kelon Cooling Co., Limited, a subsidiary of the Company |

30 June 2009

13. RELATED PARTY TRANSACTIONS — *Continued*

II. Transactions with related parties

(a) Transactions with Hisense Group

The Group had the following significant transactions with Hisense Group:

| | For the six months ended 30 June | |
|-------------------------------------------------|----------------------------------|--------------------------------|
| | 2009 RMB'000 (Unaudited) | 2008 RMB'000 (Unaudited) |
| Sales of goods/raw materials to | | |
| — Hisense Shandong | 58,309 | 74,136 |
| — Hisense Zhejiang | 8,095 | 12,604 |
| — Hisense Beijing | 283,352 | 44,378 |
| — Hisense Nanjing | 21,039 | 5,368 |
| — Hisense International | 112,248 | — |
| — Hisense Multimedia | 20 | 113 |
| Sales of moulds to | | |
| — Hisense Shandong | 399 | 2,328 |
| — Hisense Zhejiang | — | 882 |
| — Hisense Beijing | 69 | 1,106 |
| — Hisense Nanjing | 979 | 1,476 |
| — Hisense Moulds | 1,265 | 1,899 |
| Loan interest to | | |
| — Hisense Finance | 9,141 | — |
| Purchases of goods/raw materials from | | |
| — Hisense Shandong | 105,394 | 93,368 |
| — Hisense Zhejiang | 99,367 | 395,755 |
| — Hisense Beijing | 119,311 | 40,355 |
| — Hisense Nanjing | 279,222 | 93,061 |
| Purchases of property, plant and equipment from | | |
| — Hisense Nanjing | 9,253 | — |
| Repair and maintenance service fee paid to | | |
| — Savor Service | 919 | 1,326 |
| — Hisense Electronic | 326 | — |
| Management fee paid to | | |
| — Hisense Multimedia | 151 | 253 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2009

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

| | For the six months ended 30 June | |
|-----------------------------------------------------------------------------------|-----------------------------------------|--------------------|
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Loan and note payables guarantee provided by Hisense Group — amount as at 30 June | 1,174,760 | 764,000 |
| Loan provided by Hisense Finance — amount as at 30 June | 418,760 | — |

(b) Transactions with associates

The Group had the following significant transactions with associates:

| | For the six months ended 30 June | |
|----------------------------------------------------------------------|-----------------------------------------|--------------------|
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Purchases of goods/raw materials from — Huayi and Jiaxibeila | 216,460 | 124,932 |
| Service fee charged to — Attend Logistics | 25 | 26 |
| Logistics management fee/warehouse rental paid to — Attend Logistics | 260 | 4,096 |

30 June 2009

13. RELATED PARTY TRANSACTIONS — *Continued*

III. Balances with related parties

(a) Balances with Hisense Group

| | 30 June 2009 | 31 December 2008 |
|----------------------------------------------|-------------------------------|-----------------------------|
| | <i>RMB'000</i> (Unaudited) | <i>RMB'000</i> (Audited) |
| Included in trade and other receivables, net | | |
| — Hisense Shandong | 3,996 | 1,135 |
| — Hisense Zhejiang | 1,884 | 4,004 |
| — Hisense Nanjing | 675 | 779 |
| — Hisense Beijing | 45,801 | 21,749 |
| — Savor Service | — | 3 |
| — Hisense Electric | — | 100 |
| — Hisense International | 96,895 | 8,104 |
| — Hisense Multimedia | 23 | 212 |
| — Hisense Moulds | 837 | — |
| | <u>150,111</u> | <u>36,086</u> |
| Included in trade and other payables | | |
| — Hisense Shandong | 62,919 | 3,925 |
| — Hisense Marketing | — | 35,481 |
| — Hisense Beijing | 8 | — |
| — Hisense Nanjing | 66,875 | 20,026 |
| — Hisense Zhejiang | 11,736 | 15,351 |
| — Savor Service | 347 | 475 |
| — Hisense International | — | 4,580 |
| — Hisense Moulds | — | 152 |
| | <u>141,885</u> | <u>79,990</u> |

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued

30 June 2009

13. RELATED PARTY TRANSACTIONS — Continued
III. Balances with related parties — Continued
(b) Balances with associates

| | 30 June 2009 | 31 December 2008 |
|----------------------------------------------|-------------------------------|-----------------------------|
| | <i>RMB'000</i> (Unaudited) | <i>RMB'000</i> (Audited) |
| Included in trade and other receivables, net | | |
| — Attend Logistics | 11 | 5 |
| Included in trade and other payables | | |
| — Attend Logistics | 3,104 | 4,556 |
| — Huayi and Jiaxibeila | 135,968 | 38,966 |
| | 139,072 | 43,522 |

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 2009 | 31 December 2008 |
|--------------------------------------|-------------------------------|-----------------------------|
| | <i>RMB'000</i> (Unaudited) | <i>RMB'000</i> (Audited) |
| Included in trade and other payables | | |
| — Jiangxi Combine | 5,100 | 5,100 |
| — Xi'an Gaoke | 2,358 | 2,358 |
| | 7,458 | 7,458 |

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

IV. Key management personnel compensation

| | For the six months ended 30 June | |
|-------------------------------------------------|----------------------------------|-------------------------------|
| | 2009 | 2008 |
| | <i>RMB'000</i> (Unaudited) | <i>RMB'000</i> (Unaudited) |
| Basic salaries, allowances and benefits-in-kind | 1,397 | 1,738 |
| Defined contribution pension cost | 19 | 25 |
| | 1,416 | 1,763 |

30 June 2009

14. CAPITAL COMMITMENTS

| | 30 June 2009 | 31 December 2008 |
|-----------------------------------------------------------------------------------------------|-------------------------|---------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Audited) |
| Capital expenditure contracted for but not provided in the financial statements in respect of | | |
| — acquisition of property, plant and equipment | 18,077 | 52,280 |
| — unlisted investment in a jointly controlled entity | 34,024 | 87,800 |
| | 52,101 | 140,080 |

15. 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 end of the reporting 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.

16. SUBSEQUENT EVENTS

On 2 July 2009, the Company and Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. ("Hisense-Whirlpool"), the jointly controlled entity of the Group have entered into a business cooperation framework agreement for the period from 26 June 2009 to 31 December 2009, under which the parties shall determine the pricing after negotiation and the Company shall purchase or sell goods or provide services to Hisense-Whirlpool of an amount not exceeding RMB105,000,000, RMB50,732,000 and RMB500,000 respectively.

17. COMPARATIVE FIGURES

As a result of the application of IAS 1 (Revised), Presentation of Financial Statements, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

18. APPROVAL OF FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 12 August 2009.

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

SUPPLEMENTARY INFORMATION

30 JUNE 2009

DIFFERENCES BETWEEN IFRS AND PRC ACCOUNTING STANDARDS AND REGULATIONS ("PRC GAAP") AS APPLICABLE TO THE GROUP

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

| | 30 June 2009 | 31 December 2008 |
|-----------------------------------------------------------------------------------------------------------------------------|-------------------------|---------------------|
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Equity attributable to equity holders of the Company as per condensed consolidated financial statements prepared under IFRS | (858,527) | (1,007,922) |
| Adjustment on restructuring cost expensed | 23,245 | 16,877 |
| 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 | (835,677) | (991,440) |

The consolidated net profit attributable to equity holders of the Company prepared under IFRS and that prepared under PRC GAAP have the following major differences:

| | For the six months ended 30 June | |
|---------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------|
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Net profit attributable to equity holders of the Company as per condensed consolidated financial statements prepared under IFRS | 149,236 | 63,255 |
| Adjustment on restructuring costs expensed | 6,368 | 7,413 |
| Net profit attributable to equity holders of the Company as per consolidated income statement prepared under PRC GAAP | 155,604 | 70,668 |

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 the Board of the Company held on 12 August 2009, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2009. No interim dividend was paid for the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW

During the Reporting Period, under the effect of the global financial crisis, the Group faced unfavourable operating conditions of shrinking export, decreasing demand in the domestic market and slowdown of economic growth. Meanwhile, aggravation of brand concentration in the air-conditioner sector resulted in intensifying market competition. Under the abovementioned adverse operating environment, the Group adhered to its operational strategy of "reshaping advantage in quality, focusing on market-orientation, strictly controlling operational risks and reinforcing project management" and implemented a series of measures in the following aspects:

Product position was further defined with strengthened product planning, whereas the efficiency of product research and development was enhanced and research and development costs were reduced through reinforcing the standardization of products. Quality management was further strengthened to continuously improve product quality standard and market competitiveness. Centering on the market demand, the Group enhanced its internal research and development ("R&D"), production and quality management flow in order to provide the market with new products with higher competitiveness in terms of cost, quality and function. The value engineering of products was promoted by upgrading the internal production and operating efficiency and reducing costs. Upholding the philosophy of maintaining a stable operation against the real situation of financial crisis, the Group continued to strengthen its management on working capital, monitor the capital risk stringently, improve the utilization of capital and reduce finance costs.

Through the aforesaid measures, the Group recorded a revenue from its principal operations of RMB4,435,760,000 during the Reporting Period, representing a decrease of 12.11% as compared to the corresponding period in 2008; a net profit of RMB149,712,000, representing an increase of RMB87,087,000 as compared to the corresponding period in 2008; and a profit attributable to shareholders of RMB149,236,000.

ANALYSIS OF OPERATION STRUCTURE

During the Reporting Period, of the revenue from the Group's principal operations, the revenue from the refrigerator business accounted for 56.67% of the total turnover, representing an increase of 8.30% as compared to the corresponding period last year; the revenue from the air-conditioner business accounted for 31.28% of the total turnover of the Group, representing a decrease of 36.93% as compared to the corresponding period last year; and the remaining 12.05% of the total turnover was generated from other businesses, such as sales of freezers and product components.

In addition, the domestic sales business accounted for 65.04% of the total turnover of the Group representing a decrease of 5.26% as compared to the corresponding period last year; and the overseas sales business accounted for 34.96% of the total turnover of the Group, representing a decrease of 22.51% as compared to the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS — *Continued***REFRIGERATOR BUSINESS**

During the Reporting Period, the Group achieved an effective improvement in the aspects such as procurement management, optimization of procedures, quality control, new product development and adjustment mechanism. A sound improvement and significant benefits were seen in cost-reduction and efficiency-enhancing efforts such as value engineering programme and optimization of procurement procedures. Through reinforced technological breakthroughs, optimized production process, highly effective production and reduced consumption, the cost of the Group has been lowered for a higher margin. The quality loss of single product was reduced through reinforced quality control. Meanwhile, the Group continued to consolidate its product platform, persist in product universality and standardization, strengthen product planning on the basis of enhanced marketing research efforts and reduce the number of product models, and established the concept of protection awareness based on market demand through setting up an incentive system to motivate the sales team in order to achieve a win-win situation of business cooperation between product companies and the sale team. The above proactive measures have laid a solid foundation for the sustainable development of refrigerator business in respect of cost reduction, quality improvement and technological innovation, and successfully generated significant benefits in the current period. In addition, the Group gave enormous support for the "Home Appliances Subsidy Policy for Rural Areas and Villages" policy and promptly arranged for product development and network construction. Subsequently, the refrigerator business recorded a growth in the third-and-fourth-tier markets, and positive growth in scale and benefits was sustained despite adverse economic situations. As such, although the refrigerator business was still operating under challenging external operating environments, the scale of the refrigerator business of the Group increased by 8.30% as compared to the corresponding period last year. The gross profit margin also increased significantly as compared to the corresponding period last year.

AIR-CONDITIONER BUSINESS

During the Reporting Period, as affected by various factors such as sluggish domestic consumption, significant decrease in export and modification of the State's energy efficiency policy, manufacturers have cleared out the products with low energy efficiency during the first half of the year. Such large scale clearance across the industry has unavoidably affected the market price competition and gross profit margin level, which in turn reduced the profitability in the air-conditioner sector.

According to the statistics of the industry, both the production volume and sales volume in the air-conditioner sector during the Reporting Period have decreased significantly as compared to the corresponding period last year under the influence of the above factors, and inventory level also dropped to a record low since the financial year of 2004.

In view of the abovementioned adverse factors, the Group enhanced the product research and development procedures during the Reporting Period, and the product design cost accordingly showed a remarkable improvement. Meanwhile, the Group also further strengthened technological development and designed products that meet the market demand in the rural areas in alignment with the "Home Appliances Subsidy Policy for Rural Areas and Villages" programme. On the other hand, in response to the modifications of the State's energy-efficiency standards, the Group fine-tuned its product planning and product life cycle management in accordance with the standards, and the number of products lines complying with the new energy-efficiency standards has increased and the product refinement project was launched to enhance its product competitiveness. The Group stepped up its efforts to clear out the products with low energy-efficiency to make way for the launch of high energy-efficiency products. A sound improvement in product quality was achieved as compared to the corresponding period last year, through strengthening the inspection of design quality and improvement in production process quality.

In general, although sales revenue from air-conditioner business recorded a negative growth as compared to the corresponding period last year amidst the industrial depression, the abovementioned measures have eliminated the influence of both internal and external adverse factors. Furthermore, with the Group's value engineering programme and efforts to improve efficiency and cost control, costs were reduced significantly and the gross profit margin was improved.

ANALYSIS OF IMPACTS ON RESULTS

The management of the Group is of the view that the decrease in the revenue from principal operations for the Reporting Period as compared to last year was mainly attributable to changes in both domestic and external economic conditions, and the recession in the entire industry. Although the deterioration of the external environment exerted significant impacts on the business of the Group, the Group has taken a number of measures to enhance its operating quality amidst the market downturn during the Reporting Period. As a result, the results posted a more significant growth as compared to last year.

The analysis of the major reasons for the growth in results are as follows:

- (1) The Group provided the market with more competitive products in terms of costs, quality and functions and created the competitive advantage for its products by optimizing the research and development and the production process of products, strengthening cost management, enhancing liquidity risk control and catering for the market demand;
- (2) The Group further strengthened its product quality management and reduced its quality loss significantly, particularly for the single product loss. Its product competitiveness was enhanced;
- (3) The Group adhered to the market orientation via focusing on the ultimate demand and adjusting the incentive mechanism for its sales representatives, which increased the incentive and morale of the entire sales team;
- (4) The Group promoted the value engineering to optimize its operating management process. In the first half of 2009, the Group continued to implement its industry benchmark projects, while implementing the projects for the optimization of the research and development process, the procurement process, the inventory and logistics management of products and the improvement of staff performance based on the prevailing operating environment. Significant results were achieved in the continuous control of operating costs and the improvement of operating quality, which were the driving force for a substantial increase in the gross profit margin of the Group's products;
- (5) The economies of scale in respect of material procurement were witnessed gradually after the consolidation and optimization of suppliers;
- (6) During the Reporting Period, given the relatively stable exchange rate movement, exchange loss of the Group decreased.

OUTLOOK

The management of the Group is of the view that the external operating environment of the Group in the second half of 2009 will remain blue. With the continuous industry downturn, various macro-economic situations beyond control and difficult global home appliance market conditions, the industry will be under significant operating pressure.

With the increasing awareness of energy efficiency of products in both domestic and overseas markets and the introduction of the relevant mandatory standards, the competition among refrigerator and air-conditioner products in terms of energy-saving technology is intensifying, which will lead to further improvement of product structure. As a leading enterprise in the domestic household appliance industry in terms of technology, the Group will adhere to the operating strategy to maintain itself as a technology-based enterprise. The change in government policies in respect of energy saving and environmental protection will bring more development opportunities to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS — *Continued***OUTLOOK** — *Continued*

In view of the impact of the macro-environment in the PRC and the overall situation of the industry, the Group will focus on mitigating risk and enhancing development, and strengthen its efforts in the following areas:

1. To continue to control operating risks strictly, particularly in respect of the fund allocation management, dispose of idle assets and accelerate cash flow;
2. To leverage on the opportunities brought by "Home Appliance Subsidy Policy for Rural Villages", "Home Appliance Replacement Scheme" and "Energy Efficiency Product Subsidy", increase market share and enhance the operating efficiency of the Group;
3. To continue to enhance the optimization of management processes, increase R&D efficiency, lower costs, improve product quality and enhance the operating quality of the Group;
4. To pay close attention to market changes and adjust the allocation of resources, adjust sales structure and inventory structure timely based on orders, increase profitability, reduce ineffective resource investment and waste, and mitigate risks.

LIQUIDITY AND SOURCES OF CAPITAL

Net cash generated from operating activities of the Group was approximately RMB129,165,000 for the six months ended 30 June 2009.

As at 30 June 2009, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB289,780,000 and loans amounting to approximately RMB1,714,452,000.

Total capital expenditures of the Group for the six months ended 30 June 2009 amounted to approximately RMB142,672,000.

TOTAL ASSETS TO TOTAL LIABILITIES RATIO

As at 30 June 2009, the total assets to total liabilities ratio of the Group was 86.24%.

TRUST DEPOSITS

As at 30 June 2009, the Group did not have any trust deposits with any financial institutions in the PRC. All of the Group's deposits have been deposited in commercial banks in the PRC and Hong Kong.

H

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2009, the Group had approximately 26,950 employees, mainly comprising 3,342 technical staff, 11,364 sales representatives, 560 financial staff, 1,009 administrative staff and 10,675 production staff. The Group had 5 employees with a doctorate degree, 101 with a master's degree and 2,081 with a bachelor's degree. There were 504 employees who occupied mid-level positions or above in the Group according to the national standards. In addition, the Group was responsible for the monthly pension of 148 employees who have resigned or retired. For the six months ended 30 June 2009, the Group's staff payroll amounted to RMB273,152,000 (corresponding period in 2008 amounting to RMB306,007,000).

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2009, the Group's property, plant and equipment (including leasehold land held for own use) and investment properties of approximately RMB484,951,000 (31 December 2008: RMB522,442,000) were pledged as security for the Group's borrowings.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

Since the majority of the Group's purchase and overseas sales during the Reporting Period were denominated in foreign currency, the Group exposed to the risk of exchange rate fluctuation. The Group has used financial instruments such as import/export documentary bills and forward contracts for exchange rate hedging purpose.

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") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its code for securities transactions by the Directors. After making specific enquiries to the Directors of the Board, namely, Mr. Tang Ye Guo, Mr. Zhou Xiao Tian, Ms. Yu Shu Min, Mr. Lin Lan, Ms. Liu Chun Xin, Mr. Zhang Ming, Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren, all of them confirmed that they had acted in full compliance with the Model Code during the Reporting Period.

SHARE CAPITAL STRUCTURE

As at 30 June 2009, the share capital structure of the Company was as follows:

| | Number of Shares | Percentage to the Total Issued Share Capital |
|----------|-------------------------|-------------------------------------------------------------|
| 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 2009, there were 40,392 shareholders of the Company (the "Shareholders") in total, of which the top ten substantial Shareholders were as follows:

| Name of Shareholder | Nature of Shareholder | No. of Shares Held | Percentage to the total issued shares of the Company | Percentage to the relevant class of issued shares of the Company | No. of shares held subject to trading moratorium | No. of Pledged or Frozen Shares |
|-------------------------------------------------------|---------------------------------------------|--------------------|------------------------------------------------------|------------------------------------------------------------------|--------------------------------------------------|---------------------------------|
| Qingdao Hisense Air-conditioning Company Limited | Domestic Non-state-owned Legal Person | 250,173,722 | 25.22% | 46.99% | 234,375,922 | — |
| China Huarong Asset Management Corporation | Domestic State-owned Legal Person | 63,923,804 | 6.44% | 12.01% | — | — |
| The Hongkong and Shanghai Banking Corporation Limited | Foreign Shareholder | 63,808,629 | 6.43% | 13.88% | — | Unknown |
| Shenyin Wanguo Securities (H.K.) Limited | Foreign Shareholder | 50,868,000 | 5.13% | 11.07% | — | Unknown |
| Bank of China (Hong Kong) Limited | Foreign Shareholder | 47,567,000 | 4.80% | 10.35% | — | Unknown |
| Guotai Junan Securities (Hong Kong) Limited | Foreign Shareholder | 40,912,000 | 4.12% | 8.90% | — | Unknown |
| First Shanghai Securities Limited | Foreign Shareholder | 35,651,000 | 3.59% | 7.76% | — | Unknown |
| China Merchants Securities (HK) Co., Ltd | Foreign Shareholder | 28,952,000 | 2.92% | 6.30% | — | Unknown |
| Hang Seng Securities Limited | Foreign Shareholder | 13,978,000 | 1.41% | 3.04% | — | Unknown |
| BOCI Securities Limited | Foreign Shareholder | 9,386,000 | 0.95% | 2.04% | — | Unknown |

Notes: As at 30 June 2009, as shown in the register of substantial shareholders maintained under Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), the top eight Shareholders among the top 10 Shareholders above held short positions in the issued share capital of the Company.

H

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

| <u>Name of Shareholders</u> | <u>Number of Tradable Shares Held</u> | <u>Class of Shares</u> |
|-------------------------------------------------------|---------------------------------------|------------------------|
| China Huarong Asset Management Corporation | 63,923,804 | RMB ordinary shares |
| The Hongkong and Shanghai Banking Corporation Limited | 63,808,629 | H shares |
| Shenyin Wanguo Securities (H.K.) Limited | 50,868,000 | H shares |
| Bank of China (Hong Kong) Limited | 47,567,000 | H shares |
| Guotai Junan Securities (Hong Kong) Limited | 40,912,000 | H shares |
| First Shanghai Securities Limited | 35,651,000 | H shares |
| China Merchants Securities (HK) Co., Ltd | 28,952,000 | H shares |
| Qingdao Hisense Air-conditioning Company Limited | 15,797,800 | RMB ordinary shares |
| Hang Seng Securities Limited | 13,978,000 | H shares |
| BOCI Securities Limited | 9,386,000 | H shares |

Note: The Company is not aware whether any of the top ten holders of tradable shares is connected with each other or any of them is a party acting in concert with any of the other nine shareholders within the meaning of the 《上市公司股東持股變動信息披露管理辦法》 (Administrative Measures for Information Disclosure of the Shareholders of Listed Companies).

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES

As at 30 June 2009, none of the members of the seventh session of the Board, supervisors and the chief executive of the Company and any of their associates held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations, as recorded in the register required to be maintained by the Group 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 or redeemed any of the Company's listed shares.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the interim results announcement and interim report for the period ended 30 June 2009.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

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. EXPLANATION GIVEN BY THE BOARD OF THE COMPANY OF THE CHANGES AND TREATMENT OF THE MATTERS RELATING TO THE QUALIFIED OPINIONS IN THE AUDITOR'S REPORT FOR THE 2008 ANNUAL REPORT**

As described in Notes 6.4, 6.6, 10 and 11 to the financial statements, there was a series of related party transactions and unusual cash inflows and outflows between Guangdong Greencool Enterprise Development Limited, the former largest shareholder of the Company, and its related parties (hereinafter referred to as the "Greencool Companies") and the Company during the period from October 2001 to July 2005. In addition, during such period, the Greencool Companies, through the specific third party companies such as Tianjin Lixin Commercial Trading Development Company Limited, involved in a series of unusual cash inflows and outflows with the Company. The Company has brought legal actions before court on such transactions and unusual cash inflows and outflows as well as the suspected fund embezzlements. These issues are related to the Company's amounts due from or to the Greencool Companies and the specific third party companies mentioned above.

As at 31 December 2008, the balance of amounts due from the Greencool Companies and such specific third party companies was RMB651 million. The Company has made a provision for bad debts of RMB365 million in respect of the amounts due from the Greencool Companies and such third party companies. As described in Note 11 to the financial statements, the abovementioned cases have achieved significant progress, with most cases obtaining judgments in favour of the Company. However, we are unable to adopt appropriate audit procedures to obtain sufficient and appropriate audit evidence to ascertain as to whether or not the estimated provision for bad debts based on such amounts and the assessment and calculation of the accounts receivable are reasonable.

Explanation from the Board in the 2008 Annual Report: There was a series of related party transactions and unusual cash inflows and outflows between the Company and Guangdong Greencool Enterprise Development Limited, the former largest shareholder of the Company, and its related parties, or through its third party companies, from 2001 to 2005. Such transactions and unusual cash inflows and outflows as well as the suspected fund embezzlements have been formally investigated by relevant authorities. As at 31 December 2008, the balance of amounts due from the Greencool Companies and the abovementioned specific third party companies was RMB651 million.

The Company has estimated, based on the information available at present relating to such cases, the recoverable amount from such amounts due from the Greencool Companies and the specific third party companies, and has made a provision for bad debts of RMB365 million. The bases of the estimate include: the information regarding the property of the Greencool Companies sealed and frozen by the court at the request of the Company, and the preliminary analysis report on the aforesaid fund embezzlements prepared by the lawyer of the Company. As analyzed by the lawyer, the properties of the Greencool Companies that can be used for settlement amounted to approximately RMB1 billion, and the total amount of debt in dispute of the Greencool Companies was approximately RMB2.4 billion. The amount claimed by the Company for fund embezzlements by the Greencool Companies was RMB791 million. The Company sought to have the outstanding amount settled based on the debt-to-property ratio. Based on the estimated settlement proportion, and taking into consideration that the case is still subject to trial, the court has not recognized the amount due to the Company. The Board of the Company estimated the recoverable amount and made a provision for bad debts of RMB365 million.

Meanwhile, the law firm handling this case declared that, as the court has not determined the arrangement for allocation of the property sealed in the abovementioned cases, the law firm is not able to assert on the outcome of the cases and the accurate recovery rate.

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**I. EXPLANATION GIVEN BY THE BOARD OF THE COMPANY OF THE CHANGES AND TREATMENT OF THE MATTERS RELATING TO THE QUALIFIED OPINIONS IN THE AUDITOR'S REPORT FOR THE 2008 ANNUAL REPORT — Continued**

The Board of the Company considers that the provision for bad debts is an accounting estimate. The accounting method applied to such accounts receivable does not breach the relevant requirements of the Accounting System for Business Enterprises. Although the relevant courts gave the judgments of first instance in favour of the Company on seventeen cases in respect of the litigations initiated by the Company against the Greencool Companies and its specific third party (the judgments for thirteen cases have become effective), the abovementioned seventeen cases have not been enforced so far. The Board of the Company is of the view that: as there is no material difference in its judgment on the recoverability of such accounts receivable in 2008 as compared with that in 2007, this qualified opinion will not have any impact on the fairness in the preparation of the Company's income statement for 2008.

Upon finalisation of the abovementioned debt settlement ratio, the Company will, based on the finalised ratio of recovery, adjust retrospectively the 2005 balance sheet and income statement, as well as the relevant items of the balance sheets as at 31 December 2006, 31 December 2007 and 31 December 2008. The Company has taken measures to sequester the property of the Greencool Companies which is available for settlement. The Company will also pay close attention to the progress of the cases and use its best endeavour to ensure its rights as a creditor.

As of the date of this report, among the aforesaid 17 litigations in which the judgments of first instance were made in favour of the Company, the judgments of 16 litigations have become effective. However, as the abovementioned cases have not been enforced so far, the Board of the Company is of the view that there is no material difference in its judgment on the recoverability of such accounts receivable as compared with its previous judgment.

II. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY FOR THE REPORTING PERIOD**1. General information of litigations**

As of the date of this report, the Company and its subsidiaries were involved in 96 litigations with the amount in disputes of RMB199,614,900.

Among the aforementioned litigations involving the Company and its subsidiaries, the Company and its subsidiaries acted as plaintiffs in 9 cases with the total amount in dispute of RMB159,181,600 and as defendants in 87 cases involving the total amount in dispute of RMB40,433,300.

Among the outstanding litigations involving the Company and its subsidiaries, there were 2 litigations and arbitrations with a claimed amount exceeding RMB10,000,000 each (the total amount in disputes of RMB140,784,100) and 94 litigations with a claimed amount of less than RMB10,000,000 each (the total amount in disputes of RMB58,830,800).

2. New litigations

From 1 January 2009 to the date of this report, the Company and its subsidiaries were involved in 30 new litigations with the total amount in dispute of RMB11,580,300.

The Company and its subsidiaries acted as plaintiff in 1 case with an amount in disputes of RMB3,511,500. The Company and its subsidiaries acted as defendants in 29 cases with the total amount in dispute of RMB8,068,800, among which 15 cases with the total amount in dispute of RMB3,850,200 were closed.

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

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

3. Particulars of completed litigations

From 1 January 2009 to the date of this report, the Company and its subsidiaries were involved in 202 closed litigations with the total amount in dispute of RMB603,266,400 and US\$13,750,719.19.

The Company and its subsidiaries acted as plaintiffs in 15 cases with the total amount in dispute of RMB566,130,200 and as defendants in 187 cases with the total amount in dispute of RMB37,136,200 and US\$13,750,719.19.

Among the aforementioned closed cases involving the Company and its subsidiaries, there were 16 litigations with a claimed amount exceeding RMB10,000,000 (the total amount in dispute of RMB566,130,200 and US\$13,750,719.19), and 186 litigations with a claimed amount less than RMB10,000,000 each (the total amount in dispute of RMB37,136,200).

The particulars of the completed litigations with a claimed amount of more than RMB10,000,000 each is set out below:

| No. | Name of Case | Amount in Dispute (In RMB ten thousand, unless otherwise stated) | Particulars | Development |
|-----|----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| 1 | Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun, Hainan Greencool, Tianjin Greencool and Jinan San Ai Fu | 8,160 | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB81.6 million from the plaintiff. | The court made a judgment in favour of the Company. The judgment has come into force. |
| 2 | Litigation initiated by Yangzhou Kelon against Guangdong Greencool, Gu Chu Jun and Yangzhou Greencool | 4,000 | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB40 million from the plaintiff. | The court made a judgment in favour of the Company. The judgment has come into force. |
| 3 | Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun, Jiangxi Keda and Shenzhen Greencool | 1,300 | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB13 million from the plaintiff. | The court made a judgment in favour of the Company. The judgment 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

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

3. Particulars of completed litigations — Continued

| No. | Name of Case | Amount in Dispute <i>(In RMB ten thousand, unless otherwise stated)</i> | Particulars | Development |
|------------|----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| 4 | Litigation initiated by Yangzhou Kelon against Guangdong Greencool, Gu Chu Jun and Yangzhou Greencool | 3,500 | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB35 million from the plaintiff. | The court made a judgment in favour of the Company. The judgment has come into force. |
| 5 | Litigation initiated by the Company's Hubei Branch against Guangdong Greencool, Gu Chu Jun and Wuhan Changrong | 2,984.37 | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB29.8437 million from the plaintiff. | The lawsuit has been withdrawn by the Company. |
| 6 | Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Shenzhen Greencool Environmental | 3,300 | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB33 million from the plaintiff. | The court made a judgment in favour of the Company. The judgment has come into force. |
| 7 | Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun and Zhuhai Defa | 2,140 | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB21.4 million from the plaintiff. | The court made a judgment in favour of the Company. The judgment has come into force. |
| 8 | Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun and Wuhan Changrong | 2,000 | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB20 million from the plaintiff. | The court made a judgment in favour of the Company. The judgment 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

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

3. Particulars of completed litigations — Continued

| No. | Name of Case | Amount in Dispute <i>(In RMB ten thousand, unless otherwise stated)</i> | Particulars | Development |
|------------|----------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| 9 | Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Hainan Greencool | 1,228.94 | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB12.2894 million from the plaintiff. | The court dismissed the petition by the Company. And the Company did not lodge any appeal. |
| 10 | Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Shenzhen Greencool Technology | 3,200 | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB32 million from the plaintiff. | The Court made a judgment in favour of the Company. The judgment has come into force. |
| 11 | Litigation initiated by the Company against Guangdong Greencool, Gu Chu Jun, Zhuhai Greencool, Beijing Greencool, and Hainan Greencool | 1,375.46 | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB13.7546 million from the plaintiff. | The Court made a judgment in favour of the Company. The judgment has come into force. |
| 12 | Litigation initiated by Jiangxi Kelon against Guangdong Greencool, and Gu Chu Jun, Zhuhai Longjia | 2,860 | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB28.6 million from the plaintiff. | The Court made a judgment in favour of the Company. The judgment 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

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

3. Particulars of completed litigations — Continued

| No. | Name of Case | Amount in Dispute | Particulars | Development |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| | | (In RMB ten thousand, unless otherwise stated) | | |
| 13 | Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun, Jiangxi Kesheng and Tianjin Greencool | 1,863 | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB18.63 million from the plaintiff. | The Court made a judgment in favour of the Company. The judgment has come into force. |
| 14 | Litigation initiated by Kelon Fittings against Guangdong Greencool, Tianjin Xiangrun, Shenzhen Greencool and Gu Chu Jun | 9,741.22 | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB97.4122 million from the plaintiff. | The Court made a judgment in favour of the Company. The judgment has come into force. |
| 15 | Litigation initiated by Shenzhen Kelon Purchase Company Limited against Guangdong Greencool, Tianjin Lixin, Shenzhen Greencool and Gu Chu Jun | 8,960.03 | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB89.6003 million from the plaintiff. | The Court made a judgment in favour of the Company. The judgment has come into force. |
| 16 | Litigation on dispute initiated by CNA International.inc./ MC Appliance Corporation against the Company/ Kelon International | US\$13,750,719 | The plaintiff alleged that it entered into a sale and purchase contract with the defendant to purchase refrigerators, but the defendant failed to perform its obligations under the contract on a timely time, and that the goods delivered were defective. In this case, CNA did not bring the breach of warranty obligation before court. Kelon Electric was entitled to, and initiated, a counterclaim for the trade receivables of more than US\$980,000. | It was held in the judgment of first instance that the Company shall pay US\$269,020.5 to CNA. Neither party has lodged an appeal. |

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

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

4. Development of pending litigations initiated in prior years with the amount in dispute of more than RMB10 million each:

| <u>No.</u> | <u>Name of Case</u> | <u>Amount in Dispute</u> | <u>Particulars</u> | <u>Development</u> |
|------------|-------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Jinan San Ai Fu , Tianjin Greencool, Hainan Greencool and Gu Chu Jun | RMB40.8 million | Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB40.8 million from the plaintiff. | It was held in the judgment of first instance that the defendants shall pay RMB30.1512 million. The defendants have lodged an appeal. |

III. PARTICULARS OF THE MATERIAL CONNECTED TRANSACTIONS OF THE COMPANY DURING THE REPORTING PERIOD

Connected transactions relating to the purchase and sales of goods and provision of services

Unit: RMB

| <u>Connected person</u> | <u>Particulars of the connected transaction</u> | <u>Sale of products and provision of services to connected persons</u> | | <u>Purchase of goods and receipt of services from connected persons</u> | |
|-------------------------|-------------------------------------------------------------|------------------------------------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------|
| | | <u>Transaction amount</u> | <u>Percentage of total amount of similar transactions</u> | <u>Transaction amount</u> | <u>Percentage of total amount of similar transactions</u> |
| Hisense Shandong | Sales of finished air-conditioners | 57,444,652.85 | 1.21% | — | — |
| Hisense Zhejiang | Sales of finished air-conditioners | 6,395,185.45 | 0.13% | — | — |
| Hisense Beijing | Sales of finished refrigerators | 270,977,626.96 | 5.69% | — | — |
| Hisense International | Sales of finished refrigerators, air-conditioners, freezers | 112,247,824.68 | 2.36% | — | — |
| Hisense Shandong | Sales of materials | 863,984.60 | 0.02% | — | — |
| Hisense Zhejiang | Sales of materials | 1,699,533.21 | 0.04% | — | — |
| Hisense Beijing | Sales of materials | 12,374,294.05 | 0.26% | — | — |

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. PARTICULARS OF THE MATERIAL CONNECTED TRANSACTIONS OF THE COMPANY DURING THE REPORTING PERIOD — Continued

Connected transactions relating to the purchase and sales of goods and provision of services — Continued

Unit: RMB

| Connected person | Particulars of the connected transaction | Sale of products and provision of services to connected persons | | Purchase of goods and receipt of services from connected persons | |
|--------------------|------------------------------------------|-----------------------------------------------------------------|----------------------------------------------------|------------------------------------------------------------------|----------------------------------------------------|
| | | Transaction amount | Percentage of total amount of similar transactions | Transaction amount | Percentage of total amount of similar transactions |
| Hisense Nanjing | Sales of materials | 21,149,164.44 | 0.44% | — | — |
| Hisense Multimedia | Sales of materials | 19,816.08 | 0.00% | — | — |
| Hisense Shandong | Purchase of finished air-conditioners | — | — | 103,927,652.72 | 2.73% |
| Hisense Zhejiang | Purchase of finished air-conditioners | — | — | 99,185,015.73 | 2.60% |
| Hisense Beijing | Purchase of finished refrigerators | — | — | 119,042,469.67 | 3.12% |
| Hisense Nanjing | Purchase of finished refrigerators | — | — | 279,189,730.55 | 7.32% |
| Hisense Shandong | Purchase of materials | — | — | 1,468,350.01 | 0.04% |
| Hisense Zhejiang | Purchase of materials | — | — | 182,280.35 | 0.00% |
| Hisense Beijing | Purchase of materials | — | — | 269,230.77 | 0.01% |
| Hisense Nanjing | Purchase of materials | — | — | 9,285,264.53 | 0.24% |
| Huayi Compressor | Purchase of compressors | — | — | 56,469,850.07 | 1.48% |
| Jiaxibeila | Purchase of compressors | — | — | 159,990,132.61 | 4.20% |
| Hisense Shandong | Sales of moulds | 398,829.08 | 0.01% | — | — |
| Hisense Beijing | Sales of moulds | 69,230.77 | 0.00% | — | — |
| Hisense Nanjing | Sales of moulds | 979,487.19 | 0.02% | — | — |
| Hisense Mould | Sales of moulds | 1,264,957.27 | 0.03% | — | — |
| Total | | <u>485,884,586.63</u> | <u>10.21%</u> | <u>829,009,977.01</u> | <u>21.74%</u> |

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 announcements dated 12 February 2009 and 19 May 2009 and 15 July 2009 respectively in relation to 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

IV. 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 guarantee made by the Company (excluding guarantees to its subsidiaries)

| <u>The guaranteed</u> | <u>Date (the day of signing the agreement)</u> | <u>Guaranteed amount</u> | <u>Type of guarantee</u> | <u>Period of guarantee</u> | <u>Completion or not</u> | <u>Whether in favour of any connected party (yes or no)</u> |
|--------------------------------------------------------------------------------------|------------------------------------------------|--------------------------|--------------------------|----------------------------|--------------------------|-------------------------------------------------------------|
| — | — | — | — | — | — | — |
| Total actual guaranteed amount during the Reporting Period | | | | | | — |
| Total balance of the actual guaranteed amount at the end of the Reporting Period (A) | | | | | | — |

Guarantees made by the Company to its subsidiaries

| | |
|------------------------------------------------------------------------------------------------------|-----------|
| Total actual guaranteed amount to subsidiaries during the Reporting Period | 93,403.42 |
| Total balance of the actual guaranteed amount to subsidiaries at the end of the Reporting Period (B) | 30,102.12 |

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

| | |
|---------------------------------------------------------------------------------|-----------|
| Total guaranteed amount (A+B) | 30,102.12 |
| Percentage of the total guaranteed amount to absolute net assets of the Company | 36.02% |

Including:

| | |
|-----------------------------------------------------------------------------------------------------|-----------|
| Guaranteed amount provided to shareholders, beneficial controlling parties and their affiliates (C) | — |
| Guaranteed amount provided directly or indirectly to the guaranteed with gearing ratio over 70% (D) | 28,263.37 |
| Total guaranteed amount over 50% of the net asset (E) | — |
| Sum of the above three guarantees (C+D+E) | 28,263.37 |

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

V. FUNDS EMBEZZLED FOR NON-OPERATING PURPOSES AND THE SETTLEMENT PROGRESS.

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

Unit: RMB (in ten thousand)

| Outstanding amount of funds of the Company embezzled by a former substantial shareholder, its subsidiaries, the specific third parties and other related parties for non-operating purpose | | Total amount recovered during this period | Settlement Method | Amount recovered | Time of Settlement (Month) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------------------------------------|-------------------|------------------|----------------------------|
| 1 January 2009 | 30 June 2009 | | | | |
| 65,514.95 | 65,514.95 | — | — | — | — |

As at the end of the Reporting Period, the total funds of the Group embezzled by a former substantial shareholder and its subsidiaries, the specific third parties and other related parties for non-operating reasons amounted to RMB655,149,500 in aggregate, of which, a total amount of RMB 650,694,100 was embezzled by a former substantial shareholder Guangdong Greencool and its associated companies (the "Greencool Companies") and the specific third parties and the remaining balance of RMB4,455,400 was embezzled by other related parties.

2. Explanation from the Board on the development of the Company's claims for all embezzled amounts during Reporting Period

During the Reporting Period, the Company has stepped up its effort to recover the embezzled funds pursuant to the requirements of the 《關於進一步加快推進清欠工作的通知》(證監公司字(2006)92號) ("Notice on Expediting the Loan Recovering Process" (Zheng Jian Gong Si Zi 2006 No. 92)). The progress is as follows:

The Company has initiated 19 proceedings with the total amount in dispute of RMB791 million. As at the date of this report, Foshan Intermediate Court has the judgments of first instance on all 19 cases. Currently, the judgments on 16 cases have become effective, involving a total amount of RMB710,000,000; 1 case has been withdrawn, involving an amount of RMB29,843,700; 1 case has been dismissed due to the insufficiency of evidence, involving an amount of RMB12,289,400; and 1 case is subject to a second trial upon appeal of the opposite parties, and therefore the previous judgment has not come into force. In respect of those cases with the judgments becoming effective, the Company has applied to Foshan Intermediate Court for the enforcement of the judgments.

The Company fully understands that the settlement of embezzled funds constitutes an irrevocable obligation of the management of Company. The Company will use its best endeavour to recover the funds, to reinforce its communication with relevant judiciary authorities, and to gather more evidence so as to secure the highest possibility of success in litigations. The Company has actively enforced the judgments.

VI. THE FINANCIAL REPORT FOR THIS REPORTING PERIOD IS UNAUDITED. THE COMPANY DID NOT CHANGE ITS AUDITOR DURING THIS REPORTING PERIOD. BDO MCCABE LO LIMITED, THE OVERSEAS AUDITOR, WAS RENAMED AS "BDO LIMITED" AS A RESULT OF INTERNAL INTEGRATION.

Note: The full text of the Interim Report 2009 of the A Shares of the Company was published on the Stock Exchange's website (<http://www.hkex.com.hk>) and the Company's website (<http://www.kelon.com>) on 12 August 2009.

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

| | |
|---------------------------------|----------------------------------------------------------------|
| "Company", the Company" | Hisense Kelon Electrical Holdings Company Limited |
| "Hisense Air-Conditioning" | Qingdao Hisense Air-conditioning Company Limited |
| "Hisense Electrical Appliances" | Qingdao Hisense Electric Co., Ltd. |
| "Hisense Group" | Hisense Company Limited |
| "Hisense International" | Hisense International (HK) Limited |
| "Hisense Shandong" | Hisense (Shandong) Air-Conditioner Co., Ltd. |
| "Hisense Zhejiang" | Hisense (Zhejiang) Air-Conditioner Co., Ltd. |
| "Hisense Beijing" | Hisense (Beijing) Electric Company Limited |
| "Hisense Nanjing" | Hisense (Nanjing) Electrical Co., Ltd. |
| "Hisense Mould" | Qingdao Hisense Mould Company Limited. |
| "Hisense Multimedia" | Guangdong Hisense Multimedia Company Limited. |
| "Guangdong Greencool" | Guangdong Greencool Enterprise Development Company Limited |
| "Greencool Companies" | Guangdong Greencool and other related parties |
| "Kelon Air-Conditioner" | Guangdong Kelon Air-Conditioner Co., Ltd. |
| "Kelon Fittings" | Guangdong Kelon Fittings Co., Ltd. |
| "Jiangxi Kelon" | Jiangxi Kelon Industrial Development Co., Ltd. |
| "Yangzhou Kelon" | Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd. |
| "Huayi Compressor" | Huayi Compressor Holdings Company Limited |
| "Jiaxi Beila" | Jiaxi Beila Compressor Company Limited |
| "Tianjin Greencool" | Greencool Refrigerant (China) Company Limited |
| "Hainan Greencool" | Hainan Greencool Environmental Protection Engineering Co. Ltd. |
| "Jinan San Ai Fu" | Jinan San Ai Fu Petrochemical Company Limited |
| "Tianjin Xiangrun" | Tianjin Xiangrun Trading Development Company Limited |
| "Jiangxi Kesheng" | Jiangxi Kesheng Industry and Trading Company Limited |
| "Tianjin Lixin" | Tianjin Lixin Commercial Trading Development Company Limited. |

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| "Shenzhen Greencool" | Greencool Procurement (Shenzhen) Co., Ltd. |
| "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 |
| "Zhuhai Greencool" | Zhuhai Greencool Refrigeration and Engineering Co., 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. |
| "Foshan Intermediate Court" | Intermediate People's Court of Foshan City |
| "CSRC" | China Securities Regulatory Commission |
| "Shenzhen Stock Exchange" | Shenzhen Stock Exchange |
| "RMB" | Renminbi |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |