THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular, you should obtain independent professional advice.

If you have sold or transferred all your shares in HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED
海信科龍電器股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 00921)

CONTINUING CONNECTED TRANSACTIONS
(DEPOSIT, LOAN AND DRAFT DISCOUNT SERVICES)
AND
MAJOR TRANSACTION
(DEPOSIT SERVICE)

Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders

Access Capital

A letter from the Board is set out from pages 3 to 12 of this circular.

A notice convening the EGM of the Company to be held on 17 November 2008 at 9:30 a.m. at the conference room of the Company's head office, Shunde District, Foshan City, Guangdong Province, the PRC is set out on pages 144 to 145 of this circular.

The form of proxies for use at the EGM are enclosed with this circular. If you are not able to attend the meeting in person, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon and lodge the same with the Company's Branch Share Registrar in Hong Kong, Hong Kong Registrars Limited of Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof if you so wish.

26 September 2008

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"A Shares"	domestic ordinary shares of the Company with a nominal value of RMB1.00 each and are listed on the Shenzhen Stock Exchange
"Access Capital"	Access Capital Limited, a corporation licensed under the SFO for carrying out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Financial Services Agreement
"Associate"	has the meaning ascribed to it in the Listing Rules
"Board"	the board of directors of the Company
"CBRC"	中國銀行業監督管理委員會 (China Banking Regulatory Commission)
"Company"	Hisense Kelon Electrical Holdings Company Limited, a company incorporated in the PRC with limited liability and listed on the main board of the Stock Exchange and Shenzhen Stock Exchange
"EGM"	the extraordinary general meeting of the Company to be held to be held on 17 November 2008 for the approval of the Financial Services Agreement and the transactions contemplated thereunder
"Financial Services Agreement"	an agreement dated 31 July 2008 entered into between the Company and Hisense Finance, in respect of the provision of financial services by Hisense Finance to the Company
"Group"	the Company and its subsidiaries
"H Shares"	overseas listed foreign shares of the Company with a nominal value of RMB1.00 each and are listed on the Stock Exchange
"Hisense Air-conditioning"	Qingdao Hisense Air-Conditioning Co., Ltd (青島海信空調有限公司), a subsidiary of Hisense Group

"Hisense Finance"	Hisense Finance Co., Ltd (海信集團財務有限公司), a limited company incorporated in the PRC
"Hisense Group"	Hisense Group Company (海信集團有限公司), a limited company incorporated in the PRC
"Independent Board Committee"	an independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren
"Independent Shareholders"	Shareholders other than those who are required under the Listing Rules to abstain from voting on the resolution to be proposed at the EGM to approve the Financial Services Agreement and the transactions contemplated thereunder
"Latest Practicable Date"	22 September 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China
"RMB"	Renminbi yuan, the lawful currency of the PRC
"Share(s)"	share(s) of RMB1.00 each in the capital of the Company, comprising the A Shares and the H Shares
"Shareholder(s)"	holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"White Goods"	the general term by which white-coloured household electrical appliances are commonly known, including but not limited to, air-conditioners and refrigerators
"%"	per cent.

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED
海信科龍電器股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00921)

Directors:	*Registered Office:*
Mr. Tang Ye Guo	No. 8 Ronggang Road
Mr. Wang Shi Lei	Ronggui Street
Ms. Yu Shu Min	Shunde District
Mr. Lin Lan	Foshan City
Ms. Liu Chun Xin	Guangdong Province
Mr. Zhang Ming	China
Independent non-executive Directors:	*Principal place of business in Hong Kong:*
Mr. Zhang Sheng Ping	Room 3104-06
Mr. Lu Qing	Singga Commercial Centre
Mr. Cheung Yui Kai, Warren	No. 148 Connaught Road West
	Hong Kong

26 September 2008

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS (DEPOSIT, LOAN AND DRAFT DISCOUNT SERVICES) AND MAJOR TRANSACTION (DEPOSIT SERVICE)

INTRODUCTION

The Company announces that on 31 July 2008, the Company and Hisense Finance entered into the Financial Services Agreement, pursuant to which Hisense Finance has agreed to provide the Group, through itself and/or any of its subsidiaries, with deposit services, loan services and draft discount services subject to the terms and conditions provided therein.

The purpose of this circular is:

(a) to provide you with further information on the Financial Services Agreement;

(b) to set out the recommendation of the Independent Board Committee and to set out the letter of advice from Access Capital to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Financial Services Agreement; and

(c) to provide you with the notice of the EGM which is to be convened for the purposes of considering and, if thought fit, approving the Financial Services Agreement and the transactions contemplated thereunder.

FINANCIAL SERVICES AGREEMENT

Date

31 July 2008

Parties

(i) The Company; and

(ii) Hisense Finance

Term

The term of the Financial Services Agreement is one year as effective from obtaining the approval by the Independent Shareholders at the EGM.

Conditions Precedent

The transactions under the Financial Services Agreement are subject to the approval of the Independent Shareholders at the EGM.

Major terms

(1) The services to be provided by Hisense Finance to the Group include deposit services, loan services and draft discount services;

(2) Hisense Finance shall be appointed to provide financial services to the Group, subject to compliance with the terms and conditions of the Financial Services Agreement and the subsequent agreement of the terms and conditions by the parties thereto in relation to the provision of each particular service which shall be recorded in writing. The Group may however obtain financial services, including deposit services and loan services and draft discount services, from other financial institutions in addition to or instead of Hisense Finance, as it sees fit;

(3) The interest rate payable for the Group's deposits with Hisense Finance shall not be lower than the rate payable by normal commercial banks in the PRC for comparable deposits and such interest shall be payable by Hisense Finance on a quarterly basis by way of crediting cash into the deposit account of the Group. The terms for the provision of the deposit services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions;

(4) The interest rate charged for the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans and such interest shall be payable by the Group to Hisense Finance on a monthly basis payable on the 20^{th} day of each month. The terms for the provision of the loans by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions. Security over the assets of the Company may be provided by the Company to Hisense Finance in respect of the loan services rendered, depending on the then circumstances for the provision of the loan services; and

(5) Under the Financial Services Agreement, Hisense Finance will provide draft discount services to the Group which means that the Group is entitled to present bank drafts to Hisense Finance for payment before the maturity date of the bank drafts. In return, Hisense Finance will charge service fee from the Group for "cashing" the bank drafts. After the Group has discounted the bank drafts with Hisense Finance, such bank drafts will belong to Hisense Finance which has the right to present such bank drafts to the issuing banks for payment on their respective maturity dates.

    The service fee payable by the Company for the draft discount services to be provided by Hisense Finance shall not be less favourable than the service fee charged by normal commercial banks in the PRC for providing comparable draft discount services.

(6) The Company will make payment for such interest and fees (if any) in accordance with the payment terms of the separate agreements for the provision of loans and draft discount services as might be entered into between the parties.

PROPOSED ANNUAL CAPS

Deposit Service

The Company currently expects that the maximum daily balance of the deposits placed by the Group with Hisense Finance at any time during the life of the Financial Services Agreement shall not exceed the cap of RMB500,000,000 on any given day.

Such proposed cap has been determined based on (i) the historical cashflow figures of the Group; and (ii) the historical transaction figures for the deposit services provided by other financial institutions to the Group that the average monthly balance of the deposits placed by the Group with other financial institutions were RMB1,229,595,000, RMB402,216,000 and RMB282,135,000 for the three years ended 31 December 2005, 31 December 2006 and 31 December 2007, respectively; and (iii) the expected financial needs of cash of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (iv) the proposed loans to be provided by Hisense Finance to the Group under the Financial Services Agreement will first be transferred by Hisense Finance to the Group in its deposit account with Hisense Finance for withdrawal.

Loan Service

The Company currently expects that the maximum balance of loan to be provided by Hisense Finance to the Group shall not exceed the cap of RMB1 billion during the term of the Financial Services Agreement.

Such proposed cap has been determined based on (i) the historical cashflow figures of the Group; and (ii) the historical transaction figures for the loan services provided by other financial institutions to the Group that the average monthly balance of the loans provided by other financial institutions to the Group were RMB1,657,338,000, RMB1,407,321,000 and RMB1,052,266,000 for the three years ended 31 December 2005, 31 December 2006 and 31 December 2007, respectively; and (iii) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (iv) the plan of the Group to obtain more loans from Hisense Finance instead of from other financial institutions for the year ending 31 December 2008 since the terms for the provision of the loans by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the loan application process by the Company.

Draft Discount Service

The Company currently expects that the annual service fee payable by the Company to Hisense Finance for the provision of draft discount services shall not exceed the cap of RMB25,000,000 during the term of the Financial Services Agreement.

Such proposed cap has been determined based on (i) the historical service fees paid by the Company for the draft discount services provided by other financial institutions to the Group which were RMB24,400,000, RMB16,100,000 and RMB4,200,000 for the three years ended 31 December 2005, 31 December 2006 and 31 December 2007, respectively; and (ii) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (iii) the plan of the Group to use more draft discount services to be provided by Hisense Finance instead of from other financial institutions for the year ending 31 December 2008 since the terms for the provision of the draft discount services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the draft discount application process by the Company.

The Company confirms that there is no historical cap nor transaction amount for the deposit, loan and draft discount services between the Group and Hisense Finance.

REASONS FOR AND BENEFITS OF ENTERING INTO THE FINANCIAL SERVICES AGREEMENT

The main reasons for the election by the Company to use Hisense Finance for the provision of the relevant financial services are as follows:

- the rates on loans and deposits offered by Hisense Finance to the Group will be equal to or more favourable than those offered by PRC commercial banks;

- the Group is expected to benefit from Hisense Finance's better understanding of the operations of the Group which should allow more expedient and efficient service provision that those offered by PRC commercial banks; and

- Hisense Finance is regulated by the CBRC and engages into the provision of financial services in compliance with the regulations and operation requirements issued by the relevant regulatory authorities. Its primary customer is the companies within the Hisense Group. In general, as the risks exposed to Hisense Finance are lesser than those exposed to the financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard the customers' funds more effectively.

The Board considers that the terms of the Financial Services Agreement and the proposed caps in respect of the maximum daily balance of deposit and the maximum annual loan amount and the draft discount amount under the Financial Services Agreement are fair and reasonable and are entered into on normal commercial terms, and on terms no less favourable than those available to Independent third parties under the prevailing local market conditions, in the ordinary and usual course of business of the Company and in the interests of the Company and its Shareholders as a whole.

RISKS RELATING TO THE TRANSACTION AND RISK CONTROL MEASURES

The Company considers that there are some uncertainties as to whether the Company can effectively use Hisense Finance as a financial Platform. The following risk control measures are to be taken to safeguard the credit risks that might be associated with the Group for the utilization of the financial services to be provided by Hisense Finance under the Financial Services Agreement:-

1) Hisense Finance shall ensure the prudent management of its business and the strict compliance with the risk control indicators for financial institutions issued by the CBRC and its monitoring indicators such as gearing ratio and liquidity ratio have also complied with the requirements of the CBRC.

2) Hisense Finance shall implement periodic evaluation metric and establish internal control system and risk monitoring system indicators to ensure the safe and stable operation of fund management.

3) The Company shall review the ratio of the Group's deposit and loans with Hisense Finance so as to evaluate the risk of placing deposits with Hisense Finance.

Since the Board is of the view that the implementation of the above measures will enable the Company to exert adequate control by the Company over the risks involved in depositing funds with Hisnese Finance, the Board considers that the above measures and procedures can provide sufficient assurance to the Shareholders of the Company that the transactions under the Financial Services Agreement will be appropriately monitored by the Company and the interest of the Shareholders can be safeguarded.

EFFECTS OF THE USE OF THE DEPOSIT SERVICES UNDER THE FINANCIAL SERVICES AGREEMENT ON THE EARNINGS AND ASSETS AND LIABILITY OF THE COMPANY

The Company expects that the interest rate on the deposit of the Company to be placed in Hisense Finance will be higher than the interest rate to be given by other banks and financial institutions in the PRC. Therefore, the Company expects that there will be a slight increase on the interest revenues of the Company. However, since the interest revenues of the Company of past years, which are in the sums of approximately RMB5,238,000 and RMB3,753,000 for the two years ended 31 December 2006 and 31 December 2007 respectively, only represent a small proportion of its earnings, assets and liabilities, the Company therefore anticipates that its use of deposit services under the Financial Services Agreement will not have any material impact on its earnings, assets and liabilities.

INFORMATION RELATING TO THE COMPANY

The Company is principally engaged in the manufacture and sales of refrigerators and air-conditioners.

INFORMATION ON HISENSE FINANCE

Hisense Finance is a non-bank financial institution which establishment was approved by the CBRC and is regulated by CBRC and other regulatory authorities in the PRC. Hisense Finance was established in the PRC on 12 June 2008 with a registered capital of RMB300 million. Hisense Finance is owned as to 85% by Hisense Group and 15% by China Everbright Limited (Stock Code: 00165, a company listed on the Stock Exchange). Hisense Finance is not a banking company as defined in R14A.10 of the Listing Rules.

Under the approval document relating to the establishment of Hisense Finance dated 29 May 2008 issued by the CBRC (Yin Jian Fu No. 207 of 2008), the business scopes of Hisense Finance include: the provision of financial services, including financial consultation, credit appraisal and other relevant advice and agency services to member companies; provision of assistance in receiving transaction proceeds to member companies; provision of insurance agency services, security, entrusted loans and entrusted investment services, draft acceptance and discount services, and planning of settlement scheme, deposit services, loans and finance leasing and intra-group transfer and settlement services to member companies.

Since Hisense Finance was only newly established on 12 June 2008, there is no credit rating in respect of Hisense Finance at present.

LISTING RULES IMPLICATIONS

Hisense Air-conditioning is a substantial shareholder of the Company, holding approximately 24.31% of the issued share capital of the Company. Hisense Group is an indirect holding company of Hisense Air-conditioning and Hisense Finance is a subsidiary of Hisense Group and is therefore an Associate of Hisense Air-conditioning. Therefore, Hisense Finance is a connected person (as defined under the Listing Rules) of the Company. Accordingly, the transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company under the Listing Rules and the maximum transaction amounts for the provision of deposit and loan services by Hisense Finance to the Group should be aggregated for the purpose of Rules 14A.25 to 14A.27 of the Listing Rules.

As each of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) applicable to the aggregated amounts of the transactions for the provision of deposit, loan and draft discount services by Hisense Finance to the Group contemplated under the Financial Services Agreement is more than 2.5%, such transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules.

Further, the provision of deposit services under the Financial Services Agreement also constitutes the provision of financial assistance by the Company to Hisense Finance under Rule14.04(1)(e) of the Listing Rules. Since the and consideration ratio for the provision for deposit services are more than 25%, it constitutes a major transaction (as defined under Chapter 14 of the Listing Rules) and is subject to the announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules. The provision of deposit services under the Financial Services Agreement also constitutes advance to an entity and is subject to the requirements under Rule 13.13 of the Listing Rules. The Company will comply with the general disclosure obligation when the amount of the advance to Hisense Finance increases since the previous disclosure under Rule 13.13 of the Listing Rules is 3% or more under the assets ratio as defined under Rule 14.07(1) of the Listing Rules.

Since Hisense Air-Conditioning is a shareholder of the Company holding approximately 24.31% of its issued share capital, it and its Associates will be abstained from voting in the EGM in relation to the approval of the provision of deposit, loan and draft discount services under the Financial Services Agreement pursuant to the requirement of the Listing Rules.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the production and sale of air-conditioners and refrigerators. It is currently one of the largest manufacturers in the White Goods industry in the PRC.

The PRC economy has undergone a sustained economic growth over the past decades. As a result of the continuous growth of the purchasing power of the PRC residents, the demand for electrical appliances has sustained a steady growth and has brought about an invaluable opportunity for the development of the white goods industry of the PRC.

In anticipation of the increasing demand of white good products in the domestic markets as a result of the expected growth in the PRC GDP, the Board is optimistic about the future prospects of the Group's business and operating results.

However, save as the above and those information stated in this circular, the Shareholders and potential investors shall also evaluate the following risks relating to the White Goods industry in the PRC:

(i) changes in existing government policies or political, legal (including changes in legislations, regulations or rules), regulatory, fiscal, economic, market conditions, or the macro-economy measures in the PRC may lead to a decrease in demand of white goods products, or changes in interest rates, and may have an adverse impact on the financial position of the Group;

(ii) the material costs as well as the salary of labour may increase which will increase the cost in the White Goods manufacturing process, this may have a negative impact on the Group's results and financial position; and

(iii) the product recalls and repurchases as a result of the change in the existing consumer laws and regulations or the adoption of the new laws and regulations in the future that have onerous compliance obligation, this may adversely affect the Group's operations and financial position.

EGM

A notice of the EGM to be held on 17 November 2008 at the conference room of the Company's head office, Shunde District, Foshan City, Guangdong Province, the PRC, at which relevant resolution will be proposed to approve, among other things, the Financial Services Agreement and the transactions contemplated thereunder.

The form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office for H Shares, Hong Kong Registrars Limited at Rooms 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so desire.

In accordance with article 8.28 of the articles of association of the Company, a poll may be demanded in any general meeting of the Company by:

(A) the chairman of the meeting; or

(B) at least two Shareholders with voting rights or their representative; or

(C) individual or a group of Shareholders (including their representatives) holding 10% or more of the voting rights present in that general meeting.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Financial Services Agreement are fair and reasonable and is in the best interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

Your attention is also drawn to the letter of advice from Access Capital, which are set out on pages 14 to 34 in this circular, to the Independent Board Committee and the Independent Shareholders in respect of the terms of and the annual caps for the continuing connected transactions contemplated under the Financial Services Agreement.

ADDITIONAL INFORMATION

Your attention is drawn to the general information of the Group as well as other information contained in the appendices to this circular before considering whether to vote for or against the resolution to be proposed at the EGM for approving the Financial Services Agreement as set out in the notice of the EGM.

SUSPENSION OF TRADING IN THE H SHARES OF THE COMPANY

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

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

Yours faithfully,
By Order of the Board of
Hisense Kelon Electrical Holdings Company Limited
Tang Ye Guo
Chairman

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED
海信科龍電器股份有限公司
(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00921)

26 September 2008

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to Shareholders dated 26 September 2008 (the "Circular") of which this letter forms part. Terms defined in this Circular shall have the same meanings in this letter unless the context otherwise requires.

Under the Listing Rules, the entering into of the Financial Services Agreement constitutes continuing connected transactions for the Company and is thus subject to the approval of the Independent Shareholders at the EGM.

We have been appointed by the Board to consider the terms of the Financial Services Agreement and to advise the Independent Shareholders in connection with the Financial Services Agreement as to whether, in our opinion, its terms and its annual cap are fair and reasonable so far as the Independent Shareholders are concerned. Access Capital has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from Access Capital as set out in this Circular. Having considered the principal factors and reasons considered by, and the advice of Access Capital as set out in its letter of advice, we consider that the Financial Services Agreement are on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

We also consider that the Financial Services Agreement and its annual cap is fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Financial Services Agreement and the continuing connected transactions contemplated thereunder the EGM.

Yours faithfully,
For and on behalf of the Independent Board Committee
Zhang Sheng Ping **Lu Qing** **Cheung Yui Kai, Warren**
Independent non-executive Directors
Hisense Kelon Electrical Holdings Company Limited

Set out below is the text of the letter of advice from Access Capital Limited to the Independent Board Committee and the Independent Shareholders prepared for inclusion in this Circular.

Access Capital

Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

26 September 2008

To the Independent Board Committee and
the Independent Shareholders of
Hisense Kelon Electrical Holdings Company Limited

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS
AND
MAJOR TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Financial Services Agreement, details of which are set out in the circular to the Shareholders dated 26 September 2008 (the "Circular"), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Financial Services Agreement. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 31 July 2008, the Board announced that the Company and Hisense Finance entered into the Financial Services Agreement on the same date, pursuant to which Hisense Finance has agreed to provide the Group, through itself and/or any of its subsidiaries, with deposit services, loan services and draft discount services subject to the terms and conditions provided therein. As at the date of the Financial Services Agreement and the Latest Practicable Date, Hisense Air-conditioning, being a substantial shareholder of the Company holding approximately 24.31% interest in the Company, is a connected person of the Company under the Listing Rules. As Hisense Group is an indirect holding company of Hisense Air-conditioning, Hisense Group and its subsidiaries are Associates of Hisense Air-conditioning and each of them is regarded as a connected person of the Company under the Listing Rules. Hisense Finance, being a subsidiary of Hisense Group, is therefore a connected person of the Company and the transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules (the "Continuing Connected Transactions"). Since the relevant percentage ratios as represented by the aggregate estimated amounts of the Continuing Connected Transactions exceed 2.5% and the annual consideration is more than HK$10,000,000, the Continuing Connected Transactions are subject to the reporting, announcement and independent shareholders' approval requirements in accordance with Rule 14A.35 of the Listing Rules.

In addition, the provision of deposit services under the Financial Services Agreement also constitutes the provision of financial assistance under Rule 14.04(1)(e) of the Listing Rules. Since the consideration ratio for the provision for deposit services is more than 25%, it constitutes a major transaction (as defined under Chapter 14 of the Listing Rules) and is subject to the announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. The provision of deposit services under the Financial Services Agreement also constitutes advance to an entity and is subject to the requirements under Rule 13.13 of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole, and the terms of the Financial Services Agreement including the proposed annual caps are fair and reasonable. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; (ii) whether or not the terms of the Financial Services Agreement, including the maximum value of the transactions contemplated thereunder, are fair and reasonable; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Financial Services Agreement and the transactions contemplated thereunder at the EGM.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company. We are independent of the Company for the purposes of Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Directors and/or the senior management staff of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Continuing Connected Transactions, we have taken into consideration the following principal factors:

I. Background information and reasons for the Financial Services Agreement

1. Information on the Group

The Company was incorporated in the PRC on 16 December 1992 and, together with its subsidiaries, is principally engaged in the manufacture and sale of refrigerators and air-conditioners. As stated in the Company's interim report for the six months ended 30 June 2008 (the "2008 Interim Report"), the Group's operations were carried out in the PRC and almost all of the production facilities of the Group were located in the PRC. For the six months ended 30 June 2008, approximately 63.4% of the Group's turnover was derived from the PRC market (including Hong Kong) with the rest derived from European, American and other overseas markets.

Set out below is a summary of the Group's operating results and financial position for each of the two years ended 31 December 2007 and the six months ended 30 June 2008 as extracted from its published financial statements:—

	For the year ended 31 December 2006	**2007**	**For the six months ended 30 June 2008**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited and restated)	(Audited)	(Unaudited)
Turnover			
— Sales of refrigerators	3,327,896	4,324,808	2,321,288
— Sales of air-conditioners	2,533,360	3,214,875	2,199,985
— Sales of freezers	231,972	324,821	276,516
— Sales of product components	471,029	455,456	249,131
	6,564,257	8,319,960	5,046,920
Gross profit	1,089,472	1,377,171	867,781
Other income and gains	409,305	570,905	107,154
Distribution costs	(869,207)	(1,126,269)	(646,108)
Administrative expenses	(390,978)	(397,500)	(209,938)
Other operating expenses	(56,815)	(133,500)	(5,955)
Profit from operations	181,777	290,807	112,934
Profit for the year/period	49,249	203,657	62,625

	As at 31 December		As at 30 June
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited and restated)	(Audited)	(Unaudited)
Non-current assets	2,237,643	1,990,117	1,979,900
Non-current assets held for sale	—	20,369	—
Current assets	2,430,901	2,404,085	2,890,084
Current liabilities	(5,382,881)	(5,044,345)	(5,430,458)
Non-current liabilities	(13,594)	—	—
Net current liabilities	(2,951,980)	(2,640,260)	(2,540,374)
Total net liabilities	(727,931)	(629,774)	(560,474)

We have noted from the Company's annual report for 2006 (the "2006 Annual Report") that the Company's auditors (the "Auditors"), BDO McCabe Lo Limited, had expressed a qualified opinion on the financial statements of the Company and its subsidiaries for the year ended 31 December 2006 arising from limitation of audit scope. In particular, due to the limitation of information available on and the irregularity of a series of activities/transactions entered into by Guangdong Greencool Enterprise Development Company Limited ("Greencool Enterprise"), which is the previous controlling shareholder of the Company, its affiliates and/or companies suspected to be connected with Mr. Gu Chu Jun ("Mr. Gu"), who is a former executive Director and the former president of the Company, during the period from October 2001 to July 2005 including but not limited to unauthorised use of the Group's funds, fictitious sales of goods and scrap materials, unreasonable prepayments and purchases of raw materials and property, plant and equipment at unreasonable quantities and prices, the Auditors were unable to satisfy themselves concerning the validity of the aforesaid transactions and the appropriateness of the accumulated impairment and the recoverability of the carrying amounts of the receivables and payables due from/to the suspected companies at approximately RMB286 million (net of an accumulated impairment loss of RMB364 million) and RMB132 million, respectively, as at 31 December 2006. Any adjustments found to be necessary would affect the net liabilities of the Group as at 31 December 2006 and the profit for the year then ended. Except for the effects of such adjustments (if any), the Auditors opined that the financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended.

For the year ended 31 December 2006, the Group recorded a turnover of approximately RMB6,564.3 million and a net profit of approximately RMB49.2 million. As compared to the substantial amount of the net loss of approximately RMB3,790.6 million for the year 2005, the positive financial results for the year 2006 represents a significant turnaround of the Group's financial performance. As explained in the 2006 Annual Report, such turnaround was mainly due to the fact that (i) the costs and expenses incurred by the Company were significantly lower than the preceding year as a result of the gradual implementation and adoption of various costs control measures during 2006 and the substantial improvement in gross profit margin; (ii) the Company received subsidies from the PRC Government for technological upgrade and innovation in the sum of RMB70 million during the year; and (iii) there were revenues from the disposal of idle assets by the Company. As noted in the 2006 Annual Report, despite the adverse impact on the confidence of the financial institutions, suppliers and customers on the Company caused by the incident of the investigation by the China Securities and Regulatory Commission (the "CSRC") on the Group for alleged breaches of the securities laws and regulations in the PRC since 5 April 2005 as a result of the formal investigation by the PRC's Public Security Bureau in connection with economic crimes suspected to be committed by Mr. Gu and other former senior management officers responsible for the finance of the Group, the Group was able to improve gradually its production and sales activities with the profit margin of products and the liquidity of assets being further enhanced during 2006.

As for the year ended 31 December 2007, due to the limitation of information available on and the irregularity of a series of activities/transactions entered into by Greencool Enterprise, its affiliates and/or companies suspected to be connected with Mr. Gu during the period from October 2001 to July 2005 and the validity of the aforesaid transactions and the appropriateness of the accumulated impairment and the recoverability of the carrying amounts of the receivables and payables due from/to the suspected companies as mentioned in the 2006 Annual Report, the Auditors had also expressed a qualified opinion on the financial statements of the Company and its subsidiaries for the year ended 31 December 2007 arising from limitation of audit scope.

For the year ended 31 December 2007, the Group recorded a turnover of approximately RMB8,320.0 million, representing an increase of approximately 26.7% from the preceding year's turnover of approximately RMB6,564.3 million. For the same period, the Group recorded a net profit of approximately RMB203.7

million, which represents a significant improvement over the net profit of approximately RMB49.2 million for the financial year 2006. As explained in the Company's annual report for 2007 (the "2007 Annual Report") and further advised by the Company, while 2007 had been a challenging year for PRC home appliance manufacturers there were significant increase in the prices of energy and raw materials around the world; worsening of financing environment under stringent domestic credit and increased financing costs; continued rapid appreciation of RMB; and increased costs of sea freight and non-tariff barriers, the improvement in the Group's profitability was mainly attributable to the overall growth of the PRC economy and the industry, increase in idle assets disposal and revitalised revenues, as well as to the operation quality enhancement measures adopted by the Company during the year.

Nevertheless, as set out in the 2007 Annual Report, despite the considerable improvement as compared to the previous years, the growth of the revenues for the Group's air-conditioner business was still below the planned objectives and economies of scale was not achieved. In addition, as the Company aimed at enhancing its brand image and reputation, it had significantly increased the advertising and brand promotion expenses during the year, which resulting in the increase in sales expense exceeded the increase in revenues. Some production bases of the Group were still out of production and in a state of sustained loss due to the prolonged suspension in the past. In summary, the Company is generally still in a recovery stage. As a number of historical problems have brought numerous difficulties to the Company, the Company still failed to achieve its targets during the financial year 2007.

For the six months ended 30 June 2008, while the Group's unaudited turnover of approximately RMB5,046.9 million represents a slight increase of approximately 4.0% from the unaudited turnover of approximately RMB4,854.0 million for the corresponding period in 2007, its unaudited profit from operations of approximately RMB112.9 million represents a substantial decrease of approximately 22.1% from the unaudited profit from operations of approximately RMB145.0 million for the corresponding period in 2007. For the six months ended 30 June 2008, the Group recorded an unaudited net profit of approximately RMB62.6 million, representing a decrease of approximately 32.2% from the unaudited net profit of approximately RMB96.6 million for the six months ended 30 June 2007. As noted in the 2008 Interim Report, the decrease in the operating profit and net profit for the six months ended 30 June 2008 as compared to the corresponding period in 2007 was mainly due to the fact that the other income and gains recorded by the Group for the six months ended 30 June 2008 were approximately RMB107.2 million, which amounted to only about half of the other income and gains of approximately RMB203.3 million recorded by the Group for the corresponding period in 2007.

As set out in the 2008 Interim Report, during the six months ended 30 June 2008, the macro-economic environment became more challenging to domestic enterprises in view of continued appreciation of Renminbi and the increasing capital pressure and climbing financing costs resulting from the contractionary monetary policy adopted by the PRC Government to tame inflation. Against the background of shuttling energy and raw materials prices, consumer price index and producer price index remained obstinately high, and the market of refrigerating products, particularly the air-conditioner sector, was subject to unprecedented challenges, posting a significant year-on-year downturn for the industry. During the first half of 2008, the business conditions for enterprises both in the domestic market and the international market grew bleak. Under the influence of the aforesaid factors, the Company has experienced significantly higher operating pressure as compared to the previous reporting period.

As at 30 June 2008, the Group had unaudited total current assets of approximately RMB2,890.1 million and unaudited total current liabilities of approximately RMB5,430.5 million, representing net current liabilities of approximately RMB2,540.4 million. As at 30 June 2008, the Group had outstanding bank loans of approximately RMB969.9 million and its unaudited total net liabilities amounted to approximately RMB560.5 million.

For further details of the Auditors' opinion on the Company's financial statements and its latest financial position, Shareholders are advised to read the respective annual reports and interim report.

2. Information on Hisense Finance and Hisense Group

As set out in the Letter from the Board, Hisense Finance is a non-bank financial institution which establishment was approved by the CBRC and is regulated by the CBRC and other regulatory authorities in the PRC. Hisense Finance was established in the PRC on 12 June 2008 with a registered capital of RMB300 million and its business scopes include the provision of financial services (including financial consultation, credit appraisal and other relevant advice and agency services to member companies), provision of assistance in receiving transaction proceeds to member companies, provision of insurance agency services, security, entrusted loans and entrusted investment services, draft acceptance and discount services, and planning of settlement scheme, deposit services, loans and finance leasing and intro-group transfer and settlement services to member companies. As Hisense Finance was newly established on 12 June 2008, there is no credit rating in respect of Hisense Finance at present.

As mentioned above, Hisense Group is the holding company of Hisense Finance. Based on the information available from the website of Hisense Group, Hisense

Group is one of the major electronic companies in the PRC. Hisense Group is headquartered in Qingdao, the PRC and has operational presence in every major continent and sells its products to more than 100 countries worldwide. Its major product lines include televisions, digital video disc players, stereos, set-top boxes, mobile phones, air-conditioning systems and refrigerators. In addition, we note that Hisense Electric Co., Ltd. ("Hisense Electric"), of which Hisense Group was beneficially interested in approximately 48.40% of the issued share capital as at the Latest Practicable Date, has been listed on the Shanghai Stock Exchange of the PRC since 1997. The following financial results of Hisense Electric for each of the three years ended 31 December 2005, 2006 and 2007 are extracted from its 2007 annual report.

	For the year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Turnover	11,799,673	13,775,240	14,838,636
Net profit attributable to equity holders	102,401	130,554	203,835
Net assets as at year end	2,480,111	2,659,814	2,811,752

As indicated above, Hisense Electric reported an average annual compound growth of approximately 12.1% and 41.1% for its turnover and net profit, respectively, from 2005 to 2007. As stated in its latest annual report for the year ended 31 December 2007, the turnover of Hisense Electric mainly represented sales of televisions and refrigerators and over 80% of its turnover was generated from domestic sales in the PRC. As at 31 December 2007, Hisense Electric had audited net assets of approximately RMB2,811.8 million. In view of the favourable historical financial performance of Hisense Electric for the past few years and its strong financial position as at 31 December 2007, we consider that it has demonstrated a good track record and is one of the major electronic companies in the PRC.

3. *Reasons for the Continuing Connected Transactions*

As set out in the Letter from the Board, the main reasons for the election by the Company to use Hisense Finance for the provision of the relevant financial services are as follows:

— the rates on loans and deposits offered by Hisense Finance to the Group will be equal to or more favourable than those offered by PRC commercial banks;

— the Group is expected to benefit from Hisense Finance's better understanding of the operations of the Group which should allow more expedient and efficient service provision than those offered by PRC commercial banks; and

— Hisense Finance is regulated by the CBRC and engages into the provision of financial services in compliance with the regulations and operation requirements issued by the relevant regulatory authorities. Its primary customer is the companies within the Hisense Group. In general, as the risks exposed to Hisense Finance are lesser than those exposed to the financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard the customers' funds more effectively.

The Company considers that the Continuing Connected Transactions are entered into on normal commercial terms, and on terms no less favourable than those available to independent third parties under the prevailing local market conditions, in the ordinary and usual course of business of the Company and in the interests of the Company and its shareholders as a whole.

Based on our discussion with the Directors, we understand that the Group has been occasionally utilising financial services rendered by PRC commercial banks such as deposit services, loan services and draft discount services in the usual and ordinary course of its business. As advised by the Directors, due to the continuing appreciation of Renminbi, increase of energy and raw materials prices and persistent high inflation rate in China in recent years, the market of refrigerating and air-conditioning products was subject to unprecedented challenges and the competition on the PRC household appliances market would continue to intensify in the foreseeable future. In light of the expected intense competition in the household appliances market and the increase in the prices of raw materials and energy, the Directors are of the view that in order to compete successfully, it is important for the Company to have effective cost control measures including but not limited to strengthening its existing cost management as well as the tracking and analysis of the uses of the costs. Through reducing the level of capital used in all areas, strictly controlling the liquidity risk and increasing the capital utilisation efficiency, the Group may be able to increase its profitability as well as competitiveness by lowering the financing costs and improving the liquidity position.

As mentioned in the section headed "Information on the Group" above, the CSRC's investigation on the Company for alleged breaches of the securities laws and regulations in the PRC as announced in May 2005 had adversely affected the confidence of the financial institutions, suppliers and customers on the Company. The Group had also experienced difficulties in renewal and origination of banking facilities and the lack of working capital significantly disturbed the Group's relationship with its suppliers and sales agents. As a result, the Group missed the peak season for production and sales of refrigerators and air-conditioners in the financial year 2005 and recorded a significant loss. For the financial years 2006 and 2007, the Group had been able to improve gradually its production and sales activities with overall profitable results recorded for the relevant periods. Nevertheless, as noted in the 2007 Annual Report, while the Group had managed to improve its revenues and operational effectiveness in light of the favourable growth of the PRC economy as well as the household appliances industry, the Company is generally still in a recovery stage and the Company still failed to achieve its targets during the year as a result of a number the historical problems.

As at 30 June 2008, the Group had outstanding bank loans of approximately RMB969.9 million and its unaudited total net liabilities amounted to approximately RMB560.5 million. In addition, the Group's total unaudited current liabilities exceeded its total unaudited current assets by approximately RMB2,540.4 million. Based on the existing financial position of the Group, we consider that the Group's ongoing operations have been to significant extent relied on the availability of the banking facilities from financial institutions. Should the Group be unable to renew its existing banking facilities with the relevant financial institutions, it is likely that the Group would not have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due.

Furthermore, given the significant amount of bank borrowings utilised by the Group to finance its operations, the Group has been incurring substantial amount of finance costs and the Group is also rather vulnerable to the prevailing economic climate in China under which there is increasing capital pressure and climbing financing costs resulting from the contractionary monetary policy adopted by the PRC Government to tame inflation. For instance, while the Group had been able to reduce its total outstanding bank borrowings from approximately RMB1,311.0 million as at 31 December 2007 to approximately

RMB969.9 million as at 30 June 2008, its total finance costs for the six months ended 30 June 2008 amounted to approximately RMB51.0 million, which still represents an increase of approximately 6.3% from the total finance costs of approximately RMB48.0 million for the corresponding period in 2007.

In view of the substantial interest of Hisense Group in the Company, we consider it commercially reasonable and sensible for Hisense Group to assist the Group in maintaining its competitiveness as well as rebuilding its market position which has been adversely affected by the CSRC's investigation. Hisense Group, together with its subsidiaries, is currently one of the major electronic companies in the PRC and has demonstrated a good track record in the household appliances business. Pursuant to the Financial Services Agreement, the Group will be able to obtain certain deposit services, loan services and draft discount services from Hisense Finance, the terms of which cannot be less favourable to the Company than those available from other normal commercial banks and financial institutions. As there is a possibility that the financing costs of the Continuing Connected Transactions may be lower (but in any event cannot be higher) than the financing costs of the relevant transactions with other normal commercial banks and financial institutions (particulars of which are discussed under the section headed "Terms of the Financial Services Agreement"), the Group may be able to reduce its total finance costs, which is currently one of the cost control measures of the Company aiming to improve its competitiveness. In light of the existing financial position of the Group as discussed above, we consider that the Continuing Connected Transactions, which will be conducted in the ordinary and usual course of business of the Company, are in the interests of the Company and the Shareholders as a whole.

II. Terms of the Financial Services Agreement

As set out in the Letter from the Board, the term of the Financial Services Agreement is one year as effective from obtaining the approval by the Independent Shareholders at the EGM. The principal terms of the Financial Services Agreement are summarised as follows:—

(1) The services to be provided by Hisense Finance to the Group include deposit services, loan services and draft discount services;

(2) Hisense Finance shall be appointed to provide financial services to the Group, subject to compliance with the terms and conditions of the Financial Services Agreement and the subsequent agreement of the terms and conditions by the parties thereto in relation to the provision of each particular service which shall be recorded in writing. The Group may however obtain financial services, including deposit services, loan services and draft discount services, from other financial institutions in addition to or instead of Hisense Finance, as it sees fit;

(3) The interest rate payable for the Group's deposits with Hisense Finance shall not be lower than the rate payable by normal commercial banks in the PRC for comparable deposits and such interest shall be payable by Hisense Finance on a quarterly basis by way of crediting cash into the deposit account of the Group. The terms for the provision of the deposit services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions;

(4) The interest rate charged for the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans and such interest shall be payable by the Group to Hisense Finance on a monthly basis payable on the 20th day of each month. The terms for the provision of the loans by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions. Security over the assets of the Company may be provided by the Company to Hisense Finance in respect of the loan services rendered, depending on the then circumstances for the provision of the loan services;

(5) Hisense Finance will provide draft discount services to the Group, which means that the Group is entitled to present bank drafts to Hisense Finance for payment before the maturity date of the bank drafts. In return, Hisense Finance will charge service fee from the Group for "cashing" the bank drafts. After the Group has discounted the bank drafts with Hisense Finance, such bank drafts will belong to Hisense Finance which has the right to present such bank drafts to the issuing banks for payment on their respective maturity dates. The service fee payable by the Company for the draft discount services to be provided by Hisense Finance shall not be less favourable than the service fee charged by normal commercial banks in the PRC for providing comparable draft discount services; and

(6) The Company will make payment for such interest and fees (if any) in accordance with the payment terms of the separate agreements for the provision of loans and draft discount services as might be entered into between the parties.

Based on our review of the principal terms of the Financial Services Agreement as stated above, we consider (i) the non-exclusivity of the financial services to be provided under the Financial Services Agreement (i.e. the Group is free to obtain such financial services from other financial institutions as it sees fit) and (ii) the condition that the actual terms of such financial services shall not be less favourable than those offered by other normal commercial banks and financial institutions to be the most important terms in safeguarding the interests of the Company. In addition, we have reviewed some sample documents between the Group and its existing banks and note that interest charges on the loans provided to the Group by those banks are payable on a monthly basis whereas interest revenue on deposits placed by the Group with them are receivable on a quarterly basis. As such, we consider that the terms of the Financial Services Agreement regarding the basis of interest payments are on normal commercial terms.

Given the nature of the Financial Services Agreement as a kind of framework agreement, the relevant transactions have not yet taken place and the exact terms of the Continuing Connected Transactions cannot be available until the actual transactions are being carried out by the relevant parties. Nevertheless, we understand from the management of the Company that given the substantial interest of Hisense Group in the Company and its intention to assist the Group in rebuilding the market position which has been adversely affected by the CSRC's investigation, the relevant parties expect that the interest rates applicable for the Continuing Connected Transactions from time to time during the term of the Financial Services Agreement will be offered by Hisense Finance to the Company on a basis that is more favourable than those available from other normal commercial banks and financial institutions. As set out in the Letter from the Board, the Company expects that there will be a slight increase in the interest revenue of the Group as a result of the higher interest rate on the deposits to be placed by the Group with Hisense Finance.

On the other hand, in the event that the Group is able to obtain a lower interest rate/ service fee charged for the loans or the draft discount services to be provided by Hisense Finance, the Group can reduce its expenses which will be in the interests of the Company and the Shareholders as a whole. In summary, on the basis that (i) the Continuing Connected Transactions may be able to reduce the expenses of the Group so as to enhance its competitiveness; (ii) the Continuing Connected Transactions will be conducted in the ordinary and usual course of business of the Group and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions; and (iii) the non-exclusive arrangement under the Financial Services Agreement provides the Company with the flexibility without any commitment or obligation for the Company to obtain such services from Hisense Finance, we are of the view that the terms of the Financial Services Agreement are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

III. Rationale for determining the maximum value of the transactions contemplated under the Financial Services Agreement

Pursuant to Rule 14A.35(2) of the Listing Rules, the transactions contemplated under the Financial Services Agreement will be subject to a maximum aggregate annual value ("cap") in respect of each category of the Continuing Connected Transactions (i.e. the deposit services, the loan services and the draft discount services). The proposed annual caps of the transactions contemplated under the Financial Services Agreement are as follows:—

	Proposed annual caps *(RMB)*
Maximum daily balance of the deposits to be placed by the Group with Hisense Finance in respect of the deposit services:	500,000,000
Maximum balance of the loan to be provided by Hisense Finance to the Group in respect of the loan services:	1,000,000,000
Maximum aggregate value of the service fees payable by the Group to Hisense Finance in respect of the draft discount services:	25,000,000

The Company has advised that it did not conduct any similar transactions with Hisense Finance in the past and that the Continuing Connected Transactions have not been commenced as at the Latest Practicable Date. For the purpose of evaluating the fairness and reasonableness of the above annual caps, we have analysed the historical value of the relevant transactions between the Group and other commercial banks and financial institutions in the past and discussed with the Directors about the underlying basis for determining the value of such proposed annual caps. Details of our analysis in respect of each annul cap are summarised as follows:—

Deposit Services

As set out in the Letter from the Board, the Company currently expects that the maximum daily balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the cap of RMB500,000,000 on any given day. Such proposed cap has been determined based on (i) the historical cashflow figures of the Group; (ii) the historical transaction figures for the deposit services provided by other financial institutions to the Group that the average monthly balance of the deposits placed by the Group with other financial institutions were approximately RMB1,229,595,000, RMB402,216,000 and

RMB282,135,000 for each of the three years ended 31 December 2005, 2006 and 2007, respectively; and (iii) the expected financial needs of cash of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (iv) the proposed loans to be provided by Hisense Finance to the Group under the Financial Services Agreement will first be transferred by Hisense Finance to the Group in its deposit account with Hisense Finance for withdrawal.

In general, we have discussed with the management of the Company about its business development plans on areas relating to research and development, investment, sales and supply of the Group. In particular, we understand that the Company intends to strengthen its research and development capacity so as to shorten the lead time for its products. The Company also intends to allocate more financial resources on brand development as competition among household appliance producers who are principally operating on an Original-Equipment-Manufacturer ("OEM") basis has become increasingly fierce. As mentioned above, the Group had outstanding bank loans of approximately RMB969.9 million and its unaudited total net liabilities amounted to approximately RMB560.5 million as at 30 June 2008. While we have not discussed with the relevant financial institutions, we are of the view that in light of the current financial position of the Group, it may be difficult for the Company to obtain additional credit facilities from the existing financial institutions on acceptable terms. For the purposes of efficient treasury management and satisfying the financial needs for its existing development plans, the Company expects that the Group may frequently utilise the loan services and draft discount services to be provided by Hisense Finance if the relevant terms are more favourable than those available from other financial institutions. On the other hand, since the proposed loans to be provided by Hisense Finance to the Group under the Financial Services Agreement will first be transferred by Hisense Finance to the Group in its deposit account with Hisense Finance for withdrawal, the Company also expects to utilise frequently the deposit services to be provided by Hisense Finance.

For the purpose of evaluating the fairness and reasonableness of the proposed cap of RMB500 million in respect of the deposit services, we have analysed the historical value for the deposit services provided by other financial institutions to the Group in the past so as to see whether or not the proposed cap is excessive. As mentioned above, the average monthly balance of the deposits placed by the Group with other financial institutions were approximately RMB1,229,595,000, RMB402,216,000 and RMB282,135,000 for each of the three years ended 31 December 2005, 2006 and 2007, respectively. While we note that such average monthly balance figures had been decreasing during the past three financial years, the overall average monthly balance for the whole three-year period would still amount to approximately RMB638.0 million, which is substantially higher than the proposed annual cap of RMB500 million in respect of the deposit services under the Financial Services Agreement. As such, we do not consider the proposed annual cap of RMB500 million in respect of the deposit services to be excessive.

In addition, as set out above, it is proposed that the loans to be provided by Hisense Finance to the Group under the Financial Services Agreement will first be transferred by Hisense Finance to the Group in its deposit account with Hisense Finance for withdrawal. Given the proposed maximum loan amount of RMB1,000 million to be provided by Hisense Finance to the Group in respect of the loan services (which is two times of the proposed maximum daily balance of the deposit to be placed by the Group with Hisense Finance), we do not consider the proposed annual cap of RMB500 million in respect of the deposit services under the Financial Services Agreement to be excessive. Given that (i) the proposed transactions contemplated under the Financial Services Agreement will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions and (ii) the non-exclusive arrangement under the Financial Services Agreement provides the Company with the flexibility without any commitment on the actual transaction values, we are of the view that the proposed annual cap of RMB500 million in respect of the deposit services under the Financial Services Agreement is fair and reasonable.

Loan services

As set out in the Letter from the Board, the Company currently expects that the maximum balance of loan to be provided by Hisense Finance to the Group shall not exceed the cap of RMB1 billion during the term of the Financial Services Agreement. Such proposed cap has been determined based on (i) the historical cashflow figures of the Group; (ii) the historical transaction figures for the loan services provided by other financial institutions to the Group that the average monthly balance of the loans provided by other financial institutions to the Group were approximately RMB1,657,338,000, RMB1,407,321,000 and RMB1,052,266,000 for each of the three years ended 31 December 2005, 2006 and 2007, respectively; (iii) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (iv) the plan of the Group to obtain more loans from Hisense Finance instead of from other financial institutions for the year ending 31 December 2008 since the terms for the provision of the loans by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the loan application process by the Company.

In view of the fact that the average monthly balance of the loans provided by other financial institutions to the Group were approximately RMB1,657,338,000, RMB1,407,321,000 and RMB1,052,266,000 for each of the three years ended 31 December 2005, 2006 and 2007, respectively, which are all higher than the proposed annual cap of RMB1,000,000,000 for the loan services to be provided by Hisense Finance, we consider such proposed annual cap in respect of the loan services under the Financial Services Agreement to be fair and reasonable. We are also of the view that the loan services under the Financial Services Agreement will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions.

Draft discount services

As set out in the Letter from the Board, the Company currently expects that the annual service fee payable by the Company to Hisense Finance for the provision of draft discount services shall not exceed the cap of RMB25,000,000 during the term of the Financial Services Agreement. Such proposed cap has been determined based on (i) the historical service fees paid by the Company for the draft discount services provided by other financial institutions to the Group which were approximately RMB24,400,000, RMB16,100,000 and RMB4,200,000 for each of the three years ended 31 December 2005, 2006 and 2007, respectively; (ii) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (iii) the plan of the Group to use more draft discount services to be provided by Hisense Finance instead of from other financial institutions for the year ending 31 December 2008 since the terms for the provision of the draft discount services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the draft discount application process by the Company.

As mentioned above, the historical service fees paid by the Company for the draft discount services provided by other financial institutions to the Group were approximately RMB24,400,000, RMB16,100,000 and RMB4,200,000 for each of the three years ended 31 December 2005, 2006 and 2007, respectively. While we note that such payments of service fees had been decreasing during the past three financial years, the proposed annual cap of RMB25 million approximates the actual amount of the service fees paid by the Group for the year ended 31 December 2005. As advised by the Directors, the Company currently expects that as a result of the business development plans on areas relating to research and development, investment, sales and supply of the Group, the Company shall utilise more draft discount services in the coming years under which the amount of the service fees may return to the historical level in the previous financial years prior to the financial crisis caused by the CSRC's investigation.

In view of the fact that (i) the proposed draft discount services to be provided by Hisense Finance to the Group will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions; (ii) the non-exclusive arrangement under the Financial Services Agreement provides the Company with the flexibility without any commitment on the actual transaction values; and (iii) given the existing development plans of the Company, it is generally in the interest of the Company to maximise the amount of service fees payable so as to provide for its expected increasing utilisation in the coming financial years, we are of the view that the proposed annual cap of RMB25 million in respect of the draft discount service fees to be payable under the Financial Services Agreement is fair and reasonable.

IV. Risk control measures for the Continuing Connected Transactions

As set out in the Letter from the Board, the Company considers that there are some uncertainties as to whether the Company can effectively use Hisense Finance as a financial platform. The following risk control measures are to be taken to safeguard the credit risks that might be associated with the Group for the utilisation of the financial services to be provided by Hisense Finance under the Financial Services Agreement:-

(1) Hisense Finance shall ensure the prudent management of its business and the strict compliance with the risk control indicators for financial institutions issued by the CBRC and its monitoring indicators such as gearing ratio and liquidity ratio have also complied with the requirements of the CBRC;

(2) Hisense Finance shall implement periodic evaluation metric and establish internal control system and risk monitoring system indicators to ensure the safe and stable operation of fund management; and

(3) The Company shall review the ratio of the Group's deposit and loans with Hisense Finance so as to evaluate the risk of placing deposits with Hisense Finance.

Since the Board is of the view that the implementation of the above measures will enable the Company to exert adequate control by the Company over the risks involved in depositing funds with Hisense Finance, the Board considers that the above measures and procedures can provide sufficient assurance to the shareholders of the Company that the transactions under the Financial Services Agreement will be appropriately monitored by the Company and the interests of the shareholders can be safeguarded.

As mentioned above, Hisense Finance is a non-bank financial institution approved by the CBRC and is subject to the regulations by the CBRC and other regulatory authorities in the PRC. Based on our review of the those regulations of the CBRC applicable to non-bank financial institutions which are engaged in the provision of financial services to member companies, we note that there are certain requirements on financial ratios in relation to, among others, liquidity, working capital sufficiency and extent of fixed assets, short term and long term investments that the financial institutions have to comply with. As such, we have no reason to doubt that the credit risks associated with the utilisation of the financial services to be provided by Hisense Finance might be higher than those associated with other financial institutions in the PRC. We have also discussed with the management of the Company regarding the ratio of the Group's deposit and loans with Hisense Finance and understand that the relevant parties have not yet determined what the ratio of the Group's deposits and loans with Hisense Finance will precisely be. Nevertheless, the Company expects that the actual amount of the deposits to be placed by the Group with Hisense Finance will be less than the actual amount of the loans to be borrowed from Hisense Finance.

In addition, as set out in the section headed "Rationale for determining the maximum value of the transactions contemplated under the Financial Services Agreement" above, the proposed annual cap in respect of the deposit services is RMB500 million whereas the proposed annual cap in respect of the loan services is RMB1,000 million. Accordingly, the maximum amount of the deposits to be placed by the Group with Hisense Finance will represent only half of the maximum amount of the loans to be borrowed by the Group from Hisense Finance. Accordingly, we do not consider the exact ratio of the Group's deposits and loans with Hisense Finance, which will be based on the actual utilisation of the financial services by the Group under the Financial Services Agreement from time to time in accordance with its needs and the prevailing circumstances, to be a significant factor provided that in any event each of the deposit services and the loan services is subject to a cap.

Given the non-exclusive arrangement under the Financial Services Agreement, the Company has the flexibility without any commitment on the actual transaction values. As it is always the decision of the Company in determining whether or not the Group shall place any deposit with, or borrow any loan from, Hisense Finance, the Company will be fully aware of its net position with Hisense Finance and be able to closely monitor the relevant exposure during the whole term of Financial Services Agreement. The Company can adjust, at its own discretion, the respective amounts of the relevant deposits and loans to its satisfaction as and when it considers appropriate. As such, we are of the view that the uncertainties as to whether the Company can effectively use Hisense Finance as a financial platform are eliminated.

In view of aforesaid measures and procedures in connection with the control over the operation risks of Hisense Finance as required by the CBRC and the fact that it is always the decision of the Company in determining whether and when the Group will carry out the relevant transactions under the Financial Services Agreement with Hisense Finance, we are also of the view that the transactions under the Financial Services Agreement will be appropriately monitored by the Company and the interests of the Shareholders are safeguarded.

V. Conditions of the annual caps under the Financial Services Agreement

There are certain conditions of the annual cap pursuant to the Listing Rules, in particular, the restriction of the value of the transactions contemplated under the Financial Services Agreement by way of the annual cap for the relevant financial years and the annual review by the independent non-executive Directors of the terms of such transactions and the relevant annual caps not being exceeded, details of which must be included in the Company's subsequent published annual reports and accounts. Also, pursuant to the Listing Rules, each year the auditors of the Company must provide a letter to the Board confirming, among other things, that the transactions contemplated under the Financial Services Agreement are conducted in accordance with their terms and that the relevant annual caps not being exceeded. In addition, pursuant to the Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of such transactions or the relevant annual caps not being exceeded. We are of the view that there are appropriate measures in place to govern the conduct of the transactions to be contemplated under the Financial Services Agreement and safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the Financial Services Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole, in the ordinary and usual course of business of the Company and on normal commercial terms. We are also of the opinion that the terms of the Financial Services Agreement, including the proposed annual caps, are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable. Accordingly, we would advise the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the ordinary resolution to approve the Financial Services Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Access Capital Limited
Alexander Tai
Principal Director

A. SUMMARY OF FINANCIAL STATEMENTS

The following is a summary of the audited consolidated results, assets and liabilities of the Kelon Group prepared under IFRS for the three years ended 31 December 2007 which are extracted from the respective annual reports of the Kelon Group. All such financial information should be read in conjunction with the audited consolidated financial statements and accompanying notes, which are included in the Kelon Group's annual reports. There were qualifications to each of the auditors' reports in respect of the Kelon Group's financial statements for the three years ended 31 December 2007. The qualified audit opinions for each of the Kelon Group's financial statements for the three years ended 31 December 2007 are set out in Part C of this Appendix. The audited financial statements and accompanying notes of the Kelon Group for the year ended 31 December 2007, as extracted from the Group's 2007 annual report, are set out in Part B of this Appendix.

Consolidated Income Statements

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited & restated)	(Audited & restated)	(Audited)
Turnover	6,978,372	6,564,257	8,319,960
Cost of sales	(6,817,774)	(5,474,785)	(6,942,789)
Gross profit	160,598	1,089,472	1,377,171
Other income and gains	73,328	409,305	570,905
Distribution costs	(1,517,946)	(869,207)	(1,126,269)
Administrative expenses	(1,495,569)	(390,978)	(397,500)
Other operating expenses	(815,931)	(56,815)	(133,500)
Profit from operations	(3,595,520)	181,777	290,807
Dilution loss on share reform of an associate	—	(16,317)	—
Finance costs	(162,524)	(140,672)	(78,530)
Share of results of associates	(31,571)	3,590	2,247
Profit before income tax	(3,789,615)	28,378	214,524
Income tax (expense)/credit	(1,021)	20,871	(10,867)
Profit for the year	(3,790,636)	49,249	203,657
Attributable to:			
Equity holders of the Company	(3,726,095)	69,989	238,712
Minority interests	(64,541)	(20,740)	(35,055)
	(3,790,636)	49,249	203,657
Dividends	—	—	—
Earnings per share attributable to equity holders of the Company			
Basic and diluted	RMB(3.76)	RMB0.07	RMB0.24

Note: There is no extraordinary items nor exceptional items in any of the period shown above.

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited & restated)	(Audited & restated)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	1,828,689	1,612,767	1,383,062
Investment properties	27,723	26,144	38,192
Intangible assets	128,782	125,831	168,112
Payments for leasehold land held for own use under operating leases	470,080	372,533	305,392
Interests in associates	92,186	78,981	82,839
Goodwill	—	—	—
Available-for-sale financial assets	—	—	1,220
Deferred tax assets	—	21,387	11,300
Total non-current assets	2,547,460	2,237,643	1,990,117
Current assets			
Inventories	1,232,979	919,837	940,284
Trade and other receivables	1,414,388	1,119,733	1,307,209
Taxation recoverable	1,474	827	585
Other financial assets	—	—	9,479
Pledged bank deposits	102,814	248,257	70,133
Cash and cash equivalents	184,284	142,247	76,395
Total current assets	2,935,939	2,430,901	2,404,085
Non-current assets held for sale	—	—	20,369
Total assets	5,483,399	4,668,544	4,414,571
LIABILITIES			
Current liabilities			
Trade and other payables	3,534,418	3,093,956	3,093,181
Trade deposits received	277,845	488,587	406,379
Other financial liabilities	—	—	6,158
Provisions	209,916	169,995	144,006
Taxation payable	26,846	26,663	27,856
Other liabilities	43,106	46,978	55,793
Bank borrowings	2,160,523	1,556,702	1,310,972
Total current liabilities	6,252,654	5,382,881	5,044,345

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited & restated)	(Audited & restated)	(Audited)
Non-current liabilities			
Other liabilities	30,818	13,594	—
Total non-current liabilities	30,818	13,594	—
Total liabilities	6,283,472	5,396,475	5,044,345
Net current liabilities	(3,316,715)	(2,951,980)	(2,640,260)
Total assets less current liabilities	(769,255)	(714,337)	(629,774)
Total Net Liabilities	(800,073)	(727,931)	(629,774)
Capital and reserves attributable to equity holders of the Company			
Share Capital	992,007	992,007	992,007
Share premium	1,195,597	1,195,597	1,195,597
Statutory reserves	114,581	114,581	114,581
Capital reserve	403,143	309,733	266,672
Foreign exchange reserve	4,954	14,956	29,111
Accumulated losses	(3,794,745)	(3,621,452)	(3,382,740)
	(1,084,463)	(994,578)	(784,772)
Minority interests	284,390	266,647	154,998
Total Equity	(800,073)	(727,931)	(629,774)

B. FINANCIAL STATEMENTS OF THE KELON GROUP FOR THE YEAR ENDED 31 DECEMBER 2007

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 *RMB'000*	2006 *RMB'000* (Restated)
Turnover	*5*	8,319,960	6,564,257
Cost of sales		(6,942,789)	(5,474,785)
Gross profit		1,377,171	1,089,472
Other income and gains	*7*	570,905	409,305
Distribution costs		(1,126,269)	(869,207)
Administrative expenses		(397,500)	(390,978)
Other operating expenses	*8*	(133,500)	(56,815)
Profit from operations		290,807	181,777
Dilution loss on share reform of an associate		—	(16,317)
Share of results of associates		2,247	3,590
Finance costs	*10*	(78,530)	(140,672)
Profit before income tax	*11*	214,524	28,378
Income tax (expense)/credit	*14*	(10,867)	20,871
Profit for the year		203,657	49,249
Attributable to:			
— Equity holders of the Company		238,712	69,989
— Minority interests		(35,055)	(20,740)
		203,657	49,249
Dividends		—	—
Earnings per share attributable to equity holders of the Company	*15*		
— Basic and diluted		RMB0.24	RMB0.07

Consolidated Balance Sheet
As at 31 December 2007

	Notes	**2007** *RMB'000*	**2006** *RMB'000* (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	*16*	1,383,062	1,612,767
Investment properties	*17*	38,192	26,144
Payments for leasehold land held for own use under operating leases	*18*	305,392	372,533
Interests in associates	*20*	82,839	78,981
Available-for-sale financial assets	*21*	1,220	—
Intangible assets	*22*	168,112	125,831
Goodwill	*23*	—	—
Deferred tax assets	*24*	11,300	21,387
Total non-current assets		1,990,117	2,237,643
Current assets			
Inventories	*25*	940,284	919,837
Trade and other receivables	*26*	1,307,209	1,119,733
Taxation recoverable		585	827
Other financial assets	*27*	9,479	—
Pledged bank deposits		70,133	248,257
Cash and cash equivalents		76,395	142,247
Total current assets		2,404,085	2,430,901
Non-current assets held for sale	*28*	20,369	—
Total assets		4,414,571	4,668,544

	Notes	2007 RMB'000	2006 RMB'000 (Restated)
LIABILITIES			
Current liabilities			
Trade and other payables	*29*	3,093,181	3,093,956
Trade deposits received		406,379	488,587
Other financial liabilities	*27*	6,158	—
Provisions	*30*	144,006	169,995
Taxation payable		27,856	26,663
Other liabilities	*31*	55,793	46,978
Bank borrowings	*32*	1,310,972	1,556,702
Total current liabilities		5,044,345	5,382,881
Non-current liabilities			
Other liabilities	*31*	—	13,594
Total non-current liabilities		—	13,594
Total liabilities		5,044,345	5,396,475
Net current liabilities		(2,640,260)	(2,951,980)
Total assets less current liabilities		(629,774)	(714,337)
TOTAL NET LIABIILTIES		(629,774)	(727,931)
Capital and reserves attributable to equity holders of the Company			
Share capital	*33*	992,007	992,007
Share premium		1,195,597	1,195,597
Statutory reserves	*41(a)*	114,581	114,581
Capital reserve		266,672	309,733
Foreign exchange reserve		29,111	14,956
Accumulated losses		(3,382,740)	(3,621,452)
		(784,772)	(994,578)
Minority interests		154,998	266,647
TOTAL EQUITY		(629,774)	(727,931)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share capital RMB'000	Share premium RMB'000	Statutory reserves (Note 41(a)) RMB'000	Capital reserve RMB'000	Revaluation reserve RMB'000	Foreign exchange reserve RMB'000	Accumulated losses RMB'000	Equity attributable to equity holders of Company RMB'000	Minority interests RMB'000	Total equity RMB'000
As at 1 January 2006, as previously stated	992,007	1,195,597	114,581	29,573	373,570	4,954	(3,794,745)	(1,084,463)	284,390	(800,073)
Effect of change in accounting policies *(Note 4(a))*	—	—	—	280,637	(373,570)	—	103,304	10,371	—	10,371
As at 1 January 2006, as restated	992,007	1,195,597	114,581	310,210	—	4,954	(3,691,441)	(1,074,092)	284,390	(789,702)
Share of reserves of associates	—	—	—	(477)	—	—	—	(477)	—	(477)
Exchange differences on translation	—	—	—	—	—	10,002	—	10,002	2,997	12,999
Profit for the year	—	—	—	—	—	—	69,989	69,989	(20,740)	49,249
As at 31 December 2006	992,007	1,195,597	114,581	309,733	—	14,956	(3,621,452)	(994,578)	266,647	(727,931)
As at 31 December 2006, as previously stated	992,007	1,195,597	114,581	29,096	373,570	14,956	(3,725,527)	(1,005,720)	266,647	(739,073)
Effect of changes in accounting policies *(Note 4(a))*	—	—	—	280,637	(373,570)	—	104,075	11,142	—	11,142
As at 1 January 2007, as restated	992,007	1,195,597	114,581	309,733	—	14,956	(3,621,452)	(994,578)	266,647	(727,931)
Share of reserves of associates	—	—	—	1,611	—	—	—	1,611	—	1,611
Acquisition of additional interests in a subsidiary *(Note 37)*	—	—	—	(44,672)	—	—	—	(44,672)	(36,716)	(81,388)
Disposal of a subsidiary *(Note 38)*	—	—	—	—	—	—	—	—	(36,880)	(36,880)
Exchange differences on translation	—	—	—	—	—	14,155	—	14,155	(2,998)	11,157
Profit for the year	—	—	—	—	—	—	238,712	238,712	(35,055)	203,657
As at 31 December 2007	992,007	1,195,597	114,581	266,672	—	29,111	(3,382,740)	(784,772)	154,998	(629,774)

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000 (Restated)
Operating activities		
Profit before income tax	214,524	28,378
Adjustments for:		
Share of results of associates	(2,247)	(3,590)
Dilution loss on share reform of an associate	—	16,317
Interest income	(3,753)	(5,238)
Interest expense	67,905	121,321
Depreciation of property, plant and equipment	236,181	247,512
Depreciation of investment properties	3,687	641
Amortisation of intangible assets	3,919	4,126
Amortisation of payments for leasehold land held for own use under operating leases	15,555	14,449
Impairment loss on property, plant and equipment	26,658	25,159
Impairment loss on intangible assets	1,282	—
Impairment loss on payments for leasehold land held for own use under operating leases	17,189	—
Loss/(gain) on disposal of property, plant and equipment, net	50,556	(5,180)
Impairment loss on trade and other receivables	13,546	—
Partial recovery of an impaired receivable	(57,072)	—
Reversal of impairment loss on trade and other receivables	(12,564)	(61,012)
Write down of inventories to net realisable value, net	11,954	42,700
Gain on disposal of investment properties	(60,258)	—
Reversal of provision for sales rebates	—	(37,593)
Gain on disposal of a subsidiary	(4,509)	—
Gain on disposal of payments for leasehold land held for own use under operating leases	(284,351)	(38,597)
Gain on fair value change of other financial assets and other financial liabilities, net	(3,104)	—
Operating profit before working capital changes	235,098	349,393
(Increase)/decrease in inventories	(33,310)	270,443
(Increase)/decrease in trade and other receivables	(133,790)	396,716
Increase/(decrease) in trade and other payables	32,274	(289,972)
(Decrease)/increase in trade deposits received	(80,577)	210,741
Decrease in provisions	(25,989)	(39,921)
Decrease in other liabilities	(4,779)	(13,352)
Cash (used in)/generated from operations	(11,073)	884,048
Tax refund/(paid), net	655	(52)
Net cash flows (used in)/generated from operating activities	(10,418)	883,996

	2007 *RMB'000*	2006 *RMB'000* (Restated)
Investing activities		
Purchase of property, plant and equipment	(236,149)	(141,477)
Purchase of intangible assets	(47,482)	(1,175)
Proceeds from disposal of property, plant and equipment	197,544	88,372
Decrease/(increase) in pledged bank deposits	178,124	(145,443)
Purchase of investment properties	(1,035)	—
Proceeds from disposal of investment properties	100,289	—
Purchase of payments for leasehold land held for own use under operating leases	(16,605)	—
Investment in available-for-sale financial assets	(1,220)	—
Disposal of a subsidiary, net of cash disposed	(23)	—
Interest received	3,753	5,238
Proceeds from disposal of payments for leasehold land held for own use under operating leases	131,485	90,646
Net cash flows generated from/(used in) investing activities	308,681	(103,839)
Financing activities		
Bank borrowings raised	1,780,780	1,520,864
Interest paid	(67,905)	(121,321)
Proceeds on transfer of trade and other receivables	142,000	—
Repayment of bank borrowings	(2,026,510)	(2,124,009)
Repayment to a shareholder	(191,004)	(110,000)
Net cash flows used in financing activities	(362,639)	(834,466)
Net decrease in cash and cash equivalents	(64,376)	(54,309)
Cash and cash equivalents at beginning of the year	142,247	184,284
Effect of foreign exchange rate changes	(1,476)	12,272
Cash and cash equivalents at end of year representing bank balances and cash	76,395	142,247

Notes to the Financial Statements

31 December 2007

1. General information

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

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

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

On 29 March 2007, the share reform proposed on 19 December 2006 was completed. Upon its completion, the 262,212,194 domestic shares which were non-freely transferable A shares held by Hisense Air-Conditioner were converted into 238,872,074 transferable shares, representing 24.08% of the Company's total capital. Hisense Air-Conditioner was the substantial shareholder of the Company as at 31 December 2007.

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

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

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB. IFRSs include International Financial Reporting Standards, International Accounting Standards ("IAS") and Interpretations (collectively referred to as "IFRSs"). In addition, the consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of preparation

As at 31 December 2007, the Group's current liabilities exceeded its current assets by approximately RMB2,640 million (2006: RMB2,952 million) in which the Group has outstanding short-term loans in the aggregate of approximately RMB1,311 million (2006: RMB1,557 million) of which approximately RMB18 million (2006: RMB255 million) were overdue as at 31 December 2007. The Company's management confirmed that most of the Group's bankers have expressed their intention to renew/grant credit facilities to the Group upon maturity. However, in the absence of written confirmation from the bankers, there is no assurance that there will be an extension of all such facilities as the debts fall due. Based on the operating budget prepared, the directors are of the opinion that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due for the foreseeable future and have prepared the consolidated financial statements on a going concern basis.

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries and the Group's interests in associates. The measurement basis used in the preparation of the financial statements is historical cost except for certain financial instruments which are measured at fair value as explained in accounting policies.

The accounting policies and bases adopted in the preparation of these financial statements differ in some respects from those used in the statutory accounts of the group entities which are prepared in accordance with generally accepted accounting principles and relevant financial regulations in the PRC.

The Ministry of Finance of the PRC issued a series of new and revised Accounting Standards for Business Enterprises (the "New Chinese Accounting Standards, CAS") on 15 February 2006. The New CAS has become effective from 1 January 2007 for listed companies in the PRC. The Company and all its subsidiaries located in the PRC started to prepare their PRC statutory financial statements in accordance with the New CAS for accounting periods beginning on or after 1 January 2007. The differences arising from the restatement of the result of operations for compliance with IFRSs, if any, are adjusted in these financial statements but will not be taken up in the accounting books of the Group.

(c) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are disclosed in Note 44.

(d) Functional and presentation currency

The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the group entities.

3. Adoption of new or revised international financial reporting standards

(a) Application of International Financial Reporting Standards

In the current year, the Group has applied all the new and revised standards, amendments and interpretations ("new IFRSs") issued by the IASB, that are relevant to its operation and effective for accounting periods beginning on or after 1 January 2007. The adoption of the new IFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented except for the following items.

The adoption of "IFRS 7, Financial Instruments: Disclosure" and "Amendment to IAS 1, Presentation of Financial Statements: Capital Disclosures" resulted in more disclosures in respect of financial instruments and an additional disclosure on capital management policy, respectively. Comparative information has been restated for a consistent presentation or included to reflect the new requirements.

(b) Potential impact arising from the new accounting standards not yet effective

The Group has not yet applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipated that the application of these new IFRSs will have no material impact on the financial statements of the Group.

IAS 1 (Revised)	Presentation of Financial Statements [1]
IAS 23 (Revised)	Borrowing Costs [1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements [5]
IAS 32 and IAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation [1]
IFRS 2 Amendment	Share-based Payments – Vesting Conditions and Cancellations [1]
IFRS 3 (Revised)	Business Combinations [5]
IFRS 8	Operating Segments [1]
IFRIC — Interpretation 11	Group and Treasury Share Transactions [4]
IFRIC — Interpretation 12	Service Concession Arrangements [3]
IFRIC — Interpretation 13	Customer Loyalty Programmes [2]
IFRIC — Interpretation 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [3]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2008
[3] Effective for annual periods beginning on or after 1 January 2008
[4] Effective for annual periods beginning on or after 1 March 2007
[5] Effective for annual periods beginning on or after 1 July 2009

4. Principal accounting policies

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

The financial statements for the year ended 31 December 2007 include a restatement of the 2006 financial statements as a result of the change in accounting policy of the measurement basis of the property, plant and equipment, details and effects of the change are explained below:

	2006
	RMB'000
Income statement:	
Decrease in administrative expenses *(i)*	771
Increase in profit for the year	771
	RMB
Increase in basic earnings per share	0.001

	2006
	RMB'000
	Dr/(Cr)
Balance sheet:	
Increase in cost of property, plant and equipment *(ii)*	99,229
Increase in accumulated depreciation and impairment losses on property, plant and equipment *(ii)*	(88,087)
Increase in total assets	11,142
Increase in retained earnings as at 1 January	(103,304)
Increase in profit for the year	(771)
Decrease in revaluation reserve as at 1 January *(iii)*	373,570
Increase in capital reserve as at 1 January *(iii)*	(280,637)
Increase in total equity	(11,142)

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

(ii) The changes resulted in an increase in the cost by approximately RMB99,229,000, and an increase in accumulated depreciation and impairment losses on property, plant and equipment by approximately RMB88,087,000.

(iii) Included in the revaluation reserve brought forward of RMB373,570,000 as at 1 January 2006 was an amount of RMB280,637,000 arose from the restructuring of the Company. This amount was reclassified to capital reserve in order to conform with current year's presentation of financial statements.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group") as at 31 December each year. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Inter-company transactions and balances between group companies are therefore eliminated in full in preparing the consolidated financial statements.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year attributable to minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(c) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

(d) Associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, that other entity is classified as an associate. Associates are accounted for using equity method whereby they are initially recognised in the consolidated balance sheet at cost and thereafter, their carrying values are adjusted for Group's share of the post-acquisition change in the associate's net assets — except that losses in excess of the Group's investment in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and subject to impairment testing in the same way as goodwill arising on a business combination described below.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill arising from acquisition of a subsidiary is capitalised as a separate asset with any impairment in carrying value being charged to the consolidated income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated income statement.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

As at 1 January 2007, the Company resolved to change the measurement basis for property, plant and equipment from revaluation model to cost model. The details and the effect of the changes are presented in note 4(a) to the financial statements.

Depreciation is charged to write off the carrying value of property, plant and equipment other than construction in progress over their estimated useful lives, after taking into account their estimated residual value, using the straight-line method. The estimated useful lives are as follows:

Leasehold land and buildings	20 to 50 years
Plant, machinery and equipment	5 to 10 years
Moulds	3 years
Motor vehicles	5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Construction in progress represents buildings, plant and machinery on which construction work has not been completed and which, upon completion, management intends to hold for production purposes. Construction in progress is carried at costs which include development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses. On completion, construction in progress is transferred to other property, plant and equipment at cost less accumulated impairment losses. No depreciation is provided in respect of construction in progress until it is completed and is ready for its intended use.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(g) Investment properties

Investment properties, principally comprising office buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are carried at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided using the straight-line method to write off the cost of the investment properties over their estimated useful lives of 20 to 50 years. Where the carrying amount of an investment property is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

(h) Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

When the lease payments cannot be allocated reliably between land and building elements, the entire lease payments are included in the cost of the leasehold land and buildings as a finance lease in property, plant and equipment.

(i) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at the fair value of the leased asset or, if lower, the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

(j) Intangible assets (other than goodwill)

(i) Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over their useful lives. Intangible assets with indefinite useful lives are carried at cost less any accumulated losses. The amortisation expense is included within administrative expenses in the income statement.

Intangible assets separate from goodwill, are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

The significant intangibles recognised by the Group, their useful economic lives are as follows:

Intangible	**Useful economic life**
Trademarks	Indefinite
Software	4 years
Non-patented technologies	4 to 5 years

(ii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- It is technically feasible to develop the product for it to be sold;
- Adequate resources are available to complete the development;
- There is an intention to complete and sell the product;
- The Group is able to sell the product;
- Sale of the product will generate future economic benefits; and
- Expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is included within administrative expenses in the income statement.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

(iii) Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired.

(k) Financial instruments

(i) Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Financial assets at fair value through profit or loss: include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that the separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or loss on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

(ii) Impairment loss on financial assets

Objective evidence that the asset is impaired includes observable data that comes to the attention of the Group including the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtors' financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loan and receivables

An allowance for impairment loss is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount is recognised in the income statement. When the asset is uncollectible, it is written off against the allowance account. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

Any impairment loss is recognised in the income statement on available-for-sale debt investments, is subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

(iii) Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liabilities were incurred. Other than financial liabilities in a qualifying hedging relationship (see below), the Group's accounting policy for each category is as follows:

Financial liabilities at fair value through profit or loss: Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently measured at amortised cost using effective interest method.

- Bank borrowings and the debt element of convertible debt issued by the Group, which are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(iv) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

(v) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IAS 39.

The Group derecognises a financial liability when the obligation under the liability is discharged or cancelled or expired.

(l) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable and the assets or disposal group is available for immediate sale in its present condition:

Non-current assets classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Subsidy income is recognised when the rights to receive the income is established and approved.

Penalty income is recognised when triggering events to receive payment occur and the amount of payment can be reliably measured.

(o) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

(p) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of foreign operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to the foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the foreign exchange reserve.

(q) Employee benefits

Pursuant to the PRC laws and regulations, the Group established in the PRC makes monthly contributions to the basic old age pension for the local staff to a government agency. The contributions are made at a specific percentage on the standard salary set by the provincial government, of which 10% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement.

In addition, the Group manages a defined contribution pension scheme for its employees. The Group makes contributions based on a percentage of the eligible employees' salaries plus a pre-determined amount funded by the Group and are charged to the income statement as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme before his/her interest in the employer contributions is fully vested, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The Group accounts for pension contributions on an accrual basis. Accrued contributions are shown as pension liabilities in the consolidated balance sheet.

(r) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(s) Impairment of other assets

At each balance sheet date, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment and investment properties;
- payments for leasehold land held for own use under operating lease; and
- investments in associates.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(t) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Warranty obligation

The Group provides free repairing services for its products and free replacement of the major components of its products for one to three years after sales.

The costs of the warranty obligation under which the Group agrees to remedy defects in its products are accrued at the time the related sales are recognised. Provision for warranty is accrued based on the estimated costs of fulfilling the total obligation, including handling and transportation costs. The costs are estimated by management based on past experience. The assumptions used to estimate the warranty provision are reviewed periodically in light of actual results.

5. Turnover

Turnover and revenue represent the net amounts received and receivable for goods sold during the year. An analysis of the Group's revenue for the year is as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Sales of refrigerators	4,324,808	3,327,896
Sales of air-conditioners	3,214,875	2,533,360
Sales of freezers	324,821	231,972
Sales of product components	455,456	471,029
	8,319,960	6,564,257

6. Business and geographical segments

Business segments

The Group is organised into four main operating divisions – refrigerators, air-conditioners, freezers and product components. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Year ended 31 December 2007

(i) Consolidated income statement

	Refrigerators	Air-conditioners	Freezers	Product components	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover						
External sales	4,324,808	3,214,875	324,821	455,456	—	8,319,960
Inter-segment sales	—	—	—	603,559	(603,559)	—
Total revenue	4,324,808	3,214,875	324,821	1,059,015	(603,559)	8,319,960

Inter-segment sales are charged at prevailing market rates.

	Refrigerators	Air-conditioners	Freezers	Product components	Elimination	Consolidated
Result						
Segment result	305,559	9,872	17,464	(24,940)	—	307,955
Unallocated corporate expenses						(17,148)
Profit from operations						290,807
Share of results of associates	1,168	868	88	123	—	2,247
Finance costs						(78,530)
Profit before income tax expense						214,524
Income tax expense						(10,867)
Profit for the year						203,657

(ii) ***Consolidated balance sheet***

	Refrigerators	Air-conditioners	Freezers	Product components	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets					
Segment assets	2,290,306	1,212,432	166,650	471,722	4,141,110
Interests in associates	49,680	32,247	842	70	82,839
Unallocated corporate assets					190,622
Consolidated total assets					4,414,571
Liabilities					
Segment liabilities	1,871,830	1,375,441	108,200	237,725	3,593,196
Unallocated corporate liabilities					1,451,149
Consolidated total liabilities					5,044,345

(iii) ***Other information***

	Refrigerators	Air-conditioners	Freezers	Product components	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Additions of property, plant and equipment	232,366	44,458	11,464	20,733	309,021
Additions of investment properties	619	405	11	—	1,035
Additions of payments for leasehold land held for own use under operating leases	16,605	—	—	—	16,605
Additions of intangible assets	26,327	20,395	464	296	47,482
Depreciation of property, plant and equipment	115,296	72,579	10,284	38,022	236,181
Depreciation of investment properties	2,462	1,120	29	76	3,687
Amortisation of intangible assets	1,212	1,032	123	1,552	3,919
Amortisation of payments for leasehold land held for own use under operating leases	9,310	4,092	723	1,430	15,555
Impairment loss on property, plant and equipment	1,564	—	—	25,094	26,658
Impairment loss on intangible assets	—	—	—	1,282	1,282
Impairment loss on payments for leasehold land held for own use under operating leases	17,189	—	—	—	17,189
Loss on disposal of property, plant and equipment, net	40,788	7,595	(342)	2,515	50,556
Write down of inventories to net realisable value, net	2,013	846	431	8,664	11,954

Year ended 31 December 2006 (Restated)

(i) Consolidated income statement

	Refrigerators	Air-conditioners	Freezers	Product components	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover						
External sales	3,327,896	2,533,360	231,972	471,029	—	6,564,257
Inter-segment sales	—	—	—	671,840	(671,840)	—
Total revenue	3,327,896	2,533,360	231,972	1,142,869	(671,840)	6,564,257

Inter-segment sales are charged at prevailing market rates.

	Refrigerators	Air-conditioners	Freezers	Product components	Elimination	Consolidated
Result						
Segment result	151,035	22,693	10,027	(11,779)	—	171,976
Unallocated corporate income						9,801
Profit from operations						181,777
Dilution loss on share reform of an associate						(16,317)
Share of results of associates	1,819	1,385	127	259	—	3,590
Finance costs						(140,672)
Profit before income tax credit						28,378
Income tax credit						20,871
Profit for the year						49,249

(ii) ***Consolidated balance sheet***

	Refrigerators	Air-conditioners	Freezers	Product components	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets					
Segment assets	1,909,175	1,509,343	416,819	666,897	4,502,234
Interests in associates	40,041	30,481	2,791	5,668	78,981
Unallocated corporate assets					87,329
Consolidated total assets					4,668,544
Liabilities					
Segment liabilities	1,752,636	1,621,186	184,471	275,021	3,833,314
Unallocated corporate liabilities					1,563,161
Consolidated total liabilities					5,396,475

(iii) ***Other information***

	Refrigerators	Air-conditioners	Freezers	Product components	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Additions of property, plant and equipment	79,256	47,244	8,261	6,716	141,477
Additions of intangible assets	486	443	141	105	1,175
Depreciation of property, plant and equipment	153,127	66,961	15,575	11,849	247,512
Depreciation of investment properties	—	—	—	641	641
Amortisation of intangible assets	3,232	713	125	56	4,126
Amortisation of payments for leasehold land held for own use under operating leases	8,099	4,522	879	949	14,449
Impairment loss on property, plant and equipment	12,999	12,149	6	5	25,159
Write down of inventories to net realisable value, net	35,867	6,434	—	399	42,700

Geographical segments

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

	2007	2006
	RMB'000	*RMB'000*
The PRC		
Mainland China	4,821,614	4,300,110
Hong Kong	257,188	259,792
	5,078,802	4,559,902
Europe	883,350	525,854
America	926,332	613,349
Others	1,431,476	865,152
	8,319,960	6,564,257

The Group's operations are carried out in the PRC and almost all of the production facilities of the Group are located in the PRC. Therefore, presentation of segment assets by geographical locations is not shown.

7. Other income and gains

An analysis of the Group's other income and gains is as follows:

	2007	2006
	RMB'000	*RMB'000*
Gain on disposal of raw materials	53,884	114,139
Gain on disposal of property, plant and equipment	16,040	24,588
Gain on disposal of payments for leasehold land held for own use under operating leases	284,351	38,597
Gain on disposal of investment properties	60,258	—
Gain on debts settlement with suppliers	4,422	10,231
Gain on fair value change of other financial assets	9,479	—
Gain on disposal of a subsidiary *(Note 38)*	4,509	—
Interest income	3,753	5,238
Penalty income	12,166	7,843
Rental income	20,721	7,723
Partial recovery of an impaired receivable *(Note 26)*	57,072	—
Reversal of impairment loss on trade and other receivables *(Note 26)*	12,564	61,012
Reversal of provision for sales rebates	—	37,593
Subsidy income	6,236	70,511
Others	25,450	31,830
	570,905	409,305

8. Other operating expenses

An analysis of the Group's other operating expenses is as follows:

	2007	2006
	RMB'000	*RMB'000*
Loss on fair value change of other financial liabilities	6,375	—
Loss on disposal of property, plant and equipment	66,596	19,408
Impairment loss on intangible assets	1,282	—
Impairment loss on payments for leasehold land held for own use under operation leases	17,189	—
Impairment loss on property, plant and equipment	26,658	25,159
Loss on disposal of raw materials	—	10,047
Loss on non-deductible input value added tax	4,894	—
Penalty	2,544	1,145
Others	7,962	1,056
	133,500	56,815

9. Amorisation of long term assets

An analysis of the Group's amortisation of intangible assets and payments for leasehold land held for own use under operating leases is as follows:

	2007	2006
	RMB'000	*RMB'000*
Amount included in administrative expenses	19,474	18,575

10. Finance losta

	2007	2006
	RMB'000	*RMB'000*
Interest on:		
— bank borrowings wholly repayable within five years	63,597	100,196
— discounted note receivables	4,308	21,125
	67,905	121,321
Others	10,625	19,351
	78,530	140,672

11. Profit before income tax

	2007	2006
	RMB'000	*RMB'000*
		(Restated)
Profit before income tax is stated after charging/(crediting):		
Inventories recognised as an expense		
— upon sales of goods	6,944,208	5,515,189
— upon sales of raw materials	425,839	507,582
Staff costs (including directors' and supervisors' remuneration)		
— Basic salaries, housing and other allowances and benefits in kind	589,735	506,843
— Defined contribution pension cost	41,135	31,223
	630,870	538,066
Auditors' remuneration	4,800	5,551
Research and development costs	58,857	11,925
Impairment loss on trade and other receivables *(Note 26)*	13,546	—
Write down of inventories to net realisable value, net	11,954	42,700
Foreign exchange loss, net	40,970	28,619
Share of income tax of associates	6,277	6,091

12. Directors' and supervisors' emoluments

The amounts of emoluments paid and payable to the directors and supervisors of the Company by the Group are as follows:

Year ended 31 December 2007	Fees	Basic salaries, housing and other allowances and benefits in kind	Defined contribution pension cost	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Tang Ye Guo	—	600	15	200	815
Yang Yun Duo *(i)*	—	400	15	160	575
Yu Shu Min	—	—	—	—	—
Lin Lan	—	—	—	—	—
Xiao Jian Lin *(ii)*	—	—	—	—	—
Wang Shi Lei *(iii)*	—	460	13	180	653
Liu Chun Xin *(iv)*	—	117	2	50	169
Independent non-executive directors					
Zhang Sheng Ping	60	—	—	—	60
Lu Qing	60	—	—	—	60
Cheung Yui Kai, Warren	233	—	—	—	233
Supervisors					
Guo Qing Cun	—	—	—	—	—
Zhou Zhao Li	—	—	—	—	—
Liu Zhan Cheng	—	100	4	100	204
	353	1,677	49	690	2,769

(i) Mr. Yang Yun Duo was appointed on 4 January 2007 and resigned on 26 February 2008.
(ii) Mr. Xiao Jian Lin resigned on 21 June 2007.
(iii) Mr. Wang Shi Lei was appointed on 4 January 2007.
(iv) Ms. Liu Chun Xin was appointed on 8 August 2007.

The amounts of emoluments paid and payable to the directors and supervisors of the Company by the Group are as follows:

Year ended 31 December 2006	Fees	Basic salaries, housing and other allowances and benefits in kind	Defined contribution pension cost	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Tang Ye Guo	—	493	4	—	497
Yu Shu Min	—	—	—	—	—
Lin Lan	—	248	—	—	248
Xiao Jian Lin	—	322	3	—	325
Liu Cong Meng *(i)*	—	—	—	—	—
Li Zhen Hua *(i)*	—	—	—	—	—
Fang Zhi Guo *(i)*	—	—	—	—	—
Gu Chu Jun *(i)*	—	—	—	—	—
Yan You Song *(i)*	—	—	—	—	—
Zhang Hong *(i)*	—	—	—	—	—
Zhang Ming *(ii)*	—	85	3	—	88
Su Yu Tao *(iii)*	—	302	3	—	305
Independent non-executive directors					
Zhang Sheng Ping	30	—	—	—	30
Lu Qing	30	—	—	—	30
Cheung Yui Kai, Warren	120	—	—	—	120
Xu Xiao Lu *(i)*	—	—	—	—	—
Li Kung Man *(i)*	—	—	—	—	—
Chan Pei Cheong *(iv)*	—	—	—	—	—
Supervisors					
Guo Qing Cun	—	—	—	—	—
Zhou Zhao Li	—	—	—	—	—
Liu Zhan Cheng	—	60	1	133	194
He Si *(v)*	—	48	1	—	49
Bai Yun Feng *(vi)*	—	50	—	—	50
	180	1,608	15	133	1,936

(i) The above individuals resigned on 26 June 2006.
(ii) Mr. Zhang Ming resigned on 13 November 2006.
(iii) Mr. Su Yu Tao resigned on 14 November 2006.
(iv) Mr. Chan Pei Cheong resigned on 23 January 2006.
(v) Mr. He Si resigned on 23 June 2006.
(vi) Mr. Bai Yun Feng resigned on 5 December 2006.

Bonus granted to directors and supervisors are based on performance and subject to directors' discretion.

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration for the years ended 31 December 2006 and 2007.

None of the directors and supervisors received compensation for the loss of office as a director or a supervisor of the Group in connection with the management of the affairs of the Group for the years ended 31 December 2006 and 2007.

13. Individuals with highest emoluments

Of the five highest paid individuals of the Group, three (2006: four) are directors of the Group. The remaining two individuals (2006: one) are not directors or supervisors of the Group.

The following table sets out the emoluments of the Group's five (2006: five) highest paid individuals for the year ended 31 December 2007 of which two (2006: four) of these individuals were appointed as directors of the Company during the year and their emoluments paid for the period from the dates of being appointed as directors during the year to the end of the year are included in Note 12 above.

	2007 *RMB'000*	**2006** *RMB'000*
Basic salaries, housing and other allowances and benefits in kind	2,219	4,695
Discretionary bonuses	660	—
	2,879	4,695

The emoluments set out above of these individuals are within the following bands:

	2007 *Number of staff*	**2006** *Number of staff*
Nil — RMB 969,000 (2006: Nil — RMB1,022,000) (equivalent to Nil — HKD1,000,000)	5	4
RMB 969,001 — RMB1,454,000 (2006: RMB1,022,001 — RMB1,533,000) (equivalent to HKD 1,000,001 — HKD 1,500,000)	—	1
	5	5

14. Income tax expense/(credit)

	2007 *RMB'000*	2006 *RMB'000*
Income taxes consist of:		
Current tax		
— PRC enterprise income tax ("EIT")	266	516
— Hong Kong Profits Tax	514	—
Deferred tax	10,087	(21,387)
	10,867	(20,871)

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

The Company and its subsidiaries which are established and operating in the PRC are subject to EIT at a statutory rate of 33% for 2007.

The Company was established in Shunde, Guangdong Province and, pursuant to the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises" ("Income Tax Law"), is normally subject to national EIT at a rate of 24%, which is applicable to enterprises located in coastal open economic zones. Together with the local EIT rate of 3%, the aggregate EIT is at a rate of 27%. Since June 2003, the Company has been classified as a high new technology enterprise and is entitled to national EIT at a rate of 15%. Together with the local EIT at a rate of 3%, the aggregate EIT is at a rate of 18%.

The Company's subsidiaries, Guangdong Kelon Air-Conditioner Co., Ltd., Hisense Ronshen (Guangdong) Freezer Co., Ltd, Guangdong Kelon Mould Co., Ltd, Shunde Rongsheng Plastic Products Co., Ltd., Hisense Ronshen Yingkou Refrigerator Co. Ltd., and Hisense Ronshen Yangzhou Refrigerator Co., Ltd established in coastal open economic zones, are subject to national EIT at a rate of 24%. Together with the local EIT at a rate of 3%, the aggregate EIT are at a rate of 27%. Hisense Ronshen (Guangdong) Refrigerator Co., Ltd, as a company established in coastal open economic zones, is also classified as a high new technology enterprise in year 2007 and entitled to national EIT at a rate of 15%, together with the local EIT at a rate of 3%, the aggregate EIT is at a rate 18%.

Guangdong Kelon Fittings Co., Ltd ("Kelon Fittings") established in coastal open economic zones and was classified as advanced technology enterprise. In year 2007, Kelon Fittings is entitled to EIT at a preferential rate of 12%, which is half deduction of national EIT with fully exemption from local EIT.

Pursuant to Income Tax Regulations related to Development Strategy of Western Region of Mainland China, Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon"), a subsidiary of the Company is subject to a preferential EIT at a rate of 24%. Together with the local EIT at a rate of 3%, Chengdu Kelon is subject to the aggregate EIT at a rate of 27%.

Other subsidiaries of the Group which are established and operating in the PRC are subject to EIT at a statutory rate of 33% for the year 2007.

Except for Kelon Electric Appliance Co., Ltd., no provision for Hong Kong Profits Tax has been made as the subsidiaries in Hong Kong did not generate assessable profits during the year. Hong Kong Profits Tax has been provided at the rate of 17.5% on the estimated assessable profit for the year 2007.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate will change from 33% to 25% with effect from 1 January 2008. The preferential tax rate currently enjoyed by the Company will be gradually transitioned to the new standard rate of 25% over a five-year transitional period. The Group estimates that the preferential income tax rate currently enjoyed by the Group will expire at the earlier of the end of the existing preferential tax period or the five-year transitional period. The change in the carrying amount of the deferred tax assets and liabilities, as a result of the change in tax rate, is reflected in the consolidated financial statements for the year ended 31 December 2007.

A reconciliation between income tax expense/(credit) and accounting profit at applicable tax rate is as follows:

	2007	**2006**
	RMB'000	*RMB'000*
		(Restated)
Profit before income tax	214,524	28,378
Less: Share of results of associates	2,247	3,590
	212,277	24,788
Tax at the PRC statutory rate of 33%	70,051	8,180
Effect of different tax rates of subsidiaries operating in other jurisdictions	(3,087)	1,560
Effect of exemption granted and preferential tax treatment	(60,314)	(18,718)
Tax effect of expenses not deductible for tax purposes	25,622	1,826
Tax effect of revenue not taxable for tax purposes	(9,503)	(290)
Tax effect of tax losses and other deductible temporary differences not recognised	24,387	165,844
Utilisation of tax losses previously not recognised	(36,289)	(179,273)
Income tax expense/(credit)	10,867	(20,871)

At the balance sheet date, deferred tax assets arising on tax losses carried forward had been recognised to the extent it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

15. Earnings per share

The calculation of basic and diluted earnings per share attributable to equity holders of the Company for the year is based on the net profit attributable to equity holders of the Company for the year of RMB238,712,000 (2006 (restated): RMB69,989,000) and 992,006,563 shares (2006: 992,006,563 shares) outstanding during the year. There were no dilutive potential ordinary shares in issue in both years.

16. Property, plant and equipment

Year ended 31 December 2007

	Leasehold land and buildings	Plant, machinery and equipment	Moulds	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2007, as previously stated	1,239,926	2,055,752	204,835	43,596	236,920	3,781,029
Effect of change in accounting policies *(Note 4(a))*	19,134	4,491	22,182	(164)	53,586	99,229
At 1 January 2007, as restated	1,259,060	2,060,243	227,017	43,432	290,506	3,880,258
Exchange differences	(1,302)	(243)	—	(111)	—	(1,656)
Additions at cost	14,004	39,995	63,906	206	190,910	309,021
Disposals	(177,197)	(302,263)	(59,876)	(8,164)	(28,673)	(576,173)
Disposal of a subsidiary *(Note 38)*	(24,137)	(13,524)	(12,674)	(354)	(15)	(50,704)
Reclassified to investment properties *(Note 17)*	(81,461)	—	—	—	—	(81,461)
Reclassified to non-current assets held for sale *(Note 28)*	(56,555)	—	—	—	—	(56,555)
Reclassification	157,744	106,370	9,423	(5)	(273,532)	—
At 31 December 2007	1,090,156	1,890,578	227,796	35,004	179,196	3,422,730
Accumulated depreciation and impairment						
At 1 January 2007, as previously stated	470,086	1,554,697	116,530	38,091	—	2,179,404
Effect of change in accounting policies *(Note 4(a))*	22,751	(6,858)	22,182	(3,574)	53,586	88,087
At 1 January 2007, as restated	492,837	1,547,839	138,712	34,517	53,586	2,267,491
Exchange differences	(749)	(213)	—	(109)	—	(1,071)
Depreciation for the year	72,473	105,386	56,587	1,735	—	236,181
Impairment provided for the year	—	16,050	62	—	10,546	26,658
Elimination on disposals	(62,669)	(258,648)	(48,130)	(7,585)	(22,042)	(399,074)
Disposal of a subsidiary *(Note 38)*	(4,201)	(3,245)	(12,674)	(274)	—	(20,394)
Reclassified to investment properties *(Note 17)*	(25,785)	—	—	—	—	(25,785)
Reclassified to non-current assets held for sale *(Note 28)*	(44,338)	—	—	—	—	(44,338)
Reclassification	(1,284)	1,105	200	(21)	—	—
At 31 December 2007	426,284	1,408,274	134,757	28,263	42,090	2,039,668
Net book value						
At 31 December 2007	663,872	482,304	93,039	6,741	137,106	1,383,062

Year ended 31 December 2006

	Leasehold land and buildings	Plant, machinery and equipment	Moulds	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2006, as previously stated	1,548,947	1,892,728	168,054	69,811	267,260	3,946,800
Effect of change in accounting policies *(Note 4(a))*	15,917	(8,951)	15,491	(477)	52,090	74,070
At 1 January 2006, as restated	1,564,864	1,883,777	183,545	69,334	319,350	4,020,870
Exchange differences	(2,267)	(74)	—	(95)	—	(2,436)
Additions at cost	1,290	22,015	80,707	1,211	36,254	141,477
Disposals	(64,152)	(115,959)	(37,500)	(28,020)	(34,022)	(279,653)
Reclassification	(240,675)	270,484	265	1,002	(31,076)	—
At 31 December 2006, as restated	1,259,060	2,060,243	227,017	43,432	290,506	3,880,258
Accumulated depreciation and impairment						
At 1 January 2006, as previously stated	419,045	1,537,641	95,867	65,558	—	2,118,111
Effect of change in accounting policies *(Note 4(a))*	19,534	(19,529)	15,491	(3,887)	52,090	63,699
At 1 January 2006, as restated	438,579	1,518,112	111,358	61,671	52,090	2,181,810
Exchange differences	(713)	363	—	(80)	—	(430)
Depreciation for the year	76,970	111,635	54,174	4,733	—	247,512
Impairment provided for the year	3,217	13,442	6,691	313	1,496	25,159
Elimination on disposals	(27,380)	(102,445)	(33,411)	(23,324)	—	(186,560)
Reclassification	2,164	6,732	(100)	(8,796)	—	—
At 31 December 2006, as restated	492,837	1,547,839	138,712	34,517	53,586	2,267,491
Net book value						
At 31 December 2006, as restated	766,223	512,404	88,305	8,915	236,920	1,612,767

The net book value of the Group's leasehold land and buildings comprise properties situated on land held under medium-term leases in:

	2007	2006
	RMB'000	*RMB'000*
		(Restated)
PRC, other than in Hong Kong	640,219	700,580
Hong Kong	—	41,990
Japan	23,653	23,653
	663,872	766,223

"Leasehold land and buildings" and "Plant, machinery and equipment" with net book values of approximately RMB444,444,000 (2006 (restated): RMB437,764,000) and RMB21,033,000 (2006: RMB134,584,000) respectively, have been pledged as security for the Group's bank borrowings.

17. Investment properties

	2007	2006
	RMB'000	*RMB'000*
Cost		
At 1 January	28,201	29,201
Exchange differences	(990)	(1,000)
Additions at cost	1,035	—
Disposals	(52,351)	—
Reclassified from property, plant and equipment *(Note 16)*	81,461	—
At 31 December	57,356	28,201
Accumulated depreciation and impairment		
At 1 January	2,057	1,478
Exchange differences	(44)	(62)
Depreciation for the year	3,687	641
Elimination on disposals	(12,321)	—
Reclassified from property, plant and equipment *(Note 16)*	25,785	—
At 31 December	19,164	2,057
Carrying amount at 31 December	38,192	26,144
Directors' valuation at fair value	54,698	40,030

The Group's investment properties are situated in the PRC (2006: in Hong Kong) under medium term leases. The valuation for the investment properties at 31 December 2007 were determined by the directors by reference to the market price of similar properties.

Investment properties with net book values of approximately RMB2,568,000 (2006: Nil) has been pledged as security for the Group's bank borrowings.

18. Payments for leasehold land held for own use under operating leases

The Group's payments for leasehold land held for own use under operating leases comprise:

	2007	**2006**
	RMB'000	*RMB'000*
Leasehold land in PRC:		
— Medium-term leases	305,392	372,533
Carrying amount at 1 January	372,533	470,080
Reclassified to non-current assets held for sale *(Note 28)*	(8,152)	—
Additions at cost	16,605	—
Charge for the year	(15,555)	(14,449)
Impairment provided for the year *(i)*	(17,189)	—
Disposal of a subsidiary *(Note 38)*	(13,084)	—
Disposals	(29,766)	(83,098)
Carrying amount at 31 December	305,392	372,533

(i) In July 2004, Shangqiu Kelon Electrical Company Limited ("Shangqiu Kelon"), Shangqiu Bing Xiong Freezing Facilities Company Limited ("Shangqiu Bing Xiong"), and the Administration Committee of Shangqiu Economic and Technological Development Zone (商丘經濟技術開發區管委會) ("Shangqiu Administrative Committee") entered into a three-party land transfer agreement under which all parties agreed that Shangqiu Kelon acquires a piece of land use right with 187 acres from Shangqiu Bing Xiong at a consideration of approximately RMB36 million. Under the land transfer agreement, it was agreed that Shangqiu Kelon develops the land and meets minimum production and sales requirements after the development is completed. However, the land has not been developed nor has Shangqiu Kelon met the minimum production and sales requirements thereafter. In August 2005, Shangqiu Kelon received a notice from Shangqiu Administrative Committee claiming that it has breached the three-party land transfer agreement for not fulfilling the minimum production and sales requirements and requesting that Shangqiu Kelon surrenders the land use right. The local court froze the land accordingly. The Company has made an impairment loss of approximately RMB18 million against the carrying amount of the land use right for the possible loss that may arise as a result of the event for the year ended 2005. In mid 2007, through a local source, the Company further realised that the land use right has been confiscated by Henan Shangqiu Bureau of Land and Resources ("SQBLR") in November 2006 for the reason of delayed development. The Company is reviewing the appropriateness of judicial procedure made by SQBLR. At the date of this report, the case is being handled by the Group's lawyer and has not been resolved. The Company has further made an impairment loss of approximately RMB17 million against the carrying amount of the land use right for the maximum loss that may arise as a result of the event. As at 31 December 2007, the Company has provided an impairment loss of approximately RMB35 million against the carrying amount of the land use right.

(ii) At 31 December 2007, the carrying amount of payments for leasehold land held for own use under operating leases pledged as security for the Group's bank borrowings amounted to approximately RMB226,035,000 (2006: RMB245,559,000).

19. Interests in subsidiaries

Details of the Company's principal subsidiaries as at 31 December 2007 are listed under a table as follows:

Name	Place and date of incorporation/ establishment	Registered capital	Percentage of ownership/profit share Directly	Percentage of ownership/profit share Indirectly	Principal activities
Entities operating in the PRC:					
Shunde Rongsheng Plastic Products Co., Ltd.	PRC *(i)* 18 October 1991	US$15,800,000	45%	25%	Manufacture of plastic parts
Guangdong Kelon Mould Co., Ltd.	PRC *(i)* 20 July 1994	US$15,000,000	40%	30%	Manufacture of moulds
Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.	PRC *(i)* 25 December 1995	US$26,800,000	70%	30%	Manufacture and sale of refrigerators
Hisense Ronshen (Guangdong) Freezer Co., Ltd.	PRC *(i)* 25 December 1995	RMB237,000,000	44%	56%	Manufacture and sale of freezers
Guangdong Kelon Air-Conditioner Co., Ltd.	PRC *(i)* 19 March 1996	US$36,150,000	60%	—	Manufacture and sale of air-conditioners
Chengdu Kelon Refrigerator Co., Ltd.	PRC *(i)* 19 November 1996	RMB200,000,000	75%	25%	Manufacture and sale of refrigerators
Hisense Ronshen Yingkou Refrigerator Co., Ltd.	PRC *(i)* 15 December 1996	RMB200,000,000	42%	36.79%	Manufacture and sale of refrigerators
Hisense Ronshen Yangzhou Refrigerator Co., Ltd.	PRC *(i)* 23 December 1996	US$29,800,000	74.33%	25.67%	Manufacture and sale of refrigerators
Shunde Kelon Household Electrical Appliance Company Limited	PRC *(ii)* 16 July 1999	RMB10,000,000	25%	75%	Manufacture and sale of electrical household appliances
Guangdong Kelon Fittings Co., Ltd.	PRC *(i)* 24 November 1999	US$5,620,000	70%	30%	Manufacture and sale of spare parts for air-conditioners and refrigerators
Shunde Huaao Electronics Co., Ltd. ("Huaao Electronics")	PRC *(ii)* 23 November 2000	RMB10,000,000	—	70%	Manufacture and sale of electronic products
Shunde Wangao Import & Export Co., Ltd.	PRC *(ii)* 7 June 2001	RMB3,000,000	20%	80%	Import and export business

Name	Place and date of incorporation/ establishment	Registered capital	Percentage of ownership/profit share Directly	Indirectly	Principal activities
Shunde Jiake Electronic Company Limited	PRC *(ii)* 12 October 2001	RMB60,000,000	70%	30%	IT and communication technology and micro-electronics technology development
Xi'an Kelon Cooling Co., Ltd. ("Xi'an Kelon")	PRC *(ii)* 20 March 2002	RMB202,000,000	60%	—	Manufacture and sale of spare parts for refrigerators
Jiangxi Kelon Industrial Development Co., Ltd.	PRC *(i)* 24 June 2003	US$29,800,000	60%	40%	Manufacture and sale of refrigerators, air-conditioners and other household appliances
Hangzhou Kelon Electrical Co., Ltd. ("Hangzhou Kelon")	PRC *(i)* 22 August 2003	RMB 24,000,000	100%	—	Manufacture and sale of refrigerators
Shangqiu Kelon Electrical Co., Ltd.	PRC *(ii)* 23 September 2003	RMB150,000,000	—	100%	Manufacture and sale of refrigerators
Zhuhai Kelon Industrial Development Co., Ltd.	PRC *(i)* 3 December 2003	US$29,980,000	75%	25%	Manufacture and sale of refrigerators
Hisense (Chengdu) Refrigerator Co., Ltd.	PRC *(i)* 28 March 2007	RMB5,000,000	75%	25%	Manufacture and sale of refrigerators
Entities operating in Hong Kong:					
Pearl River Electric Refrigerator Company Limited	Hong Kong 26 July 1985	HK$400,000	—	100%	Trading in materials and parts for refrigerators and import and export business
Kelon Electric Appliances Co., Ltd.	Hong Kong 29 August 1991	HK$10,000	—	100%	Property investment
Kelon Development Company Limited	Hong Kong 17 August 1993	HK$5,000,000	100%	—	Investment holding
Kelon International Inc.	British Virgin Islands 13 January 1999	US$50,000	—	100%	Investment holding and sale of refrigerators and air-conditioners

(i) Established as a sino-foreign equity joint venture in the PRC.

(ii) Established as a limited liability company in the PRC.

(iii) The financial statements of Jiangxi Combine Electrical Appliance Co., Ltd. ("Jiangxi Combine") and Kelon Europe Industrial Design Limited ("Kelon Europe") were excluded from the consolidated financial statements. Jiangxi Combine has not commenced active business since its establishment and Kelon Europe has only very limited activities. The management considers that the impact of not consolidating Jiangxi Combine and Kelon Europe is insignificant to the Group.

None of the subsidiaries had issued any debt securities at the end of the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. Interests in associates

	2007	**2006**
	RMB'000	*RMB'000*
Share of net assets	82,839	78,981
Goodwill	—	—
	82,839	78,981
Listed investment	78,179	74,478
Unlisted investment	4,660	4,503
	82,839	78,981
Fair value of listed investment	164,070	43,241

Details of the goodwill are as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Cost		
At 1 January	131,207	137,346
Release on dilution in share reform	—	(6,139)
At 31 December	131,207	131,207
Impairment		
At 1 January	131,207	137,346
Release on dilution in share reform	—	(6,139)
At 31 December	131,207	131,207
Carrying amount at 31 December	—	—

Details of the Group's principal associates as at 31 December 2007 are listed under a table as follows:

Name	Place and date of incorporation/ establishment	Registered capital	Percentage of ownership/profit sharing Directly	Indirectly	Principal activities
Huayi Compressor Holdings Company Limited ("Huayi")	PRC *(i)* 13 June 1996	RMB324,581,218	18.26% *(iii)*	—	Manufacture and sale of compressors
Attend Logistics Co., Ltd. ("Attend Logistics")	PRC *(ii)* 11 July 2001	RMB10,000,000	20%	—	Provision of logistics and storage services

(i) Established as a joint stock limited company.

(ii) Established as a limited liability company.

(iii) On 20 December 2006, Huayi completed a share reform and converted all of its non-freely transferable shares into listed shares by the allocation of 6.674 newly issued shares to each holder of transferable shares for every 10 shares held by such holder. Accordingly, the shares of Huayi held by the Company, which were previously non-transferable, were converted into freely transferable shares of Huayi and the Company's equity interest in Huayi was reduced from 22.73% to 18.26%. A dilution loss incurred on share reform of the associate arising thereon was charged to the income statement. Notwithstanding the share reform of Huayi, the Company continues to possess the power to participate in the financial and operating policy decision of Huayi and account for its interest in Huayi under the equity method.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The summarised financial information in respect of the Group's associates is set out below:

	2007 *RMB'000*	**2006** *RMB'000*
Total assets	2,471,410	2,158,965
Total liabilities	(1,831,894)	(1,572,054)
Net assets	639,516	586,911
Revenue	2,766,448	1,842,149
Profit for the year	8,654	16,017

The financial statements of Huayi and Attend Logistics have been audited by Guangdong Hengxin Delu Certified Public Accountants Co., Ltd. and Shinewing Certified Public Accountants respectively.

21. Available-for-sale financial assets

	2007	2006
	RMB'000	*RMB'000*
Unquoted long-term equity investments in the PRC, at cost	8,469	7,249
Impairment loss	(7,249)	(7,249)
	1,220	—

22. Intangible assets

	Trademarks *(i)*	Non-patented technologies *(ii)*	Software systems *(ii)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2007				
Cost				
At 1 January 2007	521,858	537	33,751	556,146
Additions at cost	—	43,711	3,771	47,482
Disposal of a subsidiary *(Note 38)*	—	—	(8)	(8)
Write off	—	—	(190)	(190)
At 31 December 2007	521,858	44,248	37,324	603,430
Accumulated amortisation and impairment				
At 1 January 2007	403,480	377	26,458	430,315
Charge for the year	—	137	3,782	3,919
Impairment provided for the year	—	—	1,282	1,282
Disposal of a subsidiary *(Note 38)*	—	—	(8)	(8)
Elimination on write off	—	—	(190)	(190)
At 31 December 2007	403,480	514	31,324	435,318
Carrying amount				
At 31 December 2007	118,378	43,734	6,000	168,112
Year ended 31 December 2006				
Cost				
At 1 January 2006	521,858	537	32,580	554,975
Additions at cost	—	—	1,175	1,175
Write off	—	—	(4)	(4)
At 31 December 2006	521,858	537	33,751	556,146
Accumulated amortisation and impairment				
At 1 January 2006	403,480	241	22,472	426,193
Charge for the year	—	136	3,990	4,126
Elimination on write off	—	—	(4)	(4)
At 31 December 2006	403,480	377	26,458	430,315
Carrying amount				
At 31 December 2006	118,378	160	7,293	125,831

(i) ***Impairment tests for trademarks***

Trademarks represent the rights of using「科龍」,「容聲」and「容升」brands in producing refrigerators and air-conditioners recognised in October 2003.

Prior to 1 January 2005, the cost of trademarks is amortised on a straight-line basis over their estimated useful lives of 10 years. With effect from 1 January 2005 and in accordance with the provisions of IAS 38, trademarks are assessed to have indefinite useful lives and therefore are not amortised but tested for impairment for each reporting date and where an indicator of impairment exists.

Due to the significant loss incurred in 2005 and the business interruption in May 2005, the management conducted an impairment assessment on the trademarks. The recoverable amount of trademarks was determined based on value-in-use calculations with the support of valuation performed by independent third party valuer. As a result of such assessment, trademarks had been assessed to be impaired by approximately RMB338,247,000 as at 31 December 2005.

As at 31 December 2007, the management performed self-assessment and concluded that there was no further impairment identified.

Details of trademarks allocated to cash generating units for which the amount of trademarks so allocated is significant in comparison to total trademarks are as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Air-conditioners	38,473	38,473
Refrigerators	79,905	79,905
	118,378	118,378

The recoverable amounts of Segment Air-conditioners and Segment Refrigerators have been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period to 31 December 2012 with a discount rate of 15%. The cash flows beyond the five-year period are extrapolated using a steady 2% growth rate. The resulting value of the trademarks as at 31 December 2007 was higher than their carrying amount. Management believes that any possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

(ii) Non-patented technologies and software systems are amortised over their estimated useful lives of 4 to 5 years.

23. Goodwill

	RMB'000
Year ended 31 December 2007	
Cost	
At 1 January 2007 and 31 December 2007	47,033
Impairment	
At 1 January 2007 and 31 December 2007	47,033
Carrying amount	
At 31 December 2007	—
Year ended 31 December 2006	
Cost	
At 1 January 2006 and 31 December 2006	47,033
Impairment	
At 1 January 2006 and 31 December 2006	47,033
Carrying amount	
At 31 December 2006	—

24. Deferred tax assets

Deferred tax assets of the Group were arising from deductible temporary differences and tax losses. Net movement for the year is as follows:

	2007 *RMB'000*	**2006** *RMB'000*
At 1 January	21,387	—
Recognition for the year	7,183	21,387
Utilisation of tax losses for the year	(9,317)	—
Effect of change in tax rate	(7,953)	—
At 31 December	11,300	21,387

The following are the major deferred tax assets/(liabilities) and movements thereon for the year:

Assets/(liabilities)	Depreciation allowance and provisions	Tax losses	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2006	—	—	—
Credit to income statement for the year	—	21,387	21,387
At 31 December 2006	—	21,387	21,387
Credit/(charge) to income statement for the year	7,183	(9,317)	(2,134)
Effect of change in tax rate	—	(7,953)	(7,953)
At 31 December 2007	7,183	4,117	11,300

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2007	2006
	RMB'000	*RMB'000*
Deferred tax assets	11,300	21,387

The unused tax losses carried forward and deductible temporary differences not recognised in the consolidated financial statements due to unpredictability of future profit streams are as follows:

	2007	2006
	RMB'000	*RMB'000*
Unused tax losses	2,170,960	1,846,123
Deductible temporary differences	911,032	691,429
	3,081,992	2,537,552

The PRC tax losses can only be carried forward for a maximum period of five years and the Hong Kong tax losses can be carried forward indefinitely. The expiry of unused tax losses for which no deferred tax assets have been recognised is as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Tax losses will expire in 2007	—	15,179
Tax losses will expire in 2008	7,068	25,601
Tax losses will expire in 2009	44,748	55,489
Tax losses will expire in 2010	1,097,025	1,235,871
Tax losses will expire in 2011	649,153	276,859
Tax losses will expire in 2012	145,268	—
Tax losses can be carried forward indefinitely	227,698	237,124
	2,170,960	1,846,123

25. Inventories

	2007	**2006**
	RMB'000	*RMB'000*
Raw materials	195,695	184,013
Work in progress	42,333	33,745
Finished goods	702,256	702,079
	940,284	919,837

As at 31 December 2007, the carrying amount of inventories pledged for bank borrowings amounted to approximately RMB40,000,000 (2006: RMB140,236,000).

26. Trade and other receivables

	2007	**2006**
	RMB'000	*RMB'000*
Trade receivables *(i)*	442,835	290,166
Notes receivable	2,740	77,317
Other receivables	540,497	376,838
Amounts due from Greencool Enterprise and its affiliates *(Note 35 III a)*	72,061	72,061
Amounts due from companies suspected to be connected with Mr. Gu *(Note 35 III b)*	214,217	214,217
Amounts due from Hisense Group *(Note 35 III c)*	28,821	2,187
Amounts due from associates *(Note 35 III d)*	322	40
Amounts due from other related companies *(Note 35 III e)*	5,716	86,907
	1,307,209	1,119,733

(i) As at 31 December 2007, included in trade and notes receivable was an amount of RMB73,072,000 (2006: RMB28,200,000) being pledged for bank borrowings.

The aging analysis of trade receivables is as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Within three months	396,038	252,966
Three to six months	34,126	30,938
Six months to one year	13,695	9,691
Over one year	186,423	194,211
Less: Provision for impairment of trade receivables	(187,447)	(197,640)
At 31 December	442,835	290,166

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

The aging analysis of trade receivables using allowed credit term is as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Current *(Note a)*	408,821	274,119
Less than three months past due	20,311	11,071
More than three months but less than twelve months past due	13,531	3,335
More than twelve months past due	172	1,641
Amount past due at balance sheet date but not impaired *(Note b)*	34,014	16,047
At 31 December	442,835	290,166

(a) The balance that was neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

(b) The balance that was past due but not impaired related to a number of customers that had a good track record with the Group. Based on the past experience, the management estimated that the carrying amounts could be fully recovered.

(ii) Other receivables principally comprised of receivable from disposal of payments for leasehold land held for own use under operating leases, investment properties and value-added tax recoverable of RMB251,065,000, RMB5,233,000 and RMB147,308,000 respectively. The management has assessed the recoverability of the balance of other receivables and considered no further provision for impairment is needed.

(iii) The below table reconciled the allowance of impairment loss on trade and other receivables for the year:

	2007	2006
	RMB'000	*RMB'000*
At 1 January	676,758	762,882
Impairment loss recognised	13,546	—
Bad debt written off	(41,508)	(25,112)
Reversal of impairment loss previously recognised	(69,636)	(61,012)
At 31 December	(579,160)	676,758

The Group recognised impairment loss on trade and other receivables by individual assessment based on the accounting policy stated in Note 4(k)(ii).

(iv) As at 31 December 2007, the Group has trade and other receivables denominated in USD of approximately RMB245,000,000 (2006: RMB179,000,000).

(v) As at 31 December 2007 and 2006, accumulated impairment loss of approximately RMB344,968,000 and RMB18,985,000 were recorded in respect of amounts due from companies suspected to be connected with Mr. Gu and amounts due from Greencool Enterprise and its affiliates.

27. Other financial assets and liabilities

During the year, the Group entered into foreign exchange forward contracts to manage its exchange rate exposures arising from ordinary course of business. The instruments purchased are primarily denominated in the currencies of the Group's principal markets. At the balance sheet date, the total notional amount of outstanding foreign exchange forward contracts to which the Group has committed are as follows:

	2007	2006
	RMB'000	*RMB'000*
Foreign exchange forward contracts:		
— contracted to buy foreign currency	413,831	—
— contracted to sell foreign currency	411,511	—

The fair value gain/(loss) of the forward exchange contracts for the year ended 31 December 2007 is estimated to be approximately RMB3,104,000 (2006: Nil) and it was recognised in the consolidated income statements. The gain/(loss) is calculated based on market values of equivalent instruments at the balance sheet date.

28. Non-current assets held for sale

In May 2007, the directors resolved to dispose certain factories, warehouses and offices of the Group. The sale transactions will be completed in early next year. As at 31 December 2007, the properties with carrying amount of approximately RMB20,369,000 have been classified as non-current assets held for sale.

29. Trade and other payables

	2007	2006
	RMB'000	*RMB'000*
Trade payables	1,152,853	1,415,803
Notes payable	770,960	507,918
Other payables	616,756	486,073
Accruals	165,679	140,678
Amounts due to Greencool Enterprise and its affiliates *(Note 35 III a)*	13,050	13,050
Amounts due to companies suspected to be connected with Mr. Gu *(Note 35 III b)*	118,461	119,316
Amounts due to Hisense Group *(Note 35 III c)*	205,184	319,526
Amounts due to associates *(Note 35 III d)*	40,200	51,680
Amounts due to other related companies *(Note 35 III e)*	10,038	39,912
	3,093,181	3,093,956

The aging analysis of trade payables is as follows:

	2007	2006
	RMB'000	*RMB'000*
Within one year	995,092	1,177,093
One to two years	70,838	196,857
Two to three years	64,796	30,937
Over three years	22,127	10,916
	1,152,853	1,415,803

As at 31 December 2007, the Group has trade and other payables denominated in USD of approximately RMB45,000,000 (2006: RMB31,000,000).

30. Provisions

	Warranty *(i)*	**Legal** *(ii)*	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2007	165,783	4,212	169,995
Additional provision in the year	66,643	10,471	77,114
Utilisation of provision	(99,006)	(4,097)	(103,103)
At 31 December 2007	133,420	10,586	144,006
At 1 January 2006	204,179	5,737	209,916
Additional provision in the year	90,427	5,444	95,871
Utilisation of provision	(128,823)	(6,969)	(135,792)
At 31 December 2006	165,783	4,212	169,995

(i) The Group provides free repairing services on its products and free replacement of the major components of its products for one to three years after date of sale. The warranty provision is estimated by management based on past experience. The assumptions used to estimate the warranty provision are reviewed periodically in light of actual results.

(ii) The Group is currently involved in a number of legal disputes. The amount provided represents the directors' best estimate of the Group's liability having taken legal advice. Uncertainties exist as to whether claims will be settled out of court or if not whether the Group is successful in defending any action.

31. Other liabilities

	2007	**2006**
	RMB'000	*RMB'000*
Employee benefits *(i)*	30,820	32,620
Government grants *(ii)*	24,973	27,952
	55,793	60,572
Amounts due within one year:		
— Employee benefits *(i)*	30,820	19,026
— Government grants *(ii)*	24,973	27,952
	55,793	46,978
Amounts due after one year	—	13,594

(i) The amounts represent accrued contributions to a defined contribution pension scheme for its employees during the period from 1993 to 2001. Settlement of employee benefits payable was mutually agreed by the Company and the committee of the Company's staff union.

(ii) The amounts represent government grants received for the Group's research and development activities. Government grants recognised as income for the year amounted to approximately RMB6,236,000 (2006: RMB70,511,000).

32. Bank borrowings

	2007	**2006**
	RMB'000	*RMB'000*
Short-term bank loans due within one year	1,310,972	1,556,702
Analysed as:		
Secured	773,812	1,233,294
Unsecured	537,160	323,408
	1,310,972	1,556,702

As at 31 December 2007, the Group has outstanding short-term loans in the aggregate of approximately RMB1,311,972,000 (2006: RMB1,556,702,000) of which approximately RMB18,000,000 (2006: RMB385,000,000) were overdue. The Group negotiated with bankers to refinance the short-term bank loans which are due in 2007. Based on discussion with the Group's bankers to date, the directors expect that these borrowings will be renewed in due course.

The bank borrowings carry interest at fixed rates ranging from 5.47% to 8.35% (2006: 4.65% to 7.84%) per annum. Bank borrowings of approximately RMB773,812,000 (2006: RMB1,233,294,000) were secured by pledge of property, plant and equipment (Note 16), investment properties (Note 17), payments for leasehold land held for own use under operating leases (Note 18), inventories (Note 25) and trade and notes receivable (Note 26).

At 31 December 2007, included in bank borrowings were amount of approximately RMB9,000,000 (2006: Nil) in respect of financial guarantees provided to banks in favor of certain distributors of the Group on bank acceptance notes. Under the guarantee arrangements, the Group assumed the repayment responsibilities of the bank acceptance notes after it utilised the credit facilities granted to the distributors by such banks. The management assessed that the guarantee arrangements would not result in the Group picking up additional credit risks or financial contingencies in favor of the distributors. These financing arrangements would however result in a reclassification of trade deposits received to bank borrowings.

At 31 December 2007, included in bank borrowings was an amount of approximately RMB89,946,000 (2006: RMB218,000,000) in respect of notes and trade receivables factored to banks with recourse.

33. Share capital

	2007	**2006**
	RMB'000	*RMB'000*
Share of RMB1 each:		
314,587,227 (2006:337,986,755) transferable shares that are subject to selling restrictions	314,587	337,987
459,589,808 (2006: 459,589,808) H shares	459,590	459,590
217,829,528 (2006: 194,430,000) A shares	217,830	194,430
	992,007	992,007

(i) During the year ended 31 December 2007, the Company announced a proposed share reform including conversion of all the non-freely transferable shares into transferable shares of the Company and allocation of 1.2 newly issued shares to each holders of transferable A shares for every 10 transferable shares held by such holders of A shares and such share reform was completed in March 2007.

As a result of the share reform, the 262,212,194 Domestic shares which are non-freely transferable shares held by Hisense Air-Conditioner was converted into 238,872,074 transferable shares that are subject to certain selling restrictions of the Company, representing 24.08% of the Company's total capital.

Except for the currency in which dividends are paid and the restrictions as to whether the shareholders can be PRC investors or foreign investors, Domestic shares, H shares and A shares rank pari passu in all respects with each other.

(ii) The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debt (as shown in the balance sheet) less cash and cash equivalents. Adjusted capital comprises all components of equity.

During 2007, the Group's strategy, which was unchanged from 2006 was to substantially finance through debt as the Group has deficiency in equity of RMB629,774,000 (2006 (restated): RMB727,931,000). At 31 December 2007, the bank borrowings were approximately RMB1,310,972,000 (2006: RMB1,556,702,000) *(Note 32)*.

34. Leases

Operating leases – lessee

The Group leases certain leasehold land and buildings and plant and machinery under operating lease arrangements with lease terms ranging from one to five years. The operating lease charges for the year ended 31 December 2007 was as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Operating lease charges		
— leasehold land and buildings	40,434	63,855
— plant and machinery	250	6,500

The total future minimum lease payments under non-cancellable operating leases are due as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Not later than one year	2,196	2,590
Later than one year and not later than five years	457	1,116
	2,653	3,706

Operating leases – lessor

The Group's investment properties are also leased to a number of tenants for varying terms. The sub-lease rental income for the year ended 31 December 2007 was RMB 20,721,000 (2006: RMB 7,723,000).

The minimum rent receivables under non-cancellable operating leases are as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Not later than one year	3,523	60
Later than one year and not later than five years	8,397	—
	11,920	60

35. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company have been eliminated on consolidation and are not disclosed in this note.

As at 31 December 2007, Hisense Air-Conditioner held 238,872,074 shares of the Company, representing 24.08% of total share capital of the Company.

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

During the year, the Group entered into a Business Co-operation Framework Agreement with Hisense Group Company and certain of its subsidiaries (hereinafter collectively referred to as the "Hisense Group"). The Business Co-operation Framework Agreement is valid for a term of one year commencing from 1 January 2007. Pursuant to the Business Co-operation Framework Agreement, the Group agrees to sell and supply moulds, air-conditioners, refrigerators and raw materials to Hisense Group, purchase air-conditioners, refrigerators and raw materials from Hisense Group and Hisense Group agrees to render repair and maintenance services for electrical appliances to the Group. The details of the transactions with Hisense Group are disclosed in note 35 II(b).

I. Relationship with related parties

During the year, for the purpose of this report, the directors are of the view that the following companies are related parties of the Group:

Name of related parties	Relationship
Hisense Air-Conditioner	The substantial shareholder of the Company
Hisense Group Company	The holding company of Hisense Air-Conditioner
Qingdao Hisense Marketing Co., Ltd. (“Hisense Agent”)	A fellow subsidiary of Hisense Air-Conditioner
Hisense Electric Co., Ltd. (“Hisense Electric”)	A fellow subsidiary of Hisense Air-Conditioner
Hisense (Zhejiang) Air-Conditioner Co., Ltd. (“Hisense Zhejiang”)	A subsidiary of Hisense Air-Conditioner
Hisense (Shandong) Air-Conditioner Co., Ltd. (“Hisense Shandong”)	A fellow subsidiary of Hisense Air-Conditioner
Hisense (Nanjing) Electric Co., Ltd. (“Hisense Nanjing”)	A fellow subsidiary of Hisense Air-Conditioner
Hisense (Beijing) Electric Co., Ltd. (“Hisense Beijing”)	A fellow subsidiary of Hisense Air-Conditioner
Hisense (Qingdao) Import & Export Co., Ltd. (“Hisense Import & Export”)	A fellow subsidiary of Hisense Air-Conditioner
Hisense Hitachi Air Conditioning Co., Ltd. (“Hisense Hitachi”)	A fellow subsidiary of Hisense Air-Conditioner
Savor Household Electrical Appliance Service Industry Co., Ltd. (“Savor Service”)	A fellow Subsidiary of Hisense Air-Conditioner
Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. (“Chongqing Rongsheng”)	An associate of the Group
Attend Logistics	An associate of the Group
Huayi	An associate of the Group
Jiaxibeila Compressor Company Limited (“Jiaxibeila”)	A subsidiary of an associate of the Group
Kelon Europe	An unconsolidated subsidiary of the Company

Name of related parties	**Relationship**
Jiangxi Combine	An unconsolidated subsidiary of the Company
Chengdu Engine (Group) Company Limited ("Chengdu Engine")	A minority investor of Chengdu Kelon before 24 April 2007
Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing")	An associate of Chengdu Engine
Hangzhou Xileng Group Company Limited ("Hangzhou Xileng")	A minority investor of Hangzhou Kelon before 5 December 2007
Xi'an Gaoke (Group) Limited ("Xi'an Gaoke")	A minority investor of Xi'an Kelon
Shunde Yunlong Consultancy ("Shunde Yunlong")	A minority investor of Huaao Electronics

For the purpose of this report, the directors are of the views that the following companies controlled by or suspected to be connected with Mr. Gu are no longer related to the Group starting from 13 December 2006 due to the completion of the share transfer transaction between Greencool Enterprise and Hisense Air-Conditioner. As a result, transactions with Mr. Gu, Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu for the year ended 31 December 2007 are not classified as related party transactions.

Name of related parties	**Relationship**
Greencool Enterprise	The former single largest shareholder of the Company
Mr. Gu	The beneficial owner of Greencool Enterprise and also the former executive director of the Company
Greencool Technology Development (Shenzhen) Company Limited ("Shenzhen Greencool Technology")	A company controlled by Mr. Gu
Greencool Environmental Protection Engineering (Shenzhen) Company Limited ("Shenzhen Greencool Environmental")	A company controlled by Mr. Gu
Greencool Refrigerant (China) Company Limited ("Greencool China")	A company controlled by Mr. Gu

Name of related parties	Relationship
Hainan Greencool Environmental Protection Engineering Company Limited ("Hainan Greencool")	A company controlled by Mr. Gu
Greencool Procurement (Shenzhen) Co., Ltd. ("Greencool Procurement")	A company controlled by Mr. Gu
Hefei Meiling Holdings Limited ("Hefei Meiling")	A company controlled by Mr. Gu
Jiangxi Greencool Electrical Appliance Company Limited ("Jiangxi Greencool")	A company controlled by Mr. Gu
Yangzhou Yaxing Motor Coach Company Limited ("Yangzhou Yaxing")	A company controlled by Mr. Gu
Chengdu Refrigerating Components Factory ("Chengdu Refrigerating")	A company suspected to be connected with Mr. Gu
Hefei Weixi Electrical Appliance Company Limited ("Hefei Weixi")	A company suspected to be connected with Mr. Gu
Jiangxi Keda Plastic Technology Company Limited ("Jiangxi Keda")	A company suspected to be connected with Mr. Gu
Jiangxi Kesheng Trading Company Limited ("Jiangxi Kesheng")	A company suspected to be connected with Mr. Gu
Jinan San'ai'fu Chemical Company Limited ("Jinan San'ai'fu")	A company suspected to be connected with Mr. Gu
Tianjin Lixin Trading Development Company Limited ("Tianjin Lixin")	A company suspected to be connected with Mr. Gu
Tianjin Taijin Yunye Company Limited ("Tianjin Taijin Yunye")	A company suspected to be connected with Mr. Gu
Tianjin Xiangrun Trading Development Company Limited ("Tianjin Xiangrun")	A company suspected to be connected with Mr. Gu
Wuhan Changrong Electrical Appliance Company Limited ("Wuhan Changrong")	A company suspected to be connected with Mr. Gu
Zhongshan Dongyue Electrical Company Limited ("Zhongshan Dongyue")	A company suspected to be connected with Mr. Gu
Zhejiang Guoda Trading Company Limited ("Zhejiang Guoda")	A company suspected to be connected with Mr. Gu

Name of related parties	Relationship
Zhejiang Yuhuan Compressor Factory (“Zhejiang Yuhuan”)	A company suspected to be connected with Mr. Gu
Beijing De Heng Solicitors (“Beijing De Heng”)	A company suspected to be connected with Mr. Gu
Zhuhai Defa Air-conditioner Fittings Company Limited (“Zhuhai Defa”)	A company suspected to be connected with Mr. Gu
Zhuhai Longjia Refrigerating Plant Company Limited (“Zhuhai Longjia”)	A company suspected to be connected with Mr. Gu

II. Transactions with related parties

(a) Transactions with Greencool Enterprise and its affiliates

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

	2006
	RMB’000
Loan guarantee provided by Greencool Enterprise	
— maximum amount during the year	327,971
— amount as at 31 December	85,709

(b) Transactions with Hisense Group

The Group had the following significant transactions with Hisense Group:

	Notes	2007 RMB'000	2006 RMB'000
Sales of goods/raw materials to			
— Hisense Shandong	*(i)*	132,725	—
— Hisense Agent	*(i)*	192	1,572,695
— Hisense Zhejiang	*(i)*	9,693	7,253
— Hisense Import & Export	*(i)*	6	266
— Hisense Beijing	*(i)*	110,303	—
— Hisense Nanjing	*(i)*	429	—
— Hisense Hitachi	*(i)*	—	286
Sales of property, plant and equipment to			
— Hisense Zhejiang		—	300
— Hisense Shandong		8	—
Sales of moulds to			
— Hisense Electric	*(i)*	—	2,554
— Hisense Agent	*(i)*	—	649
Agency fee paid/payable to			
— Hisense Agent	*(ii)*	—	13,178
Loan interest payable to			
— Hisense Agent		8,684	16,390
Purchases of goods/raw materials from			
— Hisense Air-Conditioner	*(i)*	—	18
— Hisense Shandong	*(i)*	120,923	—
— Hisense Agent	*(i)*	—	209,729
— Hisense Zhejiang	*(i)*	334,424	69,854
— Hisense Nanjing	*(i)*	105,329	1,830
— Hisense Beijing	*(i)*	15	5,520
— Hisense Electric	*(i)*	32	—
Purchases of property, plant and equipment from			
— Hisense Shandong		32	—
— Hisense Beijing		19	—

	2007	2006
	RMB'000	*RMB'000*
Repair and maintenance services provided by Savor Service	1,944	—
Loan and note payables guarantee provided by Hisense Group Company — amount as at 31 December	1,141,500	—

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

(ii) Agency fee was based on 1% of the total amount of sales proceeds of products under the sales agency agreement. On 10 May 2006, the sales agency agreement expired.

(c) Transactions with associates

The Group had the following significant transactions with associates:

		2007	2006
	Notes	*RMB'000*	*RMB'000*
Sales of goods/raw materials to			
— Chongqing Rongsheng	*(i)*	64,756	39,601
— Huayi and Jiaxibeila	*(i)*	18	356
Purchases of goods/raw materials from			
— Huayi and Jiaxibeila	*(ii)*	221,801	127,978
Service fee charged to			
— Attend Logistics		103	103
— Hisense Zhejiang		75	—
Logistics management fee/warehouse rental paid to			
— Attend Logistics	*(iii)*	29,657	51,538

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

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

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

(d) *Transactions with other related parties*

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

	Notes	2007 RMB'000	2006 RMB'000
Sales of goods/raw materials to			
— Chengdu Xinxing		—	3,337
Purchases of goods/raw materials from			
— Chengdu Xinxing		—	25,236
Water and electricity expenses paid to			
— Chengdu Engine	(i)	7,057	6,468
Lease payment in respect of plant and equipment to			
— Hangzhou Xileng	(ii)	—	6,000

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

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

III. Balances with related parties

(a) *Balances with Greencool Enterprise and its affiliates*

	2006 RMB'000
Included in trade and other receivables, net	
— Greencool Enterprise	6,085
— Hainan Greencool	976
— Shenzhen Greencool Technology	32,000
— Shenzhen Greencool Environmental	33,000
	72,061
Included in trade and other payables	
— Hefei Meiling	50
— Jiangxi Greencool	13,000
	13,050

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

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

(b) Balances with companies suspected to be connected with Mr. Gu

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

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

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

(c) Balances with Hisense Group

	2007	2006
	RMB'000	*RMB'000*
Included in trade and other receivables, net		
— Hisense Agent	47	540
— Hisense Air-Conditioner	675	335
— Hisense Zhejiang	—	582
— Hisense Nanjing	—	730
— Hisense Beijing	28,066	—
— Savor Service	33	—
	28,821	2,187
Included in trade and other payables		
— Hisense Air-Conditioner	58	9,281
— Hisense Shandong	54,487	—
— Hisense Agent	38,785	309,965
— Hisense Beijing	—	1
— Hisense Nanjing	545	279
— Hisense Zhejiang	109,236	—
— Savor Service	2,073	—
	205,184	319,526

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

Amounts due to Hisense Group are unsecured, interest-free and repayable on demand.

(d) Balances with associates

	2007	2006
	RMB'000	*RMB'000*
Included in trade and other receivables, net		
— Chongqing Rongsheng	317	—
— Attend Logistics	5	40
	322	40
Included in trade and other payables		
— Attend Logistics	7,998	20,652
— Chongqing Rongsheng	207	4,083
— Huayi and Jiaxibeila	31,995	26,945
	40,200	51,680

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

(e) *Balances with other related companies*

	2007	**2006**
	RMB'000	*RMB'000*
Included in trade and other receivables, net		
— Chengdu Engine	—	47,191
— Chengdu Xinxing	—	34,000
— Kelon Europe	5,716	5,716
	5,716	86,907
Included in trade and other payables		
— Chengdu Engine	109	5,309
— Chengdu Xinxing	—	11,946
— Hangzhou Xileng	2,471	15,772
— Jiangxi Combine	5,100	5,100
— Xi'an Gaoke	2,358	1,785
	10,038	39,912

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

As at 31 December 2007, impairment losses of approximately RMB4,455,000 (2006: RMB4,526,000) were recorded in respect of amounts due from other related companies.

IV. Key management personnel emoluments

	2007	**2006**
	RMB'000	*RMB'000*
Basic salaries, allowances and benefits-in-kind	4,692	7,422
Defined contribution pension cost	90	34
	4,782	7,456

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and other senior management, totaling 18 individuals (2006: 33 individuals).

36. Financial risk management objectives and policies

The Group is exposed through its operations to one or more of the following financial risks:

- Interest rate risk
- Foreign currency risk
- Liquidity risk
- Credit risk

The Group does not hold or issue any financial derivatives for trading purpose.

Interest rate risk

The Group is exposed to interest rate risks due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks which are mostly short-term in nature whereas interest-bearing financial liabilities are primarily short-term bank borrowings. As at 31 December 2007, the Group's short-term bank borrowings were carried at fixed interest rates, and therefore not significantly exposed to both fair value and cash flow interest rate risks.

The following table indicates the approximate change in the profit after tax in response to reasonably possible changes in an interest rate to which the Group has exposure at the balance sheet date. In determining the effect on profit after tax on the next accounting period until next balance sheet date, the management assumes that the change in interest rate had occurred at the balance sheet date and all other variables remain constant. There is no change in the methods and assumptions used in 2006 and 2007.

	2007 Effect on profit after tax	**2006 Effect on profit after tax**
	RMB'000	*RMB'000*
Increase by 100 basis points	(3,000)	(1,000)
Decrease by 100 basis points	3,000	1,000

Foreign currency risk

Foreign exchange risk is the risk of loss due to adverse movements in exchange rates relating to investments and transactions denominated in foreign currencies. The Group's monetary assets and transactions are mainly denominated in RMB, USD and GBP. The exchange rates between RMB, USD and GBP are not pegged, and there is fluctuation of exchange rates between RMB, USD and GBP. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Certain companies in the Group use foreign exchange forward contracts when major fluctuation in the relevant foreign currency is anticipated to manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currency at the reporting date are as follows:

	Liabilities		**Assets**	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
USD	1,273,645	527,313	450,298	423,771
GBP	521,614	—	46,042	—
Euro	48,764	563	28,425	3,063

The sensitivity analysis on foreign exchange risk includes monetary financial assets and liabilities that are denominated in a foreign currency, i.e. in a currency other than the functional currency in which they are measured. The following table indicates the approximate effect on the profit after tax in the next accounting period and the effect on other component of equity at one year after balance sheet date in response to reasonably possible changes in exchange rates to which the company has significant exposure at the balance sheet date.

	2007 Effect on profit after tax *RMB'000*	2006 Effect on profit after tax *RMB'000*
USD to RMB		
Appreciates by 1%	(6,010)	(756)
Depreciates by 1%	6,010	756
GBP to RMB		
Appreciates by 6%	(20,830)	N/A
Depreciates by 6%	20,830	N/A
Euro to RMB		
Appreciates by 9%	(1,336)	(164)
Depreciates by 9%	1,336	164

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of short-term fluctuations in cash flows. The Group's treasury department is responsible for maintaining a balance between continuity and flexibility of funding through the use of bank facilities in order to meet the Group's liquidity requirements. All of the debts of the Group would mature in less than one year as at 31 December 2007.

The contractual maturities of financial liabilities are shown as below:

	2007 *RMB'000*	2006 *RMB'000*
Current	868,417	1,128,137
Within six months	2,823,675	2,989,792
Within one year	1,246,105	539,000
	4,938,197	4,656,929

Credit risk

It is the risk that a counterparty is unable to pay amount in full when due. It arises primarily from the Group's trade receivables and amounts due from related parties. The Group limits its exposure to credit risk by vigorously selecting counterparties. There is no concentration of credit risk. The Group mitigates its exposure to risk relating to accounts receivable by dealing with diversified customers with sound financial standing. Certain new customers are required to place cash deposits with the Group to reduce the maximum exposure to credit risk. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. In addition, all receivable balances are monitored on an ongoing basis and overdue balances are followed up by senior management.

The maximum exposure to credit risk at reporting date is the carrying amount of each class of financial assets is shown on the balance sheet.

37. Acquisition of further equity interests in a subsidiary

On 24 April 2007, the Company acquired an additional 30% shareholding in a subsidiary, Chengdu Kelon, from Chengdu Engine. After the acquisition, Chengdu Kelon became a wholly-owned subsidiary of the Company.

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

	RMB'000
Property, plant and equipment	84,365
Payments for leasehold land held for own use under operating leases	19,450
Trade and other receivables	183,516
Inventories	7,361
Cash and cash equivalents	7,525
Trade and other payables	(150,950)
Taxation payable	(3,981)
Bank borrowings	(24,900)
Net assets	122,386
Net assets acquired	36,716
Consideration:	
Satisfied by payment in advance and a note payable	81,388
Net assets acquired	(36,716)
Debited to capital reserve	44,672

38. Disposal of a subsidiary

On 27 August 2007, the Company disposed 70% shareholding in a subsidiary, Kaifeng Kelon Air-Conditioner Co., Ltd ("Kaifeng Kelon") to the minority equity holder, Henan Province, Kaifeng Economic Technology Development (Group) Company for a consideration of approximately RMB6,123,000 satisfied by waiver of debt settlement by Kaifeng Kelon. Kaifeng Kelon ceased to be a subsidiary of the Company following the disposal and the Company had no more shareholding interest in Kaifeng Kelon.

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

	RMB'000
Sale proceeds satisfied by waiver of debt settlement	6,123
Net book value of net assets disposed	(1,614)
Gain on disposal of Kaifeng Kelon	4,509

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

Property, plant and equipment	30,310
Payments for leasehold land held for own use under operating leases	13,084
Cash and cash equivalents	23
Trade and other receivables	837
Inventories	782
Trade and other payables	(6,542)
Minority interests	(36,880)
Net book value of net assets disposed	1,614

39. Capital commitments

	2007	**2006**
	RMB'000	*RMB'000*
Capital expenditure for acquisition of property, plant and equipment contracted for but not provided in the financial statements	90,831	14,004

40. Retirement benefits schemes

The Group contributes mainly to a defined contribution pension scheme, which is administered by the provincial government, in respect of employees of the Group. According to such scheme, the Group shall pay an amount, calculated at a percentage of the total salaries and wages of the employees, to a retirement reserve.

The total cost charged to the consolidated income statement of approximately RMB41,135,000 (2006: RMB31,223,000) represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

41. Reserves

(a) Statutory reserves

According to the Articles of Association of the Company, when distributing net profit of each year, the Company shall set aside 10% of its after tax profits for the statutory common reserve fund (except where the fund has reached 50% of the Company's registered capital) and 5% to 10% of after tax profits for the statutory common welfare fund. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

(b) Distributable reserves of the Company

In accordance with the Articles of Association of the Company, the accumulated profits of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the amount determined in accordance with PRC accounting standards and regulations ("PRC GAAP") and (ii) the amount determined in accordance with IFRS.

As at 31 December 2007, the Company did not have reserve available for distribution to its shareholders (2006: Nil).

42. 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 amount involved in the litigations against the Group relate mainly to bank loans, purchases and expenditures incurred by the Group and most of them were recorded as liabilities of the Group as at the balance sheet date. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have material adverse effect on the financial position or operating results of the Group.

43. Subsequent events

The following significant events took place subsequent to 31 December 2007:

(a) In January 2008, the Group signed share transfer agreement to dispose of its 100% equity interests in a subsidiary-Jilin Kelon. The total share transfer consideration was agreed to be RMB30,000,000 in which RMB29,500,000 was used for the settlement of liabilities of Jilin Kelon. The remaining balance of RMB500,000 has to be settled in cash. The Group had suffered a loss on disposal of the subsidiary of approximately RMB11,000,000 and the transaction for disposal of subsidiary was completed in March 2008.

(b) In January 2008, the Group entered into a Business Cooperation Framework Agreement with certain subsidiaries of Hisense Group for a term of one year ending on 31 December 2008, which can be terminated before its expiration by mutual agreement of the parties, in connection with the (i) Sale and supply of moulds, (ii) Sale and supply of Air-conditioners, (iii) Sale and supply of Refrigerators, (iv) Sale and supply of raw material and components and (v) Provision of property management service to the subsidiaries of Hisense Group, subject to a maximum cap of RMB47,500,000, RMB120,000,000, RMB100,000,000, RMB92,100,000 and RMB500,000 respectively.

Under the same business cooperation Framework Agreement, the subsidiaries of Hisense Group agreed to (i) Sales and supply of Air-Conditioners, (ii) Sales and supply of refrigerators, (iii) Sales and supply of raw materials, components and moulds and (iv) Provision of property management service to the Group, subject to a maximum cap of RMB620,000,000, RMB210,000,000, RMB46,100,000 and RMB42,000,000.

The Group also entered into a Business Cooperation Framework Agreement with Huayi Compressor Holdings Company Limited and its associates for a term of one year ending on 31 December 2008, which can be terminated before its expiration by mutual agreement of the parties, in connection with the purchase of compressor by the subsidiaries of the Group, subject to a maximum cap of RMB581,710,000.

(c) The Company has approved in the general meeting of the Company held on 15 February 2008 to provide guarantees in favour of the Group's distributors at an aggregate amount of RMB442,000,000 (2006: RMB267,000,000). The Group and the respective distributors, however, have not reached any mutual commitment and entered into contractual arrangement for the proposed guarantee.

(d) In December 2007, the Company proposed to purchase the White Goods assets of Hisense Air-Conditioner, the substantial shareholder of the Company, including the production companies of refrigerators and air-conditioners and the sale company of White Goods Business (the "Target Assets") by way of private issuance of A shares of the Company to the Hisense Air-conditioning (the Acquisition). The price of the Target Assets of the Acquisition was proposed to be approximately RMB2,541,000,000. For the purpose of determining the consideration, the Company proposed to issue a total of up to and including 365,000,000 domestic ordinary shares (A-shares) with a nominal value of RMB1 each.

On 15 February 2008, the Company held an extraordinary general meeting and passed the Acquisition proposal. On 20 March 2008, the Company announced that the Acquisition has been rejected by the Merger and Reorganisation Review Committee of CSRC ("中國證券監督管理委員會併購重組審核委員會").

(e) In April 2008, the Company announced a notice to confirm that the Acquisition failed to complete by 28 March 2008. Pursuant to the Share Reform Proposal completed on 29 March 2007, Hisense Air-conditioner has undertaken to make a compensation of 9,725,059 shares calculated based on 0.5 share for every 10 transferable A Shares held by such holders as registered on 10 April 2008 under the circumstances that the Acquisition cannot be completed by 29 March 2008.

44. Critical accounting judgments and key sources of uncertainty

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, construction in progress, investment properties, payments for leasehold land held for own use under operating leases, intangible assets, goodwill and interests in associates, recoverable amounts of the assets need to be determined. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate fair value less costs to sell because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which require significant judgment relating to items such as level of sales, selling price and amount of operating costs. The Group uses all readily available information in determining amounts that are reasonable approximations of recoverable amounts, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables, future cash flows need to be determined. One of the key assumptions that has to be applied is the ability of the debtors to settle the receivables. Although the Group has used all available information to make this estimation, inherent uncertainty exists and actual may be different from the amount estimated.

Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual values. The Group reviews the estimated useful lives of the assets regularly. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Warranty provision

As explained in noted 30(i), the Group makes provisions under the warranties it gives on sales of its electrical products taking into account the Group's recent claim experience. As the Group is continuously upgrading its product designs and launching new models, it is possible that recent claim experience is not indicative of the future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

Taxation

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the year in which such determination is made.

45. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 24 April 2008.

C. AUDITOR'S REPORTS AND QUALIFIED AUDIT OPINIONS EXTRACTED FROM PUBLISHED ANNUAL REPORTS

(i) Qualified audit opinion on the Kelon Group's financial statements for the year ended 31 December 2005 as extracted from the Kelon Group's 2005 annual report

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TO THE SHAREHOLDERS OF
GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED
廣東科龍電器股份有限公司
(A joint stock limited company established in the People's Republic of China with limited liability)

We have audited the financial statements which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and its subsidiaries (collectively "the Group"), consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

a. The consolidated financial statements include the financial statements of Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon"), the business of which was interrupted after the freezure of its assets by the Higher People's Court of Jiangxi Province in August 2005. The scope of our audit on Jiangxi Kelon was limited as personnel responsible for the operations of Jiangxi Kelon had left during the year and the management of the Group were unable to ascertain the accuracy and completeness of the books and records of Jiangxi Kelon. Due to this limitation, we were unable to obtain sufficient reliable evidence to assess whether the carrying amounts of the following significant financial statement areas (after elimination of intra-group balances and transactions), relating to Jiangxi Kelon, were free from material misstatements:

   - Property, plant and equipment of approximately RMB60 million;
   - Inventories of approximately RMB44 million;
   - Other receivables of approximately RMB49 million;
   - Amounts due from companies suspected to be connected with Mr. Gu (as defined in point (f) below) of approximately RMB85 million;
   - Cash and bank balances of approximately RMB1.5 million;
   - Trade payables of approximately RMB172 million;
   - Other payables of approximately RMB18 million;
   - Amounts due to companies suspected to be connected with Greencool Enterprise (as defined in point (f) below) of approximately RMB13 million;

- Taxation payable of approximately RMB23 million;
- Short-term bank borrowings of approximately RMB151 million; and
- Net loss attributable to the Group of approximately RMB244 million.

b. Included in leasehold land and buildings at 31 December 2005 were asset appreciation adjustments made in prior years of an aggregate gross amount and net book value of approximately RMB133 million and RMB96 million respectively. Those asset appreciation adjustments were initially recorded in lump sums without sufficient details as to the individual asset items they relate to. As no further information was available to us with respect to the lump sums, we were unable to determine with reasonable certainty whether the carrying amounts of the property, plant and equipment and revaluation reserve at 31 December 2005 were free from material misstatements and the possible impact on the Group's income statements in the current year and prior periods should adjustments be found necessary.

c. The Company and certain of its subsidiaries did not maintain a proper costing system in respect of finished goods of sufficient reliability for financial reporting purpose. There were numerous negative quantities and negative unit costs in the inventory ledgers for certain of the Company's subsidiaries throughout the year. The carrying amounts of inventories at the balance sheet date were re-calculated based on the physical quantities at the balance sheet date and the weighted average cost of production in the year. Since both the carrying amounts of finished goods at 1 January 2005 and 31 December 2005 have direct impact on the cost of sales figure for the current year, and we could not place reliance on the Group's inventory system nor was it practical for us to perform other audit procedures to verify the carrying value of the Group's inventories at 1 January 2005, we were therefore unable to obtain sufficient information to assess whether the cost of sales for the current year was free from material misstatement. We have, however, performed alternative audit procedures to ascertain the existence, completeness and valuation of the closing inventories as at 31 December 2005 and our opinion is not qualified in this respect.

d. At 31 December 2005, included in trade and other receivables under current assets were intra-group receivables of approximately RMB80 million and included in trade and other payables under current liabilities were intra-group payables of approximately RMB52 million. This resulted from an inability to eliminate balances among companies within the Group on consolidation. We were unable to obtain sufficient information and explanation concerning the timing and nature underlying the unreconciled receivables and payables. We were therefore unable to assess the validity and recoverability of the unreconciled receivables amount of approximately RMB80 million and the validity and completeness of the unreconciled payables amount of approximately RMB52 million and the possible impact on the Group's income statements in the current year and prior periods should adjustments be found necessary.

e. Included in trade and other receivables at 31 December 2005 was a receivable arising from the sale of an interest in leasehold land under operating lease in Shunde, the People's Republic of China (the "PRC"), of gross amount and carrying amount of approximately RMB169 million and RMB85 million respectively. Although the land use right was registered in the name of the purchaser in June 2005, no settlement of the receivable has been recorded in the Company's books up to the date of this report. The carrying amount was stated net of an impairment loss, made in the current year, of approximately RMB84 million. During the course of our audit, we sought but were unable to obtain direct confirmation from the purchaser concerning the existence of the receivable. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves concerning the continued existence of the receivable nor for us to assess its recoverability. Accordingly, we were unable to assess with reasonable certainty whether the carrying amount of such receivable at 31 December 2005 as well as the impairment loss made in the current year were free from material misstatement.

f. It was reported by the Company that the controlling shareholder, Guangdong Greencool Enterprise Development Company Limited ("Greencool Enterprise"), had entered into a series of activities/ transactions during the period from 2001 to 2005 which had been harmful to the Group, including but not limited to unauthorised use of the Group's funds, fictitious sales of goods and scrap materials, unreasonable prepayments and purchases of raw materials and property, plant and equipment at unreasonable quantities and prices. These transactions were conducted through Greencool Enterprise, its affiliates and/or companies suspected to be connected with the Company's former chairman, Mr. Gu Chu Jun ("Mr. Gu"). As at 31 December 2005, the aggregate amount of receivables and aggregate amount of payables due from/to these companies were approximately RMB680 million and RMB131 million respectively which are reflected in the consolidated balance sheet at 31 December 2005 as "Amounts due from Greencool Enterprise and its affiliates" and "Amounts due from companies suspected to be connected with Mr. Gu" within current assets and "Amounts due to Greencool Enterprise and its affiliates" and "Amounts due to companies suspected to be connected with Mr. Gu" within current liabilities. The management have made an impairment loss of approximately RMB374 million on the receivables. Due to the irregularity of the transactions mentioned above and limitation of information available to us, we were unable to satisfy ourselves concerning the validity of these transactions, the appropriateness of the impairment amount and the recoverability of the net carrying amounts.

g. As a result of the alleged breaches of PRC securities laws and regulations and consequent upon the alleged economic crimes committed by the former chairman of the Company, the Company had appointed an independent professional firm to carry out an investigation on the material cash flows of the Group during the period from 1 October 2001 to 31 July 2005 (the "Investigation Period"). The results of the investigation, announced by the Company on 20 January 2006, revealed that there were significant cash flows which were inconsistent with or were irrelevant to the business of the Group: (1) between the Group and Greencool Enterprise and its affiliates ("Greencool Companies"); (2) between the Group and companies suspected to be connected with Greencool Companies; (3) between the Group and other companies; and (4) within the Group, during the Investigation Period.

   The management considered that the results of the investigation indicated that (1) there could have been omissions of recording and disclosure of material related party transactions during the year ended 31 December 2005 and prior periods and (2) there could have been material misstatements under the cash flow statements in distinguishing operating, investing and financing cash flows during the year ended 31 December 2005 and prior periods.

   In consequence, we were unable to obtain sufficient reliable information and explanations to assess (1) whether all material related party transactions have been properly disclosed in the financial statements during the year ended 31 December 2005; and (2) whether all material cash flows have been properly reflected in operating, investing and financing activities under the cash flow statement for the year ended 31 December 2005.

h. Following a formal investigation into the Company for alleged breaches of securities laws and regulations in the PRC by the China Securities and Regulatory Commission, the management noted certain errors that had significant impact on the Group's prior years' financial statements. The financial statements for the year ended 31 December 2005 included a restatement of the 2004 financial statements to correct the errors noted by the management. The above restatements have, in aggregate, reduced the net assets of the Group as at 31 December 2004 by approximately RMB209 million, profit for the year ended 31 December 2004 by approximately RMB181 million and opening retained earnings as at 1 January 2004 by approximately RMB27 million. Details of the income statement and balance sheet line items being affected are disclosed in note 2 to the financial statements. Due to the irregularity of the transactions entered into by the Company as mentioned in the foregoing and in points (f) and (g) above, we were unable to obtain sufficient reliable evidence to satisfy ourselves concerning the appropriateness, completeness and accuracy of the prior year restatements. Further this will have a material impact on the financial statements for the year ended 31 December 2005. In addition, we were also unable to ascertain with reasonable accuracy as to whether the impairment losses on inventories of approximately RMB293 million and receivables of approximately RMB479 million as included in administrative expenses were under conditions that did not exist prior to 1 January 2005 and thus would not have led to prior year restatements.

Any adjustments found to be necessary to the matters set out in points (a) to (h) above would affect the net liabilities of the Group as at 31 December 2005 and/or the loss and cash flows of the Group for the year then ended.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 3(b) to the financial statements concerning the adoption of the going concern basis, being the basis on which the financial statements have been prepared. As explained in note 3(b) to the financial statements, the Group incurred losses of approximately RMB3,767 million and RMB237 million (restated) for the year ended 31 December 2005 and year ended 31 December 2004 respectively. As at 31 December 2005, the Group's current liabilities exceeded its current assets by approximately RMB3,307 million. In addition, the Group had outstanding short-term loans in the aggregate of approximately RMB2,161 million of which approximately RMB1,233 million were overdue as at 31 December 2005. The Group is in the process of negotiating with certain banks to restructure the amounts due to them and the Company's management confirmed that most of the Group's bankers have expressed their intention to reschedule overdue bank borrowings and/or renew/grant credit facilities to the Group. In addition, the successor single largest shareholder of the Company, Hisense Air-Conditioner Company Limited has expressed its intention to provide necessary financial support to the Group so as to enable it to continue as a going concern. Based on the above assessments, the directors are of the opinion that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due for the foreseeable future and have prepared the consolidated financial statements on a going concern basis. We consider that appropriate estimates and disclosures have been made herein and our opinion is not qualified in this respect.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Qualified opinion arising from limitation of audit scope and disclaimer on view given by consolidated income statement and consolidated cash flow statement

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matters set out in the basis of opinion section of this report, in our opinion the financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Because of the significance of the possible effects of the limitation in scope in respect of reliable evidence outside the control of the directors on matters set out in points (f) to (h) above, we are unable to form an opinion as to whether the financial statements give a true and fair view of the Group's loss and cash flows for the year ended 31 December 2005.

In respect alone of the limitations on our work described in the basis of opinion section of this report:

— we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

— we were unable to determine whether proper books of account had been kept.

BDO McCabe Lo Limited
Certified Public Accountants
Chow Tak Sing, Peter
Practising Certificate Number P04659

Hong Kong, 11 August 2006

(ii) Qualified audit opinion on the Kelon Group's financial statements for the year ended 31 December 2006 as extracted from the Kelon Group's 2006 annual report

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THE SHAREHOLDERS OF
GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED
(廣東科龍電器股有限公司)

(A joint stock limited company established in the People's Republic of China with limited liability)

We have audited the financial statements of Guangdong Kelon Electrical Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.

Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

It was reported by the Company that the previous controlling shareholder, Guangdong Greencool Enterprise Development Company Limited ("Greencool Enterprise"), had entered into a series of activities/transactions during the period from 2001 to 2005 which had been harmful to the Group, including but not limited to unauthorised use of the Group's funds, fictitious sales of goods and scrap materials, unreasonable prepayments and purchases of raw materials and property, plant and equipment at unreasonable quantities and prices. These transactions were conducted through Greencool Enterprise, its affiliates and/or companies suspected to be connected with the Company's former chairman, Mr. Gu Chu Jun ("Mr. Gu"). As at 31 December 2006, the aggregate amount of receivables and aggregate amount of payables due from/to these companies were approximately RMB286 million (net of an accumulated impairment loss of RMB364 million) and RMB132 million respectively which were reflected in the consolidated balance sheet at 31 December 2006 as "Amounts due from Greencool Enterprise and its affiliates" and "Amounts due from companies suspected to be connected with Mr. Gu" within current assets and "Amounts due to Greencool Enterprise and its affiliates" and "Amounts due to companies suspected to be connected with Mr. Gu" within current liabilities. Due to the irregularity of the transactions mentioned above and limitation of information available to us, we were unable to satisfy ourselves concerning the validity of these transactions, the appropriateness of the accumulated impairment and the recoverability of the carrying amounts. Any adjustments found to be necessary would affect the net liabilities as at 31 December 2006 and the profit for the year then ended.

Qualified opinion arising from limitation of audit scope

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matters set out in the basis for qualified opinion section of this report, the financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to note 3(b) to the financial statements which indicates that the Group's current liabilities exceeded its current assets by approximately RMB2,952 million as at 31 December 2006. These conditions, along with other matters as set forth in note 3(b) to the financial statements, include the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The directors are of the opinion that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due for the foreseeable future and have prepared the consolidated financial statements on a going concern basis.

BDO McCabe Lo Limited
Certified Public Accountants
Chow Tak Sing, Peter
Practising Certificate Number P04659

Hong Kong, 26 April 2007

(iii) Qualified audit opinion on the Kelon Group's financial statements for the year ended 31 December 2007 as extracted from the Kelon Group's 2007 annual report.

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TO THE SHAREHOLDERS OF
HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED
(海信科龍電器股份有限公司)
(A joint stock limited company established in the People's Republic of China with limited liability)

We have audited the financial statements of Hisense Kelon Electrical Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 128, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the

Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

It was reported by the Company that the previous controlling shareholder, Guangdong Greencool Enterprise Development Company Limited ("Greencool Enterprise"), had entered into a series of activities/ transactions during the period from 2001 to 2005 which had been harmful to the Group, including but not limited to unauthorised use of the Group's funds, fictitious sales of goods and scrap materials, unreasonable prepayments and purchases of raw materials and property, plant and equipment at unreasonable quantities and prices. These transactions were conducted through Greencool Enterprise, its affiliates and/or companies suspected to be connected with the Company's former chairman, Mr. Gu Chu Jun ("Mr. Gu"). As at 31 December 2007, the aggregate amount of receivables and aggregate amount of payables due from/to these companies were approximately RMB286 million (net of an accumulated impairment loss of RMB364 million) and RMB132 million respectively which were reflected in the consolidated balance sheet at 31 December 2007 as "Amounts due from Greencool Enterprise and its affiliates" and "Amounts due from companies suspected to be connected with Mr. Gu" within current assets and "Amounts due to Greencool Enterprise and its affiliates" and "Amounts due to companies suspected to be connected with Mr. Gu" within current liabilities. Due to the irregularity of the transactions mentioned above and limitation of information available to us, we were unable to satisfy ourselves concerning the validity of these transactions, the appropriateness of the accumulated impairment and the recoverability of the carrying amounts. Any adjustments found to be necessary would affect the opening accumulated losses as at 1 January 2007, the net liabilities as at 31 December 2007 and the profit for the year then ended.

Qualified Opinion arising from limitation of audit scope

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matters set out in the basis for qualified opinion section of this report, the financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without further qualifying our opinion, we draw attention to note 2(b) to the financial statements which indicates that the Group's current liabilities exceeded its current assets by approximately RMB2,640 million as at 31 December 2007. These conditions, along with other matters as set forth in note 2(b) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The directors are of the opinion that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due for the foreseeable future and have prepared the consolidated financial statements on a going concern basis.

BDO McCabe Lo Limited
Certified Public Accountants
Chow Tak Sing, Peter
Practising Certificate Number P04659

Hong Kong, 24 April 2008

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 30 JUNE 2008 (THE "REPORTING PERIOD")

Performance Review

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

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

Analysis of Operation Structure

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

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

Air-conditioners Business

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

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

Refrigerators Business

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

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

Changes in Profit Composition in the Reporting Period

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

Analysis of the Impacts on the Results

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

(1) The competitiveness of the two largest series of products of the Company, particularly the refrigerators, was substantially enhanced by further improving the research and development system, stepping up the efforts in recruiting the talents in high-end technologies, enlarging the depth of research and development and upgrading the efficiency of products and commencing the introduction of technologies;

(2) By streamlining the procedures and improving the techniques, the labour productivity was further enhanced and the export and delivery lead time was substantially shortened. Through strengthening the internal fundamental management, the product-value-adding plan was promoted by focusing on the benchmark projects of the industry so that the technological level, quality and production of the products were able to be maintained at an advanced level among the industry;

(3) The results of the cost control measures has been further improved during the Reporting Period by ways of strengthening the cost management as well as the tracking and analysis of the uses of the costs.

(4) The acceleration of cash flow saw a satisfactory performance. Through reducing the level of capital used in all areas, strictly controlling the liquidity risk and increasing the capital utilization efficiency, the management level of the liquidity of the Company was significantly upgraded as compared to the corresponding period last year.

Outlook

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

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

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

1. To step up efforts in the introduction of technologies and co-development and to pursue R&D efforts in depth for prominent technology innovations with the objective to further strengthening the leadership position of the Company in the refrigerating industry through in-depth research in energy-saving technologies;

2. To perfect the quality control standards with increased the weight of quality performances in the performance assessment of key positions, and to strengthen the supervision and control of the key quality control area, in order to enhance the quality standard of production and ensure the improvement of quality;

3. To strengthen sales and marketing efforts and reinforce the marketing research in order to develop the sales and marketing management system and operating mechanism which can adapt to market competition, enhance the quality of services and optimize product portfolio. This is paralleled by the efforts to further adhere to the customer market through continued reinforcement of the strategic relations with overseas customers (especially major customers) to secure sizeable orders, as well as efforts to continually enhance its export product structure in order to increase the profitability;

4. To accelerate the cash flow and mitigate the operation risks. To strengthen management of the receivables, to reinforce inventory control and to lessen the inventory pressure by shortening delivery lead time with the objective to enhancing the response to changes in market demand.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. All the Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. INDEBTEDNESS

As the close of business on 31 August 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding bank and other loans of approximately RMB856,702,479.82, comprising secured bank loans of approximately RMB475,321,323.92 and unsecured bank loans of approximately RMB381,381,155.90.

As at 31 August 2008, bank loans amounting to RMB475,321,323.92 are secured by certain plant and machinery, land use right of the Group and other assets of the subsidiaries of the Group. The Group had unsecured bank loans of approximately RMB381,381,155.90, of which RMB298,000,000.00 is guaranteed by Hisense Group.

Save as aforesaid, the Group did not have, at the close of business on 31 August 2008, outstanding liabilities or any mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase of finance lease obligations or any guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are satisfied after due and careful enquiry that after taking into account the existing banking facilities available, financial support from the Company's ultimate holding company and the existing cash and bank balances, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

4. DISCLOSURE OF INTERESTS

Directors, supervisors and chief executive of the Company

As at the Latest Practicable Date, none of the Directors, supervisors and chief executive of the Company had interests and short positions in the Shares, underlying Shares and/or debentures (as the case may be) of the Company or any its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director or chief executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any interest, direct or indirect, in any asset which have been since 31 December 2007, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2007, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

Interests of Substantial Shareholders

Interests in the Company

As at the Latest Practicable Date, so far as the Directors are aware, each of the following persons, not being a Director, supervisor or chief executive of the Company, had an interest in the Shares which falls to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO:

Name	Class of Shares	Number of issued ordinary shares held	Proportion to the Relevant class of issued share capital of the Company	Proportion to the total issued share capital of the Company
Hisense Air-conditioning	A Shares	241,179,225	45.30%	24.31%
Foshan City Shunde District Economic Consultancy Company	A shares	63,923,804	12.01%	6.44%

Interests in other members of the Group

As at Latest Practicable Date, so far as the Directors are aware, the following persons, not being a Director, supervisor or chief executive of the Company, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Other members of Group	**Shareholders holding 10% or more in other members of the Group**	**Percentage shareholding of Shareholders in other members of the Group**
Guangdong Kelon Air-Conditioner Co., Ltd	Weishi Investments Company Limited	40%
Guangdong Kelon Mould Co., Ltd	Hua Yi Compressor Company Limited	29.89%
Foshan City Shunde District Rongsheng Plastic Co., Ltd	Hua Yi Compressor Company Limited	29.95%
Guangdong Huaao Electrical Electronics Co., Ltd.	Foshan City Shunde District Yun Long Enquiry Service Company Limited	30%
Hisense Ronshen (Yingkou) Refrigerator Co., Ltd.	Yingkou Yingleng (Group) Bankruptcy Liquidation Team	14.74%
Xi'an Kelon Cooling Co., Ltd.	Xi'an Gaoke (Group) Company Limited	29.05%
Jiangxi Kelon Combine Electrical Appliances Co., Ltd.	Jiangxi Fadasi Domestic Electrical Appliances Company Limited (江西發達思家電有限公司)	45%
Hua Yi Compressor Company Limited	Sichuan Changhong Electric Holdings Co., Ltd	29.92%
	A-share public Shareholders	49.05%

Other members of Group	Shareholders holding 10% or more in other members of the Group	Percentage shareholding of Shareholders in other members of the Group
Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd.	Chongqing Shang She Group	24%
	Chongqing Huaqing Commerce Company	24%
	Chongqing Department Building	24%
Guangzhou Antaida Logistic Co., Ltd.	Guangzhou Zhongyuan International Freight Forwarding Company Limited	30%
	China Far Ocean Network Company Limited	25%
	Wuxi Small Swan Holdings Company Limited	20%
Wuhu Yingjia Electrical Machinery Co., Ltd.	Heavenly King Incorporated	20%
Sichuan Rongsheng Kelon Refrigerator Sales Co., Ltd.	Xu Wei Ru	24%
Beijing Hengsheng Xin Chuang Technology Company	Foshan City Shunde District Yun Long Enquiry Service Company Limited	11%
Guangdong Kelon Weili Electrical Appliances Company Limited	Zhongshan City Fusha Town Shunchang Industry Limited Company (中山市阜沙鎮順暢工業有限公司)	20%

Save as disclosed above, as at the Latest Practicable Date and so far as is known to the Directors or chief executive of the Company, there was no other person (other than a Director, supervisor or chief executive of the Company or a member of the Group), who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

5. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors, proposed directors, supervisors or proposed supervisors of the Company had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation).

6. INTEREST IN CONTRACTS OR ARRANGEMENT

(a) As at the Latest Practicable Date, none of the Directors or their associates had any direct or indirect interest in any assets which have been, since 31 December 2007 (being the date to which the latest published audited consolidated financial statements of the Kelon Group were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

(b) As at the Latest Practicable Date, none of the Directors or their associates was materially interested in any contract or arrangement entered into by any member of the Kelon Group and subsisting at the date of this circular which was significant in relation to the business of the Group.

7. COMPETING BUSINESS

As at the Latest Practicable Date, the following directors of the Company or their respective associates have interests in the following businesses which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group pursuant to the Listing Rules:

Name of Director	Name of entity which business is considered to compete or likely compete with the business of the the Group	Description of business of the entity which is considered to compete or likely to compete with the business of the the Group	Nature of interest of the Director in the entity
Mr. Tang Ye Guo	Hisense Group or its Subsidiaries	Production of air-conditioning/electrical products	Director
Ms. Yu Shu Min	Hisense Group or its Subsidiaries	Production of air-conditioning/electrical products	Director and/or senior management
Mr. Wang Shi Lei	Hisense Group or its Subsidiaries	Production of air-conditioning/electrical products	Director and/or senior management
Mr. Lin Lan	Hisense Group or its Subsidiaries	Production of air-conditioning/electrical products	Director and/or senior management
Ms. Liu Chun Xin	The Subsidiaries of Hisense Group	Sales and marketing of electrical products	Director
Mr. Zhang Ming	The Subsidiaries of Hisense Group	Production of air-conditioning/electrical products	Director

As at the Latest Practicable Date, save as disclosed above, none of the directors of the Company or their respective associates has interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

8. EXPERT

(a) The following sets out the qualifications of the expert which has given its opinion or advice as contained in this circular:

Name	Qualifications
Access Capital	a corporation licensed under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO

(b) Access Capital does not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Access Capital does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, the date to which the latest published audited financial statements of the Company were made up.

(d) Access Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.

(e) The letter and recommendation given by Access Capital are given as of the date of this circular for incorporation herein.

9. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, the following litigation or claims of material importance are pending or threatened against the Group:

1	Litigation initiated CAN/MC Appliance Corporation against the Company and Kelon International Incorporation	Can International. Inc./MC Appliance Corporation	USD 13,750,719.19	The plaintiff alleged that it entered into a contract with the defendant on 29 December 2003 regarding the purchase of 108,108 units of MCBR1000W refrigerators, but the defendant failed to perform its obligations under the contract on timely basis and that the goods delivered were defective. CNA has not brought any claim over the breach of the obligation of repair and maintenance to the court. The Company is entitled to lodge an counter-claim on the payment of more than USD980,000 for goods.	The Company has lodged the counter-claim. The case is now being heard

2	Litigation against the Company initiated by Zhejiang Hangzhou Hangxiao Ganggou Holdings Company Limited ("Hangxiao Ganggou")	Hangxiao Ganggou	RMB19,853,000	The plaintiff filed proceeding against the Company for the payment of RMB 1,193,000 in construction fees and RMB 17,660,000 in penalty interest and the litigation costs. The plaintiff alleged that it had undertaken the construction works of the Company's plain warehouse factories No. 1 and No. 2 pursuant to a construction contract with the Company, and the Company defaulted in payment of RMB1,193,000 of construction fees. The proceeding was resumed in the Intermediate People's court of Foshan City in March 2007. Hangxiao Ganggou has amended the claim for construction fees to RMB1,170,000.	The hearing commenced in the Intermediate People's Court of Foshan City in March 2007. The second court session was scheduled in June 2007 and the case would be tried together with the litigation against Hangxiao Ganggou by the Company. The petition against the Company by Hangxiao ganggou was dismissed, and Hangxiao Ganggou shall be liable for the case acceptance fees. Hangxiao Ganggou lodged an appeal, and the High Court of Guangdong heard the case together with the case against Hangxiao Ganggou by the Company on 30 January 2008/ The case is now pending judgement

10. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, had been entered into by members of the Group after the date two years before the date of the Announcement and up to the Latest Practicable Date which may be material:

a) Financial Services Agreement;

b) on 27 April 2008, the Company entered into the JV Agreement with Whirlpool (Hong Kong) to establish the JV Company for the purposes of developing, manufacturing and selling washing machines, refrigerators and other electrical appliances and provision of after-sale and consultation services in relation thereto. The total investment amount for the JV Company will be RMB900,000,000 and the total registered share capital of the JV Company will be RMB450,000,000. Pursuant to the JV Agreement, each of the Company and Whirlpool (Hong Kong) agreed to invest RMB225,000,000 as capital contribution to JV Company. The JV Company will be owned as to 50% by the Company and 50% by Whirlpool (Hong Kong);

c) Framework Agreement for Purchase and Supply of Compressors entered into between the relevant subsidiaries of the Company and Huayi Compressor Holdings Company Limited and its subsidiaries on 7 January 2008 for a term of 1 year commencing from 1 January 2008 to 31 December 2008, under which the annual cap for the transactions contemplated therein amounted to RMB581,710,000;

d) Business Cooperation Framework Agreement entered into between the relevant subsidiaries of the Company and Hisense Group and its subsidiaries on 7 January 2008 for a term of 1 year commencing from 1 January 2008 to 31 December 2008, under which the annual cap for the transactions contemplated therein amounted to RMB47,500,000;

e) The state-owned land use transfer agreement dated 27 December 2007 entered into between Chengdu Kelon Refrigerator Co., Ltd, the wholly-owned subsidiary of the Company, with Chengdu Gandao Construction Comprehensive Development Corporation (Pai Zhuan (2007) ZiDi No.010), pursuant to which Chengdu Kelon shall transfer the land use right of a piece of land with a gross area of 51,673.51sqm located at No.51, Shuangqing Road, Chenghua Area to Chengdu Gandao Construction Comprehensive Development Corporation at the consideration of RMB372,049,440.00.

f) Contract on the Introduction of Refrigerator Technology entered into between the Company and Toshiba Consumer Marketing Corporation(東芝電器行銷株式會社)("Toshiba") ([東芝]) on 10 December 2007, pursuant to which the Company shall pay Toshiba a fee totalling of RMB58,000,000, together with a commission based on a contractual percentage of the sales income from the sales of contractual products (i.e. the household refrigerators equipped with the double-chilling temperature technology as provided by Toshiba) to the markets other than Japan;

g) A debt settlement Agreement entered into between the Company and its subsidiary Jiangxi Kelon and Henan Development (河南開發) on 27 August 2007, pursuant to which the Company and its subsidiary agreed to waive the amount of RMB37,363,000 owed by Kaifeng Kelon to them, and Kaifeng Kelong agreed to waive the amount of RMB43,639,200 owed by the Company and its subsidiary to it;

h) Equity Transfer Agreement entered into between Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon", a wholly owned subsidiary of the Company) and Henan Province Kaifeng Economic Technology Development (Group) Company ("Henan Development") on 27 August 2007, pursuant to which Jiangxi Kelon agreed to sell, and Henan Development agreed to acquire, a 70% equity interest in Kaifeng Kelon Air-conditioner Co., Ltd. ("Kaifeng Kelon") at nil-monetary consideration;

i) Joint Venture Agreement entered into among the Company, Qingdao Hisense Import & Export Co., Ltd. ("Hisense Import & Export"), Qingdao Hisense Electric Co., Ltd. ("Hisense Electric") and the natural persons on 27 July 2007 regarding the establishment of Qingdao Hisense International Marketing Co., Ltd. ("Joint Venture Company"), pursuant to which the Company, Hisense Import & Export, Hisense Electric and the natural persons agreed to contribute RMB3,800,000, RMB10,400,000, RMB3,800,000 and RMB2,000,000 respectively in cash as the capital of the Joint Venture Company;

j) Land Use Right Transfer Contract entered into between Guangdong Kelon Air-conditioner Co., Ltd. ("Kelon Air-conditioner", a subsidiary of the Company) and two natural persons (namely, Zhou Dichang (周迪昌) and Lu Zhihua (呂志華)) or their registered companies on 14 May 2007, pursuant to which Kelon Air-conditioner agreed to sell, and the two natural persons agreed to acquire, the land use right for the land parcel at Nanchong Industrial Zone, South of Nanjiang Village Committee, at the consideration of RMB17,338,300;

k) Land Use Right Transfer Contract entered into between the Company and Haogang Commerce Co., Ltd. ("Haogang Commerce") on 14 May 2007, pursuant to which the Company agreed to sell, and Haogang Commerce agreed to acquire, the land use right for the land parcel at No. 2 Fengye Road, Bandesheng Residential Committee, Ronggui Street, Shunde District, China and the factory building erected thereon at the consideration of RMB5,438,000;

l) Land Use Right Transfer Contract and Supplemental Agreement for the Transfer of Land Use Right entered into between the Company and Foshan Shunde Xin Zhen Hua Real Estate Co., Ltd. ("XZH Real Estate") on 13 May 2007, pursuant to which the Company agreed to sell, and XZH Real Estate agreed to acquire, the land use rights for the six parcels of land at Shunde District, Foshan, China and the factory buildings erected thereon at the consideration of RMB91,200,000. XZH Real Estate agreed to pay the transportation fee of RMB50,000,000 to the Company;

m) Land Use Right Transfer Contract entered into between the Company and Hongke Trade Co., Ltd. ("Hongke") on 13 May 2007, pursuant to which the Company agreed to sell, and Hongke agreed to acquire the land use right for the land parcel at No. 27 Rongqi Avenue East, Bandesheng Residential Committee, Ronggui Street, Shunde District, China and the factory building erected thereon at the consideration of RMB29,000,000;

n) Settlement Agreement entered into among the Company and the Ronggui Rurul Credit Cooperative of Shunde District Shunde ("Ronggui Rural") and Foshan Shunde Jiegao Investments Co., Ltd. ("Jiegao") on 18 April 2007, pursuant to which the Company, Ronggui Rural and Jiegao confirmed that Jiegao owed the principal amounts of RMB200,000,000 and RMB168,000,000 to Ronggui Rural and the Company respectively, and Jiegao agreed to dispose of its land use right for a land parcel at the east of Ronggui Waihuan Road, Shunde District, Foshan City with a site area of 254,629.69 square meter. The proceed from such disposal would be used to settle the liabilities;

o) Sale and Purchase Agreement entered into between Kelon Electric Appliance Co., Ltd. ("Kelon Electric", a wholly owned subsidiary of the Company) and Jiawei Co, Ltd. (佳偉有限公司) ("Jiawei") on 15 March 2007, pursuant to which Kelon Electric agreed to sell and Jiawei agreed to acquire the entire 25th Floor of Harbour Center located at 25 Harbour Road, Hong Kong at the consideration of HK$123,295,400;

p) Land Use Right Transfer Contract entered into between the Company and Foshan Shunde Zhaochuang Real Estate Co., Ltd. (佛山市順德區兆創房產有限公司) ("Zhaochuang") on 18 November 2006, pursuant to which the Company agreed to transfer the land use right for a land parcel located at the east of Waihuan Road, Ronggui Gaoli Community Residential Committee, Shunde District, Foshan, the PRC with an area of 133,334.05 square meter at the consideration of RMB127,207,347.72;

q) Letter of Intent on Equity Transfer signed by the Company, Chengdu Engine (Group) Co., Ltd. ("Chengdu Engine"), Chengdu Xinxing Electrical Appliance Co., Ltd. and Chengdu Kelong Refrigerator Co., Ltd. ("Chengdu Kelon", a subsidiary of the Company) on 31 October 2006 in relation to the acquisition of 30% equity interest in Chengdu Kelon by the Company from Chengdu Engine at the consideration of RMB81,000,000 (subject to adjustment);

r) Project Construction Agreement entered into between the Company and Chengdu Economic and Technological Development Zone Management Committee ("Management Committee") and Quanyi District People's Government, Chengdu ("People's Government"), pursuant to which the Management Committee and the People's Government sold a cleared land parcel with an area of approximately 259 mu at price of RMB84,000 per mu;

s) Framework Agreement for Purchase and Supply of Compressors entered into between the relevant subsidiaries of the Company and Huayi Compressor Holdings Company Limited and its subsidiaries on 15 September 2006 for a term of 1 year commencing from 1 January 2006 to 31 December 2006, under which the cap for the transactions contemplated amounted to RMB209,457,400; and

t) Framework Agreement for Ordering of Moulds, Framework Agreement for Purchase of Raw Materials, Framework Agreement for Production and Purchase of Air-conditioner Products and Framework Agreement for Production and Supply of Air-conditioner Products entered into between the relevant subsidiaries of the Company and Hisense Group and its subsidiaries on 15 September 2006 for a term of 1 year commencing from 1 January 2006 to 31 December 2008, under which the caps for transactions contemplated amounted to RMB8,000,000, RMB12,000,000, RMB120,000,000 and RMB120,000,000 respectively. The aggregate amount is RMB260,000,000.

11. NO MATERIAL ADVERSE CHANGE

At the Latest Practicable Date, none of the Directors was aware of any material adverse change in the financial or trading position of the Group since 31 December 2007 (being the date to which the latest published audited financial statements of the Group were made up).

12. MISCELLANEOUS

(a) The registered office of the Company is at No. 8 Ronggang Road, Ronggui Street, Shunde District, Foshan City, Guangdong Province, PRC

(b) The head office and principal place of business in Room 3104-06, Singga Commercial Centre, No. 148 Connaught Road West, Hong Kong.

(c) Mr. Chen Zhen Wen was appointed as its company secretary and qualified accountant in compliance with the Listing Rules. Mr. Chen is a PRC certified public accountant and a certified public accountant registered with the Hong Kong Institute of Certified Public Accountant. Mr. Chen was also admitted as a member of the ACCA. Mr. Chen graduated in 1999 with a Bachelor's degree in economics. Mr. Chen has been working in the areas relating to finance and auditing for 9 years and possesses ample accounting experience.

(d) This circular has been prepared in both English and Chinese. In the case of any discrepancies, the English text shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business in Hong Kong of the Company at Room 3104-06, Singga Commercial Centre, No. 148 Connaught Road West, Hong Kong during normal business hours from the date of this circular up and including 20 October 2008:

(a) the memorandum and articles of association of the Company; and

(b) the material contracts referred to in the section headed "Material Contracts" in this Appendix.

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED
海信科龍電器股份有限公司
(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00921)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the fourth 2008 extraordinary general meeting (the "EGM") of Hisense Kelon Electrical Holdings Company Limited (the "Company") will be held at the conference room on the Company's head office, Shunde District, Foshan City, Guangdong Province, the Peoples' Republic of China (the "PRC") on 17 November 2008 at 9:30 a.m. to review and, if thought fit, pass the following as an ordinary resolution:

ORDINARY RESOLUTION

(1) To consider and approve the financial services agreement dated 31 July 2008 entered into by the Company and Hisense Finance Co., Ltd and the continuing connected transactions contemplated thereunder.

Trading in the H Shares of the Company

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

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

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

Foshan City, Guangdong, the PRC, 26 September 2008

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

Notes:

(1) H shares shareholders intending to attend the EGM shall give written reply slip, as attached, to the Company, which shall be lodged at the registered office of the Company on or before 27 October 2008. To qualify for attendance at the EGM, all H shares shareholders transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Hong Kong Registrars Limited of Rooms 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:00 p.m. on 17 October 2008 for registration.

(2) Shareholders entitled to attend and vote at the EGM are entitled to appoint one or more persons (whether or not a shareholder of the Company) as their proxy to attend and vote on behalf of themselves.

(3) Notice of the holders of domestic shares and H shares of the Company whose names appear on the register of members of the Company as at or before 4:00 p.m. of Friday, 17 October 2008 (including holders of H Shares of the Company who have submitted verification transfer forms on or before 17 October 2008) will be entitled to attend the EGM. The register of members of the Company will be closed from Monday, 20 October 2008 to Monday, 17 November 2008 (both days inclusive).

(4) In order to be valid, the form of proxy, together with a duly notarised power of attorney or other document of authority, if any, under which the form is signed must be deposited at the Company's Branch Share Registrar in Hong Kong, Hong Kong Registrars Limited of Rooms 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be) not later than 24 hours before the time for holding the EGM.

(5) The registered address of the Company is: No. 8 Ronggang Road, Ronggui Street,
Shunde District, Foshan City, Guangdong Province.
Postal code: 528303
Tel: (86) 757 2836 2570
Fax: (85) 757 2836 1055
Contact person: Ms. Li Lin, Mr. Mei Shi Liang, Mr. Zhou Jian Hua