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**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)**

## **2009 FIRST QUARTERLY RESULTS ANNOUNCEMENT**

This announcement is made by Hisense Kelon Electrical Holdings Company Limited (the “Company”) in accordance with Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

### **§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 the Company warrant that there are no false representation or misleading statements contained in, or material omissions from, this report (the “Report”); and jointly 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 first quarterly report.

1.3 All Directors attended the meeting.

1.4 The financial report for the first 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, the person in charge of the accounting

department, warrant the accuracy and completeness of the contents of the financial report of 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 (Yuan)

Items	End of the Reporting Period	End of Last Financial Year	Changes (%)
Total Assets	4,302,007,863.79	3,779,088,446.21	13.84%
Equity Holders' Interest	-985,865,404.90	-991,441,601.37	N/A
Net assets per share	-0.9938	-0.9994	N/A
Items	Reporting Period	Corresponding Period of Last Year	Changes (%)
Revenue	1,796,364,437.86	2,306,435,784.53	-22.12%
Net Profit attributable to Equity Holders	5,567,506.00	10,935,073.82	-49.09%
Net cashflow from operating activities	-9,561,598.17	58,735,475.75	-116.28%
Net cashflow from operating activities per share	-0.0096	0.0592	-116.28%
Earnings per share - basic	0.0056	0.0110	-49.09%
Earnings per share - diluted	0.0056	0.0110	-49.09%
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			Beginning of the Year to The End of the Reporting Period
Loss and profit from disposal of non-current assets (including the written-off portion of assets impairment provision)			-2,034,328.45
Government subsidy recorded in the profits and losses of the current period (except government subsidy closely related to the Company's business, and of which the amount is determined according to the State's unified standard)			2,122,443.13
Gain or loss on debt restructuring			398,273.51
Profit or loss from changes in fair values of transactional financial assets and transactional financial liabilities and investment profits from disposal of transactional financial assets, transactional financial liabilities and available-for-sale financial assets (except effective hedging business related to the normal businesses of the Company)			-663,569.42
Net non-operating income other than above			1,327,303.88
Total extraordinary loss and profit			1,150,122.65
Less: Effect of minority interests			13,155.21
Less: Effect of enterprise Income tax			258,772.86
Total extraordinary loss and profit after deducting minority interests			878,194.58

**2.2 Table of total number of shareholders and top ten holders of tradable listed share at the end of the reporting period**

**Unit: shares**

Total number of shareholders at the end of the reporting period	41,346	
The shareholding of the top ten holders of tradable listed shares		
Name of Shareholder	Shareholding at the end of the period	Class
The Hong Kong and Shanghai Banking Corporation Limited	69,247,029	H shares
Shenyin Wanguo Securities (H.K.) Ltd.	54,508,000	H shares
Bank of China (Hong Kong) Limited	53,632,000	H shares
Guotai Junan Securities (H.K.) Ltd	38,304,000	H shares
First Shanghai Securities Limited	26,569,000	H shares
Hang Seng Securities Limited	17,137,000	H shares
China Merchants Securities (HK) Co., Ltd.	16,888,000	H shares
Qingdao Hisense Air-conditioning Co., Ltd. (note)	15,797,800	A shares
Citibank N.A.	9,611,984	H shares
Quam Securities Co Ltd	8,400,000	H shares

*Note: In 2008, Qingdao Hisense Air-conditioning Company Limited, a substantial shareholder of the Company, increased its tradable A Shares of the Company by an aggregate of 15,797,800 Shares.*

**§3 SIGNIFICANT MATTERS**

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

√ Applicable    Not applicable

**Analysis on the changes of balance sheet**

**Unit: RMB (ten thousand)**

Items	End of the Reporting Period	Beginning of the Reporting Period	Increase/decrease in amount	Changes (%)
Trade receivables	85,779.82	66,922.15	18,857.67	28.18%

Inventories	72,401.65	50,552.83	21,848.82	43.22%
Trade payables	137,839.82	87,826.66	50,013.16	56.95%

Trade receivables, inventories and trade payables at the end of the period increased by 28.18%, 43.22% and 56.95% respectively as compared to the beginning of the period. Such increases were attributable to the increase in sales volume and stock in response to the increase in demand for the peak season during the reporting period.

### Analysis on the changes of profit

Unit: RMB (ten thousand)

Items	End of the Reporting Period	Beginning of the Reporting Period	Increase/decrease in amount	Changes (%)
Revenue from operations	179,636.44	230,643.58	-51,007.14	-22.12%
Non-operating income	492.23	6,149.10	-5,656.87	-92.00%

Revenue from operations recorded a y-o-y decrease of 22.12% as the sales volume of the Company shrunk under the influence of the global financial crisis. Also, there was a decrease in the income from disposal of idle non-current assets for the period, resulting in a significant y-o-y decrease in the non-operating income.

### Analysis on the changes of cash flow

Unit: RMB (ten thousand)

Items	End of the Reporting Period	Beginning of the Reporting Period	Increase/decrease in amount	Changes (%)
Cash flows from operating activities	-956.16	5,873.55	-6,829.71	-116.28%
Cash flows from investing activities	-4,322.78	12,001.46	-16,324.24	-136.02%
Cash flows from financing activities	16,502.69	-9,798.76	26,301.45	N/A

There was a decrease in disposal of idle non-current assets for the period, resulting in a y-o-y decrease in the net cash flow from investment activities and a y-o-y increase in the net cash flow from financing activities.

## 3.2 Development of significant matters and analysis on their impacts and solutions

Applicable  Not applicable

**3.2.1 GUANGDONG DAHUA DELU CERTIFIED PUBLIC ACCOUNTANTS ISSUED A QUALIFIED AUDITOR'S REPORT FOR THE COMPANY'S 2008 RESULTS REPORT. 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 have become effective), the abovementioned seventeen cases have not been enforced so far. The Board of the Company is of the view that: as there is no material difference in 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 cases and make its best efforts to ensure its rights as a creditor.

### **3.2.2 Funds Embezzled For Non-operating Purposes and the Their Settlement Progress**

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.

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. 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.

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

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 ).

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

Applicable   Not applicable

On 29 March 2007, the Company successfully completed the share reform scheme. Other than the statutory undertakings, Qingdao Hisense Air-conditioning Company Limited, the substantial 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 Assets Restructuring and Offering Additional Shares”, due to the failure to accomplish the white assets reorganization of the Company within the undertaking period, Qingdao Hisense Air-conditioning Company Limited has executed its undertaking to offer additional shares to the holders of non-freely transferrable shares. As at the date of this report, the Company has entered into negotiations with Qingdao Hisense Air-conditioning Company Limited on the matters relating to the assets restructuring.

### **3.4 Warnings and explanations of any forecasted losses or significant changes to net profit from the beginning of the financial year to the end of next reporting period.**

Applicable   Not Applicable

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

#### **3.5.1 Information about securities investment**

Applicable   Not Applicable

#### **3.5.2 Information about shareholding in other listed companies by the Company**

Applicable   Not Applicable

Unit: RMB (ten thousand)

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	11,801.36	18.26%	10,036.36	110.32	111.27
Total		11,801.36	—	10,036.36	110.32	111.27

### 3.5.3 Table on reception activities in respect of research, communications and visits during the reporting period

Applicable    Not applicable

### 3.5.4 The details of other important matters

Applicable    Not Applicable

As at the date of this report, the Company is negotiating with Qingdao Hisense Air-Conditioning Company Limited, a substantial shareholder of the Company, in relation to the significant assets restructuring. The specific restructuring proposal is still under discussion.

## § 4 Auditor's Opinion: Unaudited

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. 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.*

Foshan City, Guangdong, the PRC, 27 April 2009.