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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 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the “Board”) of Hisense Kelon Electrical Holdings Company Limited (the “Company”) hereby announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2011 (the “Reporting Period”) together with comparative figures for the corresponding period in 2010 (prepared in accordance with China Accounting Standards for Business Enterprises). This interim results announcement has been reviewed by the Company’s Audit Committee.

The Board of Directors of the Company announced on 13 July 2011 that the Company intends to prepare only one set of financial statements for any financial period commencing on or after 1 January 2011 under China Accounting Standards for Business Enterprises (“China Accounting Standards”) in light of the acceptance by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) of matters in relation to the adoption of Mainland accounting and auditing standards and the appointment of Mainland audit firms. The following financial information is prepared in accordance with China Accounting Standards:

FINANCIAL INFORMATION

(Unless otherwise specified, all amounts are denominated in RMB)

Consolidated Balance Sheet

Assets	Note	30 June 2011	31 December 2010
Current assets			
Cash and cash equivalents		321,731,706.56	429,182,477.81
Financial assets held for trading		15,486,182.72	28,150,388.56
Notes receivable		756,466,015.18	385,982,498.33
Accounts receivable	2	1,980,721,708.88	1,354,284,204.38

Prepayments	309,732,053.06	358,298,915.72
Other receivables	445,080,918.52	383,163,557.93
Inventories	2,074,255,461.63	1,903,101,598.65
Other current assets	6,458,556.11	6,554,042.83
Total current assets	5,909,932,602.66	4,848,717,684.21
Non-current assets		
Long-term equity investments	564,722,692.44	570,013,226.88
Investment properties	39,244,815.10	40,599,871.77
Fixed assets	1,842,005,941.64	1,852,388,292.88
Construction in progress	213,303,976.32	166,835,913.79
Disposal of fixed assets	231,676.08	134,981.60
Intangible assets	528,976,540.75	533,088,958.15
Long-term deferred expenses	785,668.58	296,766.66
Deferred income tax assets	5,894,309.76	6,893,223.90
Total non-current assets	3,195,165,620.67	3,170,251,235.63
Total assets	9,105,098,223.33	8,018,968,919.84
Liabilities and equity		
Current liabilities		
Short-term borrowings	1,231,033,498.27	1,101,261,835.85
Financial liabilities held for trading	-	5,960,727.44
Notes payable	412,736,800.00	810,263,300.00
Accounts payable	3,471,428,026.12	2,385,166,608.32
Advances from customers	578,779,893.31	950,206,943.91
Employee remunerations payable	197,270,333.19	185,256,825.01
Taxes payable	(221,947,239.65)	(209,997,869.00)
Interests payable	1,175,140.00	2,065,066.74
Dividends payable	7,098,911.85	3,208,911.85
Other payables	1,385,225,747.71	1,109,408,607.20
Other current liabilities	540,172,131.78	483,383,088.08
Total current liabilities	7,602,973,242.58	6,826,184,045.40
Non-current liabilities		
Provisions	275,243,972.27	246,800,154.13
Other non-current liabilities	41,206,492.13	35,036,851.38
Total non-current liabilities	316,450,464.40	281,837,005.51
Total liabilities Equity	7,919,423,706.98	7,108,021,050.91

Share capital	1,354,054,750.00	1,354,054,750.00
Capital reserve	2,050,701,299.23	2,053,683,491.30
Surplus reserve	145,189,526.48	145,189,526.48
Accumulated losses	(2,758,333,085.09)	(3,044,171,810.12)
Foreign exchange reserve	33,455,619.51	32,485,452.41
Equity attributable to equity holders of the Company	825,068,110.13	541,241,410.07
Minority interests	360,606,406.22	369,706,458.86
Total equity	1,185,674,516.35	910,947,868.93
Total liabilities and equity	9,105,098,223.33	8,018,968,919.84

Consolidated Income Statement

Items	Notes	Six months ended 30 June 2011	Six months ended 30 June 2010
I. Total operating revenue	4	10,734,908,708.73	9,517,014,559.29
Including: Operating revenue	4	10,734,908,708.73	9,517,014,559.29
II. Total operating costs		10,652,649,458.81	9,410,941,959.52
Including: Operating costs	4	8,910,556,396.46	7,934,695,517.30
Business taxes and surcharges		26,603,072.03	10,887,638.98
Selling expenses		1,399,644,377.22	1,177,640,351.63
Administrative expenses		275,034,094.98	233,332,861.45
Financial expenses		28,526,360.55	52,681,636.69
Impairment loss on assets		12,285,157.57	1,703,953.47
Add: Gains on fair value change		(6,703,478.40)	15,370,486.55
Investment profit		99,396,120.11	108,563,239.76
Including: Investment Profit from associates and joint ventures		36,258,657.14	20,535,484.78
III. Profits from operations		174,951,891.63	230,006,326.08
Add: Non-operating revenue		126,379,617.61	145,124,377.66
Less: Non-operating expenses		8,964,553.03	11,078,351.13
Including: Loss on disposal of non-current assets		2,641,645.91	2,283,221.27
IV. Total profits		292,366,956.21	364,052,352.61
Less: Income tax expense	5	7,688,210.00	16,097,373.91
V. Net profits		284,678,746.21	347,954,978.70

Net profits attributable to equity holders of the Company		285,838,725.03	329,391,467.91
Minority interests		(1,159,978.82)	18,563,510.79
VI. Earnings per share			
(I) Basic earnings per share	6	0.2111	0.2481
(II) Diluted earnings per share	6	0.2111	0.2481
VII. Other comprehensive income		(2,012,024.97)	1,175,465.49
VIII. Total comprehensive income		282,666,721.24	349,130,444.19
Total comprehensive income attributable to owners of the Company		283,826,700.06	330,566,933.40
Total comprehensive income attributable to minority interests		(1,159,978.82)	18,563,510.79

Notes

1. Basis of preparation of financial statements and accounting policies

The financial statements have been prepared in accordance with the requirements of “Accounting Standards for Business Enterprises-Basic Standard” and 38 specific accounting standards issued by the Ministry of Finance (MOF) on 15 February 2006, and application guidance, interpretations and other relevant regulations to Accounting Standards for Business Enterprises issued subsequently (hereinafter referred to as “Accounting Standards for Business Enterprises” or “CAS”), and the disclosure requirements of Standards for Content and Format of Information Disclosure of Companies Issuing Securities Publicly No.15 – General Provisions for Financial Reports (2010 Amendment) issued by the China Securities Regulatory Commission.

2. Accounts receivable

	30 June 2011	31 December 2010
Accounts receivable	2,161,495,932.48	1,536,250,712.53
Less: Provisions for bad debts	180,774,223.60	181,966,508.15
	1,980,721,708.88	1,354,284,204.38

Normal credit term of 30 days is granted to customers. Generally, sales are settled by cash on delivery for smaller new customers. Accounts receivable are non-interest bearing.

The aging analysis of accounts receivable is as follows:

	30 June 2011	31 December 2010
Within three months	1,957,858,044.41	1,336,582,155.73
Three to six months	7,039,302.07	1,843,470.19

Six months to one year	1,130,501.94	159,767.69
Over one year	195,468,084.06	197,665,318.92
	<u>2,161,495,932.48</u>	<u>1,536,250,712.53</u>

3. Accounts payables

The aging analysis of accounts payables is as follows:

	30 June 2011	31 December 2010
Within one year (inclusive)	3,333,153,596.55	2,242,016,720.89
One to two years (inclusive)	21,824,830.29	6,249,890.07
Two to three years (inclusive)	11,756,338.62	56,508,756.39
Over three years	<u>104,693,260.66</u>	<u>80,391,240.97</u>
	<u>3,471,428,026.12</u>	<u>2,385,166,608.32</u>

4. Operating revenue and operating costs

	January to June 2011	January to June 2010
Revenue from principal operations	9,681,132,355.15	8,503,280,399.20
Revenue from other operations	<u>1,053,776,353.58</u>	<u>1,013,734,160.09</u>
	<u>10,734,908,708.73</u>	<u>9,517,014,559.29</u>
Costs of principal operations	7,915,305,150.41	6,961,920,551.78
Costs of other operations	<u>995,251,246.05</u>	<u>972,774,965.52</u>
	<u>8,910,556,396.46</u>	<u>7,934,695,517.30</u>

The principal operations analyzed by products are as follows:

	January to June 2011		January to June 2010	
	Operating revenue from principal operations	Operating costs of principal operations	Operating revenue from principal operations	Operating costs of principal operations
1. Refrigerators	4,395,137,626.65	3,422,851,222.02	4,434,832,971.66	3,377,203,986.32
2. Air conditioners	4,269,848,859.91	3,674,644,718.46	3,139,564,566.31	2,857,652,671.20
3. Freezers	435,819,728.51	376,472,763.94	463,822,374.58	382,361,257.92
4. Small household appliances and others	580,326,140.08	441,336,445.99	465,060,486.65	344,702,636.34
	<u>9,681,132,355.15</u>	<u>7,915,305,150.41</u>	<u>8,503,280,399.20</u>	<u>6,961,920,551.78</u>

5. Income tax expense

	January to June 2011	January to June 2010
Current income tax expense	6,689,295.86	9,655,919.01
Deferred income tax expense	998,914.14	6,441,454.90
	<u>7,688,210.00</u>	<u>16,097,373.91</u>

(1) PRC Enterprise Income Tax (EIT)

The Company and certain subsidiaries have been recognised as “high technology enterprises” and are entitled to a preferential tax rate of 15%. In addition, certain subsidiaries of the Company are foreign-investment enterprises and are subject to a preferential tax rate of 12.5% under the transitional preferential policies of the EIT Law. Other subsidiaries of the Company established and operating in the PRC are subject to EIT at a standard rate of 25%.

(2) Hong Kong Profits Tax

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

6. Earnings per share

Basic earnings per share is calculated as follows:

	January to June 2011	January to June 2010
Profit or loss attributable to ordinary shareholders of the Company	285,838,725.03	329,391,467.91
Weighted average of outstanding ordinary shares during the period	1,354,054,750.00	1,327,632,115.00
Basic earnings per share	<u>0.2111</u>	<u>0.2481</u>

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

INTERIM DIVIDEND

Pursuant to the resolution passed at the meeting of the Board of the Company held on 24 August 2011, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011. No interim dividend was paid for the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

I. Overall operation

During the Reporting Period, the domestic refrigerator market has experienced a significant slow down in the growth momentum, whereas the air-conditioner market has maintained a relatively rapid growth and the overall export of home appliances has been stable. However, the operation of companies in the industry was exposed to more difficult macro environment, which was characterized by increasing costs of raw materials and human resources, appreciation of Renminbi and tightening monetary policies that have repressed the profitability of companies. Upholding the operating strategy of “improving the human resources structure, reinforcing technological innovations, reforming marketing model, enhancing the efficiency per head, accelerating the progress of internationalization” devised at the beginning of the year, the Company has successfully realized further enhancement in its operating scale despite the unfavorable macro-economic environment. During the Reporting Period, the Company’s revenue from principal operation was RMB9.681 billion, representing an increase of 13.85% as compared to the corresponding period last year. The net profit attributable to the equity holders of the parent company was RMB286 million, representing an decrease of 13.22% as compared to the corresponding period last year, and the net profit attributable to the equity holders of the parent company (after deduction of extraordinary gains and losses) was RMB230 million, representing an increase of 25.94% as compared to the corresponding period last year.

During the Reporting Period, the Group’s revenue from the refrigerator business amounted to RMB4.395 billion and accounted for 45.40% of the total turnover of the Company, representing an decrease of 0.9% as compared to the corresponding period last year, and the revenue from the air-conditioner business amounted to RMB4.269 billion and accounted for 44.10% of the total turnover of the Company, representing an increase of 36.00% as compared to the corresponding period last year. The operating revenue from the domestic sales business was RMB6.838 billion, representing an increase of 12.91% as compared to the corresponding period last year. The operating revenue from the overseas sales business was RMB2.843 billion, representing an increase of 16.19% as compared to the corresponding period last year.

Refrigerator business

In view of the slowing down in the overall demand in the refrigerator market as well as pressure from increasing costs and price competition, the Company has proactively adjusted its product structure by launching new high-end refrigerators such as French-style multi-door and European-style three-door refrigerators. According to the statistics of China Market Monitor Co., LTD (CMM), during the Reporting Period, the growth in the scale of

Ronshen refrigerators was above the industry average and the market share of the refrigerator products of the Company was still among the forefront of the industry. Meanwhile, through the six-sigma project, the Company enhanced the quality of refrigerator products and improved product quality costs in pursuance of excellence in quality. At “The Third Summit of Refrigerator Industry of the PRC”, the Company was awarded with the “Outstanding Quality in the Refrigerator Industry of the year 2010 to 2011”.

In addition, the Company has been devoted to expanding the export business for freezers and the export of freezers has recorded an increase of over 30% during the Reporting Period as compared to the corresponding period last year.

Air-conditioner business

Leveraging on the leading edges in terms of core inverter air-conditioning technologies built throughout the years, the Company has proactively adjusted its product structure and timely launched differentiated and cost-competitive products such as the “Lotus in the Moonlight” series of dual-mode, chlorine-free, high-end, inverter air-conditioners (荷塘月色雙模無氟高端變頻空調). With more than 70% growth in the scale of Hisense’s inverter air-conditioners, the profit margins of inverter air-conditioners had further increased, improving the profit margins and profitability for air-conditioner business. Up to now, the Company has already obtained over 400 patents for its inverter and other technologies and over 120 registration items for software. In addition to the self-developed comprehensive inverter air-conditioning solutions, it has also a number of core technologies such as 360-degree full DC inverter technology, IDM dual-mode control, dehumidification at constant temperature and electronic expansion control valve. At “The 2011 (Fourth) Air-Conditioner Industry Annual Conference of the PRC”, with the Company’s advantages in inverter technology innovations and market influence, the Company has won the major award of “2011 Leading Inverter Air-conditioner Brand of the PRC” .

Outlook

In the second half of 2011, the Company will be exposed to even higher operating pressure under the unfavorable backdrop of withdrawal of State’s industrial subsidy policies, continuous increase in prices of raw materials and costs of human resources, appreciation of Renminbi and the tightening of monetary policies. In the second half of 2011, the Company will continue to uphold the operating strategy devised at the beginning of the year and adhere to implementing the Group’s “Strategy of Intelligence Enhancement” which is centered on the differentiation of products and enhancement of user experience through strengthening of technological innovations; highlighting its high-end products such as large capacity refrigerators and inverter air-conditioners so as to enhance the competitiveness of the products and the brand; incessantly improving the sales structure for realization of accelerated growth of scale; reforming the marketing model to increase the professionalism of the marketing force, accelerate the construction pace of specialty shops in the third- and four-tier markets, and further speed up the deepening of the focuses of sales channels; controlling the costs strictly so as to achieve further cost reduction; accelerating the capital turnaround and reducing capital hold-up, improving the efficiency through process optimization, with the objective to ameliorate the operational quality and profitability of the Company gradually.

II. Analysis to principal financials during the Reporting Period

(i) Analysis of revenue and profit from principal operations of the Company

Revenue, costs and gross profit margin of principal operations by product

Unit: RMB

Product	Operating revenue	Operating costs	Gross profit margin	Increase or decrease in operating revenue as compared to same period last year (%)	Increase or decrease in operating costs as compared to same period last year (%)	Increase or decrease in gross profit margin as compared to same period last year (%)
Refrigerators	4,395,137,626.65	3,422,851,222.02	22.12%	(0.90)	1.35	(1.73)
Air-conditioners	4,269,848,859.91	3,674,644,718.46	13.94%	36.00	28.59	4.96
Others	1,016,145,868.59	817,809,209.92	19.52%	9.39	12.48	(2.21)
Total	9,681,132,355.15	7,915,305,150.40	18.24%	13.85	13.69	0.11

Revenue from principal operations by geographic location

Unit: RMB

Geographic location	Operating revenue	Increase or decrease in operating revenue as compared to same period last year (%)
Domestic market	6,837,559,628.68	12.91
Overseas market	2,843,572,726.47	16.19
Total	9,681,132,355.15	13.85

(ii) During the Reporting Period, there were no significant changes in the principal operations of the Company and their structure, profit components and profitability of principal operations as compared to same period last year.

(iii) Analysis of changes in major statement items in the Reporting Period

Unit: RMB

Statement item	Closing balance (or amount for the period)	Opening balance (or amount for the corresponding period last year)	Percentage change %	Reason for change
Financial assets held for trading	15,486,182.72	28,150,388.56	(44.99)	Transfer out of forward contracts upon expiry
Notes receivable	756,466,015.18	385,982,498.33	95.98	Increase in line with growth in sales
Accounts receivables	1,980,721,708.88	1,354,284,204.38	46.26	Increase in line with growth in sales
Notes payable	412,736,800.00	810,263,300.00	(49.06)	Notes due for repayment

Accounts payables	3,471,428,026.12	2,385,166,608.32	45.54	Increased in line with growth in sales
Advances from customers	578,779,893.31	950,206,943.91	(39.09)	Decrease in receipts in advance from distributors with increase in goods picked up by distributors
Business taxes and surcharges	26,603,072.03	10,887,638.98	144.34	Mainly increase in urban construction and maintenance tax and education surcharge
Finance costs	28,526,360.55	52,681,636.69	(45.85)	Decrease in interest expenses with improvement in financing structure
Tax refund received	314,179,476.08	220,238,169.98	42.65	Mainly increase in export tax refund received
Cash paid for purchase of goods and procurement of services	2,977,160,818.86	1,837,824,006.33	61.99	Due to increase in purchases in line with growth in sales, and notes payable due for payment
Cash received from borrowings	1,433,524,115.05	623,305,532.69	129.99	Increase in financing activities from factoring in line with growth in export sales
Cash paid for debt repayment	1,329,845,434.25	771,534,666.26	72.36	Increase in financing activities from factoring in line with growth in export sales
Cash paid for dividend or profit distribution or payment of interests	18,546,992.01	29,863,189.05	(37.89)	Decrease in Interest expenses with improvement in financing structure

(iv) Share-holding company having more than 10% impact on net profit of the Company during the Reporting Period

Name of company	Shareholding ratio of the Company	Business nature	Principal products or services	Registered capital	Total operating revenue (RMB'0000)	Net profit (RMB'0000)
Hisense Hitachi	49%	Manufacture	Production and sale of commercial air-conditioners	US\$12.10million	92,856.59	9,054.52

LIQUIDITY AND SOURCES OF CAPITAL

Net cash generated from operating activities of the Group was approximately RMB(135,434,000) for the six months ended 30 June 2011.

As at 30 June 2011, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB321,731,000 and borrowings amounting to approximately RMB1,231,033,000.

Total capital expenditures of the Group for the six months ended 30 June 2011 amounted to approximately RMB145,554,000.

TOTAL ASSETS TO TOTAL LIABILITIES RATIO

As at 30 June 2011, the total assets to total liabilities ratio of the Group was 114.97%.

TRUST DEPOSITS

As at 30 June 2011, 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 and other financial institution in the PRC and Hong Kong.

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2011, the Group had approximately 35,683 employees, mainly comprising 4,053 technical staff, 14,170 sales representatives, 605 financial staff, 1,227 administrative staff and 15,562 production staff. The Group had 5 employees with a doctorate degree, 130 with a master's degree and 2,769 with a bachelor's degree. There were 501 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 10 retired employees. For the six months ended 30 June 2011, the Group's staff payroll amounted to RMB679,378,000 (corresponding period in 2010 amounting to RMB581,269,000).

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2011, the Group's property, plant and equipment (including leasehold land held for own use) and investment properties and trade receivables of approximately RMB825,795,000 (31 December 2010: RMB853,667,000) 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, 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 2011, 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 2011, there were 36,841 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	457,543,208	33.79%	99.55%	0	Unknown
China Huarong Asset Management Corporation	Unknown	30,400,000	2.25%	3.40%	0	0
China Construction Bank – Penghua Value Advanced Stock Fund	Other	11,000,000	0.81%	1.23%	0	0
China Construction Bank – Bosera Tactic Assets Allocation Mixed Type Fund	Other	6,999,733	0.52%	0.78%	0	0
Yuyang Securities Investment Fund	Other	6,199,673	0.46%	0.69%	0	0
Zhang Shao Wu	Domestic person	6,110,200	0.45%	0.68%	0	0
Agricultural Bank of China – Bosera New Growth Stock Fund	Other	4,982,521	0.37%	0.56%	0	0
The Industrial and Commercial Bank of China – Lion Flexible Allocation Stock Fund	Other	3,780,227	0.28%	0.42%	0	0
Xian Zhuoqun Investment Management Limited	Unknown	3,000,000	0.22%	0.34%	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	457,543,208	H shares
China Huarong Asset Management Corporation	30,400,000	RMB ordinary shares
China Construction Bank – Penghua Value Advanced Stock Fund	11,000,000	RMB ordinary shares
China Construction Bank – Bosera Tactic Assets Allocation Mixed Type Fund	6,999,733	RMB ordinary shares
Yuyang Securities Investment Fund	6,199,673	RMB ordinary shares
Zhang Shao Wu	6,110,200	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
Bank of China – Fortune SGAM Power Portfolio Stock Fund	2,388,098	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 《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 2011, 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:

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%
Hillhouse Capital Management, Ltd. <i>Note 2</i>	Investment manager	H shares	50,612,000(L)	11.01(L)	3.74%
Gaoling Fund, L.P. <i>Note 2</i>	Beneficial owner	H shares	46,900,000(L)	10.20(L)	3.46%
Cheah Capital Management Limited <i>Note 3</i>	Interest of controlled corporation	H shares	40,574,000(L)	8.82(L)	3.00%
Cheah Company Limited <i>Note 3</i>	Interest of controlled corporation	H shares	40,574,000(L)	8.82(L)	3.00%
Hang Seng Bank Trustee International Limited <i>Note 3</i>	Trustee	H shares	40,574,000(L)	8.82(L)	3.00%
Value Partners Group Limited <i>Note 3</i>	Interest of controlled corporation	H shares	40,574,000(L)	8.82(L)	3.00%
Value Partners Limited <i>Note 3</i>	Investment manager	H shares	40,574,000(L)	8.82(L)	3.00%
To Hau Yin <i>Note 3</i>	Family interest	H shares	40,574,000(L)	8.82(L)	3.00%
Cheah Cheng Hye <i>Note 3</i>	Founder of discretionary trust	H shares	40,574,000(L)	8.82(L)	3.00%
Deutsche Bank Aktiengesellschaft <i>Note 4</i>	Beneficial owner and person having security interests in shares	H shares	28,046,194(L)	6.10%	2.07%
			53(S)	0.00%	0.00%

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

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 were deemed to be interested in the same parcel of A shares of which Qingdao Hisense Air-conditioning Company Limited was interested.*
- 2. Hillhouse Capital Management, Ltd. was interested in a total of 50,612,000 H shares by virtue of the SFO. Of these shares, Gaoling Fund, L.P. and Gaoling Yali Fund, L.P. were interested in 46,900,000 H shares and 3,712,000 H shares respectively.*
- 3. Value Partners Limited, Value Partners Group Limited, Cheah Capital Management Limited, Cheah Company Limited, Hang Seng Bank Trustee International Limited, Cheah Cheng Hye and To Hau Yin were interested in the same parcel of these 40,574,000 H shares by virtue of the SFO.*
- 4. Deutsche Bank Aktiengesellschaft was interested in these H shares by virtue of the SFO, in which it was interested as to 3,694 H shares as beneficial owner and 28,042,500 H shares as person having security interests. In addition, it held a short position in 53 H shares by virtue of the SFO.*

Save as disclosed above, as at 30 June 2011, 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 2011, 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 pursuant to the Model Code.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the interim results announcement for the period ended 30 June 2011.

CODE ON CORPORATE GOVERNANCE PRACTICES

After the resignation of the independent non-executive Director, Mr. Lu Qing, in order to find an appropriate person with accounting qualification to fill the vacancy, the Company was not able to appoint the right person as new independent non-executive Director and a member of the Audit Committee of the Board within three months after Mr. Lu's resignation took effect. After the appointment of Mr. Wang Ai Guo as an independent non-executive Director and a member of the Audit Committee of the Board at the extraordinary general meeting and at the first board meeting of the year 2011 of the seventh session of the Board with effect from 20 January 2011, the Company has complied with Rule 3.10 and Rule 3.21 of the Listing Rules and Code Provision A.3 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "CG Code"). Further, Mr. Chen Zhen Wen has resigned as the company secretary of the Company with effect from 11 June 2010 and during the period when the Company was in the process of identifying suitable candidate, the position was left vacant until the appointment of Ms. Wong Tak Fong and Ms. Li Lin as the joint company secretaries of the Company on 4 April 2011. Besides, in respect of the annual general meeting of the Company held on 27 June 2011, after the dispatch of the initial notice of annual general meeting on 11 May 2011, the supplemental and further notice of annual general meeting dated 9 June 2011 in relation to two additional proposed resolutions was dispatched by the Company on 9 June 2011. As such, such notice was sent less than 20 clear business days before the meeting as required under Code Provision E.1.3 of the CG Code. In order to keep pace with and to avoid any interruptions to the Company's normal business development, the Board was of the view that it is in the interest of the Company and its shareholders as a whole to have such additional resolutions tabled at the annual general meeting despite the fact that the Company was unable to comply with the notice requirement under the CG Code. Other than the above, to the best knowledge and information of the Company, during the Reporting Period, the Company has complied with the code provisions of the CG Code.

MATTERS REGARDING CANCELLATION OF PREPARATION OF FINANCIAL REPORTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Board of Directors of the Company announced on 13 July 2011 that the Company intends to prepare only one set of financial statements for any financial period commencing on or after 1 January 2011 under China Accounting Standards in light of the acceptance by the Stock Exchange of matters in relation to the adoption of Mainland accounting and auditing standards and the appointment of Mainland audit firms. details of which can be found in announcement published on the website of the Stock Exchange (<http://www.hkex.com.hk>) on 13 July 2011.

PUBLICATION OF INTERIM REPORT ON THE INTERNET WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

All information about interim report as 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, 24 August 2011

As at the date of this announcement, the Company's directors are Mr. Tang Ye Guo, Mr. Ren Li Ren, Ms. Yu Shu Min, Mr. Lin Lan, Ms. Liu Chun Xin and Mr. Xiao Jian Lin; and the Company's independent non-executive directors are Mr. Zhang Sheng Ping, Mr. Cheung Yui Kai, Warren and Mr. Wang Ai Guo.

Supplementary information as required by The Stock Exchange of Hong Kong Limited in relation to the Company's A shares interim results announcement

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 2010 ANNUAL 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 2010 annual results announcement published on the website of the Stock Exchange (<http://www.hkex.com.hk>) on 30 March 2011. 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

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 and there was no material investment which did not involve raising of capital.

III. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY DURING THE REPORTING PERIOD

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 announcement, the basic information of which are as follows:

Name of case	Amount in dispute RMB (in ten thousand)	Particulars of the case	Status
Ronshen Refrigerator against Xi'an Kelon in relation to a sale and purchase contract	9,998.41	Since February 2004, Ronshen Refrigerator has repeatedly provided Xi'an Kelon fundings and prepayments in an aggregate amount of RMB89,184,100 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. Foshan Intermediate Court requested audit to be conducted on the payment for goods and other debt of the defendant. In June 2011, Foshan Intermediate Court determined by ballot two accounting firms for conducting the judicial audit. The judicial audit is in progress.

IV. 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	41,686,088.96	6.45%	42,657,851.74	989,680.85	-

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 6,102,126 shares during the Reporting Period. The corresponding cost of long-term equity investment of RMB12,149,200 was released and an investment gain of RMB45,837,300 was recognised.

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

During the Reporting Period, the Company and connected parties such as Hisense Group, Hisense Electric ,Huayi Compressor, Hisense-Whirlpool, Hisense Hitachi , Hisense Finance, Snowflake and Embraco have entered into certain connected transactions in relation to ordinary operation, details of which are as follows:

Unit: RMB

Connected parties	Type of connected transaction	Particulars of transaction	Pricing principle of connected transaction	Transaction amount	Percentage of total amount of similar transactions (%)
Hisense Group	Purchase	Finished goods	Agreed price	15,871.23	0.00
Hisense -Whirlpool	Purchase	Finished goods	Agreed price	213,907,721.58	2.40
Sub-total of purchase of finished goods				213,923,592.81	2.40
Hisense Electric	Purchase	Materials	Agreed price	8,852,270.91	0.10
Hisense Group	Purchase	Materials	Agreed price	4,834,205.00	0.05
Hisense -Whirlpool	Purchase	Materials	Agreed price	1,204,453.43	0.01
Hisense Hitachi	Purchase	Materials	Agreed price	3,456,347.59	0.04
Huayi Compressor	Purchase	Materials	Agreed price	395,318,041.56	4.44
Embraco	Purchase	Materials	Agreed price	26,203,094.02	0.29
Sub-total of purchase of materials	-	-	-	439,868,412.51	4.93
Hisense Electric	Purchase	Mould and equipment	Agreed price	71,922.74	0.00
Hisense Group	Purchase	Mould and equipment	Agreed price	686,018.97	0.01
Hisense -Whirlpool	Purchase	Mould and equipment	Agreed price	1,085,407.74	0.01
Sub-total of purchase of mould and equipment	-	-	-	1,843,349.45	0.02
Hisense Electric	Receipt of services	-	Agreed price	2,797,824.32	0.03
Hisense Group	Receipt of services	-	Agreed price	79,756,144.98	0.90
Snowflake	Receipt of services	-	Agreed price	8,859,642.05	0.10
Sub-total of receipt of services	-	-	-	91,413,611.35	1.03
Hisense Electric	Sale of finished goods	Finished goods	Agreed price	3,456,284.36	0.03
Hisense Group	Sale of finished goods	Finished goods	Agreed price	818,377,063.78	7.62
Hisense -Whirlpool	Sale of finished goods	Finished goods	Agreed price	116,801.97	0.00

Connected parties	Type of connected transaction	Particulars of transaction	Pricing principle of connected transaction	Transaction amount	Percentage of total amount of similar transactions (%)
Hisense Hitachi	Sale of finished goods	Finished goods	Agreed price	17,185,873.41	0.16
Sub-total of sale of finished goods	-	-	-	839,136,023.52	7.81
Hisense Group	Sale	Materials	Agreed price	23,399,585.88	0.22
Hisense -Whirlpool	Sale	Materials	Agreed price	5,701,404.26	0.05
Hisense Hitachi	Sale	Materials	Agreed price	14,393.97	0.00
Sub-total of sale of materials	-	-	-	29,115,384.11	0.27
Hisense Electric	Sale	Moulds	Market price	18,664,999.99	0.17
Hisense Group	Sale	Moulds	Market price	53,945,629.00	0.50
Sub-total of sale of moulds	-	-	-	72,610,628.99	0.67
Hisense Group	Provision of services	-	Agreed price	245,495.64	0.00
Sub-total of provision of services	-	-	-	245,495.64	0.00

During the Reporting Period, the Company entrust Hisense (Hong Kong) Company Limited provide financing agency to purchase raw materials amounting to RMB 23,655,574.As at 30 June 2011, the Group has borrowings of RMB747.5 million and deposit balance of RMB27.2152 million in Hisense Finance, interest expenses incurred and interest income recognised from such balances are RMB16.0434 million and RMB88.9 thousand respectively.

VI. EXTERNAL GUARANTEES GIVEN BY THE COMPANY DURING THE REPORTING PERIOD OR EXTERNAL GUARANTEES WHICH SUBSISTED FROM THE PREVIOUS PERIOD TO THE REPORTING PERIOD

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				44,669.84		
Total balance of the guaranteed amount for subsidiaries at the				8,099.03		

end of the Reporting Period (B)	
Total guarantee given by the Company (including the guarantees for subsidiaries)	
Total guaranteed amount (A+B)	8,099.03
Percentage of the total guaranteed amount to absolute net assets of the Company	9.82%
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)	3,029.33
Total guaranteed amount over 50% of the net asset (E)	-
Sum of the above three guarantees (C+D+E)	3,029.33

VII. 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 2011	30 June 2011				
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 of the Board on the progress of the Company’s claims for all embezzled amounts during the Reporting Period

The Company has initiated a total of 19 cases of legal proceedings against the Greencool Companies and specified third parties, with a target claim amount of RMB791 million. As at the date of this announcement, 17 judgments were in force and entered the execution process, and the amount applied for enforcement was RMB 725 million. One case was withdrawn, involving an amount of RMB29.8437 million;

one case was rejected due to lack of evidence, involving an amount of RMB12.2894 million. The Company is proactively facilitating the execution of the judgments that have come into force by the relevant judiciary authorities.

VIII. THE FIRST SHARE OPTION INCENTIVE SCHEME OF THE COMPANY DURING THE REPORTING PERIOD

On 10 June 2011, the Board passed a resolution to approve “the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited (Revised Draft)”. The same has been examined and approved by the SASAC of Qingdao, filed with the SASAC of the State Council and filed with the CSRC with no objection, and was approved at the general meeting of the Company on 1 August 2011, details of which can be found in the announcements dated 10 June 2011 and 1 August 2011 and the circular dated 7 July 2011 which were published on the website of the Stock Exchange (<http://www.hkex.com.hk>).

IX. EXPLANATION OF THE CHANGES IN AUDITORS OF THE COMPANY DURING THE REPORTING PERIOD

In light of the acceptance by the Stock Exchange of matters in relation to the adoption of Mainland accounting and auditing standards and the appointment of Mainland audit firms, the Board of Directors of the Company has announced that the Company intends to prepare only one set of financial statements for any financial period commencing on or after 1 January 2011 under China Accounting Standards and has removed BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD. and BDO Limited respectively as the domestic auditors and overseas auditors of the Company and has appointed Crowe Horwath China Certified Public Accountants (LLP) as the auditors of the Company for the year 2011 at the extraordinary general meeting of the Company held on 1 August 2011, details of which can be found in the announcements dated 13 July 2011 and 1 August 2011 and the supplemental circular dated 13 July 2011 published on the website of the Stock Exchange (<http://www.hkex.com.hk>).

X. DERIVATIVES INVESTMENT

(i) Situations of derivatives investment

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.)	The derivatives business of the Company mainly represents the foreign exchange derivatives business used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company determines a reasonable range of foreign exchange rates to achieve the hedging purpose. The Company has formulated the “Management Measures for the Foreign Exchange Capital Business”. The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the business of the foreign
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	exchange derivatives. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.
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 RMB-6.7035 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.

(ii) Positions in derivatives investment at the end of the Reporting Period

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	219,384.18	706.27	265.90
Commodity derivatives contracts	-	-	-	-
Total	138,989.87	219,384.18	706.27	265.90

The English version of this announcement is for reference only and if there is any conflict between the English and the Chinese versions, the Chinese version shall prevail.

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 Electric”	Hisense Electric Co., Ltd.
“Hisense Group”	Hisense Company Limited
“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.
“Hisense-Whirlpool”	Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd.
“Hisense Finance”	Hisense Finance Company 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
“Xi’an Kelon”	Xi’an Kelon Cooling Co., Ltd.
“Ronshen Refrigerator”	Hisense Ronshen(Guangdong)Refrigerator Co Ltd.
“Huayi Compressor”	Huayi Compressor Company Limited
“Foshan Intermediate Court”	Intermediate People’s Court of Foshan City
“RMB”	Renminbi
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SASAC of Qingdao”	the State-owned Assets Supervision and Administration
“SASAC of the State Council”	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“CSRC”	China Securities Regulatory Commission