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Hisense KELON Ronshen

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)

ANNOUNCEMENT OF RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2008

All members (the "Director") of board of directors (the "Board") of Hisense Kelon Electrical Holdings Company Limited (the "Company") announces the annual consolidated results of the Company and its subsidiaries (collectively the "Group" or "Kelon") for the year ended 31 December 2008 together with the 2007 comparative figures, prepared in accordance with the International Financial Reporting Standards ("IFRS") as follows:

Summary of H Shares Financial Statements and Their Relevant Notes

CONSOLIDATED INCOME STATEMENT

(For the year ended 31 December 2008)

	Notes	2008 RMB'000	2007 RMB'000
Turnover	3	8,052,909	8,319,960
Cost of sales		(6,816,609)	(6,942,789)
Gross profit		1,236,300	1,377,171
Other income and gains	5	201,701	570,905
Distribution costs		(1,081,498)	(1,126,269)
Administrative expenses		(432,835)	(397,500)
Other operating expenses	6	(71,529)	(133,500)
(Loss)/profit from operations		(147,861)	290,807
Share of results of associates		4,197	2,247
Finance costs	7	(89,771)	(78,530)
(Loss)/profit before income tax	8	(233,435)	214,524
Income tax expense	9	(4,085)	(10,867)
(Loss)/profit for the year		(237,520)	203,657
Attributable to:			
- Equity holders of the Company		(231,896)	238,712
- Minority interests		(5,624)	(35,055)
		(237,520)	203,657
Dividends		-	-
(Loss)/earnings per share attributable to equity holders of the Company	10		
- Basic and diluted		RMB(0.23)	RMB0.24

CONSOLIDATED BALANCE SHEET

(As at 31 December 2008)

	Notes	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		1,363,074	1,383,062
Investment properties		35,565	38,192
Payments for leasehold land held for own use under operating leases		286,835	305,392
Interests in associates		86,589	82,839
Interests in jointly controlled entity		33,750	-
Available-for-sale financial assets		4,550	1,220
Intangible assets		167,135	168,112
Goodwill		-	-
Deferred tax assets		13,647	11,300
Total non-current assets		<u>1,991,145</u>	<u>1,990,117</u>
Current assets			
Inventories		505,528	940,284
Trade and other receivables	11	1,050,415	1,307,209
Taxation recoverable		943	585
Other financial assets		6,019	9,479
Pledged bank deposits		23,240	70,133
Cash and cash equivalents		110,216	76,395
Total current assets		<u>1,696,361</u>	<u>2,404,085</u>
Non-current assets held for sale		<u>-</u>	<u>20,369</u>
Total assets		<u>3,687,506</u>	<u>4,414,571</u>
LIABILITIES			
Current liabilities			
Trade and other payables	12	2,178,071	3,093,181
Trade deposits received		354,243	406,379
Other financial liabilities		13,611	6,158
Provisions		114,215	144,006
Taxation payable		27,342	27,856
Other liabilities		43,704	55,793
Borrowings		1,814,948	1,310,972
Total current liabilities		<u>4,546,134</u>	<u>5,044,345</u>
Net current liabilities		<u>(2,849,773)</u>	<u>(2,640,260)</u>
NET LIABILITIES		<u>(858,628)</u>	<u>(629,774)</u>
Capital and reserves attributable to equity holders of the Company			
Share capital		992,007	992,007
Share premium		1,195,597	1,195,597
Statutory reserves		114,581	114,581
Capital reserve		266,638	266,672
Foreign exchange reserve		37,891	29,111
Accumulated losses		(3,614,636)	(3,382,740)
Equity attributable to equity holders of the Company		<u>(1,007,922)</u>	<u>(784,772)</u>
Minority interests		<u>149,294</u>	<u>154,998</u>
TOTAL EQUITY		<u>(858,628)</u>	<u>(629,774)</u>

NOTES

1. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards 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 2008, the Group incurred a loss of RMB238 million and accumulated losses of approximately RMB3,615 million. Its current liabilities exceeded current assets by approximately RMB2,850 million (2007: RMB2,640 million) in which the Group has outstanding short-term loans in the aggregate of approximately RMB1,815 million (2007: RMB1,311 million). These conditions indicate the existence of a material uncertainty, which may cast significant doubt on the Group’s ability to continue as a going concern. Nevertheless, the directors are of the opinion that the Group will be able to finance its future working capital and financial requirements based on (i) loan and draft discount financing available from Hisense Finance Company Ltd. with maximum loan amount and service fee payable not exceeding annual cap of RMB 1 billion and RMB25 million respectively on a revolving basis; (ii) continuous financial support available from Hisense Group Holdings Company Ltd., the holding company of Qingdao Hisense Air-Conditioner Company Limited in form of providing corporate guarantees to lenders; and (iii) cash flow forecasts projected by the Group’s management showing adequate cash flows from its future operation.

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries, the Group’s interests in associates and jointly controlled entity. 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.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

(a) Application of International Financial Reporting Standards

In the current year, the Group has applied, for the first time, the following amendments and new interpretations issued by the IASB and IFRIC that are effective for the current accounting period of the Group. The adoption of the following amendments and new interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods and no prior period adjustment has been recognised.

Amendments to IAS 39 and IFRS 7	Reclassification of Financial Assets
IFRIC – Interpretation 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC – Interpretation 12	Service Concession Arrangements
IFRIC – Interpretation 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

(b) Potential impact arising on 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. There will be changes in disclosure required by IFRS 8 and IAS 1 (Revised) and the adoption of IAS 23 (Revised) may result in changes in accounting policies in future. The adoption of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company are in the process of making an assessment of the potential impact of the application of the other new or revised standards, amendments and interpretations and it is so far concluded that there will have no material effect on how the results and financial position of the Group are prepared and presented.

IFRSs (Amendments)	Improvements to IFRSs ¹
Amendments to IFRS 1 and IAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
Amendments to IFRS 7	Improving Disclosures about Financial Instruments ²
Amendments to IFRIC-Int 9 and IAS 39	Embedded Derivatives ⁴
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards ³
IFRS 2 Amendment	Share-based Payments – Vesting Conditions and Cancellations ²
IFRS 3 (Revised)	Business Combinations ³
IFRS 8	Operating Segments ²
IAS 1 (Revised)	Presentation of Financial Statements ²
IAS 23 (Revised)	Borrowing Costs ²
IAS 27 (Revised)	Consolidated and Separate Financial Statements ³
Amendments to IAS 32 and IAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation ²
Amendment to IAS 39	Eligible Hedged Items ³
IFRIC – Interpretation 13	Customer Loyalty Programmes ⁵
IFRIC – Interpretation 15	Agreements for the Construction of Real Estate ²
IFRIC – Interpretation 16	Hedges of a Net Investment in a Foreign Operation ⁶
IFRIC – Interpretation 17	Distributions of Non-cash Assets to Owners ³
IFRIC – Interpretation 18	Transfer of Assets from Customers ⁷

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

²Effective for annual periods beginning on or after 1 January 2009

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

⁴Effective for annual periods ending on or after 30 June 2009

⁵Effective for annual periods beginning on or after 1 July 2008

⁶Effective for annual periods beginning on or after 1 October 2008

⁷Effective for transfer of assets from customers received on or after 1 July 2009

3. 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:

	2008 RMB'000	2007 RMB'000
Sales of refrigerators	4,189,049	4,324,808
Sales of air-conditioners	3,024,028	3,214,875
Sales of freezers	397,572	324,821
Sales of product components	442,260	455,456
	<u>8,052,909</u>	<u>8,319,960</u>

4. 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 2008

(i) Consolidated income statement

	Refrigerators RMB'000	Air- conditioners RMB'000	Freezers RMB'000	Product components RMB'000	Elimination RMB'000	Consolidated RMB'000
Turnover						
External sales	4,189,049	3,024,028	397,572	442,260	-	8,052,909
Inter-segment sales	-	-	-	406,148	(406,148)	-
Total revenue	<u>4,189,049</u>	<u>3,024,028</u>	<u>397,572</u>	<u>848,408</u>	<u>(406,148)</u>	<u>8,052,909</u>

Inter-segment sales are charged at prevailing market rates.

Result						
Segment result	(10,256)	(89,570)	2,518	(28,971)	-	(126,279)
Unallocated corporate expenses						(21,582)
Share of results of associates	2,183	1,560	207	247	-	4,197
Finance costs						<u>(89,771)</u>
Loss before income tax expense						(233,435)
Income tax expense						<u>(4,085)</u>
Loss for the year						<u>(237,520)</u>

(ii) Consolidated balance sheet

	Refrigerators RMB'000	Air- conditioners RMB'000	Freezers RMB'000	Product components RMB'000	Consolidated RMB'000
Assets					
Segment assets	1,806,597	952,716	173,896	428,188	3,361,397
Interests in associates	56,283	28,574	1,732	-	86,589
Unallocated corporate assets					239,520
Consolidated total assets					<u>3,687,506</u>
Liabilities					
Segment liabilities	1,403,727	854,319	120,234	206,043	2,584,323
Unallocated corporate liabilities					1,961,811
Consolidated total liabilities					<u>4,546,134</u>

(iii) Other information

	Refrigerators RMB'000	Air- conditioners RMB'000	Freezers RMB'000	Product components RMB'000	Consolidated RMB'000
Additions of property, plant and equipment	187,453	33,026	27,658	26,363	274,500
Additions of intangible assets	4,484	2,263	600	300	7,647
Depreciation of property, plant and equipment	108,686	66,358	9,490	29,852	214,386
Depreciation of investment properties	2,003	598	26	-	2,627
Amortisation of intangible assets	4,253	3,166	230	243	7,892
Amortisation of payments for leasehold land held for own use under operating leases	8,244	2,923	735	1,140	13,042
Impairment loss on property, plant and equipment	-	-	-	5,056	5,056
Gain/(loss) on disposal of property, plant and equipment, net	309	(306)	(2,662)	(316)	(2,975)
Gain on disposal of non-current assets held for sale	34,623	17,499	766	-	52,888
Write down of inventories to net realisable value, net	3,980	11,520	497	1,431	17,428

Year ended 31 December 2007

(i) Consolidated income statement

	Refrigerators RMB'000	Air- conditioners RMB'000	Freezers RMB'000	Product components RMB'000	Elimination RMB'000	Consolidated 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	<u>4,324,808</u>	<u>3,214,875</u>	<u>324,821</u>	<u>1,059,015</u>	<u>(603,559)</u>	<u>8,319,960</u>

Inter-segment sales are charged at prevailing market rates.

Result						
Segment result	<u>305,559</u>	<u>9,872</u>	<u>17,464</u>	<u>(24,940)</u>	<u>-</u>	307,955
Unallocated corporate expenses						(17,148)
Share of results of associates	1,168	868	88	123	-	2,247
Finance costs						<u>(78,530)</u>
Profit before income tax expense						214,524
Income tax expense						<u>(10,867)</u>
Profit for the year						<u>203,657</u>

(ii) Consolidated balance sheet

	Refrigerators RMB'000	Air- conditioners RMB'000	Freezers RMB'000	Product components RMB'000	Consolidated 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					<u>4,414,571</u>
Liabilities					
Segment liabilities	1,871,830	1,375,441	108,200	237,725	3,593,196
Unallocated corporate liabilities					<u>1,451,149</u>
Consolidated total liabilities					<u>5,044,345</u>

(iii) Other information

	Refrigerators RMB'000	Air- conditioners RMB'000	Freezers RMB'000	Product components RMB'000	Consolidated 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

Geographical segments

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

	2008 RMB'000	2007 RMB'000
The PRC		
Mainland China	4,908,477	4,821,614
Hong Kong	357,652	257,188
	<hr/>	<hr/>
	5,266,129	5,078,802
Europe	582,678	883,350
America	824,377	926,332
Others	1,379,725	1,431,476
	<hr/>	<hr/>
	8,052,909	8,319,960

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

5. OTHER INCOME AND GAINS

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

	2008	2007
	RMB'000	RMB'000
Gain on disposal of raw materials	15,924	27,190
Gain on disposal of scrap materials	44,745	26,694
Gain on disposal of property, plant and equipment	6,650	16,040
Gain on disposal of payments for leasehold land held for own use under operating leases	-	284,351
Gain on disposal of non-current assets held for sale	52,888	-
Gain on disposal of investment properties	-	60,258
Gain on debts settlement with suppliers	4,639	4,422
Gain on fair value change of other financial assets	10,928	9,479
Gain on disposal of a subsidiary	-	4,509
Interest income	1,447	3,753
Penalty income	9,509	12,166
Rental income	17,757	20,721
Partial recovery of an impaired receivable	-	57,072
Reversal of impairment loss on trade and other receivables	2,095	12,564
Subsidy income	23,046	6,236
Others	12,073	25,450
	<u>201,701</u>	<u>570,905</u>

6. OTHER OPERATING EXPENSES

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

	2008	2007
	RMB'000	RMB'000
Loss on fair value change of other financial liabilities	31,235	6,375
Loss on disposal of property, plant and equipment	9,625	66,596
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	5,056	26,658
Loss on non-deductible input value added tax	-	4,894
Loss on disposal of a subsidiary	10,568	-
Penalty	8,752	2,544
Donation	2,305	162
Others	3,988	7,800
	<u>71,529</u>	<u>133,500</u>

7. FINANCE COSTS

	2008	2007
	RMB'000	RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	66,057	63,597
Discounted note receivables	18,863	4,308
	<u>84,920</u>	<u>67,905</u>
Others	4,851	10,625
	<u>89,771</u>	<u>78,530</u>

8. (LOSS)/PROFIT BEFORE INCOME TAX

	2008	2007
	RMB'000	RMB'000
Inventories recognised as an expense		
- upon sales of goods	6,799,137	6,932,254
- upon sales of raw materials/ scrap materials	493,479	425,839
- write-down of inventories	17,428	11,954
Staff costs (including directors' and supervisors' remuneration)		
- Basic salaries, housing and other allowances and benefits in kind	592,743	589,735
- Defined contribution pension cost	49,162	41,135
	<u>641,905</u>	<u>630,870</u>
Auditors' remuneration	3,567	4,800
Research and development costs	64,112	58,857
Impairment loss on trade and other receivables	14,369	13,546
Foreign exchange loss, net	65,773	40,970

9. INCOME TAX EXPENSE

	2008	2007
	RMB'000	RMB'000
Income taxes consist of:		
Current tax		
- PRC enterprise income tax ("EIT")	6,257	266
- Hong Kong Profits Tax	175	514
Deferred tax	(2,347)	10,087
	<u>4,085</u>	<u>10,867</u>

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.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law"), which took effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate in the PRC changed from 33% to 25% with effect from 1 January 2008.

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

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

Other subsidiaries of the Group, which are established and operating in the PRC are subject to EIT at a standard rate of 25% for the year ended 31 December 2008.

Hong Kong Profits Tax has been changed from 17.5% to the rate of 16.5% and is applied on the assessable profit for the year 2008.

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

	2008	2007
	RMB'000	RMB'000
(Loss) profit before income tax	(233,435)	214,524
Less: Share of results of associates	(4,197)	(2,247)
	<u>(237,632)</u>	<u>212,277</u>
Tax at the PRC statutory rate of 25% (2007: 33%)	(59,408)	70,051
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,774)	(3,087)
Effect of exemption granted and preferential tax treatment	6,875	(60,314)
Tax effect of expenses not deductible for tax purposes	2,580	25,622
Tax effect of revenue not taxable for tax purposes	(8,039)	(9,503)
Tax effect of tax losses and other deductible temporary differences not recognised	72,843	24,387
Under provision in respect of prior years	6,411	-
Utilisation of tax losses previously not recognised	<u>(15,403)</u>	<u>(36,289)</u>
Income tax expense	<u>4,085</u>	<u>10,867</u>

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.

10. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted loss/earnings per share attributable to equity holders of the Company for the year is based on the net loss attributable to equity holders of the Company for the year of RMB231,896,000 (2007: net profit attributable to equity holders of the Company of RMB238,712,000) and 992,006,563 shares (2007: 992,006,563 shares) outstanding during the year.

There were no dilutive potential ordinary shares in issue in both years.

11. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables were trade receivables of net carrying amount of RMB458,947,000 (2007: RMB442,835,000). The aging analysis of trade receivables is as follows:

	2008	2007
	RMB'000	RMB'000
Within three months	412,441	396,038
Three to six months	36,832	34,126
Six months to one year	9,541	13,695
Over one year	160,500	186,423
Less: Provision for impairment of trade receivables	<u>(160,367)</u>	<u>(187,447)</u>
At 31 December	<u>458,947</u>	<u>442,835</u>

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

12. TRADE AND OTHER PAYABLES

Included in trade and other payables were trade payables amounting to RMB819,919,000 (2007: RMB1,152,853,000). The aging analysis of trade payables is as follows:

	2008	2007
	RMB'000	RMB'000
Within one year	638,531	995,092
One to two years	76,948	70,838
Two to three years	25,298	64,796
Over three years	<u>79,142</u>	<u>22,127</u>
	<u>819,919</u>	<u>1,152,853</u>

13. DIFFERENCES BETWEEN IFRS AND PRC GAAP AS APPLICABLE TO THE GROUP

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

	2008	2007
	RMB'000	RMB'000
Equity attributable to equity holders of the Company as per financial statements prepared under IFRS	(1,007,922)	(784,772)
Adjustment on restructuring costs expensed	16,877	11,684
Adjustment on dilution loss on share reform of an associate	16,317	16,317
Amortisation of trademark	<u>(16,712)</u>	<u>(16,712)</u>
Equity attributable to equity holders of the Company as per financial statements prepared under PRC GAAP	<u>(991,440)</u>	<u>(773,483)</u>

The consolidated net (loss)/profit prepared under IFRS and that prepared under PRC GAAP have the following major differences:

	2008	2007
	RMB'000	RMB'000
Net (loss)/ profit attributable to equity holders of the Company as per financial statements prepared under IFRS	(231,896)	238,712
Adjustment on restructuring costs expensed	<u>5,193</u>	<u>11,684</u>
Net (loss)/profit attributable to equity holders of the Company as per financial statements prepared under PRC GAAP	<u>(226,703)</u>	<u>250,396</u>

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

QUALIFIED REPORT ISSUED BY BDO McCABE LO LIMITED

The following is an extract from the report issued by BDO McCabe Lo Limited on the consolidated financial statements:

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 2008, the aggregate amount of receivables due from these companies was approximately RMB285 million (net of an accumulated impairment loss of RMB365 million) which were reflected in the consolidated balance sheet at 31 December 2008 as “Amounts due from Greencool Enterprise and its affiliates” and “Amounts due from companies suspected to be connected with Mr. Gu” within current assets.

During the year ended 31 December 2008, legal proceedings which were previously initiated against Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu have reached court judgements which mostly ruled in favour of the Company. However, certain court judgments are under further appeal and the enforcement of court judgements has not been completed. Due to the uncertainty on the final outcome of the legal proceedings and execution of court judgements, we are unable to satisfy ourselves as to the appropriateness of the accumulated impairment amounts and the recoverability of the carrying amounts of receivable due from these companies. Any adjustments found to be necessary would affect the opening accumulated losses as at 1 January 2008, the net liabilities as at 31 December 2008 and the loss 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 2008 and of its loss 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 Company incurred a net loss of RMB238 million during the year ended 31 December 2008 and, as of that date, the Group’s current liabilities exceeded its current assets by approximately RMB2,850 million. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW

In 2008, the household appliance industry operated under challenging internal and external operating environments. On the one hand, CPI (Consumer Price Index) and PPI (Producer Price Index) fluctuated significantly with the substantial fall in domestic consumer demand and the slowdown of economic growth. On the other hand, under the global financial crisis, the household appliance industry faced unfavorable market conditions with falling exports and depressed property market. In particular, the air-conditioner sector posted a significant downturn in the second half of the year. According to the statistics provided by ChinaCCM.com, the domestic and overseas sales in the air-conditioner sector in the second half of 2008 decreased approximately 20% as compared to the corresponding period last year. Market sales were subject to unprecedented challenges.

During the Reporting Period, under the abovementioned adverse operating environment and pressures, the Company adhered to its operating objectives of “Creating product advantages; Improving product quality; and Accelerating cash flow”. The self innovativeness of the Company was increased with the introduction of top-notch talents, technological cooperation and implementation of incentive policies on research and development achievements. Product performance was improved in aspects of design, research and development and techniques. The quality level of production was enhanced by strengthening the quality control on production process and facilitating systematic quality control structure. The competitive advantages of products were increased with deepened project management, comprehensive implementation of industry benchmarks and lowering manufacturing and management costs. Fund utilisation efficiency was improved with strict control over the risks relating to fund appropriation.

During the Reporting Period, the Company recorded the revenue from its principal operations of RMB 8,052,909,000, representing a decrease of 3.21% as compared to the corresponding period in 2007. The net loss attributable to equity holders of the Company was RMB231,896,000.

ANALYSIS OF OPERATION STRUCTURE

During the Reporting Period, of the revenue from the Company’s principal operations, the revenue from the refrigerator business accounted for 52.02% of the total turnover of the Company, representing a decrease of 3.14% as compared to the corresponding period last year; the revenue from the air-conditioner business accounted for 37.55% of the total turnover of the Company, representing a decrease of 5.94% as compared to the corresponding period last year; and the remaining 10.43% of the total turnover was generated from other businesses, such as sales of freezers and product components.

In addition, the domestic sales business accounted for 60.95% of the total turnover of the Company, representing an increase of 1.80% as compared to the corresponding period last year; and the overseas sales business accounted for 39.05% of the total turnover of the Company, representing a decrease of 10.12% as compared to the corresponding period last year.

Refrigerator Business

During the Reporting Period, the difficult external operating environment affected our refrigerator business. However, as the Company further defined the strategic brand position of Ronshen refrigerator, its sales structure continued to improve. The business of domestic sales grew by 3.4% as compared to the corresponding period last year, while its gross profit margin remained basically the same as compared to the corresponding period last year. During the Reporting Period, the Company achieved effective improvements in aspects such as procurement management, flow optimisation, quality control, new product development and mechanism adjustment.

The Company fully adopted industry benchmarks to lower manufacturing costs while improving product quality, and obtained remarkable direct economic benefits. The Company also established a quality control system project group, which is responsible for the perfection of flow management, optimisation of techniques and formulating management measures on boosting the first pass yield. With improved process techniques, the

product first pass yield was increased, so did the quality control standard. The Company continued to build and maintain a general platform for its products, enhancing the universality and standardisation of its product components, and increasing the production efficiency of its refrigerator products. Meanwhile, the Company redeveloped technologies to enhance the accuracy and performance of equipment, improved the bottle-neck areas that affected manufacturing efficiency, and increased the effectiveness of frequent small-quantity export orders.

In 2008, the Company stepped up its efforts in the breakthrough of new products and the depth of research and development as well as the self-development and the introduction of cooperation with other parties, facilitating product upgrades. The double-door refrigerators were successfully launched in the market. The technological level of the newly-introduced multi-door refrigerators was at the advanced level within the industry. The SBS product series was expanded and perfected the product lines of refrigerators. The Company also improved the recruitment system for technical professionals, established a mechanism to cultivate technicians, formulated special policies to motivate research and development staffs, and opened channels for technicians to achieve. In addition, the Company reviewed and modified the distributorship structure, which strengthened the sales efficiency management and adjusted the product mix for market extension.

The above-mentioned measures have brought certain effects on the refrigerator business with respect to cost reduction, quality improvement and technological innovation. At the same time, the full support of the State's policy of "Home Appliances Subsidy Policy for Rural Areas and Villages" and the rapid development of rural household appliances and construction of networks in villages and towns have enabled the expansion of the refrigerator business to the third and fourth-tier markets.

Air-conditioner Business

The air-conditioner sector was clearly subject to seasonal changes. During the Reporting Period, due to the cooler summer in the peak season and the occurrence of natural hazards, the air-conditioner business recorded a relatively significant decrease in terms of market scale during its prime sales period. Besides, following the outbreak of the global financial crisis, the consumption for premise-supporting air-conditioners decreased significantly as the domestic property market cooled down rapidly. Domestic and overseas consumptions also fell. In addition, in 2008 cold year, factors such as global inflation, continual appreciation of Renminbi and high raw material prices resulted in high air-conditioner product cost, industrial downscaling of exports, significant decrease in profits and keen market competition. Affected by the above factors, during the Reporting Period, the air-conditioner business of the Company shrank, with profitability falling sharply.

During the Reporting Period, to improve the market position of its products, the Company remarkably saved the product design cost through the self-development of key technologies and optimisation of the overall product designs. Through strengthened technological development and improved research standard, the energy-saving advantages of Kelon's double-efficiency air-conditioner products were consolidated, perfecting the energy-saving, high-efficiency, environmental product lines. The problem of small-quantity frequent production of export products was solved by adopting an effective project and standard management. The manufacturing efficiency was increased, ensuring punctual export delivery and winning the trust of international clients. Under the difficult market conditions, the Company further lowered its inventory level and strictly managed fund appropriation. At the end of the Reporting Period, the inventory of air-conditioner products was significantly lower than competitors, creating favorable conditions for the peak season in 2009 cold year

However, as the economic environment in 2008 was very difficult, the Company failed to turnaround even after various measures had been taken to reduce losses.

Analysis of Impacts on Results

During the Reporting Period, although the Company achieved improvements in the aspects of technological innovation, quality control and production efficiency, under the downturn of macro-operating environment, low market consumption demand and increasing market competition, the room for the growth in profit was shrunk further. The results of the Company posted a significant decline. The analysis of the specific reasons is as follows:

- (1) During the Reporting Period, the revenue from the disposal of idle assets of the Company decreased significantly as compared to last year. The non-recurring revenue for the Reporting Period decreased by RMB315,000,000 as compared to last year.
- (2) Under the global financial crisis, the consumption and demand in overseas markets shrank remarkably. The Company recorded a relatively significant decrease in exports in the second half of the year. In particular, the decrease in the export business of the Company in the fourth quarter was significantly greater than expected;
- (3) During the Reporting Period, the exchange loss of the Company was higher as compared to the corresponding period last year given the appreciation of Renminbi and significant fluctuation of exchange rate;
- (4) During the Reporting Period, the sales size and gross profit margin of the Company fell below the expected targets. In particular, the air-conditioner business recorded remarkable decrease in both production and sales volume as compared to the corresponding period last year due to the slowdown of both domestic and overseas markets resulted from industrial depression and lower temperature during the summer time.

In the face of various adverse factors, the Company undertook a series of measures to reduce its losses. The Company lowered the production cost, raised the manufacturing efficiency, increased the technological level of products and increased the product competitiveness to maintain a stable and healthy operation. Raw material prices fluctuated rapidly after the outbreak of the financial crisis. The Company adjusted its procurement strategy immediately, acted prudently in estimating market sales and implemented strict review on orders and proposals, avoiding overstock. Under the guidance of the State's policy of domestic demand expansion, the Company leveraged on the opportunity brought by "Home Appliances Subsidy Policy for Rural Areas and Villages" and spared no effort to participate in the bid for rural household appliances. By gaining and exploring the third- and fourth-tier markets in villages and towns, the decrease in sizes of domestic and overseas sales was offset to a certain extent.

During the Reporting Period, the Company actively sought for the State Hi-tech Enterprise Certification. As at the date of this announcement, the Company and two subsidiaries (Ronshen Refrigerator and Kelon Mould) were recognised as the State Hi-tech Enterprises.

OUTLOOK

The management of the Company is of the view that, under the continual influence of the global financial crisis, the operating environment of household appliance industry in 2009 will remain challenging. Currently, the room for the growth in profit of household appliance industry is gradually squeezed down by the high inventory level of air-conditioner sector, the significant fluctuation of raw material prices, the increasing competitiveness of export market and the shrinking consumption demand for premise-supporting household appliances due to depressed property market. On the other hand, both opportunities and challenges exist. New industrial policies and environmental policies are constantly introduced. Consumers become more aware of air-conditioner products with high energy efficiency ratio, driving enterprises to adjust their industrial structure and set up new consumption growth points. The increase in the demand for double-door refrigerator and multi-door refrigerator will also further increase the market share of high-end refrigerator products. The Company may overcome the difficulties only through the improvement in products and the product mix.

As a technologically-advance enterprise in the domestic household appliance industry, the Company adheres to the operating strategy of technologically-oriented. The Company will continue to step up its efforts in technological research and development, reinforce its technological strengths and lead the industry in product upgrade and innovation. The following measures will also be taken to improve the operating conditions of the Company:

- (1) Continue to improve product quality and provide clients with products of highest quality. The Company established a "Quality Risk Annual Reward" assessment mechanism to strengthen the control over quality management process, enhance the quality control standard in every manufacturing area, optimise after-sale

service management system and lower quality cost loss;

- (2) Strengthen channel management, market research and marketing efforts, establish sales management system and operating mechanism to cope with the intensified market competition, lower the difficulty of production organisation, and accelerate response to market. Leverage on its strengths over product quality, technology and brand, seize the opportunities offered by “Home Appliances Subsidy Policy for Rural Areas and Villages” and new air-conditioner industry energy efficiency standard policies for larger market share;
- (3) Focus on market demand, strengthen product planning and new energy efficiency standard product line management, reasonably control orders and proposals, effectively adjust sales structure and stock structure, increase profitability and avoid fund risks;
- (4) Explore new opportunities in export business, seize the opportunities for the substantial expansion of the international market share. Reinforce strategic cooperation relationship with major clients through measures such as target product development, cost analysis and shorter product delivery cycle, optimise export product structure and improve profitability. At the same time, undertake effective measures to deal with the impact of Renminbi appreciation;
- (5) Further improve the human resource management and remuneration and examination mechanism of the Company, promote industrial benchmarks and other management items in the form of project management, improve key issues that affect profit in enterprise operation, increase output efficiency per capita, achieve management sophistication, enhance overall enterprise competitiveness;

Year 2009 is a challenging year. The management of the Company believes that, with the care and support of all shareholders, government, financial institutions and partners as well as the dedication from our staff, the Company will do its best to accomplish the operating objectives for 2009 and foster growth against adversity.

FINAL DIVIDENDS

The Group recorded a loss of RMB237,520,000 for the year 2008. The Board has resolved not to pay any dividend for the year 2008 nor capitalise any reserve funds (no dividend was paid by the Group for the year ended 31 December 2007).

LIQUIDITY AND SOURCES OF FUNDS

For the year ended 31 December 2008, net cash used in operating activities was approximately RMB380,508,000 (2007: net cash used in operating activities amounted to approximately RMB10,418,000).

As at 31 December 2008, the Company had bank deposits and cash (including pledged bank deposits) amounting to approximately RMB133,456,000 (2007: RMB146,528,000), and borrowings amounting to approximately RMB1,814,948,000 (2007: RMB1,310,972,000).

Total capital expenditures for the year 2008 amounted to approximately RMB282,147,000 (2007: RMB374,143,000).

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 31 December 2008, the Group had approximately 17,250 employees, mainly comprising 2,271 technical staff, 4,247 sales representatives, 385 financial staff, 515 administrative staff and 9,832 production staff. The Company had 4 employees with a doctorate degree, 128 with a master's degree and 2,363 with a bachelor's degree. There were 422 employees who occupied mid-level positions or above in the Company according to the national standards. In addition, there were 20 employees who resigned or retired during the year. For the year ended 31 December 2008, the staff costs of the Company amounted to approximately RMB641,905,000 (2007: RMB630,870,000).

CHARGES ON THE GROUP'S FIXED ASSETS

As at 31 December 2008, the Group's property, plant and equipment (including leasehold land held for own use) and investment properties of approximately RMB522,442,000 (2007: RMB694,080,000) were pledged as security for the Group's bank borrowings.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

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

PUBLIC FLOAT

As at 16 April 2009, based on publicly available information and to the best knowledge of the Directors, 25% or above of the total issued share capital of the Company were held by the public. Therefore, the public float of the Company satisfies the requirements stipulated under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

MATERIAL LITIGATIONS

As at 16 April 2009, the Company and its subsidiaries were involved in 6 litigations. For each case, the target claim amount was more than RMB 10 million. The total target claim amount was RMB346,427,000 and US\$13,751,000.

AUDIT COMMITTEE

The sixth session of the audit committee of the Company has reviewed the announcement of the final results of the Company for the year ended 31 December 2008.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2009 will be approximately RMB140,080,000.

DEPOSIT IN TRUST

As at 31 December 2008, the Company did not have any deposit in trust in any financial institution in the PRC. All of the Company's deposits are placed with the commercial banks in the PRC and Hong Kong.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2008, the Group did not have long-term bank borrowings and had cash and cash equivalents of RMB110,216,000 (2007: RMB76,395,000), over 61.09% of which are denominated in Renminbi.

RATIO OF TOTAL ASSETS TO TOTAL LIABILITIES

As at 31 December 2008, the ratio of total assets to total liabilities of the Group was 81.11%.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The sixth session of the Board has received the written confirmation from each of the independent non-executive Directors in respect of their independence in accordance with the requirements under Rule 3.13 of the Listing Rules, and considers that all the existing independent non-executive Directors have been in compliance with the

relevant requirements under Rule 3.13 of the Listing Rules and are still independent persons.

SERVICE CONTRACTS AND INTERESTS IN CONTRACTS OF DIRECTORS AND SUPERVISORS

No service contract has been entered into with any Directors and supervisors of the sixth session of the Board. The Directors and supervisors of the sixth session of the Board of the Company have not directly or indirectly held any material interests in any material contracts during 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS' REVIEWS OF CONTINUING CONNECTED TRANSACTIONS

The independent non-executive Directors of the sixth session of the Board have reviewed the continuing connected transactions of the Company for the year 2008 and confirmed that these transactions were conducted in the ordinary course of business of the Company on normal commercial terms which were fair and reasonable and in the interests of the shareholders of the Company as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in the Listing Rules as its code for securities transactions by the Directors. After making specific enquiries to the Directors of the Board, namely, Mr. Tang Ye Guo, Mr. Wang Shi Lei, Ms. Yu Shu Min, Mr. Lin Lan, Ms. Liu Chun Xin, Mr. Zhang Ming, Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren and to the newly appointed Director, Mr. Zhou Xiao Tian, the Company confirmed that all directors had acted in full compliance with the Model Code during their terms of office.

SHARE CAPITAL STRUCTURE

As at 31 December 2008, the share capital structure of the Company was as follows:

Class of shares	Number of shares	Percentage of the total issued share capital (%)
A Shares	532,416,755	53.67%
H Shares	459,589,808	46.33%
Total	992,006,563	100.00%

TOP TEN/SUBSTANTIAL SHAREHOLDERS

(1) As of 31 December 2008, the Company had a total of 43,124 shareholders. The shareholding information of the top ten/substantial shareholders was as follows:

Shareholdings of the top ten shareholders						
Name of Shareholder	Nature of Shareholder	Percentage of the total issued share capital of the Company	Percentage of the issued class shares of the Company	No. of Shares Held	No. of Shares (Subject to Selling Restrictions) Held	No. of Pledged or Frozen Shares
Qingdao Hisense Air-conditioning Company Limited	Domestic Non-state-owned Legal Person	25.22%	46.99%	250,173,722	234,375,922	0
The Hongkong and Shanghai Banking Corporation Limited	Foreign Shareholder	9.94%	21.45%	98,587,029	0	Unknown
China Huarong	Domestic State-owned	6.44%	12.01%	63,923,804	63,923,804	0

Asset Management Corporation	Legal Person					
Shenyin Wanguo Securities (H.K.) Limited	Foreign Shareholder	5.56%	11.99%	55,107,000	0	Unknown
Bank of China (Hong Kong) Limited	Foreign Shareholder	4.91%	10.60%	48,700,000	0	Unknown
Guotai Junan Securities (Hong Kong) Limited	Foreign Shareholder	4.12%	8.90%	40,920,000	0	Unknown
First Shanghai Securities Limited	Foreign Shareholder	2.61%	5.63%	25,860,000	0	Unknown
Hang Seng Securities Limited	Foreign Shareholder	2.04%	4.40%	20,235,000	0	Unknown
BOCI Securities Limited	Foreign Shareholder	0.82%	1.77%	8,136,000	0	Unknown
Sun Hung Kai Investment Services Ltd.	Foreign Shareholder	0.80%	1.73%	7,945,000	0	Unknown

Notes: As at 31 December 2008, as shown in the register of substantial shareholders maintained under Section 336 of the Securities and Futures Ordinance under the Laws of Hong Kong (the "SFO"), the top seven shareholders among the top 10 shareholders above held short positions in the issued share capital of the Company:

Shareholdings of top ten holders of tradable shares		
Name of Shareholder	Number of Tradable Shares	Class of Shares
The Hongkong and Shanghai Banking Corporation Limited	98,587,029	H Shares
Shenyin Wanguo Securities (H.K.) Limited	55,107,000	H Shares
Bank of China (Hong Kong) Limited	48,700,000	H Shares
Guotai Junan Securities (Hong Kong) Limited	40,920,000	H Shares
First Shanghai Securities Limited	25,860,000	H Shares
Hang Seng Securities Limited	20,235,000	H Shares
Qingdao Hisense Air-conditioning Company Limited (Note 2)	15,797,800	RMB ordinary shares
BOCI Securities Limited	8,136,000	H Shares
Sun Hung Kai Investment Services Ltd.	7,945,000	H Shares
Citibank N.A.	7,291,984	H Shares

Note 1: The Company is not aware whether any of the top ten holders of tradable shares is connected with each other or any of them is a party acting in concert with any of the other nine shareholders within the meaning of the 《上市公司股東持股變動信息披露管理辦法》 (Administrative Measures for Information Disclosure of the Shareholders of Listed Companies).

Note 2: During the Reporting Period, Qingdao Hisense Air-conditioning Company Limited ("Hisense Air-conditioner"), the largest shareholder of the Company, increased its tradable A Shares of the Company by an aggregate of 15,797,800 Shares.

(2) Profiles of the controlling shareholders of the Company

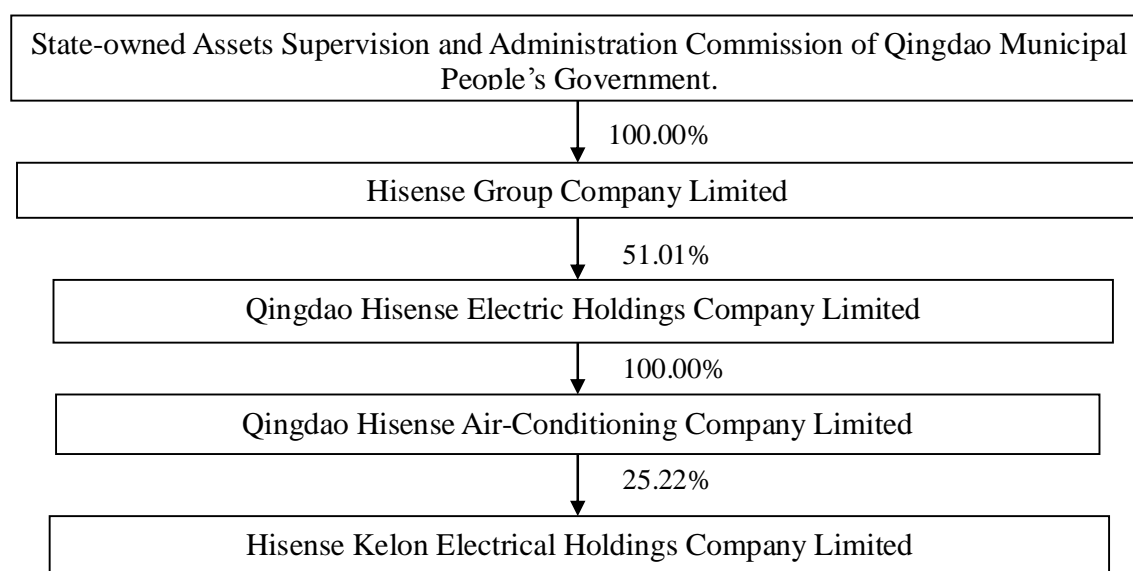
(a) Qingdao Hisense Air-Conditioning Co., Ltd., the controlling shareholder of the Company, was incorporated on 17 November 1995 with the registered capital of RMB674.79 million. Its registered address is Changsha Road, Hi-tech Industrial Zone, Qingdao, the PRC and the legal representative is Mr. Tang Ye Guo. It is primarily engaged in the development and manufacture of air-conditioners and injection moulds and the provision of after-sale repairing services for its products.

(b) The beneficial controller of the Company is Hisense Group Company Limited, which was

incorporated in August 1979 with its registered address at No. 17 Donghai West Road, Shinan, Qingdao. Zhou Houjian is the legal representative of Hisense Group, a wholly state-owned enterprise with the registered capital of RMB806,170,000. The scope of business includes: the entrusted operation of state-owned assets; the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small household appliances, VCD and DVD players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; the development of software and the provision of internet services; the technological development and the provision of consultation services; the self-operated import and export business (with its operation subject to the list of projects as approved by the MOFTEC); the foreign economic and technical cooperation (with its operation subject to the list of projects as approved by the MOFTEC); operation of property rights transaction, provision of brokerage and information services; provision of industrial travel agency services; and provision of relevant business trainings. (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure)

The ultimate beneficial controller of the Company is the State-owned Assets Supervision and Administration Commission of Qingdao Municipal People's Government.

(c) Relationship between the Company and its Beneficial Controlling Shareholders:



(d) During the Reporting Period, there was no change in the controlling shareholder of the Company.

(3) No shareholders of the Company own more than 10% (including 10%) of its shares.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES

As at 31 December 2008, none of the members of the sixth session of the Board, supervisors and the chief executive of the Company and any of their associates held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations, as recorded in the register required to be maintained by the Company pursuant to Section 352 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the aggregate amount of the Company's purchases from the top five suppliers was RMB 928 million, representing 14.35% of total purchase amount of the Company for the year while the aggregate sales amount of the top five customers was RMB 1,759 million, representing 21.85% of total sales amount of the Company for the year. As at 31 December 2008, none of the Directors, their associates or shareholders of the Company, who, to the best knowledge of the Company, hold 5% or more of the shares of the Company, have any interest in the above suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the year ended 31 December 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

All information of the annual report required by Appendix 16 to the Listing Rules will be published on the Stock Exchange's website (<http://www.hkex.com.hk>) and the Company's website (<http://www.kelon.com>) in due course.

By Order of the Board

Hisense Kelon Electrical Holdings Company Limited

Tang Ye Guo

Chairman

Foshan City, Guangdong, the PRC, 16 April 2009

As at the date of this announcement, the Company's directors are Mr. Tang Ye Guo, Mr. Zhou Xiao Tian, 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.

Note: Supplementary information as required by The Stock Exchange of Hong Kong Limited in relation to the Company's A share annual results announcement (prepared in accordance with PRC GAAP)

I. Investments of the Company during the Reporting Period

1. During the Reporting Period, the Company did not raise any capital and no proceeds obtained prior to the Reporting Period was used during the Reporting Period.

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

On 27 April 2008, the Company entered into the Joint Venture Agreement with Whirlpool (Hong Kong) to establish the Joint Venture Company Hisense – Whirlpool (Zhejiang) Electric Appliances Co., Ltd (海信•惠而浦(浙江)電器有限公司). Pursuant to the Joint Venture Agreement, each of the Company and Whirlpool (Hong Kong) agreed to invest RMB225,000,000 as the capital contribution to the Joint Venture Company. The Joint Venture Company is owned as to 50% by the Company and 50% by Whirlpool (Hong Kong).

II. Particulars of the changes in shareholdings and remuneration of Directors, supervisors and senior management of the Company .

Name	Current Position	Gender	Age	Term of Office	No. of shares held at the beginning of the year	No. of shares held at the end of the year	Total remuneration received from the Company during the Reporting Period (before taxation) (RMB ten thousand)	Remuneration received from shareholder's entities or other related companies
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Tang Ye Guo	Director, Chairman	Male	46	2006.6.26-2009.6.25	0	0	74.0	No
Zhou Xiao Tian	Director	Male	50	2009.2.4-2009.6.25	0	0	46.6	No
	President			2008.12.4-2009.6.25				
Wang Shi Lei	Former Director	Male	41	2007.1.4-2008.12.3	0	0	55.0	No
	Former President			2006.11.13-2008.12.3				
Yang Yun Duo	Former Director	Male	53	2007.1.4-2008.2.25	0	0	4.0	No
	Former Vice Chairman							
Yu Shu Min	Director	Female	58	2006.6.26-2009.6.25	0	0	0	Yes
Lin Lan Liu Chun Xin	Director	Male	51	2006.6.26-2009.6.25	0	0	0	Yes
	Director	Female	40	2007.8.8-2009.6.25	0	0	36.0	No
	Vice President			2006.10.31-2009.6.25				
Zhang Ming	Director	Male	38	2008.4.16-2009.6.25	0	0	27.3	No
	Vice President			2006.6.26-2009.6.25				
Zhang Sheng Ping	Independent Non-Executive Director	Male	44	2006.6.26-2009.6.25	0	0	6.0	No
Lu Qing	Independent Non-Executive Director	Male	42	2006.6.26-2009.6.25	0	0	6.0	No
Cheung Yui Kai, Warren	Independent Non-Executive Director	Male	41	2006.6.26-2009.6.25	0	0	24.0	No
Guo Qing Cun	Supervisor	Male	55	2006.12.5-2009.6.25	0	0	0	Yes
Gao Zhong Xiang	Supervisor	Male	41	2008.8.26-2009.6.25	0	0	0	Yes
Zhou Zhao Li	Former Supervisor	Male	40	2006.12.5-2008.8.25	0	0	0	Yes
Liu Zhan Cheng	Supervisor	Male	31	2006.6.23-2009.6.25	0	0	18.3	No
Su Yu Tao	Former Vice President	Male	43	2007.3.23-2008.12.3	0	0	33.0	No
Wang Jiu Cun	Former Vice President	Female	55	2006.6.26-2009.1.11	15,456	16,146	36.0	No
Jia Shao Qian	Vice President	Male	37	2007.1.30-2009.6.25	0	0	23.7	No
Shi Yong Chang	Vice President	Male	49	2008.1.30 -2009.6.25	0	0	47.7	No
Yu Wan Li	Secretary to the Board	Female	30	2008.12.1-2009.6.25	0	0	10.12	No
Chen Zhen Wen	Company Secretary	Male	32	2008.5.29-2009.6.25	0	0	37.3	No
Zhong Liang	Former Secretary to the Board	Male	31	2006.9.7-2008.8.21	0	0	8.3	No

Total	—	—	—	—	15,456	16,146	493.32	-
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III. Other Discloseable Matters

(I) Material litigations and arbitrations of the Company

1. General information of litigation

As of the date of this report, the Company and its subsidiaries were involved in 379 litigations with a total claim amount of RMB423,171,500 and US\$13,750,719.19.

Among the aforementioned litigations involving the Company and its subsidiaries, the Company and its subsidiaries acted as plaintiffs in 11 cases with a total claim amount of RMB361,312,600 and as defendants in 368 cases involving an amount of RMB61,858,900 and US\$13,750,719.19.

Among the aforementioned litigations involving the Company and its subsidiaries, there were 6 litigations and arbitrations as disclosed above involving an amount exceeding RMB10,000,000 each (with a total claim amount of RMB346,426,600 and US\$13,750,719.19) and 373 litigations with a claim amount of less than RMB10,000,000 each (with a total claim amount of RMB76,744,900).

2. New litigations

From 1 January 2008 to the date of this report, the Company and its subsidiaries were involved in 182 new litigations with a total claim amount of RMB34,902,000 and US\$1,494,391.21.

The Company and its subsidiaries acted as plaintiff in 5 cases with a total claim amount of RMB12,445,000, among which 2 cases with a total claim amount of RMB3,047,000 have been closed. The Company and its subsidiaries acted as defendants in 177 cases with a total claim amount of RMB22,457,000, among which 23 cases with a total claim amount of RMB2,816,000 and US\$1,494,391.21 were closed.

Among the aforementioned new litigations involving the Company and its subsidiaries, there was 1 case as disclosed above involving an amount exceeding RMB10,000,000 with a total claim amount of US\$1,494,391.21, and there were 181 litigations with a claim amount of less than RMB10,000,000 with a total claim amount of RMB34,902,000.

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

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

3. Particulars of completed litigations

From 1 January 2008 to the date of this report, the Company and its subsidiaries were involved in 67 closed litigations with a total claim amount of RMB600,444,100 and US\$1,494,391.21.

The Company and its subsidiaries acted as plaintiffs in 22 cases with a total claim amount of RMB564,188,600

and as defendants in 45 cases involving an amount of RMB36,255,500 and US\$1,494,391.21.

Among the aforementioned closed cases involving the Company and its subsidiaries, there were 17 litigations involving an amount exceeding RMB10,000,000 with a total claim amount of RMB555,729,500, US\$1,494,391.21, and 50 litigations with a claim amount less than RMB10,000,000 with a total claim amount of RMB44,714,600.

The background information of the completed litigations involving the target claim amount of more than RMB10,000,000 is set out below:

No.	Name of Case	Target Claim Amount <i>(In RMB ten thousand, unless otherwise stated)</i>	Particulars	Development
1	Litigation initiated by Home Depot against Kelon USA regarding the sale and purchase contract	US\$1,494,391.21	The case is a dispute over the sale and purchase contract. The total claim amount demanded by the Plaintiff is US\$1,494,391.21 (the principal of US\$1,143,171.38 plus the interest of US\$351,219.83 (calculated based on the annual interest rate of 18%)).	The parties have entered into the settlement agreement on 16 June 2008, pursuant to which the Company has settled the first two payments of US\$152,060.10 on a timely basis. The case was close.
2	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun, Hainan Greencool, Greencool Refrigerant and Jinan San Ai Fu	8,160	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB81.6 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
3	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Greencool Refrigerant, Tianjin Aike and Gu Chu Jun etc	9,000	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB90 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
4	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun and Greencool Refrigerant	7,500	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB75 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
5	Litigation initiated by Yangzhou Kelon	4,000	As authorised by Gu Chu Jun, Guangdong Greencool, taking	The Court made a judgment in favour of

	against Guangdong Greencool, Gu Chu Jun and Yangzhou Greencool		benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB40 million of the plaintiff.	the Company. The judgment has come into force.
6	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun, Jiangxi Keda and Greencool Procurement	1,300	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB13 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
7	Litigation initiated by Yangzhou Kelon against Guangdong Greencool, Gu Chu Jun and Yangzhou Greencool	3,500	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB35 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
8	Litigation initiated by the Company's Hubei Branch against Guangdong Greencool, Gu Chu Jun and Wuhan Changrong	2,984.37	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB29.8437 million of the plaintiff.	The lawsuit has been withdrawn by the Company.
9	Litigation initiated by the Company and its Anhui Branch against Guangdong Greencool, Gu Chu Jun and Hefei Weixi	1,869.48	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to facilitate that Hefei Weixi took delivery of a large number of air-conditioners and refrigerators from the Plaintiffs without making any payment during the period from 31 December 2003 to August 2005, and the defaulted payments of RMB16,075,400 and RMB2,619,400 due to the Anhui Branch and the Company, respectively, have not yet been settled. The connected transaction above was conducted without going through the normal internal approval procedures of the Company and no announcement has been issued on it. Therefore, it is attributive to the misuse of Guangdong Greencool and Gu Chu Jun of their controlling position in the company against the interests of the plaintiff.	The court ruled that Hefei Weixi should pay the damages of RMB11,723,263.82 to the Company and its Anhui Branch. The judgment has come into force.

10	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Shenzhen Greencool Environmental	3,300	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB33 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
11	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun and Zhuhai Defa	2,140	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB21.4 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
12	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun and Wuhan Changrong	2,000	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB20 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
13	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Hainan Greencool	1,228.94	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB12.2894 million of the plaintiff.	The court rejected the petition of the Company. And the Company did not make any appeal.
14	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Shenzhen Greencool Technology	3,200	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB32 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
15	Litigation initiated by the Company against Guangdong Greencool, Gu Chu Jun, Zhuhai Greencool, Beijing Greencool, and Hainan Greencool	1,375.46	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB13.7546 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
16	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, and Gu	2,860	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling	The Court made a judgment in favour of the Company. The judgment has come

	Chu Jun ,Zhuhai Longjia		position in the company to misappropriate RMB28.6 million of the plaintiff.	into force.
17	Litigation initiated by the Company against Hangxiao Ganggou in relation to the dispute over the contract for construction project	1,154.70	Hangxiao Ganggou should pay the penalty to the Company for its delayed completion and inspection of the projects it undertook for the Company.	The Court rejected the petition of the Company. The judgment has come into force.

(II). Disposal of assets by the Company during the Reporting Period.

Unit: RMB(in ten thousand)

Transacti on counterp art	Assets dispos ed or sold	Date of dispo sal	Net book value	Transa ction price	Net profit attributable to the disposed assets from the beginning of the year to the date of disposal	Gain or loss on dispos al	The proport ion of total profit	Connec ted transac tion or not	Pricing principles	Completi on of transfer of title of relevant assets
Jilin Yinqiao Group Company Limited	100% shares in Jilin Kelon	7 January 2008	1,107	50	0	-1,057	N/A	NO	Through negotiatio n	YES

(III) Particulars of the material connected transactions of the Company during the Reporting Period

1. Connected transactions related to ordinary operation

During the Reporting Period, the Company and Hisense Group and its relevant subsidiaries and Huayi Compressor and its subsidiaries, entered into certain connected transactions related to the ordinary operation, details of which are as follows:

Unit: RMB ten thousand

Connected Persons	Particulars of the Connected transaction	Pricing policy	Sale of products and provision of services to connected persons		Purchase of goods and receipt of services from connected persons	
			Transaction amount	Percentage of total amount of similar transactions	Transaction amount	Percentage of total amount of similar transactions
Hisense Zhejiang	Purchase of finished	Arrived at after arm's length negotiations			48,350.74	7.10%

	air-conditioner	between both parties				
Hisense Zhejiang	Purchase of materials for air-conditioners	Arrived at after arm's length negotiations between both parties			160.86	0.02%
Hisense Zhejiang	Sales of plastic parts of air-conditioners	Arrived at after arm's length negotiations between both parties	2,125.76	0.26%		
Hisense Shandong	Purchase of finished air-conditioners	Arrived at after arm's length negotiations between both parties			11,659.98	1.71%
Hisense Shandong	Purchase of materials for air-conditioners	Arrived at after arm's length negotiations between both parties			331.69	0.05%
Hisense Shandong	Sales of finished air-conditioners	Arrived at after arm's length negotiations between both parties	8,338.14	1.04%		
Hisense Shandong	Sales of components of air-conditioner	Arrived at after arm's length negotiations between both parties	1,207.76	0.15%		
Hisense Nanjing	Purchase of finished refrigerators	Arrived at after arm's length negotiations between both parties			24,694.76	3.62%
Hisense Nanjing	Purchase materials for refrigerators	Arrived at after arm's length negotiations between both parties			61.55	0.01%
Hisense Nanjing	Sales of finished refrigerators	Arrived at after arm's length negotiations between both parties	3,535.62	0.44%		
Hisense Beijing	Purchase of finished refrigerators	Arrived at after arm's length negotiations between both parties			8,833.18	1.30%
Hisense Beijing	Purchase of materials for refrigerators	Arrived at after arm's length negotiations between both parties			32.81	0.00%
Hisense Beijing	Sales of finished refrigerators	Arrived at after arm's length negotiations between both parties	16,536.50	2.05%		
Hisense Hong Kong	Sales of finished refrigerators	Arrived at after arm's length negotiations between both parties	883.69	0.11%		
Hisense Hong Kong	Sales of finished air-conditioners	Arrived at after arm's length negotiations between both parties	972.63	0.12%		
Hisense Hong Kong	Sales of finished freezers	Arrived at after arm's length negotiations between both parties	29.38	0.00%		

Hisense Mould	Sales of moulds	Arrived at after arm's length negotiations between both parties	296.98	0.04%		
Hisense Zhejiang	Sales of moulds	Arrived at after arm's length negotiations between both parties	103.20	0.01%		
Hisense Shandong	Sales of moulds	Arrived at after arm's length negotiations between both parties	272.35	0.03%		
Hisense Nanjing	Sales of moulds	Arrived at after arm's length negotiations between both parties	217.26	0.03%		
Hisense Beijing	Sales of moulds	Arrived at after arm's length negotiations between both parties	129.40	0.02%		
Huayi Compressor	Purchase of compressors	Arrived at after arm's length negotiations between both parties			7,976.93	1.17%
Huayi Jingzhou	Purchase of compressors	Arrived at after arm's length negotiations between both parties			560.12	0.08%
Jiaxibeila	Purchase of compressors	Arrived at after arm's length negotiations between both parties			19,068.75	2.80%
			34,648.67	4.30%	121,731.37	17.87%

Among which, the connected transaction in relation to the sale of products or provision of labour services by the Company to its controlling shareholders and its subsidiaries amounted to RMB346,486,700 in aggregate.

(IV) Funds Embezzled For Non-operating Purposes and the Their Settlement Progress.

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

Unit: RMB (in ten thousand)

Outstanding amount of funds of the Company embezzled by the former substantial shareholders, its subsidiaries, specified third parties and other related parties for non-operating purpose		Total amount recovered during this period	Settlement Method	Amount recovered	Time of Settlement
1 January 2008	31 December 2008				
65,514.95	65,514.95	0	-	0	-

As at the end of the Reporting Period, the total funds of the Company embezzled by the former substantial

shareholder and its subsidiaries, specified third parties and other related parties for non-operating reasons amounted to RMB655.1495 million in aggregate, of which, a total amount of RMB650.6941 million was embezzled by the former substantial shareholder (Guangdong Greencool) and its associated companies (the “Greencool Companies”) and specified third parties while the remaining balance of RMB4.4554 million was embezzled by other related parties.

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

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

(1) Recovering arrangement on the funds embezzled by Greencool companies and the specified third parties and its development:

The Company has initiated 19 proceedings with the total claim amount of RMB791 million. As at the date of this report, Foshan Intermediate Court has made all the judgments of first instance (See “Material litigations and arbitrations of the Company” in this report for details). Currently, the judgments on 13 cases have become effective, involving a total amount of RMB502,049,400; 1 case has been withdrawn, involving an amount of RMB29,843,700; 1 case has been dismissed due to the insufficiency of evidence, involving an amount of RMB12,289,400; and four cases are under second trial upon appeal of the opposite parties, and their judgments have not yet to become effective. In respect of those cases with the judgments have become effective, the Company has applied to Foshan Intermediate Court for the enforcement of the judgments.

(2) Recovering arrangement on the funds embezzled by other parties and its development

With respect to the embezzlement of the funds of RMB4,455,400 from the Company’s subsidiary Shunde Huaao Electrics Company Limited (“Huaao”) amounting to by Shunde Yunlong Consultancy Service Company Limited (“Yunlong”), the Company has obtained certain valuable assets from Yunlong for settlement of the embezzled fund, which will be recovered after disposal of such assets.

The Company fully understands that the settlement of embezzled funds constitutes an irrevocable obligation of management of Company. The Company will put its greatest effort to recover the funds and reinforce communication with relevant judiciary authorities, gathering more evidence and secure the possible success in litigation to the most extent. The Company has actively implemented the judgments.

(V) Material contracts and their performance

1. External guarantee

Unit: RMB (in ten thousand)

External guarantee made by the Company (excluding guarantees to its subsidiaries)						
Guaranteed party	Date (the day of signing the agreement)	Guaranteed amount	Type of guarantee	Period of guarantee	Completion or not	Whether in favour of any related party (yes or no)
Zhejiang Kelon Air-conditioners Sales Company Limited	March 2008	2,000.00	Jointly and severally liable	Six months	Yes	No
Zhejiang Kelon Air-conditioners	July 2008	1,000.00	Jointly and severally	Six months	No	No

Sales Company Limited			liable			
Zhejiang Kelon Air-conditioners Sales Company Limited	October 2008	2,000.00	Jointly and severally liable	Six months	No	No
FuJian Kelon Air-conditioners Sales Company Limited	September 2008	1,000.00	Jointly and severally liable	Six months	No	No
FuJian Kelon Air-conditioners Sales Company Limited	December 2008	1,000.00	Jointly and severally liable	Six months	No	No
Total actual guaranteed amount during the Reporting Period						7,000.00
Total balance of the actual guaranteed amount at the end of the Reporting Period						5,000.00
Guarantees made by the Company to its subsidiaries						
Total actual guaranteed amount to subsidiaries during the Reporting Period						130,258.16
Total balance of the actual guaranteed amount to subsidiaries at the end of the Reporting Period						49,213.77
Total guarantee made by the Company (including the guarantees to subsidiaries)						
Total guaranteed amount						54,213.77
Percentage of the total guaranteed amount to absolute net assets of the Company						54.68%
Attributable to:						
Guaranteed amount provided to shareholders, actual controlling parties and their related parties						-
Guaranteed amount provided directly or indirectly to guaranteed objects with gearing ratio over 70%						47,068.46
Total guaranteed amount over 50% of the net asset						4,641.69
Total guarantee amount of the above three guarantees						51,710.15

(VI) GUANGDONG DAHUA DELU CERTIFIED PUBLIC ACCOUNTANTS ISSUED A QUALIFIED AUDITOR'S REPORT FOR THE COMPANY. THE DETAILED EXPLANATION GIVEN BY THE BOARD OF THE COMPANY ON THE MATTERS RELATING TO THE AUDIT OPINION IS AS FOLLOWS:

As described in Notes 6.4, 6.6, 10 and 11 to the financial statements, a series of related party transactions and unusual cash flows occurred between Guangdong Greencool Enterprise Development Limited, the former largest shareholder of the Company, and its related parties (hereinafter referred to as the "Greencool Companies") and the Company during the period from October 2001 to July 2005. In addition, during the period, the Greencool Companies, through certain specified party companies such as Tianjin Lixin Commercial Trading Development Company Limited, involved in a series of unusual cash flows with the Company. The Company has instituted proceedings for such transactions and unusual cash flows as well as the suspected fund embezzlements. These matters are related to the Company's amounts due from or to the Greencool Companies and the specified third party companies mentioned above.

As at 31 December 2008, the balance of amounts due from the Greencool Companies and such specified third party companies amounted to RMB651 million. The Company has made a provision for bad debts of RMB365 million in respect of the amounts due from the Greencool Companies and such third party companies. As described in Note 11 to the financial statements, the abovementioned cases have achieved significant progress, with most cases obtaining judgments in favour of the Company. However, we are unable to adopt appropriate audit procedures to obtain sufficient and appropriate audit evidence to

ascertain whether or not the estimated provision for bad debts based on such amount and the assessment and calculation of the receivables are reasonable.

Explanation: A series of related party transactions and unusual cash flows occurred between the Company and Guangdong Greencool Enterprise Development Limited, the former largest shareholder of the Company, and its related parties, or through its third party companies, from 2001 to 2005. Such transactions and unusual cash flows as well as the suspected fund embezzlements have been formally investigated by relevant authorities. As at 31 December 2008, the balance of amounts due from the Greencool Companies and the abovementioned specified third party companies amounted to RMB651 million.

The Company has estimated, based on the information about the cases available at present, the recoverable amount of the amounts due from the Greencool Companies and the specified third party companies, and has made a provision for bad debts of RMB365 million. The bases of the estimate include: the information regarding the properties of the Greencool Companies sealed and frozen by the court as applied by the Company, and the preliminary analysis report on the aforesaid fund embezzlements prepared by the lawyer of the Company. As analyzed by the lawyer, the properties of the Greencool Companies available for settlement amounted to approximately RMB1 billion, and the total claim amount against the Greencool Companies by the creditors to the court amounted to approximately RMB2.4 billion. The amount claimed by the Company for fund embezzlements by the Greencool Companies amounted to RMB791 million. The Company sought to have the outstanding amounts settled based on the proportion of property to debts. Based on the estimated settlement proportion, and taking into consideration that the case is still in progress, the court has not yet acknowledged the claim amount of the debts by the Company. The Board of the Company estimated the recoverable amount and made a provision for bad debts of RMB365 million.

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

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

After the determination of the abovementioned debt settlement proportion, the Company will, based on the confirmed recoverable proportion, adjust retrospectively the 2005 balance sheet and income statement, and adjust the relevant items in the balance sheet as at 31 December 2006, 31 December 2007 and 31 December 2008. The Company has taken measures to sequester the properties of the Greencool Companies which are available for settlement. The Company will also pay attention to the progress of the case and make its best efforts to ensure its rights as a creditor.

(VI) GUANGDONG DAHUA DELU CERTIFIED PUBLIC ACCOUNTANTS ISSUED A QUALIFIED AUDITOR'S REPORT FOR THE 2008 ANNUAL REPORT OF THE COMPANY. THE DETAILED EXPLANATION GIVEN BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS OF THE COMPANY ON THE MATTERS RELATING TO THE AUDIT OPINION IS AS FOLLOWS:

The Independent Non-executive Directors of the Company studied and considered the matters relating to the report, and reviewed the detailed explanation on matters relating to the audit opinion rendered by the sixth session of the Board of the Company. The Independent Non-executive Directors of the Company consented to such explanation on matters relating to the audit opinion from the sixth session of the Board of the Company .

(VII) GUANGDONG DAHUA DELU CERTIFIED PUBLIC ACCOUNTANTS ISSUED A QUALIFIED AUDITOR'S REPORT FOR THE 2008 ANNUAL REPORT OF THE COMPANY. THE DETAILED EXPLANATION GIVEN BY THE SUPERVISORY COMMITTEE OF THE COMPANY ON THE MATTERS RELATING TO THE AUDIT OPINION IS AS FOLLOWS:

The Supervisory Committee of the Company reviewed the detailed explanation on matters relating to the audit opinion rendered by the sixth session of the Board of the Company, and consented to such explanation on the abovementioned matters from the sixth session of the Board of the Company.

DEFINITIONS

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

“Company”, the Company”	Hisense Kelon Electrical Holdings Company Limited
“Hisense Air-Conditioning”	Qingdao Hisense Air-conditioning Company Limited
“Hisense Electrical Appliances”	Qingdao Hisense Electric Co., Ltd.
“Hisense Group”	Hisense Group Company
“Hisense Hong Kong”	Hisense International (HK) Limited
“Guangdong Greencool”	Guangdong Greencool Enterprise Development Company Limited
“Greencool Companies”	Guangdong Greencool and other related parties
“Kelon Air-Conditioner”	Guangdong Kelon Air-Conditioner Co., Ltd.
“Kelon Fittings”	Guangdong Kelon Fittings Co., Ltd.
“Chengdu Kelon”	Hisense(Chengdu) Refrigerator Co., Ltd.
“Jiangxi Kelon”	Jiangxi Kelon Industrial Development Co., Ltd.
“Yangzhou Kelon”	Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.
“Huayi Compressor”	Huayi Compressor Holdings Company Limited
“Tianjin Greencool”	Greencool Refrigerant (China) Company Limited
“Hainan Greencool”	Hainan Greencool Environmental Protection Engineering Co. Ltd.
“Jinan San Ai Fu”	Jinan San Ai Fu Petrochemical Company Limited
“ Greencool Procurement”	Greencool Procurement (Shenzhen) Co., Ltd.
“Chengdu Xinxing”	Chengdu Xinxing Electrical Appliance Holdings Company Limited
“Yangzhou Greencool”	Yangzhou Greencool Venture Capital Company Limited
“Keda Plastic”	Jiangxi Keda Plastic Technology Company Limited
“Wuhan Changrong”	Wuhan Changrong Electrical Appliance Company Limited
“Zhuhai Longjia”	Zhuhai City Longjia Refrigerant Co., Ltd.
“Zhuhai Defa”	Zhuhai Defa Air-conditioner Fittings Company Limited
“Hefei Weixi”	Hefei Weixi Home Appliances Co., Ltd.
“Zhuhai Greencool”	Zhuhai Greencool Refrigeration and Engineering Co., Limited
“Beijing Greencool”	Beijing Greencool Refrigerant Replacement Engineering Co., Limited
“Shenzhen Greencool	Greencool Technology Development (Shenzhen) Company Limited

Technology”	
“Shenzhen Greencool Environmental”	Greencool Technology Environmental Protection Engineering (Shenzhen) Co., Ltd.
“Hangxiao Ganggou”	Zhejiang Hangzhou Hangxiao Ganggou Holdings Company Limited
“Intermediate People’s Court of Foshan City”	Intermediate People’s Court of Foshan City
“CSRC”	China Securities Regulatory Commission
“Shenzhen Stock Exchange”	Shenzhen Stock Exchange
“RMB”	Renminbi
“Stock Exchange”	The Stock Exchange of Hong Kong Limited