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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 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of Hisense Kelon Electrical Holdings Company Limited (the "Company") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2010 (the "Reporting Period") together with comparative figures for the corresponding period in 2009. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Notes	For the six months ended 30 June	
		2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited) (Restated)
Turnover	4	8,492,392	6,250,421
Cost of sales		<u>(6,965,031)</u>	<u>(4,656,795)</u>
Gross profit		1,527,361	1,593,626
Other revenue		150,123	49,279
Other gains and losses		126,780	29,913
Distribution costs		(1,177,640)	(1,086,574)
Administrative expenses		(239,475)	(229,310)
Other expenses		(11,863)	(7,206)
Share of results of associates		3,421	8,350
Share of results of jointly controlled entities		34,357	15,971
Finance costs		<u>(35,149)</u>	<u>(43,158)</u>
Profit before income tax expense	5	377,915	330,891
Income tax expense	6	<u>(16,097)</u>	<u>(43,540)</u>
Profit for the period		<u>361,818</u>	<u>287,351</u>
Other comprehensive income			
Exchange differences on translation of financial statements of foreign operations		1,187	31
Share of reserves of associates		<u>(12)</u>	<u>128</u>
Other comprehensive income for the period		<u>1,175</u>	<u>159</u>
Total comprehensive income for the period		<u>362,993</u>	<u>287,510</u>
Profit for the period attributable to:			
- Owners of the Company		343,254	273,064
- Non-controlling interests		<u>18,564</u>	<u>14,287</u>
		<u>361,818</u>	<u>287,351</u>
Total comprehensive income for the period attributable to:			
- Owners of the Company		344,429	273,223
- Non-controlling interests		<u>18,564</u>	<u>14,287</u>
		<u>362,993</u>	<u>287,510</u>
Earnings per share attributable to owners of the Company	8		
- Basic and diluted		<u>RMB0.25</u>	<u>RMB0.20</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2010

	Notes	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Unaudited) (Restated)
Assets			
Non-current assets			
Property, plant and equipment	9	1,979,316	2,041,852
Investment properties		33,999	33,762
Payments for leasehold land held for own use under operating leases		359,534	367,730
Interests in associates		89,365	102,673
Interests in jointly controlled entities		400,951	293,169
Available-for-sale financial assets		4,040	4,310
Intangible assets		173,152	177,687
Deferred tax assets		17,873	20,884
Total non-current assets		<u>3,058,230</u>	<u>3,042,067</u>
Current assets			
Inventories		1,839,001	1,135,951
Trade and other receivables	10	2,960,551	1,653,725
Taxation recoverable		1,967	2,554
Other financial assets		21,672	5,597
Pledged bank deposits		7,492	7,233
Cash and cash equivalents		373,524	201,183
		5,204,207	3,006,243
Non-current assets held for sale		<u>-</u>	<u>31,574</u>
Total current assets		<u>5,204,207</u>	<u>3,037,817</u>
Total assets		<u>8,262,437</u>	<u>6,079,884</u>
Liabilities			
Current liabilities			
Trade and other payables	11	5,339,674	3,494,728
Trade deposits received		572,454	597,800
Other financial liabilities		1,873	1,040
Provisions		209,246	202,550
Taxation payable		35,874	32,846
Other liabilities		33,788	34,385
Borrowings	12	1,483,938	1,450,873
		7,676,847	5,814,222
Liabilities directly associated with non-current assets held for sale		<u>-</u>	<u>30,914</u>
Total current liabilities		<u>7,676,847</u>	<u>5,845,136</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION – Continued

AT 30 JUNE 2010

	Notes	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Unaudited) (Restated)
Net current liabilities		<u>2,472,640</u>	<u>2,807,319</u>
Total assets less current liabilities		<u>585,590</u>	<u>234,748</u>
NET ASSETS		<u>585,590</u>	<u>234,748</u>
Capital and reserves attributable to owners of the Company			
Share capital	13	1,354,055	1,354,055
Share premium		1,195,597	1,195,597
Statutory reserves		114,581	114,581
Merger reserve		316,818	316,818
Capital reserve		266,653	267,448
Foreign exchange reserve		31,297	30,110
Accumulated losses		<u>(3,078,123)</u>	<u>(3,421,377)</u>
Equity attributable to owners of the Company		200,878	(142,768)
Non-controlling interests		<u>384,712</u>	<u>377,516</u>
TOTAL EQUITY		<u>585,590</u>	<u>234,748</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Share capital RMB'000 (Unaudited)	Share premium RMB'000 (Unaudited)	Statutory reserves RMB'000 (Unaudited)	Merger reserve RMB'000 (Unaudited)	Capital reserve RMB'000 (Unaudited)	Foreign exchange reserve RMB'000 (Unaudited)	Accumulated losses RMB'000 (Unaudited)	Equity attributable to owners of the Company RMB'000 (Unaudited)	Non-controlling interests RMB'000 (Unaudited)	Total equity RMB'000 (Unaudited)
As at 1 January 2009 (Unaudited and restated)	1,354,055	1,195,597	114,581	316,818	266,638	37,891	(3,629,824)	(344,244)	365,711	21,467
Total comprehensive income for the period	-	-	-	-	128	31	273,064	273,223	14,287	287,510
As at 30 June 2009 (Unaudited and restated)	<u>1,354,055</u>	<u>1,195,597</u>	<u>114,581</u>	<u>316,818</u>	<u>266,766</u>	<u>37,922</u>	<u>(3,356,760)</u>	<u>(71,021)</u>	<u>379,998</u>	<u>308,977</u>
As at 1 January 2010 (Unaudited)	1,354,055	1,195,597	114,581	316,818	267,448	30,110	(3,421,377)	(142,768)	377,516	234,748
De-recognition of capital reserve through disposal of a subsidiary	-	-	-	-	(783)	-	-	(783)	-	(783)
Dividend paid out by subsidiaries	-	-	-	-	-	-	-	-	(11,368)	(11,368)
Total comprehensive income for the period	-	-	-	-	(12)	1,187	343,254	344,429	18,564	362,993
As at 30 June 2010 (Unaudited)	<u>1,354,055</u>	<u>1,195,597</u>	<u>114,581</u>	<u>316,818</u>	<u>266,653</u>	<u>31,297</u>	<u>(3,078,123)</u>	<u>200,878</u>	<u>384,712</u>	<u>585,590</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Net cash generated from operating activities	369,961	542,623
Net cash used in investing activities	(19,270)	(106,560)
Net cash (used in)/generated from financing activities	<u>(178,350)</u>	<u>4,360</u>
Net increase in cash and cash equivalents	172,341	440,423
Cash and cash equivalents at beginning of period	201,183	192,129
Effect of foreign exchange rate changes	<u>-</u>	<u>(115)</u>
Cash and cash equivalents at end of period representing cash and bank balances	<u><u>373,524</u></u>	<u><u>632,437</u></u>

1. GENERAL INFORMATION

Hisense Kelon Electrical Holdings Company Limited (the “Company”) is a public limited company incorporated in the People’s Republic of China (hereinafter referred to as the “PRC”) on 16 December 1992. Its H shares are listed on The Stock Exchange of Hong Kong Limited on 23 July 1996 and its A shares are listed on the Shenzhen Stock Exchange on 13 July 1999.

As at 31 December 2006, Qingdao Hisense Air-Conditioning Company Limited (“Hisense Air-Conditioning”) held 262,212,194 shares of domestic legal person shares of the Company, representing 26.43% of total share capital of the Company.

In December 2006, a share reform scheme (the “Share Reform Scheme”) was set up for converting the Company’s domestic legal person shares, which were not freely transferable, into the Company’s freely transferable A shares (the “Transferable Shares”). Pursuant to the provisions in the Share Reform Scheme, Hisense Air-Conditioning undertakes that it will make advance allocation of shares to respective A shares shareholders on behalf of other domestic legal person shareholders who have not explicitly given consent to participate in the Share Reform Scheme. As a result, Hisense Air-Conditioning obtained 238,872,074 Transferable Shares of the Company subject to certain selling restrictions on 29 March 2007 when the Share Reform Scheme was approved in the A shares general meeting.

On 28 March 2008, the proposed acquisition of white goods assets and business of Hisense Air-Conditioning (the “Acquisition”), was rejected by the Merger and Reorganisation Review Committee of the CSRC (“China Securities Regulatory Commission”). Pursuant to the Share Reform Scheme completed on 29 March 2007, Hisense Air-Conditioning made a compensation of 9,725,059 shares calculated based on 0.5 shares for every 10 transferable A shares held by such holders as registered on 10 April 2008 as that the Acquisition was not completed by 29 March 2008. The share held by Hisense Air-Conditioning was reduced to 229,147,015 shares, representing 23.10% of the Company’s total share capital.

On 10 April 2008 and 19 June 2008, two domestic legal person shareholders joined to convert their non-freely transferable shares into the Transferable Shares of the Company. Pursuant to the provisions in the Share Reform Scheme, these domestic legal person shareholders availed 5,228,907 A shares to Hisense Air-Conditioning. Accordingly, the total number of A shares held by Hisense Air-Conditioning were increased to 234,375,922 shares, representing 23.63% of the Company’s total share capital. Also during 2008, Hisense Air-Conditioning increased its shareholding in the Company by acquiring 15,797,800 A shares in open market.

On 8 May 2009, the Company proposed the revised acquisition of white goods assets and business (the “White Goods Businesses”) of Hisense Air-Conditioning (the “Revised Acquisition”). The Revised Acquisition was approved by the CSRC on 26 March 2010. On 10 June 2010, the Company allotted 362,048,187 A shares to Hisense Air-Conditioning for the Revised Acquisition.

As at 30 June 2010, Hisense Air-Conditioning held 612,316,909 shares representing 45.22% of the Company’s total issued share capital and continued to be the major single largest shareholder of the Company.

1. GENERAL INFORMATION - Continued

The English names by which some of the companies are referred to in these financial statements represent management's best efforts in translating their Chinese names as no English names have been registered for these companies. The Group, comprising the Company and its subsidiaries, is principally engaged in the manufacture and sale of refrigerators and air-conditioners. The address of the registered office and principal place of business of the Company is No. 8 Ronggang Road, Ronggui, Shunde, Foshan, the PRC.

Items included in the financial statement of each of the group entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL AND BASIS OF PRESENTATION

Pursuant to the Revised Acquisition, the Company acquired from Hisense Air-Conditioning its White Goods Businesses which was satisfied by the issuance of 362,048,187 A shares of the Company.

Since the Company and the White Goods Businesses were all ultimately controlled by Hisense Air-Conditioning both before and after the business combination and control is not transitory, the Revised Acquisition is dealt with as a business combination under common control. The financial statements of the Group have been prepared based on the principles of merger accounting as if the business combinations under common control had occurred from the date when the White Goods Businesses first came under the control of Hisense Air-Conditioning.

The following are reconciliations of the effects arising from the Revised Acquisition on the condensed consolidated statement of financial position as at 31 December 2009 and condensed consolidated statement of comprehensive income for the six months ended 30 June 2009.

(i) The condensed consolidated statement of financial position as at 31 December 2009

	Balances as previously reported RMB'000 (Audited)	White Goods Businesses RMB'000 (Unaudited)	Elimination and adjustments RMB'000 (Unaudited)	Balances as restated RMB'000 (Unaudited)
Total non-current assets	1,958,671	1,083,396	-	3,042,067
Total current assets	2,263,654	1,085,268	(311,105)	3,037,817
Total current liabilities	4,953,698	1,192,582	(301,144)	5,845,136
Total equity	<u>(731,373)</u>	<u>976,082</u>	<u>(9,961)</u>	<u>234,748</u>

2. BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL AND BASIS OF PRESENTATION – Continued

(ii) The condensed consolidated statement of comprehensive income for the six months ended 30 June 2009:

	Balances as previously reported RMB'000 (Unaudited)	White Goods Businesses RMB'000 (Unaudited)	Elimination and adjustments RMB'000 (Unaudited)	Balances as restated RMB'000 (Unaudited)
Turnover	<u>4,435,760</u>	<u>2,754,131</u>	<u>(939,470)</u>	<u>6,250,421</u>
Profit for the period	<u>149,712</u>	<u>138,587</u>	<u>(948)</u>	<u>287,351</u>

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES

As at 30 June 2010, the Group's current liabilities exceeded its current assets by approximately RMB2,473 million in which the Group has outstanding short-term loans in the aggregate of approximately RMB1,484 million. After taking into consideration of the existing banking facilities available, operating advances from related companies, the Company's management are of the opinion that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due for the foreseeable future and therefore have prepared the condensed consolidated financial statements on a going concern basis.

These unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB").

The preparation of these condensed consolidated financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These condensed consolidated financial statements include selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 31 December 2009. These condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the IASB. IFRSs include all applicable IFRSs, IASs and related interpretations. These condensed consolidated financial statements should be read in conjunction with the 2009 annual financial statements.

These condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES – Continued

These condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements. The Group has adopted the following new and revised IFRSs that are effective for accounting periods beginning on or after 1 January 2010.

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs
IFRSs (Amendments)	Improvements to IFRSs 2009
Amendment to IAS 39	Eligible Hedged Items
Amendments to IFRS 1	Additional Exemptions for First-time Adopters
Amendments to IFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IFRS 3 (Revised)	Business Combinations
IFRIC – Interpretation 17	Distributions of Non-cash Assets to Owners

The adoption of IFRS 3 (Revised) would affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. IAS 27 (Revised) would affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions.

Except for as stated above the adoption of the new and revised IFRSs did not result in significant changes to the Group's accounting policies.

The Group has not yet applied the following revised standards, amendment or interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Improvements to IFRSs 2010 ¹
Amendments to IAS 32	Classification of Rights Issues ²
Amendments to IFRS 1	Limited Exemption from Comparative IFRS 7 for First-time Adopters ³
Amendment to IFRIC – Interpretation 14	Prepayments of a Minimum Funding Requirement ⁴
IFRIC – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments ³
IAS 24 (Revised)	Related Party Disclosures ⁴
IFRS 9	Financial Instruments ⁵

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

The directors of the Company are in the process of making an assessment of the potential impact of the application of these revised standards, amendments and interpretations and it is so far concluded that the application of these revised standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

4. SEGMENT INFORMATION

The Group manages its business by divisions which are organised by a mixture of both business lines and geography. The information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has identified the following four reportable segments: Refrigerators, Air-conditioners, Freezers and Product components and other household appliances.

Segment information for the period is set out below:

	For the six months ended 30 June 2010 (Unaudited)					
	Refrigerators	Air-conditioners	Freezers	Others	Elimination	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER						
External sales	4,429,974	3,134,937	463,822	463,659	-	8,492,392
Inter-segment sales	-	-	-	354,193	(354,193)	-
Total turnover	<u>4,429,974</u>	<u>3,134,937</u>	<u>463,822</u>	<u>817,852</u>	<u>(354,193)</u>	<u>8,492,392</u>

Inter-segment sales are charged at prevailing market rates.

RESULT						
Segment result	419,785	(134,636)	28,583	74,191	-	387,923
Unallocated corporate expenses						<u>(13,374)</u>
						374,549
Share of results of associates						3,421
Share of results of jointly controlled entities						34,357
Interest income						737
Finance costs						<u>(35,149)</u>
Profit before income tax expense						377,915
Income tax expense						<u>(16,097)</u>
Profit for the period						<u>361,818</u>

	For the six months ended 30 June 2009 (Unaudited and restated)					
	Refrigerators	Air-conditioners	Freezers	Others	Elimination	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER						
External sales	3,194,744	2,391,045	359,471	305,161	-	6,250,421
Inter-segment sales	-	-	-	182,961	(182,961)	-
Total turnover	<u>3,194,744</u>	<u>2,391,045</u>	<u>359,471</u>	<u>488,122</u>	<u>(182,961)</u>	<u>6,250,421</u>

Inter-segment sales are charged at prevailing market rates.

RESULT						
Segment result	254,337	55,061	44,626	21,776	-	375,800
Unallocated corporate expenses						<u>(28,105)</u>
						347,695
Share of results of associates						8,350
Share of results of jointly controlled entities						15,971
Interest income						2,033
Finance costs						<u>(43,158)</u>
Profit before income tax expense						330,891
Income tax expense						<u>(43,540)</u>
Profit for the period						<u>287,351</u>

5. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is stated after charging/(crediting) the following items:

	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited) (Restated)
Interest income	(737)	(2,033)
Depreciation of property, plant and equipment	149,048	133,789
Depreciation of investment properties	1,330	1,292
Amortisation of payments for leasehold land held for own use under operating leases	8,196	8,602
Amortisation of intangible assets	6,543	6,925
Loss on disposal of property, plant and equipment	1,008	7,012
Gain on waiver of debts from creditors	(40)	(1,729)
(Gain)/loss on fair value change of foreign currency forward contracts	(16,144)	6,105
Gain on partial disposal of an associate	(76,618)	-
Gain on disposal of subsidiaries	(8,128)	(1,205)
(Reversal of impairment loss)/impairment loss on trade and other receivables, net	(1,407)	3,174
Impairment loss on property, plant and equipment	-	9,168
Write down/(reversal of write down) of inventories to net realisable value	3,111	(1,495)

6. INCOME TAX EXPENSE

The amount of taxation in the consolidated statement of comprehensive income represents:

	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited) (Restated)
Current tax		
- PRC Enterprise Income Tax ("EIT")	9,656	38,076
Deferred tax	6,441	5,464
Income tax expense	<u>16,097</u>	<u>43,540</u>

The Company and certain subsidiaries have been recognised as "high technology" companies and are entitled to a preferential tax rate of 15% (2009: 15%).

In addition, other certain subsidiaries of the Company are foreign invested enterprises and are subject to a preferential tax rate of 12.5% (2009: Nil) under the transitional preferential policies of the EIT law.

Other subsidiaries of the Company, which were established and are operating in the PRC are subject to EIT at a standard rate of 25% (2009: 25%).

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits. No Hong Kong Profits tax is provided as no assessable profits have been derived from the group entities operating in Hong Kong.

7. DIVIDENDS

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Company for the six months ended 30 June 2010 of RMB343,254,000 (six months ended 30 June 2009 (restated): RMB273,064,000) and the weighted average number of shares in issue during the period of 1,354,054,750 shares (six months ended 30 June 2009 (restated): 1,354,054,750 shares).

No diluted earnings per share has been presented as there were no dilutive potential ordinary shares in issue in both periods.

9. ACQUISITION AND DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately RMB190,093,000 (six months ended 30 June 2009 (restated): RMB194,877,000) and disposed property, plant and equipment with carrying amount of approximately RMB108,557,000 (six months ended 30 June 2009 (restated): RMB23,158,000).

10. TRADE AND OTHER RECEIVABLES

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Unaudited) (Restated)
Trade receivables (Note)	1,290,613	644,996
Note receivables (Note)	479,078	113,630
Other receivables	710,401	469,557
Amounts due from Greencool Enterprise and its affiliates	72,061	72,061
Amounts due from companies suspected to be connected with Mr. Gu	213,217	213,217
Amounts due from group entities under Hisense Company Limited ("Hisense Group")	189,417	134,605
Amounts due from associates	152	-
Amounts due from jointly controlled entities	5,605	2,200
Amounts due from other related companies	7	3,459
	<u>2,960,551</u>	<u>1,653,725</u>

Note: As at 30 June 2010, included in trade and note receivables was an amount of RMB710,045,000 (2009: RMB231,440,000) being pledged for bank borrowings.

The aging analysis of trade receivables is as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Unaudited) (Restated)
Within three months	1,264,369	591,731
Three to six months	21,219	36,703
Six months to one year	14,293	40,464
Over one year	174,702	164,652
<u>Less: Provision for impairment of trade receivables</u>	<u>(183,970)</u>	<u>(188,554)</u>
	<u>1,290,613</u>	<u>644,996</u>

Normal credit term of 30 days is granted to customers. Sales are usually settled by cash on delivery for small and new customers. Trade receivables are non-interest bearing.

11. TRADE AND OTHER PAYABLES

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Unaudited) (Restated)
Trade payables	2,869,136	1,536,210
Note payables	480,500	648,000
Other payables	1,070,200	592,937
Accruals	369,052	392,033
Amounts due to Greencool Enterprise and its affiliates	13,050	13,050
Amounts due to companies suspected to be connected with Mr. Gu	114,939	114,939
Amounts due to group entities under Hisense Group	57,069	36,112
Amounts due to associates	223,986	91,134
Amounts due to jointly controlled entities	117,312	53,140
Amounts due to other related companies	24,430	17,173
	<u>5,339,674</u>	<u>3,494,728</u>

The aging analysis of trade payables is as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Unaudited) (Restated)
Within one year	2,679,188	1,373,689
One to two years	8,554	36,910
Two to three years	79,585	42,201
Over three years	101,809	83,410
	<u>2,869,136</u>	<u>1,536,210</u>

12. BORROWINGS

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Unaudited) (Restated)
Bank loans (i)	755,178	332,113
Other loans (ii)	<u>728,760</u>	<u>1,118,760</u>
Borrowings due within one year	<u><u>1,483,938</u></u>	<u><u>1,450,873</u></u>
Analysed as:		
- Secured	755,178	332,113
- Unsecured	<u>728,760</u>	<u>1,118,760</u>
	<u><u>1,483,938</u></u>	<u><u>1,450,873</u></u>

- (i) As at 30 June 2010, bank borrowings of approximately RMB755,178,000 (31 December 2009: RMB332,113,000) were secured by pledge of property, plant and equipment, investment properties, payments for leasehold land held for own use under operating leases, and trade and note receivables.

All bank borrowings carried interest at fixed rates ranging from 2.49% to 3.91% per annum (31 December 2009: 3.98% to 7.5%).

At 30 June 2010, included in bank borrowings was an amount of approximately RMB710,045,000 (31 December 2009: RMB231,440,000) in respect of notes and trade receivables factored to banks with recourse.

- (ii) The other loans represent borrowings from Hisense Finance Company Limited ("Hisense Finance"), which are guaranteed by Hisense Group and bear interest at a rate of 4.779% per annum (31 December 2009: 4.779%) and are repayable within one year.

13. SHARE CAPITAL

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Unaudited) (Restated)
Share of RMB1 each:		
459,589,808 (2009: 459,589,808) H shares	<u>459,590</u>	<u>459,590</u>
612,316,909 (2009: 234,375,922) transferable A shares that are subject to selling restrictions (note (i) and (ii))	612,317	234,376
362,048,187 deemed transferable A shares from the Revised Acquisition (ii)	-	362,048
282,148,033 (2009: 298,040,833) A shares	<u>282,148</u>	<u>298,041</u>
Total A shares	<u>894,465</u>	<u>894,465</u>
	<u>1,354,055</u>	<u>1,354,055</u>

- (i) Pursuant to the Share Reform Scheme, the selling restrictions on 234,375,922 transferable A shares expired on 28 March 2010.
- (ii) On 10 June 2010, the Company issued 362,048,187 A shares to Hisense Air-Conditioning for the acquisition of White Goods Businesses. By applying the principles of merger accounting, these A Shares has been shown as if it had always been issued. At 30 June 2010, Hisense Air-Conditioning held 612,316,909 shares of the Company representing 45.22% of the Company's total issued share capital and continued to be the major single largest shareholder of the Company. Hisense Air-Conditioning has undertaken that it will not transfer the A shares for a period of 36 months from 10 June 2010.
- (iii) Except for the currency in which dividends are paid and the restrictions as to whether the shareholders can be PRC investors or foreign investors, Domestic shares, H shares and A shares rank pari passu in all respects with each other.

14. LITIGATION SETTLEMENT

The Group is currently involved in a number of legal disputes. During the period, the Group paid RMB5,708,000 (six months ended 30 June 2009: RMB15,092,000) for litigation settlement.

15. DISPOSAL DURING THE PERIOD

- (a) On 30 January 2010, the Group disposed of its 100% shareholding in a subsidiary, Wuhu Ecan Motors Company Limited (“Wuhu Ecan”), for a cash consideration of RMB11,637,880.

Details of the identifiable assets and liabilities disposed and the sales consideration are as follows:

	RMB’000 (Unaudited)
Sales proceeds	11,638
Net book value of net assets disposed	<u>(3,473)</u>
Gain on disposal of Wuhu Ecan	<u>8,165</u>

Details of the identifiable assets and liabilities disposed of are as follows:

	RMB’000 (Unaudited)
Property, plant and equipment	12,305
Payment for leasehold land held for own use under operating lease	2,596
Trade and other receivables	9,241
Inventories	5,077
Cash and cash equivalents	54
Trade and other payables	<u>(25,800)</u>
	<u>3,473</u>

- (b) On 20 April 2010, Kelon Electrical Appliances Co., Limited, a wholly owned subsidiary of the Company, completed the procedures of voluntary winding-up in accordance with Hong Kong Companies Ordinance. A loss of approximately RMB37,000 was recognised in profit or loss as a result of the disposal.

16. CAPITAL COMMITMENTS

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Unaudited) (Restated)
Commitments for the investment in subsidiaries and jointly controlled entity:		
- Authorised but not contracted for	137,240	150,643
- Contracted for but not provided	<u>-</u>	<u>95,470</u>
	<u>137,240</u>	<u>246,113</u>
Commitments for the acquisition of property, plant and equipment in subsidiaries:		
- Contracted for but not provided	<u>58,861</u>	<u>90,940</u>
	<u>196,101</u>	<u>337,053</u>

17. CONTINGENCIES

The Group is a defendant in certain lawsuits as well as the plaintiff in other proceedings arising in the ordinary course of business. The amounts involved in the litigations against the Group relate mainly to purchases and expenditures incurred by the Group and most of them were recorded as liabilities of the Group as at the end of the reporting date. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have material adverse effect on the financial position or operating results of the Group.

18. APPROVAL OF FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 27 August 2010.

--- End of Notes to Financial Statements ---

DIFFERENCES BETWEEN IFRS AND PRC ACCOUNTING STANDARDS AND REGULATIONS (“PRC GAAP”) AS APPLICABLE TO THE GROUP

The consolidated shareholders’ equity of the Company prepared under IFRS and that prepared under PRC GAAP have the following major differences:

	30 June 2010 RMB’000 (Unaudited)	31 December 2009 RMB’000 (Unaudited) (Restated)
Equity attributable to owners of the Company as per consolidated financial statements prepared under IFRS	200,878	(142,768)
Adjustment on restructuring cost expensed	-	30,663
Adjustment on dilution loss on share reform of an associate	16,317	16,317
Adjustment on amortisation of trademark	(16,712)	(16,712)
Adjustment on acquisition of Hisense Hitachi under acquisition accounting	<u>52,610</u>	<u>(179,457)</u>
Equity attributable to owners of the Company as per consolidated financial statements prepared under PRC GAAP	<u><u>253,093</u></u>	<u><u>(291,957)</u></u>

The consolidated net profit attributable to owners of the Company prepared under IFRS and that prepared under PRC GAAP have the following major differences:

	For the six months ended 30 June 2010 RMB’000 (Unaudited)	2009 RMB’000 (Unaudited) (Restated)
Net profit attributable to owners of the Company as per consolidated financial statements prepared under IFRS	343,254	273,064
Adjustment on restructuring costs expensed	3,378	6,368
Adjustment on share of results of Hisense Hitachi under acquisition accounting	<u>(17,241)</u>	<u>(19,057)</u>
Net profit attributable to owners of the Company as per consolidated financial statements prepared under PRC GAAP	<u><u>329,391</u></u>	<u><u>260,375</u></u>

There are differences in other items in the consolidated financial statements due to differences in classification between IFRS and PRC GAAP.

INTERIM DIVIDEND

Pursuant to the resolutions passed on the meeting of the Board of the Company held on 27 August 2010, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010. No interim dividend was paid for the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW AND ANALYSIS OF OPERATIONAL STRUCTURE

During the Reporting Period, with the continuous implementation of the State policies such as “Home Appliance Subsidies for Rural Areas”, “Subsidised Trade-in of Home Appliances” and “Energy-saving Products Benefiting People Project”, the home appliance sector in the domestic market continued to grow. The international market also maintained the growth momentum achieved last year. In view of various industrial opportunities, the Company upheld its operational strategies of “enhancing product competitiveness, implementing long-term incentive mechanism, perfecting internal control system, and increasing market share” and continued to further its implementation of industrial benchmark projects. The Company reinforced its product research and development management, cost management and quality control based on themes such as “environment-friendly low carbon” and “energy-saving products benefiting people”, and perfected its business management system, to ensure the newness, quality and cost competitiveness of its products. The Company also optimised its market network, leveraged on its product strengths and increased its marketing and promotion efforts, to further expand its market share and to fully enhance its operating quality.

Meanwhile, during the Reporting Period, the Company completed its significant asset restructuring, which greatly enhanced the Company’s asset quality and financial structure, significantly strengthened its financing ability, and substantially enhanced the coverage and efficiency of its production base and marketing network. In respect of technological research and development, the Company boosted its advantages in the area of inverter and energy-saving technologies with the technologies accumulated in relation to Hisense Group’s white goods. The Company started to enjoy economies of scale from the comprehensive integration and there is significant increase in the operating scale and market share of the Company’s principal products including refrigerators and air-conditioners.

During the Reporting Period, the Company’s revenue from principal operations was RMB8,492,390,000, representing an increase of 35.87% as compared to the corresponding period in 2009. The net profit attributable to owners of the Company was RMB343,254,000, representing an increase of RMB70,190,000 as compared to the corresponding period in 2009.

Of such revenue, revenue from the refrigerator business accounted for 52.16% of the total turnover, representing an increase of 38.66% as compared to the corresponding period last year. Revenue from the air-conditioner business accounted for 36.91% of the total turnover of the Company, representing an increase of 31.11% as compared to the corresponding period last year. The remaining 10.93% of the total turnover was generated from other businesses, such as sales of freezers and product components and other household appliances.

The domestic sales business accounted for 74.92% of the total turnover of the Company, representing an increase of 32.11% as compared to the corresponding period last year. The overseas sales business accounted for 25.08% of the total turnover of the Company, representing an increase of 47.95% as compared to the corresponding period last year.

Refrigerator Business

During the Reporting Period, the refrigerator business of the Company continued to record strong growth. Upon the completion of the asset restructuring, the scale of the refrigerator business of the Company greatly expanded with remarkable economies of scale. Meanwhile, the Company continued its efforts in implementing the industrial benchmark projects and six-sigma, etc to enhance its management efficiency and operating quality, thereby achieving continuous rapid growth in the refrigerator business.

In respect of quality control, the Company exerted stricter control over its evaluation and control system on product quality indicators and the cost involved was significantly reduced as compared to the corresponding period last year.

In respect of technological innovation, the Company continued to increase its investment in the research and development of new product technologies, adhering to the development direction of staying 5% to 10% ahead of the industry and competitors in energy-saving for refrigerators. The Company also continued to further develop the industrial benchmark projects, and developed vertically in the areas of procurement enhancement and product and design standardisation platform establishment. The Company improved its process flow and increase in production efficiency. The internal management system and work flow system were continuously optimised. In respect of marketing and sales, the Company continued to strengthen the promotion of high-end products and improve the sales structure. Its penetration into the third and fourth tier markets was reinforced by establishing retail outlets and increasing sales channels such as B2C. As a result, the Company seized larger market share of domestic sales. In respect of export, on the basis of maintaining the original mode and size of export, the Company actively launched the sales of products under its own brands to exploit new markets and new clients, thereby achieving continuous significant growth in export size during the Reporting Period.

Air-conditioner Business

During the Reporting Period, the overall industry showed an upward trend. However, due to the adjustment of the State's energy efficiency policy and the "Energy-saving Products Benefiting People" policy as well as rising prices of bulk raw materials, the market prices of air-conditioners generally fell, the production costs increased, and the competition in the air-conditioner industry further intensified.

During the Reporting Period, the Company insisted on staying ahead in technology and quality, perfecting technological research and development management, and optimising product platform establishment, to maintain its industrial leading standards in the core technology of air-conditioners. The new dual-mode inverter air-conditioner products were launched and high-end products were widely recognised in the market. The Company responded actively to the adjustments in the State's energy efficiency standards, strengthened its product planning, enriched its product series that comply with the new energy efficiency standards and increased the competitiveness of its products. Systematic control over the quality of research and development, purchase and production process was exercised to the provision of new products with high quality to users. During the Reporting Period, the Company's sales revenue from the air-conditioner business increased significantly as compared to the corresponding period last year.

ANALYSIS OF FACTORS AFFECTING RESULTS

The main reasons for the significant increase in results during the Reporting Period as compared to the corresponding period last year are as follows:

1. During the Reporting Period, the Company implemented a significant asset restructuring. After completion of the restructuring, the effects of the economies of scale of the Company started to be seen. Both production and marketing network distributions were optimised, resulting in faster response to market.
2. The Company continued to fully implement the industrial benchmark projects and significantly enhanced manufacturing efficiency with remarkable economic benefits.
3. The Company strengthened its independent innovation, increased its investment in product development, and improved its product structure through product upgrades, to further increase market sales with high-end new products.
4. Product quality was further improved, and loss of quality cost was significantly reduced, increasing product competitiveness.
5. The Company recorded certain investment gains upon disposal of some marketable securities.

OUTLOOK

The management of the Company is of the view that the operating pressure of the Company in the second half of the year will be greater than that in the first half under the slack season of home appliance industry, appreciation of RMB exchange rate, and high price level of bulk raw materials. In view of the adverse situation, the Company formulated the following principal measures to maintain the growth momentum in the first half of the year, and to lay a solid foundation for operations next year:

1. Continue its deep integration and exploration of its potential to significantly increase efficiency and reduce cost;
2. Exert great efforts in optimising product structure and reinforcing high-end product strategies.
3. Continue to invest in the research and development of new products, stimulate market sales with high-quality new products, and enhance brand image and profitability.
4. Seize the opportunities of peak sales season in the international market, and strive to increase export.

LIQUIDITY AND SOURCES OF CAPITAL

Net cash generated from operating activities of the Group was approximately RMB369,961,000 for the six months ended 30 June 2010.

As at 30 June 2010, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB381,016,000 and bank loans amounting to approximately RMB1,483,938,000.

Total capital expenditures of the Group for the six months ended 30 June 2010 amounted to approximately RMB190,093,000.

TOTAL ASSETS TO TOTAL LIABILITIES RATIO

As at 30 June 2010, the total assets to total liabilities ratio of the Group was 107.63%.

TRUST DEPOSITS

As at 30 June 2010, the Group did not have any trust deposits with any financial institutions in the PRC. All of the Group's deposits have been deposited in commercial banks in the PRC and Hong Kong.

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2010, the Group had approximately 33,937 employees, mainly comprising 3,259 technical staff, 12,811 sales representatives, 569 financial staff, 1,027 administrative staff and 16,271 production staff. The Group had 7 employees with a doctorate degree, 95 with a master's degree and 2,427 with a bachelor's degree. There were 453 employees who occupied mid-level positions or above in the Group according to the national standards. In addition, the Group had to bear the costs for 5 retired employees. For the six months ended 30 June 2010, the Group's staff payroll amounted to RMB581,269,000 (corresponding period in 2009 amounting to RMB447,962,000).

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2010, the Group's property, plant and equipment (including leasehold land held for own use) and investment properties of approximately RMB489,604,000 (31 December 2009: RMB503,834,000) were pledged as security for the Group's borrowings.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

Since the majority of the Group's purchase and overseas sales during the Reporting Period were denominated in foreign currency, the Group is exposed to the risk of exchange rate fluctuation. The Group has used financial instruments such as import/export documentary bills and forward contracts for exchange rate hedging purpose.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its code for securities transactions by the Directors. After making specific enquiries to the Directors of the Board, namely, Mr. Tang Ye Guo, Mr. Zhou Xiao Tian, Ms. Yu Shu Min, Mr. Lin Lan, Ms. Liu Chun Xin, Mr. Zhang Ming, Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren, all of them confirmed that they had acted in compliance with the Model Code during the Reporting Period.

SHARE CAPITAL STRUCTURE

As at 30 June 2010, the share capital structure of the Company was as follows:

	Number of Shares	Percentage to the Total Issued Share Capital
H shares	459,589,808	33.94%
A shares	894,464,942	66.06%
Total	1,354,054,750	100.00%

TOP TEN SHAREHOLDERS

As at 30 June 2010, there were 34,657 shareholders of the Company (the “Shareholders”) in total, of which the top ten Shareholders were as follows:

Name of Shareholder	Nature of Shareholder	No. of Shares Held	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company	No. of shares held subject to trading moratorium	No. of Pledged or Frozen Shares
Qingdao Hisense Air-conditioning Company Limited	State-owned Legal Person	612,316,909	45.22%	68.46%	612,316,909	0
HKSCC Nominees Limited ^{Note}	Foreign Shareholder	457,319,208	33.77%	99.51%	0	Unknown
China Huarong Asset Management Corporation	Unknown	52,400,000	3.87%	5.86%	0	0
Huang Mu Xiu	Domestic person	6,364,591	0.47%	0.71%	0	0
Zhang Shao Wu	Domestic person	6,080,000	0.45%	0.68%	0	0
Ruan Chun Dao	Domestic person	3,550,000	0.26%	0.40%	0	0
Orient Securities – ABC Dongfanghong No.3 Collective Asset Management Scheme	Other	3,055,618	0.23%	0.34%	0	0
Huang Jun Long	Domestic person	3,050,500	0.23%	0.34%	0	0
Yi Feng	Domestic person	2,480,400	0.18%	0.28%	0	0
CCB – China Southern Shengyuan Dividend Stock Fund	Other	2,215,046	0.16%	0.25%	0	0

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

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of Tradable Shares Held	Class of Shares
HKSCC Nominees Limited	457,319,208	H shares
China Huarong Asset Management Corporation	52,400,000	RMB ordinary shares
Huang Mu Xiu	6,364,591	RMB ordinary shares
Zhang Shao Wu	6,080,000	RMB ordinary shares
Ruan Chun Dao	3,550,000	RMB ordinary shares
Orient Securities – ABC – Dongfanghong No.3 Collective Asset Management Scheme	3,055,618	RMB ordinary shares
Huang Jun Long	3,050,500	RMB ordinary shares
Yi Feng	2,480,400	RMB ordinary shares
CCB – China Southern Shengyuan Dividend Stock Fund	2,215,046	RMB ordinary shares
ChinaAMC Growth Securities Investment Fund	1,891,620	RMB ordinary shares

Note : The Company is not aware whether any of the top ten holders of tradable shares is connected with each other or any of them is a party acting in concert with any of the other nine shareholders within the meaning of the 《上市公司股東持股變動信息披露管理辦法》 (Administrative Measures for Information Disclosure of the Shareholders of Listed Companies).

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES

So far as is known to any Directors, supervisors and the chief executive of the Company, as at 30 June 2010, the following persons (other than the Directors, supervisors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”), or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited:

Name of shareholder	Capacity	Type of shares	Number of shares held	Percentage of the respective type of shares	Percentage of the total number of shares in issue
Qingdao Hisense Air-conditioning Company Limited <i>Note 1</i>	Beneficial owner	A shares	612,316,909(L)	68.46%	45.22%
Qingdao Hisense Electric Holdings Company Limited <i>Note 1</i>	Interest of controlled corporation	A shares	612,316,909(L)	68.46%	45.22%
Hisense Company Limited <i>Note 1</i>	Interest of controlled corporation	A shares	612,316,909(L)	68.46%	45.22%
China Huarong Asset Management Corporation	Beneficial owner	A shares	52,400,000(L)	5.86%	3.87%
Hillhouse Capital Management, Ltd. <i>Note 2</i>	Investment manager	H shares	33,389,000 (L)	7.26%	2.47%
Gaoling Fund, L.P. <i>Note 2</i>	Investment manager	H shares	30,656,000(L)	6.67%	2.26%
Deutsche Bank Aktiengesellschaft <i>Note 3</i>	Beneficial owner, investment manager and person having security interests in shares	H shares	28,195,141 (L)	6.13%	2.08%
			4,500,000 (S)	0.98%	0.33%

The letter “L” denotes a long position and the letter “S” denotes a short position.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES – Continued

Notes:

- 1. Qingdao Hisense Air-conditioning Company Limited is a company owned as to 93.33% by Qingdao Hisense Electric Holdings Company Limited, which is in turn owned as to 51.01% by Hisense Company Limited. By virtue of the SFO, Qingdao Hisense Electric Holdings Company Limited and Hisense Company Limited are deemed to be interested in the same parcel of A shares of which Qingdao Hisense Air-conditioning Company Limited is interested.*
- 2. Hillhouse Capital Management, Ltd. was interested in a total of 33,389,000 H shares by virtue of the SFO. Of these shares, Gaoling Fund, L.P. and Gaoling Yali Fund, L.P. were interested in 30,656,000 shares and 2,733,000 shares respectively.*
- 3. Deutsche Bank Aktiengesellschaft was interested in these H shares by virtue of the SFO, in which it was interested as to 641 shares as beneficial owner, 2,098,000 shares as investment manager and 26,096,500 shares as person having security interests. In addition, it held a short position in 4,500,000 shares by virtue of the SFO.*

Save as disclosed above, as at 30 June 2010, in so far as the Directors, supervisors and chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES

As at 30 June 2010, none of the members of the Board, supervisors and the chief executive of the Company and their respective associates held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the interim results announcement for the period ended 30 June 2010.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

PUBLICATION OF INTERIM REPORT ON THE INTERNET WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANY

All information about interim report required by Appendix 16 of the Listing Rules will be published on the Stock Exchange's website (<http://www.hkex.com.hk>) and the Company's website (<http://www.kelon.com>) in due course.

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

Foshan City, Guangdong, the PRC, 27 August 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.

Supplementary information as required by The Stock Exchange of Hong Kong Limited in relation to the Company's A shares interim results announcement (prepared in accordance with PRC GAAP)

I. 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 2009 ANNUAL REPORT :

BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD issued an auditor's report with qualified opinion for the 2009 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 2009 annual report, details of which can be found in 2009 annual results announcement published on the website of the Stock Exchange (<http://www.hkex.com.hk>) on 8 April 2010. As at the date of this announcement, there was no real progress in relation to such matters.

II. INVESTMENTS OF THE COMPANY DURING THE REPORTING PERIOD

(I) During the Reporting Period, the Company did not raise any capital and no proceeds obtained prior to the Reporting Period were used during the Reporting Period.

(II) Material Investment excluding raising of capital during the Reporting Period

- (1) On 27 April 2008, the Company and Whirlpool (Hong Kong) Limited entered into the Joint Venture Agreement for the establishment of Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd. ("Hisense-Whirlpool"). The registered capital of Hisense-Whirlpool amounted to RMB450,000,000, of which both the Company and Whirlpool (Hong Kong) Limited were to make capital contribution of RMB225,000,000 respectively, and each would have an equity of 50%. As at the end of the Reporting Period, the Company has made a capital contribution of RMB227,450,000, and all funding have been in place. As at the date of this announcement, Hisense-Whirlpool has been established and formally commenced production.
- (2) On 24 May 2010, the seventh session of the board of directors of the Company convened the eighth extraordinary meeting of 2010 by way of written resolutions and approved the "Resolution in relation to additional capital contribution to Hisense Ronshen (Yangzhou) Refrigerator Company Limited, a subsidiary of the Company". Due to development needs of Yangzhou Kelon, it is intended the profit distribution to be received by the shareholders from such company in the amount of RMB100 million be injected into the registered capital of such company in accordance with their shareholding proportion (in which the Company will inject RMB74.33 million). The said capital will be used for the construction of the new production line and modification of other production lines of Yangzhou Kelon. The board of directors agreed that the profit distribution in the amount of RMB74.33 million to be received by the Company from Yangzhou Kelon in accordance with its 74.33% shareholding shall be injected into Yangzhou Kelon for increasing its registered capital and other related purposes. Upon completion of the capital increase, the accumulated investment in the registered capital of Yangzhou Kelon by the Company amounted to RMB252.3593 million, and the shareholding proportion in such company remained unchanged at 74.33%.

III. LITIGATIONS AND ARBITRATIONS OF THE COMPANY FOR THE REPORTING PERIOD

1. General information of litigations

As of the date of this announcement, the Company and its subsidiaries were involved in 72 litigations with the amount in dispute of RMB197,477,900.

Among the aforementioned litigations, the Company and its subsidiaries acted as plaintiffs in 12 cases with the total amount in dispute of RMB141,360,800 and as defendants in 60 cases involving the total amount in dispute of RMB56,117,100.

Among the outstanding litigations involving the Company and its subsidiaries, there were 2 material litigations with a claimed amount exceeding RMB10,000,000 each (with the total amount in dispute of RMB125,645,000) and 70 litigations with a claimed amount of less than RMB10,000,000 each (with the total amount in dispute of RMB71,832,900).

2. New litigations

From 1 January 2010 to the date of this announcement, the Company and its subsidiaries were involved in 17 new litigations with the total amount in dispute of RMB8,429,100.

The Company and its subsidiaries acted as plaintiff in 1 case with an amount in dispute of RMB10,400. The Company and its subsidiaries acted as defendants in 16 cases with the total amount in dispute of RMB8,418,700, among which 6 cases with the total amount in dispute of RMB985,600 were closed.

All of the aforementioned new litigations involving the Company and its subsidiaries were litigations with a claim amount of less than RMB10,000,000.

3. Particulars of completed litigations

From 1 January 2010 to the date of this announcement, the Company and its subsidiaries were involved in 41 litigations of which final judgments or rulings have been given with a total claim amount of RMB9,425,800.

The Company and its subsidiaries acted as plaintiffs in 2 cases with a total claim amount of RMB174,900 and as defendants in 39 cases involving a total claim amount of RMB9,250,900.

III. LITIGATIONS AND ARBITRATIONS OF THE COMPANY FOR THE REPORTING PERIOD – Continued

4. Development of material litigations initiated in prior years which are subsisting or are unsettled with the amount in dispute of more than RMB10 million each:

Unit: RMB

No.	Name of Case	Amount in Dispute	Particulars	Development
1	Default in payment	25,660,900	Litigation initiated by the Company against Shangqiu Kelon for the repayment of RMB21,590,900 for goods sold and interest of RMB4,070,000; and that all litigation costs be paid by the defendant.	A writ of the Intermediate Court of Foshan was received on 15 July 2007 and a court session was held on 15 August 2007. The Company lodged an application to the Intermediate Court of Foshan to freeze its properties (Civil Ruling Fo Zhong Fa Li Bao Zi No. 262 (2007)). The judgment has taken effect and is being executed.
2	Default in payment	99,984,100	Litigation initiated by Ronshen Refrigerator against Xi'an Kelon for the settlement of payment for goods sold and interest.	Subsequent to the dismissal of the case by the Intermediate Court of Foshan on grounds of lack of facts and legal basis, Ronshen Refrigerator lodged an appeal to the Guangdong High Court. Civil Ruling Fo Zhong Fa Min Er Chu Zi No. 88 (2007) of the Intermediate Court of Foshan was dismissed by the Guangdong High Court and the case was remanded to the Intermediate Court of Foshan.

5. Litigation by medium and minority shareholders

The Intermediate People's Court of Guangzhou Municipal has accepted 202 cases in total for litigations initiated by medium and minority shareholders against the Company for false statements made in prior years, with the total target claim amount being RMB29,223,700. As at the date of this announcement, 149 cases have been resolved by mediation with the amount of settlement being RMB15,946,100; judgment was made in respect of 1 case pursuant to which the Company was responsible to make a compensation of RMB31,399; 15 cases were withdrawn; 33 cases were dismissed by the Court; 4 cases were rejected by the Court. All the cases have been closed.

IV. ACQUISITIONS AND DISPOSALS OF ASSETS AND MERGERS AND TAKEOVERS BY THE COMPANY DURING THE REPORTING PERIOD

1. During the Reporting Period, the Company acquired from its substantial shareholder, Hisense Air-Conditioning, 100% equity interests in Hisense (Shandong) Air-Conditioning Co., Ltd., 51% equity interests in Hisense (Zhejiang) Air-Condition Co., Ltd., 55% equity interests in Hisense (Beijing) Electric Co., Ltd. (including 60% equity interests in Hisense (Nanjing) Electric Co., Ltd. held by Hisense (Beijing) Electric Co., Ltd.), 49% equity interests in Qingdao Hisense Hitachi Air Conditioning Co., Ltd., 78.7% equity interests in Qingdao Hisense Mould Co., Ltd. and the white goods assets of Qingdao Hisense Marketing Co., Ltd. through non-public issue of shares (A Shares). On 26 March 2010, the Company received from the CSRC the following approvals: 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 of the Acquisition Report of Hisense Kelon Electrical Holdings Company Limited and the Waiver of its General Offer Obligation”. On 19 May 2010, BDO China Li Xin Da Hua CPA Company Limited issued the “Capital Verification Report” (Li Xin Da Hua Yan Zi No.[2010]039). According to such capital verification report, as at 19 May 2010, the Company has received additional registered capital (share capital) of RMB362,048,187 in total from Hisense Air-Conditioning, all contributed in the form of the subject assets. On 21 May 2010, the Company has completed the equity registration procedures with the Shenzhen branch of China Securities Depository and Clearing Corporation Limited in respect of the equity interests of this non-public share issue to Hisense Air-Conditioning, and the Shenzhen branch of China Securities Depository and Clearing Corporation Limited has issued the “Confirmation of Securities Registration”. On 10 June 2010, the 362,048,187 A shares issued under this share issue were listed.
2. On 29 January 2010, the seventh session of the board of directors of the Company convened the first extraordinary meeting of 2010 by way of written resolutions and approved the “Equity Transfer Agreement” between the Company and a third party, pursuant to which it was agreed that the Company’s 100% shareholding in Wuhu Ecan Motors Company Limited would be transferred to the third party at a consideration of RMB12 million, and the two parties would share the profit and loss during the transition period of the transfer. After this equity transfer, the Company will no longer hold any shareholding in Wuhu Ecan Motors Company Limited. As at the date of this announcement, the procedures for change in shareholding have been completed.
3. In order to better leverage on the shares of Huayi Compressor held by the Company, the seventh session of the board of directors of the Company convened a meeting on 23 March 2010, at which the management of the Company was authorized to dispose of not more than 6 million shares of Huayi Compressor held by it at an appropriate time and within a reasonable price range. On 4 June 2010, the board of directors of the Company was authorized to dispose of not more than 50 million shares of Huayi Compressor held by the Company at the 2009 annual general meeting upon consideration.

V. SECURITIES INVESTMENTS DURING THE REPORTING PERIOD

(I) The Company has not made any securities investments during the Reporting Period

(II) Shareholdings in other listed companies held by the Company

Unit: RMB

Stock code	Stock abbreviation	Initial investment amount	Shareholding percentage in the Company	Carrying amount at the end of the period	Profit and loss for the Reporting Period	Changes in ownership interests for the Reporting Period
000404	Huayi Compressor	100,787,455.79	15.60%	101,831,323.83	3,350,748.94	(13,518.79)

In order to better leverage on the shares of Huayi Compressor held by it, the Company disposed of part of the shares of Huayi Compressor held by it in a total of 8,652,968 shares during the Reporting Period. The corresponding cost of long-term equity investment of RMB16,710,000 was released and an investment gain of RMB76,620,000 was recognised.

VI. PARTICULARS OF MATERIAL CONNECTED TRANSACTIONS OF THE COMPANY DURING THE REPORTING PERIOD

1. Connected transactions in relation to ordinary operations

During the Reporting Period, the Company and connected parties such as Hisense Group and its relevant subsidiaries, Huayi Compressor and its subsidiaries, Hisense-Whirlpool and Hisense Finance, entered into certain connected transactions, details of which are as follows:

Unit: RMB

Connected parties	Type of connected transaction	Particulars of transaction	Pricing principle of connected transaction	Sale of products and provision of services to connected parties		Purchase of products and receipt of services from connected parties	
				Transaction amount	Percentage of total amount of similar transactions	Transaction amount	Percentage of total amount of similar transactions
Hisense Electric	Sale	Finished goods	Agreed price	450,810.36	0.00%		
Hisense Electronic Equipment	Sale	Finished goods	Agreed price	1,058,064.00	0.01%		
Hisense International Marketing	Sale	Finished goods	Agreed price	125,985,461.07	1.32%		
Hisense Hitachi	Sale	Finished goods	Agreed price	6,074,340.00	0.06%		
Savor Service	Sale	Finished goods	Agreed price	184,471.89	0.00%		
Hisense International	Sale	Finished goods	Agreed price	417,500,990.90	4.39%		
Sub-total of sale of finished goods				551,254,138.22	5.79%		
Hisense -Whirlpool	Sale	Materials	Agreed price	1,707,831.57	0.02%		
Hisense Electric	Sale	Materials	Agreed price	514,762.92	0.01%		
Hisense Hitachi	Sale	Materials	Agreed price	1,326.00	0.00%		
Hisense Import & Export	Sale	Materials	Agreed price	30,309.21	0.00%		
Hisense International Marketing	Sale	Materials	Agreed price	836,594.03	0.01%		
Hisense International	Sale	Materials	Agreed price	268,874.30	0.00%		
Hisense Communication	Sale	Materials	Agreed price	56,926.26	0.00%		
Zibo Hisense	Sale	Materials	Agreed price	9,423.46	0.00%		
Sub-total of sale of materials				3,426,047.75	0.04%		

VI. PARTICULARS OF MATERIAL CONNECTED TRANSACTIONS OF THE COMPANY DURING THE REPORTING PERIOD - Continued

Connected parties	Type of connected transaction	Particulars of transaction	Pricing principle of connected transaction	Sale of products and provision of services to connected parties		Purchase of products and receipt of services from connected parties	
				Transaction amount	Percentage of total amount of similar transactions	Transaction amount	Percentage of total amount of similar transactions
Hisense Hitachi	Sale	Moulds	Market price	146,000.00	0.00%		
Hisense Import & Export	Sale	Moulds	Market price	59,303,777.01	0.62%		
Hisense Electric	Sale	Moulds	Market price	36,040,045.14	0.38%		
Hisense -Whirlpool	Sale	Moulds	Market price	973,000.00	0.01%		
Sub-total of sale of moulds				96,462,822.15	1.01%		
Attend Logistics	Provision of services		Agreed price	23,321.30	0.00%		
Hisense Multimedia	Provision of services		Agreed price	150,000.00	0.00%		
Savor Service	Provision of services		Agreed price	215,366.87	0.00%		
Hisense Whirlpool	Provision of services		Agreed price	481,800.00	0.01%		
Sub-total of provision of services				870,488.17	0.01%		
Hisense -Whirlpool	Purchase	Finished goods	Agreed price			62,669,169.98	0.79%
Hisense Hitachi	Purchase	Finished goods	Agreed price			144,554.07	0.00%
Sub-total of purchase of finished goods						62,813,724.05	0.79%
Huayi Compressor	Purchase	Materials	Agreed price			52,830,496.72	0.67%
Jiaxibeila	Purchase	Materials	Agreed price			280,329,272.71	3.53%
Embraco	Purchase	Materials	Agreed price			38,209,089.96	0.48%
Hisense Electric	Purchase	Materials	Agreed price			1,436,092.46	0.02%
Hisense Import & Export	Purchase	Materials	Agreed price			944,942.89	0.01%
Hisense Hitachi	Purchase	Materials	Agreed price			1,069,394.60	0.01%
Hisense -Whirlpool	Purchase	Materials	Agreed price			24,634,113.94	0.31%
Zibo Hisense	Purchase	Materials	Agreed price			1,887,472.96	0.02%

VI. PARTICULARS OF MATERIAL CONNECTED TRANSACTIONS OF THE COMPANY DURING THE REPORTING PERIOD - Continued

Connected parties	Type of connected transaction	Particulars of transaction	Pricing principle of connected transaction	Sale of products and provision of services to connected parties		Purchase of products and receipt of services from connected parties	
				Transaction amount	Percentage of total amount of similar transactions	Transaction amount	Percentage of total amount of similar transactions
Hisense Communication	Purchase	Materials	Agreed price			179,319.04	0.00%
Hisense Hong Kong	Purchase	Materials	Agreed price			68,390,222.48	0.86%
Sub-total of purchase of materials						469,910,417.76	5.92%
Savor Service	Receipt of services		Agreed price			5,063,571.08	0.06%
Qingdao Technology	Receipt of services		Agreed price			3,152,724.80	0.04%
Hisense Import & Export	Receipt of services		Agreed price			172,627.78	0.00%
Hisense Property	Receipt of services		Agreed price			148,663.17	0.00%
Snowflake	Receipt of services		Agreed price			10,556,749.25	0.13%
Sub-total of receipt of services						19,094,336.08	0.24%
Hisense Finance	Outstanding loans					728,760,000	
Hisense Finance	Payment of interests on loans					24,328,700	

VII. DURING THE REPORTING PERIOD, THE FOLLOWING EXTERNAL GUARANTEES WERE GIVEN OR SUBSISTED FROM THE PREVIOUS REPORTING PERIOD BY THE COMPANY.

Unit: RMB (in ten thousand)

External guarantee given by the Company (excluding guarantees for its subsidiaries)						
The guaranteed party	Date (the day of signing the agreement)	Guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	Whether in favour of any connected party (yes or no)
NIL	-	-	-	-	-	-
Total guaranteed amount during the Reporting Period				-		
Total balance of the guaranteed amount at the end of the Reporting Period (A)				-		
Guarantees given by the Company for its subsidiaries						
Total guaranteed amount for subsidiaries during the Reporting Period				53,179.84		
Total balance of the guaranteed amount for subsidiaries at the end of the Reporting Period (B)				13,445.02		
Total guarantee given by the Company (including the guarantees for subsidiaries)						
Total guaranteed amount (A+B)				13,445.02		
Percentage of the total guaranteed amount to absolute net assets of the Company				53.12%		
Including:						
Guaranteed amount provided to shareholders, beneficial controlling parties and their connected parties (C)				-		
Guaranteed amount provided directly or indirectly to the guaranteed party with gearing ratio over 70% (D)				1,502.40		
Total guaranteed amount over 50% of the net asset (E)				790.44		
Sum of the above three guarantees (C+D+E)				2,292.84		

VIII. FUNDS EMBEZZLED FOR NON-OPERATING PURPOSES AND THE SETTLEMENT PROGRESS.

1. Amount of funds embezzled for non-operating purposes in the beginning of and at the end of the Reporting Period

Unit: RMB (in ten thousand)

Outstanding amount of funds of the Company embezzled by a former substantial shareholder, its subsidiaries, the specific third parties and other related parties for non-operating purpose		Total amount recovered during the Reporting Period	Settlement Method	Amount recovered	Time of Settlement (Month)
1 January 2010	30 June 2010				
65,514.95	65,514.95	-	-	-	-

As at the end of the Reporting Period, the total funds of the Group 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 associated companies (the “Greencool Companies”) and the specific third parties and the remaining balance of RMB4,455,400 was embezzled by other related parties.

2. Explanation from the Board on the development of the Company’s claims for all embezzled amounts during the Reporting Period:

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 rejected, involving an amount of RMB12.2894 million, and the Company has not yet lodged an appeal for the case; for 1 case, judgment of first instance has been received 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 judgment from the Higher Court of Guangdong Province that 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 to the Intermediate Court of Foshan for the execution of the judgments that have come into force.

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

IX、BDO Limited“德豪会计师事务所有限公司”, the auditor outside the PRC, was renamed as BDO Limited “香港立信德豪会计师事务所有限公司”.

DEFINITIONS

In the announcement,, unless the context requires otherwise, the following terms or expressions shall have the following meanings:

“Company”, “the Company”	Hisense Kelon Electrical Holdings Company Limited
“Hisense Air-Conditioning”	Qingdao Hisense Air-conditioning Company Limited
“Hisense Electric”	Hisense Electric Co., Ltd.
“Hisense Group”	Hisense Company Limited
“Hisense Electronic Holdings”	Qingdao Hisense Electronic Holdings Co., Ltd.
“Hisense Electronic Equipment”	Qingdao Hisense Electronic Equipment Co., Ltd.
“Hisense International Marketing”	Qingdao Hisense International Marketing Co., Ltd.
“Hisense Import & Export”	Hisense (Qingdao) Import & Export Co., Ltd.
“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.
“Hisense International”	Hisense International (HK) Co., Ltd.
“Savor Service”	Savor Household Electrical Appliance Service Industry Co., Ltd.
“Hisense-Whirlpool”	Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd.
“Hisense Communication”	Qingdao Hisense Communication Co., Ltd.
“Zibo Hisense”	Zibo Hisense Electronic Co., Ltd.
“Hisense Multimedia”	Guangdong Hisense Multimedia Company Limited.
“Hisense Hong Kong”	Hisense (HK) Co., Ltd.
“Qingdao Technology”	Qingdao Hisense Electronic Technology Service Co., Ltd.
“Hisense Property”	Qingdao Hisense Property Corporate Co., Ltd.
“Hisense Finance”	Hisense Finance Company Limited
“Attend Logistics”	Attend Logistics Co., Limited
“Embraco”	Beijing Embraco Snowflake Compressor Co., Ltd.
“Snowflake”	Beijing Snowflake Electrical Appliance Group Corporation
“Guangdong Greencool”	Guangdong Greencool Enterprise Development Company Limited
“Greencool Companies”	Guangdong Greencool and other related parties
“Yangzhou Kelon”	Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.
“Xi’an Kelon”	Xi’an Kelon Cooling Co., Ltd.
“Shangqiu Kelon”	Shangqiu Kelon Electrical Company Limited

DEFINITIONS - Continued

“Ronshen Refrigerator ”	Hisense Ronshen(Guangdong) Refrigerator Co Ltd.
“Huayi Compressor”	Huayi Compressor Company Limited
“Jiaxibeila”	Jiaxibeila Compressor Company Limited
“Foshan Intermediate Court”	Intermediate People’s Court of Foshan City
“CSRC”	China Securities Regulatory Commission
“Shenzhen Stock Exchange”	Shenzhen Stock Exchange
“RMB”	Renminbi
“Stock Exchange”	The Stock Exchange of Hong Kong Limited