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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)

2016 THIRD QUARTERLY REPORT

This announcement is made by Hisense Kelon Electrical Holdings Company Limited (the "Company") pursuant to Part XIVA of the Securities and Futures Ordinance (CAP.571) and Rules 13.09 and 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

I. IMPORTANT NOTICE

1. The board of directors (the "Board"), the supervisory committee (the "Supervisory Committee"), the directors (the "Directors"), the supervisors (the "Supervisors") and the senior management (the "Senior Management") of the Company warrant that there are no false representation or misleading statements contained in, or material omissions from, this report; and jointly and severally accept legal responsibility for the truthfulness, accuracy and completeness of the information contained herein.
2. Mr. Tang Ye Guo, the person in charge of the Company and Ms. Gao Yu Ling, the person in charge of the accounting function and Mr. Yan Zhi Yong, the person in charge of the accounting department, warrant the truthfulness, accuracy and completeness of the contents of the financial statements in this quarterly report.
3. All Directors attended the Board meeting for considering and approving the 2016 third quarterly report.
4. The financial statements of the Company for the third quarter of 2016 have not been audited by accountants.
5. The full text of the Company's balance sheet, income statement and cash flow statement are published on the website as designated by the Shenzhen Stock Exchange for release of information: <http://www.cninfo.com.cn>.

II. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

Did the Company make retrospective adjustment to or restatement of the accounting data of prior years due to changes in accounting policies and correction of accounting errors?

Yes No

Items	End of the reporting period	End of the previous financial year		Increase or decrease as compared to the end of the previous financial year(%)
Total assets (RMB)	18,780,223,939.39	14,292,817,039.53		31.40
Net assets attributable to shareholders of listed company (RMB)	4,641,527,384.86	4,044,017,698.45		14.78
Items	Reporting period	Increase or decrease as compared to corresponding period last year (%)	The beginning of the year to the end of the reporting period	Increase or decrease (the beginning of the year to the end of the reporting period as compared to corresponding period last year) (%)
Operating revenue (RMB)	7,307,367,677.79	30.11	20,430,319,209.30	6.26
Net profits attributable to shareholders of listed company (RMB)	304,094,646.88	N/A	863,374,128.19	87.81
Net profits attributable to shareholders of listed company after deducting extraordinary profit and loss (RMB)	281,740,052.09	N/A	800,901,281.98	257.73
Net cash flow from operating activities (RMB)	--	--	2,400,819,540.17	N/A
Basic earnings per share (RMB/share)	0.22	N/A	0.63	85.29
Diluted earnings per share (RMB/share)	0.22	N/A	0.63	85.29
Weighted average rate of return on net assets (%)	6.71	7.88	19.72	7.26

Extraordinary profit and loss items and amounts

Applicable Not applicable

Unit: RMB

Items	Amounts from the beginning of the year to the end of the reporting period	Description
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	-1,462,785.50	

Government subsidy recorded in the profits or losses of the current period (except government subsidy which is closely related to the Company's business and is entitled for fixed amounts or fixed percentage based on unified standards promulgated by the government)	56,140,213.57	
Non-operating income and expenses other than the aforementioned items	24,243,226.82	
Less: Effect of income tax	8,614,608.58	
Effect of minority interests (after tax)	7,833,200.10	
Total	62,472,846.21	--

III. Table showing total number of shareholders and the shareholding of the top ten holders of ordinary shares at the end of the reporting period

Unit: shares

Total number of shareholders of ordinary shares at the end of the reporting period	27,955					
The shareholding of the top ten holders of ordinary shares						
Name of Shareholder	Nature of Shareholder	Percentage to the total issued share capital of the Company (%)	No. of shares held	No. of shares held subject to selling restrictions	Situation of pledged or frozen shares	
					Share status	Quantity
Qingdao Hisense Air-conditioning Company Limited	State-owned legal person	43.10%	587,316,909	0		
HKSCC Nominees Limited ^{Note1}	Foreign legal person	33.62%	458,144,769	0		
Cental Huijin Investment Ltd.	State-owned legal person	1.95%	26,588,700	0		
China Securities Finance Corporation Limited	Domestic non-state-owned legal person	0.72%	9,782,096	0		
Zhang Shao Wu	Domestic natural person	0.53%	7,200,000	0		
ICBC Credit Suisse Fund - Agricultural Bank of China - ICBC Credit Suisse China Securities Financial Asset Management Plan	Other	0.48%	6,518,300	0		
Southern Fund - Agricultural Bank of China - Southern China Securities Financial Asset Management Plan	Other	0.48%	6,518,300	0		
Central European Fund - Agricultural Bank of China - Central European China Securities Financial Asset Management Plan	Other	0.48%	6,518,300	0		
Boshi Fund - Agricultural Bank of China - Boshi China Securities	Other	0.48%	6,518,300	0		

Financial Asset Management Plan						
Dacheng Fund - Agricultural Bank of China - Dacheng China Securities Financial Asset Management Plan	Other	0.48%	6,518,300	0		
Jiashi Fund - Agricultural Bank of China - Jiashi China Securities Financial Asset Management Plan	Other	0.48%	6,518,300	0		
Guangfa Fund - Agricultural Bank of China - Guangfa China Securities Financial Asset Management Plan	Other	0.48%	6,518,300	0		
Huaxia Fund - Agricultural Bank of China - Huaxia China Securities Financial Asset Management Plan	Other	0.48%	6,518,300	0		
Yinhua Fund - Agricultural Bank of China - Yinhua China Securities Financial Asset Management Plan	Other	0.48%	6,518,300	0		
Yifangda Fund - Agricultural Bank of China - Yifangda China Securities Financial Asset Management Plan	Other	0.48%	6,518,300	0		

The shareholding of the top ten holders of ordinary shares not subject to selling restrictions

Name of Shareholder	Number of shares held not subject to selling restrictions	Class	
		Class	Quantity
Qingdao Hisense Air-conditioning Company Limited	587,316,909	RMB ordinary shares	587,316,909
HKSCC Nominees Limited ^{Note1}	458,144,769	Overseas listed foreign shares	458,144,769
Cental Huijin Investment Ltd.	26,588,700	RMB ordinary shares	26,588,700
China Securities Finance Corporation Limited	9,782,096	RMB ordinary shares	9,782,096
Zhang Shao Wu	7,200,000	RMB ordinary shares	7,200,000
ICBC Credit Suisse Fund - Agricultural Bank of China - ICBC Credit Suisse China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares	6,518,300
Southern Fund - Agricultural Bank of China - Southern China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares	6,518,300
Central European Fund - Agricultural Bank of China - Central European China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares	6,518,300
Boshi Fund - Agricultural Bank of China - Boshi China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares	6,518,300
Dacheng Fund - Agricultural Bank of China - Dacheng China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares	6,518,300
Jiashi Fund - Agricultural Bank of China - Jiashi China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares	6,518,300
Guangfa Fund - Agricultural Bank of China -	6,518,300	RMB ordinary shares	6,518,300

Guangfa China Securities Financial Asset Management Plan			
Huaxia Fund - Agricultural Bank of China - Huaxia China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares	6,518,300
Yinhua Fund - Agricultural Bank of China - Yinhua China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares	6,518,300
Yifangda Fund - Agricultural Bank of China - Yifangda China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares	6,518,300

Notes:

- The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense (Hong Kong) Company Limited, a party acting in concert with the controlling shareholder of the Company, is the holder of 97,202,000 H shares of the Company in total at the end of the reporting period, representing 7.13% of the total number of shares of the Company.*

IV. SIGNIFICANT MATTERS

1. Details of and reasons for significant changes of the principal accounting items and financial indicators during the reporting period

Applicable Not applicable

Unit: RMB

Balance sheet items	Closing balance	Opening balance	Change (%)	Reason for the change
Cash and cash equivalents	2,308,837,790.94	1,014,410,146.17	127.60	Mainly due to an increase in operating profit during the reporting period, leading to acceleration of capital turnover and decrease in inventory occupancy, resulting in an increase in operating cash flow and net cash amount
Notes receivable	4,080,554,317.89	2,289,706,048.91	78.21	Mainly due to an increase in payment in form of notes and decrease in endorsement of notes receivable at the end of the reporting period
Accounts receivable	3,025,634,183.90	2,086,596,419.00	45.00	Mainly due to the substantial year-to-year increase in sales during the third quarter of the year
Other current assets	1,216,772,043.98	467,872,305.65	160.06	Mainly due to an increase in purchase of wealth management products from banks
Short-term borrowings	74,704,436.32	223,496,764.71	-66.57	Mainly due to a decrease in the accounts receivable factoring transactions at the end of the reporting period
Notes payable	5,481,043,522.21	2,931,174,504.52	86.99	Mainly due to an increase in the use of the payment method of self-issued notes during the reporting period
Accounts payable	4,139,962,504.49	2,878,291,676.53	43.83	Mainly due to substantial increase in production and sales during the third quarter

				of the year
Income statement items	Amount for the period from the beginning of the year to the end of the reporting period	Amount for the corresponding period last year	Change (%)	Reason for the change
Financial expenses	-40,518,249.02	-77,088,464.72	N/A	Mainly due to year-to-year decrease in foreign exchange gains
Income tax expenses	143,522,249.55	75,891,880.19	89.11	Mainly due to an increase in operating profit, leading to increase in income tax payable during the end of the reporting period and changes in deferred income tax
Statement of cash flow items	Amount for the period from the beginning of the year to the end of the reporting period	Amount for the corresponding period last year	Change (%)	Reason for the change
Cash received from sale of products and rendering of services	15,045,245,225.70	10,286,199,334.62	46.27	Mainly due to an increase in payment received from bank acceptance bills at their maturity and an increase in payment collection from export business during the reporting period
Cash paid for purchase of goods and services received	7,686,714,551.01	5,590,955,262.62	37.48	Mainly due to an increase in payment for notes at their maturity during the reporting period
Cash received from returns from investments	160,230,000.00	330,278,145.68	-51.49	Mainly due to the receipt of returns in investment from disposal of equity interests of Huayi Compressor during the corresponding period last year which did not occur during the reporting period
Cash received from other investment related activities	761,000,000.00	-	N/A	Mainly due to funds received from the banks' wealth management products at their maturity
Cash paid to acquire fixed assets, intangible assets and other long-term assets	191,262,926.95	365,894,553.05	-47.73	Mainly due to a decrease in infrastructure investment of the Company during the reporting period
Cash paid for other investment related activities	1,561,000,000.00	-	N/A	Mainly due to an increase in purchase of banks' wealth management products
Cash paid for repayment of borrowings	836,484,462.63	1,261,798,334.30	-33.71	Mainly due to the changes in factoring accounts receivable business

2. Development of significant matters and analysis of their impacts and solutions

Applicable Not applicable

On 3 August 2016, the Company entered into the equity transfer agreement with Whirlpool (Hong Kong) Limited pursuant to which Whirlpool (Hong Kong) Limited shall transfer its 50% equity

interest held in Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd. (海信惠而浦 (浙江) 電器有限公司) to the Company. The relevant equity transfer procedures are still in progress.

Description of significant matters	Disclosure date	Enquiry index of website disclosing temporary report
Whirlpool (Hong Kong) Limited transfers its 50% equity interest held in Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd. (海信惠而浦 (浙江) 電器有限公司) to the Company	4 August 2016	Announcement website: Juchao information network Announcement number: 2016-019

3. Undertakings performed in the reporting period or not yet performed by the end of the reporting period by the Company, shareholder(s), beneficial controller(s), acquirer(s), director(s), supervisor(s), senior management or other connected party(ies)

Applicable Not applicable

Undertakings	Undertaking party(ies)	Subject matter of undertakings	Time of undertakings	Time limit of undertakings	Status of performance
Undertakings made in report on acquisition or report on changes in shareholding	Hisense Company Limited (“ Hisense Group ”), Qingdao Hisense Air-conditioning Company Limited (“ Hisense Air-conditioning ”)	1.After the acquisition of subject shares by Hisense Air-conditioning, the undertaking parties would deal with possible connected transactions with the Company in strict compliance with the relevant laws and regulations, and the relevant requirements of China Securities Regulatory Commission, the Stock Exchange, the Shenzhen Stock Exchange and the Articles of Association of the Company based on the market principles of justice, fairness, openness and reasonableness, without prejudicing the interests of the Company and other shareholders. 2.The undertaking parties will not exploit their positions and controlling influence as the largest shareholders of the Company to induce the Company to provide them with rights which are more favourable than those offered to third parties in respect of business cooperation and other aspects; 3.The undertaking parties will not exploit their positions and controlling influence as the largest shareholders of the Company to seek priority rights in concluding transactions with the Company; 4.The undertaking parties will not conduct transactions with the Company on terms which are less favourable than	12 October 2005	—	Ongoing

		market prices and will not engage in any acts detrimental to the interests of the Company through such transactions.			
Undertakings made during asset restructuring	Hisense Group, Hisense Air-conditioning	<p>Undertakings on avoidance of business competition:</p> <p>1. Upon the completion of this transaction, all white goods-related assets and businesses of Hisense Air-conditioning, Hisense Group and their controlled corporations have been injected into the Company. There is no business competition between the other assets and businesses retained by Hisense Air-conditioning, Hisense Group and their controlled corporations and those of the Company and its controlled corporations.</p> <p>2. For future development, where Hisense Air-Conditioning, Hisense Group and their controlled corporations obtain any business development opportunities which are suitable for the Company and its controlled corporations, the Company and its controlled corporations may pursue such development based on their needs and Hisense Air-Conditioning, Hisense Group and their controlled corporations will provide the necessary support and assistance to the Company and its controlled corporations.</p> <p>3. So long as Hisense Air-Conditioning is the controlling shareholder of the Company and Hisense Group is the beneficial controller of the Company, Hisense Air-Conditioning, Hisense Group and their controlled corporations will not develop any businesses or projects of a nature identical or similar to businesses of the Company and its controlled corporations in China or overseas; and will cease to directly or indirectly engage in businesses competing with the Company and its controlled corporations through setting up joint venture, cooperation, joint operation or by way of operating leases, subcontract and entrusted management with any third parties.</p> <p>4. Hisense Air-Conditioning and Hisense Group will not exploit their direct or</p>	9 June 2010	—	Ongoing

	<p>indirect advantageous shareholding position in the Company to engage in any acts detrimental to the interests of the Company and other shareholders, in particular the medium and small shareholders.</p> <p>5. Where Hisense Air-Conditioning and Hisense Group breach the above undertakings and guarantees, they will immediately terminate businesses competing with the Company and its controlled corporations and adopt the necessary rectification and remedial measures; at the same time, they will be jointly and severally liable to compensate the Company and its controlled corporations for all losses and consequences resulted from breach of the above undertakings and guarantees.</p>			
Hisense Group, Hisense Air-conditioning	<p>Undertakings on regulation and minimization of connected transactions:</p> <p>1. Upon the completion of this transaction, Hisense Air-conditioning and Hisense Group would continue to exercise the rights of shareholders or directors and perform the obligations of shareholders or directors in strict compliance with the laws and regulations such as the Company Law, and the relevant requirements of the Articles of Association of the Company, and abstain from voting on resolutions in relation to connected transactions between related companies and the Company at general meetings and board meetings.</p> <p>2. Upon completion of this transaction, connected companies will minimise connected transactions with the Company. In the course of conducting any necessary and unavoidable connected transactions, the Company will ensure that they are conducted fairly on the basis of market principle and fair pricing, and the Company will adopt the decision making procedures and perform obligation in relation to information disclosure in accordance with the relevant requirements of the laws and regulations, regulatory documents and the Articles of Association of the Company.</p>	9 June 2010	—	Ongoing

		3. In case Hisense Air-Conditioning and Hisense Group breach the undertakings and guarantees, they will be liable for the default in accordance with the laws and will be jointly and severally liable to compensate the Company and its shareholders (other than Hisense Air-Conditioning) for the losses caused therefrom.			
	Hisense Group, Hisense Air-conditioning	Undertaking of maintaining the independence of the listed company: Hisense Air-Conditioning and Hisense Group undertake that after this material assets disposal, they will maintain separation with the Company in five aspects, namely personnel, assets, finance, corporate structure and business to ensure the independence of personnel, independence of assets, independence of finance, independence of corporate structure and independence of business.	9 June 2010	—	Ongoing
Whether the undertakings are timely performed		Yes			
Specific reasons for failure in performance and the plan going forward		Not Applicable			

4. Estimate of operating results for 2016

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

Applicable Not applicable

5. Derivatives investment

Applicable Not applicable

Unit: RMB (in ten thousand)

Name of operators of derivatives investment	Connection	Whether or not a connected transaction	Type of derivatives investment	Initial investment of derivatives investment	Effective Date	Expiry Date	Investment at the beginning of the Reporting Period	Amount of purchase during the Reporting Period	Amount of disposal during the Reporting Period	Amount of provision for impairment (if any)	Investment at the end of the Reporting Period	Proportion of investment to the net asset of the Company at the end of the Reporting Period (%)	Actual amount of profit and loss during the Reporting Period

Bank	No	No	Forward foreign exchange contracts	83,342.85	1 January 2016	30 September 2016	83,342.85	55,461.47	128,163.87		10,640.45	2.29	445.69
Total				83,342.85	--	--	83,342.85	55,461.47	128,163.87		10,640.45	2.29	445.69
Source of derivatives investment funding				Export trade payment									
Litigation involved (if applicable)				Not applicable									
Date of the announcement disclosing the approval of derivatives investment by the Board (if any)				30 March 2016									
Date of the announcement disclosing the approval of derivatives investment during shareholders' meetings (if any)				25 June 2016									
Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)				<p>The derivatives business of the Company mainly represents the forward foreign exchange contracts used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company determines a reasonable range of foreign exchange rates to achieve the hedging purpose.</p> <p>The Company has formulated the "Management Measures for the Foreign Exchange Capital Business" and "the Internal Control System for Forward Foreign Exchange Capital Transactions". 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 foreign exchange derivatives. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.</p>									
Changes in market price or product fair value of 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				<p>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 on change in fair value of the derivatives of RMB 9.873 million. Investment gain amounted to RMB-5.4161 million, resulting in a total profits or losses of RMB4.4569 million.</p>									
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				<p>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.</p>									
Specific opinions of independent Directors on the derivatives investment and risk control of the Company				<p>Opinion of independent directors: Commencement of foreign exchange derivatives business by the Company was beneficial to the Company in the prevention of exchange rate fluctuation risks. The Company has devised the Internal Control System for Forward Foreign Exchange Capital Transactions to strengthen internal control and enhance the management of foreign exchange risks by the Company, and the targeted risk control measures adopted were practicable.</p>									

6. Table setting out the reception activities in respect of research, communications and visits

during the reporting period

Applicable Not applicable

Reception time	Reception way	Reception target type	Index of basic situation of research
26 August 2016	Field research	Institution	Announcement website: Juchao information network Investor relations activities record number: 2016-002

7. Illegal external guarantees

Applicable Not applicable

8. Non-operating use of the capital of the listed company by the controlling shareholder and its connected parties

Applicable Not applicable

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

By order of the Board of

Hisense Kelon Electrical Holdings Company Limited

Tang Ye Guo

Chairman

Foshan City, Guangdong, the PRC, 21 October 2016

As at the date of this announcement, the Company's directors are Mr. Tang Ye Guo, Mr. Liu Hong Xin, Mr. Lin Lan, Mr. Dai Hui Zhong, Mr. Jia Shao Qian and Mr. Wang Yun Li; and the Company's independent non-executive directors are Mr. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo.