



**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)**

**2008 THIRD QUARTERLY RESULTS ANNOUNCEMENT**

This announcement is made in accordance with Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**§1 IMPORTANT NOTICE**

1.1 The board of directors (the “Board”), the supervisory committee (the “Supervisory Committee”), the directors (the “Directors”), the supervisors (the “Supervisors”) and the senior management (the “Senior Management”) of Hisense Kelon Electrical Holdings Company Limited ( the “Company”) warrant that there are no false representation or misleading statements contained in, or material omissions from, this report (the “Report”); and individually and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained herein.

1.2 No Directors, Supervisors or Senior Management have expressed any disagreement or failed to provide a guarantee on the truthfulness, accuracy and completeness of the content of this third quarterly report.

1.3 All the Directors attended the meeting.

1.4 The financial report for the third quarter of the Company has not been audited by auditors.

1.5 Mr. Tang Ye Guo, the representative of the Company, Ms. Liu Chun Xin, the person in charge of the accounting function and Mr. Chen Zhen Wen, person in charge of the accounting department, warrant the accuracy and completeness of the contents of the financial report contained in this Report .

1.6 The full text of the Company’s balance sheet, income statement and cash flow statements are published on the website as designated by the Shenzhen Stock Exchange for release of information:  
<http://www.cninfo.com.cn/default.htm>.

## §2 BASIC INFORMATION OF THE COMPANY

### 2.1 Major Accounting Data and Financial Indicators

Unit: RMB

|  | End of the Reporting Period                          | End of Last Financial Year                           | Increase/Decrease As At End of the Reporting Period as Compared with End of Last Financial Year (%) |
|--|--|--|---|
| Total Assets   | 3,989,399,711.22                                     | 4,421,329,111.03                                     | -9.77%  |
| Equity Holders' Interest   | -715,883,682.92                                      | -773,484,173.87                                      | N.A.  |
| Net assets per share   | -0.7217  | -0.7797  | N.A.  |
|  | Beginning of the Year to End of the Reporting Period |  | Increase/Decrease over Corresponding Period of Last Year (%)  |
| Net cashflow from operating activities                               | 166,245,227.25                                       |  | 4.62%   |
| Net cashflow from operating activities per share                     | 0.1676   |  | 4.62%   |
|  | Reporting Period                                     | Beginning of the Year to End of The Reporting Period | Increase/Decrease As At End of the Reporting Period As Compared with End of Last Financial Year (%) |
| Net profit   | -20,552,365.44                                       | 50,116,404.89  | -504.09%  |
| Earnings per share - basic   | -0.0207  | 0.0505   | -504.09%  |
| Earnings per share – basic after extraordinary profit and loss items | -0.0414  | -0.0103  | N.A.  |
| Earnings per share - diluted   | -0.0207  | 0.0505   | -504.09%  |
| Returns on net assets  | N.A.   | N.A.   | N.A.  |
| Returns on net assets after extraordinary profit and loss items      | N.A.   | N.A.   | N.A.  |

### Extraordinary profit and loss items

Unit: RMB

| Items  | January to September 2008 |
|--|---------------------------|
| Profit and loss from disposal of non-current assets                | 56,591,232.86             |
| Loss from disposal of investment units                             | -10,568,465.43            |
| Other non-operating income and expenses other than the above items | 15,647,289.59             |

|   |               |
|---|---------------|
| Total extraordinary profit and loss   | 61,670,057.02 |
| Less: Effects of minority interests   | -147,732.70   |
| Less: Effects of income tax   | 1,478,256.68  |
| Total extraordinary profit and loss after income tax and minority interests | 60,339,533.04 |

## 2.2 Table of the total number of shareholders and top ten holders of shares without selling restrictions at the end of the reporting period

Unit: share

| Total number of shareholders   | 44,044   |                                 |
|--|--|---------------------------------|
| The shareholdings of the top ten holders of of shares without selling restrictions |  |                                 |
| Name of Shareholder  | Shareholding of shares without selling restrictions at the end of the period | Class                           |
| The Hong Kong and Shanghai Banking Corporation Limited                             | 92,884,829   | H shares                        |
| Shenyin Wanguo Securities (H.K.) Ltd   | 55,097,000   | H shares                        |
| Bank of China (Hong Kong) Limited  | 48,819,000   | H shares                        |
| Guotai Junan Securities (H.K.) Ltd   | 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 1)                          | 11,102,470   | Domestic non-state-owned shares |
| BOCI Securities Limited  | 8,216,000  | H shares                        |
| Sun Hung Kai Investment Services Limited   | 8,045,000  | H shares                        |
| Citibank   | 7,294,984  | H shares                        |

Note 1: During the Reporting Period, Qingdao Hisense Air-conditioning Company Limited (“Hisense Air-conditioning”), the largest shareholder of the Company, had increased its number of A Shares held. At the end

of the Reporting Period, Hisense Air-conditioning held 245,478,392 A Shares of the Company in total, of which 234,375,922 A shares were subject to selling restrictions and 11,102,470 A Shares without selling restrictions.

Note 2: In 2005, 63,923,804 A Shares of the Company held by Foshan City Shunde District Economic Consultancy Company (“Foshan Consultancy”), a holder of restrictive shares,(such shares are actually owned by Guangdong branch of the Industrial and Commercial Bank of China under the name of Foshan Consultancy. The original number of shares was 68,666,667 shares but Foshan Consultancy subsequently transferred 4,742,863 shares to Hisense Air-conditioning as a repayment of the borrowing shares under the shares reform) was approved to be transferred to China Finance Asset Management Corporation under the administrative approval. The share transfer procedures is underway. The release of the selling restrictions on 49,600,328 shares out of the said shares have been complied with .

### §3 SIGNIFICANT EVENTS

#### **3.1 The details of and reasons for significant changes of the principal accounting statements and financial indicators**

Applicable     Not Applicable

Note:

1. Financial assets held for trading decreased by 65.44% from the beginning of the year, which was mainly due to part of the forward foreign exchange trading contracts which were signed with the banks at the end of the previous year becoming expired during this reporting period;
2. Prepayment decreased by 65.55% from the beginning of the year, which was mainly due to the improvement of the means of payment agreed by the Company and the suppliers during the reporting period;
3. Other receivables decreased by 42.41% from the beginning of the year, which was mainly attributable to the settlement of the land premium receivable of RMB242 million at the end of the previous year by Chengdu Gandao Construction Comprehensive Development Corporation;
4. Construction in progress decreased by 63.39% from the beginning of the year, which was mainly attributable to the transfer of the completed plants of Chengdu Kelon to the fixed assets during the reporting period;
5. Loss on the impairment of assets declined by 133.54% as compared to the corresponding period last year, which was mainly due to the provision for bad debts set

- off by the settlement of the land premium received from Jiegao;
6. Finance costs increased by 27.47% as compared to the corresponding period last year, which was mainly due to the increase in losses on foreign exchange of European dollars, sterlings and Australia dollars;
  7. Non-operating net income and expenses decreased by 12.21% as compared to the corresponding period last year, which was mainly attributable to the decrease in the gains from the disposal of non-current assets as compared to the corresponding period last year.

### **3.2 Significant events and analysis on their impact and solutions**

Applicable     Not Applicable

**3.2.1 The auditor's report issued by Shenzhen Dahua Tiancheng Certified Public Accountants for the Company contains qualified opinion. The explanations of the relevant issues concerning the qualified opinion are set out as follows:**

**Reserved Matter 1: “As described in Notes 6.4, 6.6, 11 and 15 to the financial statements of the annual report of A shares, a series of related party transactions and unusual cash flows occurred between the Company and its former largest shareholder, Guangdong Greencool Enterprise Development Limited and its related parties (the “Greencool Companies”) during the period from October 2001 to July 2005. In addition, the Greencool Companies, through certain specified third party companies such as Tianjin Lixin Commercial Trading Development Company Limited, involved in a series of unusual cash flows with the Company in the same period. The Company had initiated legal proceedings with respect to such transactions and unusual cash flows as well as the suspected fund embezzlement to the court, The aforesaid issues involve the accounts receivable and payable between the Company and the Greencool Companies and the specified third party companies. The Company received the Civil Judgments (Fo Zhong Fa Min Er Chu Zi No. 93 and 94 (2006)) from the Guangdong Province Foshan Intermediate Court (hereinafter referred to as “Foshan Intermediate Court”) on 10 September 2007 and Civil Judgments (Fo Zhong Fa Min Er Chu Zi No. 153, 154, 175, 181, 182, 185 and 186 (2006)) from the Foshan Intermediate Court on 31 March 2008, which stated that Foshan Intermediate Court has made first trial judgment on the nine cases in respect of the litigation initiated by your Company against the Greencool Companies and the specified third party companies in favour of your Company. The counterparties of the above nine cases appealed against the first trial judgment and the case is currently under hearing. As**

**at 31 December 2007, the balance of the accounts receivable of the Company from the Greencool Companies and the above specified third party companies amounted to RMB651 million. The Company has made a provision for bad debts of RMB364 million in respect of the accounts receivable from the Greencool Companies and the above specified third party companies. We were unable to adopt the appropriate audit procedures to obtain sufficient and appropriate audit evidence to ascertain whether the estimated provision for bad debts as well as the assessment and calculation of the accounts receivable are reasonable or not.**

*Explanation:*

As the Company and its former single largest shareholder, Guangdong Greencool Enterprise Development Company Limited, and its related parties or through its third party companies had involved in a series of related party transactions and unusual cash inflow/outflow during the period from 2001 to 2005. The aforesaid transactions, unusual cash inflow/outflow and suspected fund embezzlement have been under the investigation by relevant authorities. As at 30 September 2008, the balance of the accounts receivable of the Company from the Greencool Companies and the aforesaid specified third party companies amounted to RMB651,000,000.

The Company has estimated, based on the information about the cases currently available, the recoverable amount of accounts receivable from Greencool Companies and specified third party companies, and the Company has made a provision for bad debts of RMB364 million. The bases for the estimation include: the information regarding the property of Greencool Companies sealed and frozen by the Court as petitioned by the Company, and the preliminary analysis report on the aforesaid fund embezzlement prepared by the lawyer of the Company. As analyzed by the lawyer, the properties of the Greencool Companies available for settlement amounted to approximately RMB1,000,000,000, and the total claim amount against the Greencool Companies by the creditors to the court amounted to approximately RMB2,400,000,000. The amount claimed by the Company for the fund embezzlement by the Greencool Companies amounted to RMB792,000,000. There is the possibility that the credit balance be settled based on the proportion of property to the debts. Based on the estimated settlement proportion, and given that the case is still in the progress, the court has not yet acknowledged the amount of the Company's claim of the debts, the Board of the Company estimated the recoverable amount and made a provision for bad debts of RMB364,000,000.

Meanwhile, the law firm to this case declared that, apart from the case undertaken by them, they cannot guarantee the accuracy of the information and the data related to other relevant cases nor the results of those cases. Further, whether the relevant subsidiaries of the Company are qualified to participate in the property appropriation of the Greencool Companies is subject to the decision of the

Court.

The Board considers that the provision for bad debts is an accounting estimation and the accounting treatment of these accounts receivable does not contravene any relevant requirements of the Accounting System for Business Enterprises. Although the Company has received the first trial judgments from the Foshan Intermediate Court on the sixteen cases initiated by the Company against the Greencool companies and its specified third party companies, there are only three judgments coming into force and no information concerning the effective date of other judgments have been obtained. The Company is of the view that: given the current circumstances, and before the completion of hearing of all cases initiated by the Company against the Greencool Companies and its specified third party companies and the execution of the relevant judgments, there is no material difference between our judgment for the recoverability of these accounts receivable and the actual circumstances. This qualified opinion will not have any impact on the fairness of the income statement of the Company for the period from January to September 2008.

After the court has made the judgment and determined the settlement proportion, the Company will, pursuant to the determined recoverable proportion, adjust retrospectively the 2005 financial statements (the balance sheet and income statement), and the relevant items in the balance sheet as at 31 December 2006, 31 December 2007 and 30 September 2008. The Company has taken measures to sequester the property of the Greencool Companies which are available for settlement. The Company will also pay close attention to the progress of the cases and use its best efforts to ensure its rights as a creditor.

### **3.2.2 Funds Embezzled For Non-operating Purposes And Their Settlement Progress.**

As at the end of the Reporting Period, the funds of the Company embezzled by its 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 subsidiaries and the specified third parties while the remaining balance of RMB4.4554 million was embezzled by other related parties.

During the Reporting Period, the liability settlement panel of the Company has been actively working on settlement. During the Reporting Period, three litigations initiated by the Company against the liable parties, namely, Mr. Gu Chujun and the former substantial shareholder Guangdong Greencool and its subsidiaries, certain third party companies and other related parties were ruled in

favor of the Company and the relevant judgments have come into force. (For details, please refer to the announcements of the Company dated 4 July 2008 and 19 August 2008 published on *China Securities Journal*, *Securities Times* and [www.cninfo.com.cn](http://www.cninfo.com.cn) (巨潮資訊網)).

### **3.2.3 Material litigations and arbitrations of the company**

As at 30 September 2008, the Company and its subsidiaries had a total of 232 litigations, involving the total claim amount of RMB778,777,100 , US\$13,750,719.19 and HK\$3,500,000.

Among the litigations above, the Company and its subsidiaries acted as plaintiff in a total of 27 cases, involving the total claim amount of RMB729,423,100, and as defendants in a total of 205 cases (of which 152 cases were initiated by medium-to-minority , 36 cases were labour disputes and 17 cases were trading and labour controversies) , involving the total claim amount of RMB49,354,000 , US\$13,750,719.19 and HK\$3,500,000.

Among the litigations involving the Company and its subsidiaries, there was a total of 18 litigations and arbitrations involving the claim amount of more than RMB10,000,000 each (with the total claim amount of RMB706,914,300 and US\$13,750,719.19) and a total of 214 litigations involving the claim amount of less than RMB10,000,000 each (with the claim amount of RMB71,862,800 and HK\$3,500,000).

As at the date of this report, the Company received a total of 197 cases of litigation initiated by the medium-to-minority investors, involving the total claim amount of RMB28,786,879. Such litigations initiated by the medium-to-minority investors are relating to the claims over possible losses arising from the false information of securities in and before 2005.

### **3.2.4 Signing and performance of material contract by the Company**

The material investment in the establishment of Hisense-Whirlpool (Zhejiang) Electric Appliances Co. under the Joint Venture Agreement (“JV Agreement”) between the Company and Whirlpool (Hong Kong) signed on 27 April 2008 was approved by the Board. The JV Agreement was approved at the third 2008 extraordinary general meeting of the Company held on 26 August 2008.

### **3.3 Performance of undertakings given by the Company, shareholders and controlling parties**

On 29 March 2007, the Company successfully completed the share reform. Other than the statutory undertaking, Hisense Air-conditioning, the controlling shareholder of the Company, has made three special undertakings , the performance of which are as follows: the “Undertaking of Lock-up

Period” is being executed; the “Undertaking of Share Borrowing” has been executed; and for the “Undertaking of Offering Additional Shares”, due to the failure to accomplish the white assets reorganization of the Company within the undertaking period, Hisense Air-conditioning has executed its undertaking to offer additional shares to the holders of shares free of selling restrictions. Hisense Air-conditioning has agreed that it will negotiate with the Company, and subject to the changes of the market and economic conditions, they will seek and capture another opportunity to proceed with the asset reorganization and reconsider the asset reorganization proposal in accordance with the “Administrative Measures on Significant Asset Reorganization of Listed Companies” (上市公司重大資產重組管理辦法). For details, please refer to the 2008 interim report of the Company.

**3.4 Warnings and explanations of any forecasted losses or significant changes to accumulated earnings brought from the beginning of the financial year to the end of the next reporting period**

Applicable     Not Applicable

**3.5 Other material matters required to be disclosed**

**3.5.1 Information about investment in securities**

Applicable     Not Applicable

**3.5.2 Information about the Company’s shareholdings in other listed companies**

Applicable     Not Applicable

Unit: RMB

| Stock Code | Abbreviated Name | Initial investment amount | Percentage to the investee’s share capital | Carrying amount at the end of the period | Profit/loss for the reporting period | Changes in shareholding during the reporting period |
|------------|------------------|---------------------------|--|--|--------------------------------------|---|
| 000404     | Huayi Compressor | 118,013,641.00            | 18.26%                                     | 101,935,935.64                           | -528,890.23                          | -528,890.23   |
| Total      | —                | 118,013,641.00            | —  | 101,935,935.64                           | -528,890.23                          | -528,890.23   |

### **3.5.3 Information about the shareholdings in non-listed financial enterprises or listing companies**

Applicable    Not applicable

### **3.5.4 Table setting out the reception activities in respect of research, communications and visits during the reporting period**

Applicable    Not applicable

### **3.5.5 Information about the share acquisition plan proposed by the shareholders who hold more than 30% interest in the Company and the status of implementation**

Applicable    Not applicable

### **3.5.6 Information as to whether the Company has provided funding to the controlling shareholder and other related party or provided any external guarantee in violation of the required procedures.**

Applicable    Not applicable

## **§4 AUDITOR'S REPORT**

The financial report for the Reporting Period are unaudited.

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

At the request of the Company, trading in the H shares of the Company was suspended with effect from 10:00 a.m. on 16 June 2005, pending the release of an announcement in relation to price-sensitive information of the Company.

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. The Company has appointed an independent professional firm to conduct a review on the internal control system of the Company and its subsidiaries.

By order of the Board of

**Hisense Kelon Electrical Holdings Company Limited**

**Tang Ye Guo**

*Chairman*

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.

Foshan City, Guangdong, the PRC, 28 October 2008