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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)

2010 FIRST QUARTERLY REPORT

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") of the Company and its directors (the "Director(s)"), supervisors (the "Supervisor(s)") and senior management (the "Senior Management") warrant that there are no false representations or misleading statements contained in, or material omissions from, this report (the "Report"); and they will assume joint and several liability for the truthfulness, accuracy and completeness of the contents contained herein.

1.2 No Directors, Supervisors or Senior Management have failed to warrant on the truthfulness, accuracy and completeness of the contents of this first quarterly report or had disagreement over them.

1.3 All Directors attended the meeting.

1.4 The first quarterly report for the three months ended 31 March 2010 (the "Reporting Period") of the Company was prepared in accordance with the Generally Accepted Accounting Principles in the People's Republic of China and 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 accounting affairs and Mr. Chen Zhen Wen, the person responsible for the accounting department, warrant the truthfulness and completeness of the financial statements 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>.

1.7 The first quarterly report of the Company was prepared in accordance with the relevant requirements in relation to information disclosure of quarterly reports of listed companies issued by China Securities Regulatory Commission.

1.8 Unless otherwise indicated, Reminbi is the recording currency in this report.

§2 BASIC INFORMATION OF THE COMPANY

2.1 Major Accounting Data and Financial Indicators

Unit: RMB

Items	As at the end of the Reporting Period	As at the end of last financial year	Change as of the end of the Reporting Period as compared to the end of last year (%)
Total Assets (RMB)	5,101,215,712.16	4,348,222,259.37	17.32%
Shareholder's equity attributable to shareholders of the Company (RMB)	(803,725,547.86)	(848,214,232.53)	N/A
Share capital (share)	992,006,563.00	992,006,563.00	0.00%
Net asset value per share attributable to shareholders of the Company (RMB/ share)	(0.81)	(0.86)	N/A
Items	Reporting Period	Corresponding period of last year	Change as compared to the Corresponding period of last year (%)
Total operating income (RMB)	2,815,866,334.26	1,796,364,437.86	56.75%
Net profit attributable to shareholders of the Company (RMB)	45,298,818.84	5,567,506.00	713.63%
Net cashflow from operating activities (RMB)	15,573,729.17	(9,561,598.17)	N/A
Net cashflow from operating activities per share (RMB/ share)	0.0157	(0.0096)	N/A
Basic earnings per share (RMB/ share)	0.0457	0.0056	713.63%
Diluted earnings per share (RMB/ share)	0.0457	0.0056	713.63%
Weighted average rate of return on net assets (%)	N/A	N/A	N/A
Weighted average rate of return on net assets after deducting non-recurring profits or losses (%)	N/A	N/A	N/A
Non-recurring profit and loss items			Beginning of the year to the end of the Reporting Period
Profits or Losses on disposal of non-current assets (including the written-off portion of assets impairment provision)			30,520,757.48

Government subsidies recorded in the profits and losses of the current period (excluding government subsidies closely related to the Company's business, and of fixed amount or fixed quantity in accordance with the State's unified standards)	2,286,067.39
Investment gains 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)	5,746,356.50
Other non-operating income and expenses other than the above:	1,918,459.83
Effect of minority interests	(121,083.75)
Effect of enterprise income tax	(801,495.40)
Total	39,549,062.05

2.2 Table of total number of shareholders and particulars of the top ten holders of tradable shares not subject to trading moratorium as at the end of the Reporting Period

Unit: shares

Total number of shareholders	36,793	
The shareholding of the top ten holders of shares not subject to trading moratorium		
Name of shareholders	Number of shares not subject to trading moratorium held at the end of the period	Class
The Hong Kong and Shanghai Banking Corporation Ltd.	55,993,188	H shares
China Huarong Asset Management Corporation	54,798,000	RMB ordinary shares
Guotai Junan Securities (Hong Kong) Ltd	52,640,000	H shares
Shenyin Wanguo Securities (H.K.) Ltd.	49,998,000	H shares
First Shanghai Securities Ltd.	38,395,000	H shares
Bank of China (Hong Kong) Ltd.	32,230,000	H shares
China Merchants Securities (HK) Co., Ltd.	20,478,000	H shares
Deutsche Securities Asia Ltd.	16,575,500	H shares
Morgan Stanley Hong Kong Securities Ltd.	16,536,500	H shares
Qingdao Hisense Air-conditioning Co., Ltd. (Note)	15,797,800	RMB ordinary shares

Note: In 2009, the Company issued a proposal in relation to the major asset restructuring. Qingdao Hisense Air-Conditioning Co., Ltd. ("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 subject to a new lock-up period of 36 months from the date of registration of the shares through the non-public issue under its name during which such shares shall not be transferred.

§3 SIGNIFICANT EVENTS

3.1 Details of and reasons for material changes in the major accounting items and financial indicators of the Company

√ Applicable □ Not applicable

Analysis of changes in assets and liabilities

(Unit: RMB'0,000)

Items	Amount as at the end of the Reporting Period (the "Closing Amount")	Amount as at the beginning of the Reporting Period (the "Opening Amount")	Changes	Percentage changes (%)
Bank balances and cash	27,676.72	12,664.68	15,012.04	118.53%
Transactional financial assets	1,079.75	559.68	520.07	92.92%
Notes receivable	13,203.66	5,970.99	7,232.67	121.13%
Accounts receivable	116,936.50	96,352.99	20,583.51	21.36%
Prepayments	24,687.89	15,337.70	9,350.19	60.96%
Inventories	94,226.02	66,161.32	28,064.70	42.42%
Accounts payable	172,301.69	141,173.96	31,127.73	22.05%
Advances from customers	70,139.62	47,894.74	22,244.88	46.45%
Tax payable	(11,861.50)	(7,808.73)	(4,052.77)	51.90%

Notes: 1) The Closing Amount of transactional financial assets represented an increase from the Opening Amount, mainly due to an increase in outstanding future contracts at the end of the Reporting Period;

2) The Closing Amount of notes receivable, accounts receivable and advances from customers represented an increase from the Opening Amount, mainly due to a corresponding increase in notes receivable, accounts receivable and advances from customers caused by an increase in sales at the end of the Reporting Period which fell on the initial period of the Company's peak season for sales;

3) The Closing Amount of prepayments, inventories and accounts payable represented an increase from the Opening Amount, mainly due to stock preparation for the peak season by the Company during the Reporting Period.

Analysis of changes in profit

(Unit: RMB'0,000)

Items	Amount for the Reporting Period	Amount for the corresponding period of last year	Changes	Percentage changes (%)
Operating income	281,586.63	179,636.44	101,950.19	56.75%
Finance costs	1,806.16	2,457.73	(651.57)	-26.51%
Investment gains	3,076.14	(717.42)	3,793.56	N/A

Notes: 1) Operating income of the Company recorded a year-to-year increase of 56.75% for the Reporting Period, mainly due to improved operation of the Company and the effects of the economic recovery both domestically and abroad;

2) Finance costs of the Company recorded a year-to-year decrease of 26.51% for the Reporting Period, mainly due to decreases in financing costs as the structure and scale of the Company's financing improved during the Reporting Period;

3) Investment gains of the Company recorded a significant year-to-year increase during the Reporting Period, mainly due to the investment gains from the disposal of part of its shares in the associated company Huayi Compressor Holdings Company Limited (the "Huayi Compressor") and 100% shareholdings in the subsidiary Wuhu Yingjia Electrical Machinery Co., Ltd. (the "Wuhu Yingjia") by the Company during the Reporting Period.

Analysis of changes in cash flow

(Unit: RMB'0,000)

Items	Amount for the Reporting Period	Amount for the corresponding period of last year	Changes	Percentage changes (%)
Net cash flow from operating activities	1,557.37	(956.16)	2,513.53	N/A
Net cash flow from investment activities	(2,933.35)	(4,322.78)	1,389.43	N/A
Net cash flow from financing activities	15,744.29	16,502.69	(758.40)	-4.60%

Note: During the Reporting Period, the operation of the Company further improved with a year-to-year increase in net cash flow from operating activities, an improvement in its financing structure and a decrease in the scale of its financing activities. In addition, the disposal of part of its shares in Huayi Compressor and 100% shareholdings in Wuhu Yingjia by the Company during the Reporting Period also led to an increase in net cash flow from investment activities.

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

√ Applicable □ Not applicable

3.2.1 BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD. issued a qualified auditor's report for the Company's 2009 financial report. The Board of the Company has made specific explanations on the matters relating to the auditor's opinion in the 2009 annual report. As at the date of this report, there was no actual progress in relation to the such matters. The specific explanations made by the Board of the Company on matters relating to the auditor's qualified opinion are as follows:

As described in Notes 5.4, 5.6, 6 and 7 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 Hisense Kelon, and its related parties (hereinafter referred to as the "Greencool Companies") and Hisense Kelon during the period from October 2001 to July 2005. In addition, during the period, 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 Hisense Kelon. Hisense Kelon has instituted proceedings for such transactions and unusual cash flows as well as the suspected fund embezzlements. These matters are related to Hisense Kelon's amounts due from or to the Greencool Companies and the specified third party companies mentioned above.

As at 31 December 2009, the balance of amounts due from the Greencool Companies and such specified third party companies amounted to RMB651 million. Hisense Kelon 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 set out in Note 7 to the financial statements, apart from the withdrawal of the case at the Intermediate People's Court of Foshan ((2006) Fo Zhong Fa Min Er Chu Zi No. 178) and the rejection of the petition to the Intermediate People's Court of Foshan ((2006) Fo Zhong Fa Min Er Chu Zi No. 183), Hisense Kelon has won in all other cases mentioned above and the rulings have all come into force. 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 the relevant authorities. As at 31 December 2009, 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 will make its best efforts to have the outstanding amount recovered to the greatest extent possible. Based on the estimated settlement proportion, and taking into consideration that the court has not determined the enforcement and appropriation arrangement for the properties sealed, 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. While the relevant courts have given their final rulings in favour of the Company in respect of 17 cases of litigation out of 19 initiated by the Company against Greencool Companies and specified third parties and the judgments have come into effect, one case with a claim amount of RMB29.8437 million was withdrawn by the Company and another case with a claim amount of RMB12.2894 million was dismissed. The aggregate claim amounts of these two cases accounted for a small proportion of the total claim amount of RMB729.7971 million under the court judgments. However, as the rulings in respect of the abovementioned 17 cases have not yet been enforced so far, the Board of the Company is of the view that there is no material difference in terms of the assessed recoverability of such receivables between that for 2009 and 2008 and therefore this qualified opinion will not affect the fairness in the preparation of the Company's income statement for 2009.

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 sheets as at 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009. 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 development 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 RMB655,149,500 in aggregate, of which, a total amount of RMB650,694,100 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 RMB4,455,400 was embezzled by other related parties.

The Company has initiated a total of 19 cases of litigation against Greencool Companies and specified third parties, with a target claim amount of RMB791 million. As at the date of this report, one case was withdrawn,

involving an amount of RMB29.8437 million; one case was dismissed, involving an amount of RMB12.2894 million, and the Company has not yet lodged an appeal for the case; 1 case received judgment of first instance from the Intermediate Court of Foshan and has come into force as the counterparty did not lodge an appeal, involving an amount of RMB18.6948 million; 16 cases for which the counterparties have lodged an appeal have received judgments from the Higher Court of Guangdong Province, under which the appeals were dismissed and the judgments of first instance from the Intermediate Court of Foshan were maintained, with a total amount of RMB729.7971 million. The Company has already applied for the execution of the judgments that have come into force to the Intermediate Court of Foshan.

The Company is proactively facilitating the execution of the judgments that have come into force by the relevant judiciary authorities.

3.2.3 Material litigations and arbitrations of the Company

(1) As of the date of this report, the Company and its subsidiaries were involved in 105 pending litigations with a total claim amount of RMB200,539,000.

Among the aforementioned cases involving the Company and its subsidiaries, the Company and its subsidiaries acted as plaintiffs in 12 cases with a total claim amount of RMB141,362,500; and as defendants in 93 cases involving an amount of RMB59,176,500.

Among the aforementioned pending litigations involving the Company and its subsidiaries, two cases of material litigations and arbitrations as disclosed above involve an amount exceeding RMB10,000,000 each (with a total claim amount of RMB125,645,000) and 103 cases of litigation involve a claim amount of less than RMB10,000,000 each (with a total claim amount of RMB74,894,000).

(2) From 1 January 2010 to the date of this report, there were six new cases involving the Company and its subsidiaries with a claim amount of RMB4,748,600. The Company acted as the defendant in both cases. One of the cases was closed with a claim amount of RMB155,600.

(3) In respect of the development of the litigations initiated by the Company against the Greencool Companies and the specified third party companies, please refer to the details of paragraph 3.2.2 above and the 2009 Annual Report of the Company dated 8 April 2010.

3.3 Performance of undertakings given by the Company, shareholders and its ultimate controllers

Applicable Not applicable

On 29 March 2007, the Company successfully completed the share reform scheme. Other than the statutory undertakings, Hisense Air-conditioning, 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 performed; the “Undertaking of Share Borrowing” has been performed; 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, Hisense Air-conditioning has performed its undertaking to offer additional shares to the holders of tradable shares not subject to trading moratorium. In 2009, the Company issued a proposal in relation to the major asset restructuring. Hisense Air-Conditioning undertakes that: in the event of the 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 subject to a new lock-up period of for 36 months from the date of registration of the shares through the non-public issue under its name during which such share shall not be transferred.

3.4 Warnings and explanations as to the reasons for the loss in accumulated net profit expected to be recorded from the beginning of the reporting period or material changes of it as compared to the same period last year

Applicable Not Applicable

3.5 Other material matters required to be explained

3.5.1 Information relating to securities investment

Applicable Not Applicable

No.	Type of securities	Stock code	Abbreviated name	Initial investment amount (RMB)	Shareholding at the end of the period (share)	Carrying amount at the end of the period (RMB)	Percentage to total securities investment at the end of the period (%)	Profit and loss for the Reporting Period (RMB)
Other securities investment held at the end of the period	Share	000404	Huayi Compressor	111,914,832.20	56,216,478.00	109,256,542.94	100%	22,000,952.15
Total				111,914,832.20	56,216,478.00	109,256,542.94	100%	22,000,952.15

In order to better leverage on the shares of Huayi Compressor held by the Company, a meeting was convened by the Board of the Company on 23 March 2010, at which the management of the Company was authorised to dispose of up to 6,000,000 shares of Huayi Compressor held by the Company at any time they deem appropriate and within a reasonable price range. During the Reporting Period, the Company has disposed of 3,063,522 shares of Huayi Compressor and released the corresponding the long-term equity investment cost of RMB5.9524 million, and an investment gain of RMB22.1049 million was recognised.

3.5.2 Particulars of reception activities in respect of research, communications and visits during the reporting period

Applicable Not Applicable

3.5.3 Other significant events

√ Applicable □ Not Applicable

(1) On 26 March 2010, the Company received from the CSRC the “ Letter of Reply Concerning the Approval for the Major Asset Restructuring of Hisense Kelon Electrical Holdings Company Limited and the Acquisition of Assets through Issuance of Shares to Qingdao Hisense Air-Conditioning Company Limited” and the “ Letter of Reply Concerning the Approval for the Announcement by Qingdao Hisense Air-Conditioning Company Limited the Acquisition Report of Hisense Kelon Electrical Holdings Company Limited and the Waiver of its General Offer Obligation”. The Company is now carrying out the relevant procedures such as the asset transfer;

(2) On 29 January 2010, the seventh session of the Board of the Company convened the 2010 first extraordinary meeting by way of written resolution, at which an equity transfer agreement between the Company and a third party in relation to the transfer of 100% equity interest in Wuhu Yingjia held by the Company to the third party at a consideration of RMB12 million was considered and approved. During the transitional period of such transfer, both parties shall jointly assume the profit or loss. After the equity transfer, the Company will no longer hold any equity interest in Wuhu Yingjia;

(3) During the Reporting Period, there was no provision of fund to the controlling shareholder or its associates or external guarantees that violate the stipulated requirements;

(4) During the Reporting Period, there was no proposal or implementation of increases in shareholding by the substantial shareholder of the Company and its parties in concert;

(5) During the Reporting Period, there was no major contract in the ordinary course of operation that would be discloseable under the relevant requirements and guides of the stock exchanges.

3.6 Derivatives investment

√ Applicable □ Not Applicable

<p>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>	<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. The Company has formulated the “Management Measures for the Foreign Exchange Capital Business”. The measures specifically regulate the basic principles, operational 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>
<p>Changes in market price or product fair value of derivatives invested during the Reporting Period, where the specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives’ fair value</p>	<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 are recognized as transactional financial assets or liabilities based on the difference between the quotation of the undue foreign exchange forward contracts and the future exchange rate as at the end of the period. During the Reporting Period, the Company recognized a gain on fair value changes of the derivatives of RMB5.7464 million.</p>

Explanations of any significant changes in the Company's accounting policies and specific accounting principles on derivatives during the Reporting Period as compared to those in the previous reporting period	During the Reporting Period, there were no material changes in the accounting policies and the accounting and auditing principles applied to the Company's derivatives business as compared to those of the previous reporting period.
Specific opinions of the independent Directors, sponsor or financial advisor on the derivatives investment and risk control of the Company	The opinion of the independent Directors: the starting of the hedging 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.

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

Applicable Not Applicable

(Unit: RMB'0,000)

Type of contract	Contractual amount at the beginning of the Period	Contractual amount at the end of the Period	Gain or loss during the Reporting Period	Percentage of contractual amount at the end of the Period to net assets of the Company at the end of the Reporting Period (%)
Foreign exchange derivatives contracts	40,410.30	85,491.73	574.64	N/A
Total	40,410.30	85,491.73	574.64	N/A

4 Auditor's Opinion: Unaudited

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

Foshan City, Guangdong, the PRC, 23 April 2010

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.