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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)**

## **2011 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"), 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; 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 warrant or expressed any disagreement on the truthfulness, accuracy and completeness of the contents of this 2011 first quarterly report.

1.3 All Directors attended the meeting.

1.4 The financial report of the Company for the first quarter of 2011 has not been audited by accountants.

1.5 Mr. Tang Ye Guo, the chairman of the Company and Ms. Liu Chun Xin, the person in charge of the accounting function and the person in charge of the accounting department, warrant the accuracy and completeness of the contents of the financial report in the quarterly 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>.



Unit: RMB

Extraordinary profit and loss items	Amounts for January to March 2011
Profit or loss from disposal of non-current assets	21,483,707.30
Government subsidy recorded in the profits or losses of the current period (except government subsidy which is closely related to the Company's normal operation, in compliance with the State policies and continuously entitled for standard amount or quantities)	6,222,780.33
Net non-operating income and expenses other than those stated above	1,261,988.89
Total extraordinary profit or loss	28,968,476.52
Less: Effect of minority interests	327,126.28
Less: Effect of income tax	956,410.08
Total extraordinary profit or loss after deducting income tax and minority interests	27,684,940.16

**2.2 Table showing 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	34916	
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 at the end of the period	Class
HKSCC Nominees Limited <sup>Note</sup>	457,535,208	Overseas listed foreign shares
China Huarong Asset Management Corporation	32,900,000	RMB ordinary shares
China Construction Bank – Penghua Value Advanced Stock Fund	13,046,489	RMB ordinary shares
Construction Bank of China – Bosera Strategy Dynamic Asset Allocation Mixed Type Equity Fund	6,999,733	RMB ordinary shares
Yuyang Securities Investment Fund	6,199,673	RMB ordinary shares
Zhang Shaowu	6,080,000	RMB ordinary shares
Agricultural Bank of China – Bosera New Growth Stock Fund	4,982,521	RMB ordinary shares
The Industrial and Commercial Bank of China – Lion Flexible Allocation Stock Fund	3,780,227	RMB ordinary shares

Xian Zhuoqun Investment Management Limited	3,000,000	RMB ordinary shares
Construction Bank of China – Bosera Special Value Equity Fund	1,908,341	RMB ordinary shares

*Note: The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants.*

### §3 SIGNIFICANT MATTERS

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

√ Applicable     Not applicable

##### Analysis on the changes of balance sheet items

Unit: RMB (in ten thousand)

Items	Amount as at the end of the reporting Period	Amount as at the beginning of the reporting Period	Increase/decrease in amount	Percentage changes (%)
Accounts receivable	204,541.86	135,428.42	69,113.44	51.03%
Short-term borrowings	142,990.01	110,126.18	32,863.83	29.84%
Accounts payable	292,614.73	238,516.66	54,098.07	22.68%

During the reporting period, changes occurred in the Company's balance sheet items at the end of the reporting period in different degrees in size and structure:

- 1) The accounts receivable at the end of the reporting period represented an increase from the amount at the beginning of the year, mainly due to the domestic and overseas sales growth of the Company during the reporting period;
- 2) The accounts payable at the end of the reporting period represented an increase from the amount at the beginning of the year, mainly due to preparation of stocks for the peak season.
- 3) The short-term borrowings at the end of the reporting period represented an increase from the amount at the beginning of the year, mainly due to the reserve of materials and inventory during the reporting period in preparation of sales in the peak season.

##### Analysis on the changes of income statement items

Unit:RMB (in ten thousand)

Items	Amount for the reporting period	Amount for the corresponding period of last year	Increase/decrease in amount	Percentage changes (%)
Total operating income	463,050.20	372,097.49	90,952.71	24.44%
Administrative expenses	13,637.46	11,161.54	2,475.92	22.18%
Finance costs	1,035.58	1,925.35	-889.77	-46.21%
Non-operating income	9,049.32	3,773.36	5,275.96	139.82%

During the reporting period, the sales scale of the Company continued to expand, and the corresponding expenses also increased when compared to the corresponding period last year; finance costs decreased when compared to the same period last year, mainly due to improvement in financing structures over the same period last year and the reduction in the corresponding interest expense; non-operating income increased when compared to the same period last year, mainly due to the increase in income received as a result of the subsidies.

### Analysis on the changes of terms in the statement of cash flows

Unit: RMB (in ten thousand)

Items	Amount for the reporting period	Amount for the corresponding period of last year	Increase/decrease in amount	Percentage changes (%)
Cash flows from operating activities	-26,732.07	4,988.73	-31,720.80	-635.85%
Cash flows from investing activities	-6,818.28	-4,867.53	-1,950.75	40.08%
Cash flows from financing activities	32,288.43	15,618.88	16,669.55	106.73%

During the reporting period, the sales scale of the Company increased and the peak season for sales is approaching. Thus, raw materials and inventory reserves increased for the preparation of stocks for the peak season, and there was corresponding increase in funding needs.

### 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 ON THE CHANGES AND TREATMENT OF THE MATTERS RELATING TO THE QUALIFIED OPINIONS IN THE 2010 FINANCIAL REPORT:

BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD issued an auditor's report with qualified opinion for the 2010 financial report of the Company. The Board of the Company has given detailed explanation on the matters relating to the auditor's opinion in the 2010 annual report, details of which can be found in the 2010 annual results announcement of the Company published on the website of the Stock Exchange (<http://www.hkex.com.hk>) on 30 March 2011. As at the date of this report, there was no real progress in relation to such matters.

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

Details of Funds Embezzled For Non-operating Purposes and Their Settlement can be found in the 2010 annual results announcement of the Company published on the website of the Stock Exchange (<http://www.hkex.com.hk>) on 30 March 2011. The Company is proactively facilitating the

execution of the judgments that have come into force by the relevant judiciary authorities. As at the date of this report, there was no real progress in relation to such matters.

### 3.2.3 Material litigations and arbitrations of the Company

**There is one outstanding material litigation or arbitration of the Company and its subsidiaries with the amount in dispute exceeding RMB10,000,000 as at the date of this report, the basic information of which are as follows:**

Name of case	Amount in dispute (RMB ten thousand)	Particulars of the case	Status
Hisense Ronshen(Guangdong) Refrigerator Co Ltd. against Xi'an Kelon Cooling Co., Ltd. in relation to a sale and purchase contract	9998.41	Since February 2004, Ronshen Refrigerator has repeatedly provided Xi'an Kelon fundings and prepayments in an aggregate amount of RMB89,184,085.06 to support the latter's production. The two parties later entered into a repayment agreement, but Xi'an Kelon has failed to perform such agreement. Therefore, Ronshen Refrigerator initiated the proceedings in the Foshan Intermediate Court, demanding Xi'an Kelon to refund the payment for goods and the related expenses.	In December 2008, the Foshan Intermediate Court dismissed the claim due to insufficiency of factual and legal evidence. Ronshen Refrigerator made an appeal. The Guangdong Province Higher Court has revoked the judgment of the Foshan Intermediate Court (Fo Zhong Fa Min Er Zi No. 88 (2007)) and the case was to be re-tried by the Foshan Intermediate Court. The case has been re-opened at the Foshan Intermediate Court for re-trial in February 2011. At present, this case is being heard.

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

√ Applicable    □ Not Applicable

In 2010, the Company completed the significant assets reorganization, and Qingdao Hisense Air-Conditioning Company Limited, the controlling shareholder of the Company, has given undertakings in respect of avoidance of competition in the industry, regulation and minimization of connected transactions, maintenance of the independence of the listing company and the lock-up period for additional shares received under this reorganization. Details are available in the "Announcement on shareholder undertakings in relation to the non-public issue of shares" published by the Company on <http://cninfo.com.cn> on 9 June 2010. The above undertakings are currently being performed by Qingdao Hisense Air-Conditioning Company Limited.

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

Applicable    Not Applicable

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

**3.5.1 Information about securities investment**

Applicable    Not Applicable

No.	Type of securities	Stock code	Abbreviated name	Initial investment amount (RMB: in ten thousand)	Shareholding at the end of the period (share)	Carrying amount at the end of the period (RMB: in ten thousand)	Percentage to total securities investment at the end of the period (%)	Profit or loss for the reporting period (RMB: in ten thousand)
1	Stock	000404	Huayi Compressor Company Limited	4,776.13	23,979,569	5,381.74	100%	(39.07)

In order to supplement the Company's need for cash flow during the course of its normal production and operational activities, the Company disposed of part of the shares of Huayi Compressor held by it in a total of 3,051,063 shares during the reporting period. The corresponding cost of long-term equity investment of RMB6,074,600 was released and an investment gain of RMB21,295,000 was recognised.

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

Applicable    Not Applicable

Time of reception	Place of reception	Way of reception	Subject of reception	Major topics discussed and information provided
13 January 2011	The Company	On-site visit	China International Capital Corporation (Hong Kong) Securities Limited, Race Investments, Greenwoods Asset Management Limited, CEPHEI Investments	Major topics discussed included: ① Production and operation of the Company;

19 January 2011	The Company	On-site visit	Sinolink Securities Co.,LTD, Beijing Gao Hua Securities Company Limited	② Future development of the Company;
21 January 2011	The Company	On-site visit	FIL Investment Management (Hong Kong) LTD	③Conditions of the Company after the reorganization;
22 February 2011	The Company	On-site visit	CITIC Securities Co., Ltd., Baoying Fund Management Co., Ltd., Guangfa Securities Co., Ltd., Hongyuan Securities Co., Ltd., Guangdong New Value Investment Co., Ltd.	④ Sales and network distribution of the Company.  Information provided: Nil

### 3.5.3 Other significant matters

Applicable    Not applicable

- (1) During the reporting period, there was no provision of fund to the controlling shareholder or its associates or external guarantees provided in violation of the required procedures;
- (2) During the reporting period, there was no proposal or implementation of increases in shareholding by the major shareholder of the Company and its parties in concert;
- (3) 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

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</p>
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	on the management measures for the derivatives business.
Changes in market price or product fair value of invested derivatives during the reporting period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives' fair value	The assessment of the fair value of the derivatives carried out by the Company mainly represents the outstanding 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 outstanding foreign exchange forward contracts and the forward 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 RMB3.8921 million.
Explanations of any significant changes in the Company's accounting policies and specific accounting and auditing principles on derivatives between the reporting period and the last reporting period	During the reporting period, there were no material changes in the accounting policy and specific accounting and auditing principles for the Company's derivatives business as compared to last reporting period.
Specific opinions of independent Directors, sponsor or financial advisor on the derivatives investment and risk control of the Company	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 have adopted 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 (in ten thousand)

Type of contract	Contract amount at the beginning of the period	Contract amount at the end of the period	Gain or loss during the reporting 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	138,989.87	270,785.08	389.21	417.79%
Total	138,989.87	270,785.08	389.21	417.79%

### § 4 Auditor's Opinion: Unaudited

**This quarterly report is prepared in Chinese and English respectively. In case of inconsistency, the Chinese text of this quarterly report shall prevail over its English text.**

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, Mr. Xiao Jian Lin and Ms. Liu Chun Xin; and the Company's independent non-executive directors are Mr. Zhang Sheng Ping, and Mr. Cheung Yui Kai, Warren and Mr. Wang Ai Guo.*

Foshan City, Guangdong, the PRC, 28 April 2011