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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 THIRD 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 failed to provide a guarantee or expressed any disagreement on the truthfulness, accuracy and completeness of the contents of this third quarterly report.

1.3 All 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 chairman 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

	2009.9.30	2008.12.31	Changes (%)	
Total Assets	4,174,674,840.85	3,779,088,446.21	10.47%	
Interests attributable to holders of the parent company	(808,521,719.34)	(991,441,601.37)	N/A	
Share capital (Shares)	992,006,563.00	992,006,563.00	0.00%	
Net assets per Share attributable to holders of the parent company (RMB/Share)	(0.8150)	(0.9994)	N/A	
	July – September 2009	Y-o-y changes (%)	January – September 2009	Y-o-y changes (%)
Total operating income	2,696,628,102.26	29.98%	7,461,394,224.59	-0.11%
Net profit attributable to shareholders of the listed company	27,102,907.12	N/A	182,706,982.40	264.57%
Net cash flow from operating activities	417,006,879.62	711.83%	546,172,035.30	228.53%
Net cash flow per share from operating activities (RMB/Share)	0.4204	711.83%	0.5506	228.53%
Basic earnings per share (RMB/Share)	0.0273	N/A	0.1842	264.57%
Diluted earnings per share (RMB/Share)	0.0273	N/A	0.1842	264.57%
Return on net assets (%)	N/A	N/A	N/A	N/A
Return on net assets after extraordinary items (%)	N/A	N/A	N/A	N/A

### EXTRAORDINARY PROFIT AND LOSS ITEMS

Unit: RMB

Extraordinary profit and loss items	Amounts for January to September 2009
Profit and loss from disposal of non-current assets (including the elimination portion of assets impairment provision):	(278,517.72)
Government subsidy recorded in the profits and losses of the current period (except government subsidy the Company continued to be entitled to, closely related to the Company's normal operation, in compliance with the State policies, and of an amount and quantity specified by certain standard)	22,367,092.55
Gain or loss on debt restructuring	3,042,857.57
Gain or loss from contingencies not related to the Company's normal operation	6,553,967.16

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 Company's normal operation)	(6,515,696.92)
Net non-operating income and expenses other than above:	2,806,456.38
Total extraordinary profit and loss	27,976,159.01
Less: Effect of minority interests	(394,496.29)
Less: Effect of enterprise income tax	6,462,378.22
Total extraordinary profit and loss after deducting income tax and minority interests	21,908,277.09

## 2.2 Table of total number of shareholders and the shareholding of the top ten holders of shares not subject to selling restrictions at the end of the reporting period

Unit: shares

Total number of shareholders at the end of the reporting period	39,798	
The shareholding of the top ten holders of shares not subject to selling restrictions		
Name of Shareholder	Number of shares not subject to selling restrictions held	Class
The Hong Kong and Shanghai Banking Corporation Limited	69,062,945	H shares
China Huarong Asset Management Corporation	63,923,804	RMB ordinary shares
Shenyin Wanguo Securities (H.K.) Ltd.	50,770,000	H shares
Bank of China (Hong Kong) Limited	41,924,000	H shares
Guotai Junan Securities (H.K.) Ltd	41,032,000	H shares
First Shanghai Securities Limited	37,382,000	H shares
China Merchants Securities (HK) Co., Ltd.	30,054,000	H shares
Qingdao Hisense Air-conditioning Co., Ltd.	15,797,800	RMB ordinary shares
Citibank N.A.	11,538,202	H shares
Hang Seng Securities Limited	11,041,000	H 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 of changes in assets and liabilities (Unit: RMB'0,000)

Items	Closing Amounts	Opening Amounts	Change (%)	Reasons for change
Notes receivable	1,734.20	6,245.29	-72.23%	Mainly due to the maturity and reversal of undiscounted notes which were undue at the beginning of the year.
Trade receivables	84,590.90	66,922.15	26.40%	Mainly due to the increase in sales at the end of the Period (coincided with the end of the Company's sales peak season), which resulted in an increase in trade receivables.
Other current assets	3,638.08	1,973.09	84.38%	Mainly due to the reorganization costs incurred during the Period.
Long-term equity investments	22,296.79	14,120.56	57.90%	Mainly represented the second investment contributed by the Company to Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd(海信惠而浦(浙江)电器有限公司) ("Hisense Whirlpool"), a joint venture, during the reporting period
Construction in progress	11,540.53	6,593.53	75.03%	Mainly represented the construction in progress of the plant of Hisense Whirlpool, which will be re-classified as investments in Hisense Whirlpool upon completion and inspection.
Trade payables	170,210.55	87,826.66	93.80%	Mainly due to the increase in purchase amount at the end of the Period (coincided with the end of the Company's sales peak season), which resulted in an increase in trade payables.
Other current liabilities	32,940.16	25,390.10	29.74%	Mainly due to the increase in sales at the end of the Period (coincided with the end of the Company's sales peak season), which resulted in a corresponding increase in outstanding fees such as logistics and advertisement at the end of the Period.

Analysis of changes in profit (Unit: RMB'0,000)

Items	Amounts for the Period	Amounts for the corresponding period last year	Changes (%)	Reasons for changes
Finance costs	5,061.70	10,309.87	-50.90%	The fluctuation in exchange rate was relatively stable during the Reporting Period, which resulted in a decrease in exchange losses.
Non-operating income	4,681.27	8,600.70	-45.57%	Mainly due to the gain on disposal of six parcels of land recognized in the corresponding period last year.

Analysis of changes in cash flow (Unit: RMB'0,000)

Items	Amounts for the Period	Amounts for the corresponding period last year	Changes (%)	Reasons for changes
Net cash flows from operating activities	54,617.20	16,624.52	228.53%	During the Reporting Period, the Company strengthened its control over capital input for inventory and accelerated the turnover of working capital, which resulted in an increase in net cash flows from operating activities as compared to the corresponding period last year. Meanwhile, the disposal of idle non-current assets of the Company decreased during the Reporting Period, which resulted in a decrease in net cash flows from investing activities as compared to the corresponding period last year. The financing activities of the Company decreased during the Reporting Period, which resulted in a decrease in net cash flows from financing activities as compared to the corresponding period last year.
Net cash flows from investing activities	-14,407.67	8,996.44	-260.15%	
Net cash flows from financing activities	-29,955.21	-20,417.60	N/A	

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

✓ Applicable    □ Not applicable

3.2.1 Explanation given by the board of the company of the changes and treatment of the matters relating to the qualified opinions in the auditor's report for the 2008 annual report :

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

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

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

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

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

The Board of the Company considers that the provision for bad debts is an accounting estimate. The accounting method applied to such accounts receivable does not breach the relevant requirements of the

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

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

As at the date of this Report, all judgments of first instance in favour of the Company on seventeen litigations have become effective. However, since the above cases have not been enforced to date, the Board of the Company is of the view that there is no material difference in its judgment on the recoverability of such accounts receivable as compared with its previous judgment.

### **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 a former substantial shareholder and its subsidiaries, the specific third parties and other related parties for non-operating reasons amounted to RMB655,149,500 in aggregate, of which, a total amount of RMB650,694,100 was embezzled by a former substantial shareholder Guangdong Greencool and its subsidiaries and the specific third parties and the remaining balance of RMB4,455,400 was embezzled by other related parties.

A specialized task force of the Company has stepped up its effort to recover the embezzled funds pursuant to the requirement of the "Notice on Expediting the Loan Recovering Process" (Zheng Jian Gong Si Zi No. 92) (《關於進一步加快推進清欠工作的通知》(證監公司字[2006]92號)). The progress up to the date of this report is as follow:

The Company has initiated 19 proceedings against the Greencool Companies and the specific third parties with the total amount in dispute of RMB791 million. As at the date of this Report, Foshan Intermediate Court has made judgments of first instance on all 19 cases. Currently, the judgments on 17 cases have become effective, involving a total amount of RMB748 million; 1 case has been withdrawn, involving an amount of RMB29,843,700; 1 case has been dismissed due to insufficiency of evidence, involving an amount of RMB12,289,400. In respect of cases with judgment becoming effective, the Company has set up a specialized task force to proceed the settlement progress in its best endeavour. The Company has applied to Foshan Intermediate Court for the enforcement of the judgment of each of the cases, and has reported the enforcement procedures to the Supreme People's Court through courts at the provincial and municipal levels. The Company will continue to communicate with relevant judicial authorities actively to enforce the settlement cases and will strive for the earliest possible completion of the cases.

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

As at 30 September 2009, the Company and its subsidiaries were involved in 103 litigations with a

total claim amount of RMB161,726,100.

Among the litigations above, the Company and its subsidiaries acted as plaintiff in a total of 9 cases, involving the total claim amount of RMB122,836,100, and as defendants in a total of 94 cases (of which 43 cases were initiated by minority shareholders, 24 cases were labour disputes and 27 cases were trading and labour controversies), involving the total claim amount of RMB38,890,000 .

Among the aforementioned litigations involving the Company and its subsidiaries, there was 1 litigation or arbitration as disclosed above involving an amount exceeding RMB10,000,000 each (with a total claim amount of RMB99,984,100) and 102 litigations with a claim amount of less than RMB10,000,000 each (with a total claim amount of RMB61,742,000).

#### **3.2.4 The Development of Non-public Issue of Shares**

On 17 July 2009, the Company issued the “(Draft) Report Relating to the Non-public Issue of Shares (A Shares) by the Company for Acquiring Assets and Connected Transactions”. On 11 August 2009, the Company received the approval-in-principle from Qingdao State-owned Assets Supervision and Administrative Committee in relation to the proposal of the subscription of the non-public issue of shares of the Company in consideration of injection of the white goods assets by Qingdao Hisense Air-Conditioning Company Limited (“Hisense Air-Conditioning”) to the Company. The Company received on 28 August 2009 a notice that the executive director, or his/her representative, of the Corporate Finance Division of the Securities and Futures Commission in Hong Kong has granted a conditional waiver to Hisense Air-Conditioning from the obligation to make a general offer for all the shares of the Company as a result of the Company’s issue of the consideration shares. The Company convened a general meeting and class meetings on 31 August 2009, at which the relevant resolutions regarding the assets restructuring were passed. The Company received on 25 September 2009 the “Notice on the Acceptance of the Application for the Administrative Permission” (《行政許可申請受理通知書》) (No. 091261) issued by the CSRC, pursuant to which the CSRC, upon review of the application materials of the Company for the administrative permission relating to the Approval for Acquisition of Assets through Issuance of Shares by Listed Company” (《上市公司發行股份購買資產核准》), considered that such application materials were complete and complied with the statutory form, and therefore decided to accept such application. For details of the above development, please refer to the announcements dated 16 July 2009, 11 August 2009, 31 August 2009 and 28 September 2009.

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

On 29 March 2007, the Company successfully completed the share reform scheme. Other than the statutory undertakings, Hisense Air-conditioning, a 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 Offering Additional Shares”, due to the failure to accomplish the white goods assets restructuring of the Company within the prescribed period, Hisense Air-conditioning has

executed its undertaking to offer additional shares to the holders of shares not subject to selling restrictions. During the Reporting Period, the Company issued a proposal in relation to the major asset restructuring. Hisense Air-Conditioning undertakes that: in the event of completion of the restructuring, the shares issued by the Company through the non-public issue under this transaction shall not be transferred within 36 months from the date of registration of the shares under its name. The Company's shares originally held by Hisense Air-conditioning shall also be re-locked for 36 months from the date of registration of the shares through the non-public issue under its name and shall not be transferred.

**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 (in 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%	11,367.47	1,429.51	1,442.38
Total		11,801.36		11,367.47	1,429.51	1,442.38

**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

### 3.6 Derivatives investment

Applicable     Not Applicable

Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)	<p>The derivatives business of the Company mainly represents the foreign exchange derivatives business used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company determines a reasonable range of foreign exchange rates to achieve the hedging purpose.</p> <p>The Company has formulated the “Management Measures for the Foreign Exchange Capital Business”. The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the business of the foreign exchange derivatives. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.</p>
Changes in market price or product fair value of derivatives invested during the Reporting Period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives’ fair value	<p>The auditing of the fair value of the derivatives carried out by the Company mainly represents the undue foreign exchange forward contracts entered into by the Company and banks, which is recognized as transactional financial assets or liabilities based on the difference between the quotation of the undue foreign exchange contracts and the future exchange rate as at the end of the period. During the Reporting Period, the Company recognized a gain of fair value changes of the derivatives of RMB1.0698 million.</p>
Explanations of any significant changes in the Company’s accounting policies and specific accounting principles on derivatives between the Reporting Period and the last reporting period	<p>During the Reporting Period, there were no material changes in principal in the accounting policy and the accounting and auditing principles of the Company’s derivatives business as compared to last reporting period.</p>
Specific opinions of independent Directors, sponsor or financial advisor on the derivatives investment and risk control of the Company	<p>The opinion of the independent directors: starting the foreign exchange derivatives business by the Company enables the Company to avoid the risk of foreign exchange fluctuations; the Company has formulated the “Management Measures for the Foreign Exchange Capital Business”, which has adopted the targeted risk control measures that are practicable.</p>

### 3.6.1 Positions in derivatives investment at the end of the Reporting Period

Applicable     Not Applicable

Unit: RMB (in ten thousand)

Type of contract	Term of Contract	Contract amount at the beginning of the Period	Contract amount at the end of the Period	Percentage of contract amount at the end of the Period to net assets of the Company at the end of the Reporting Period
Foreign exchange derivatives contracts	October 2009 - September 2010	26,676.00	11,371.03	N/A
Commodity derivative contracts	-	104.52	-	N/A
Total	-	26,780.52	11,371.03	

#### § 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 October 2009