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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)

**ANNOUNCEMENT OF RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

All members (the “Directors”) of the board of directors (the “Board”) of Hisense Kelon Electrical Holdings Company Limited (the “Company” or “Hisense Kelon”) announce the annual audited results of the Company and its subsidiaries (collectively the “Group” or “Kelon”) for the year ended 31 December 2016 (the “Reporting Period”) together with the 2015 comparative figures, prepared in accordance with China Accounting Standards for Business Enterprises (“China Accounting Standards”). The following financial information is prepared in accordance with China Accounting Standards:

FINANCIAL INFORMATION PREPARED IN ACCORDANCE WITH CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

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

Consolidated Balance Sheet

Item	Note	31 December 2016	31 December 2015
Assets			
Current assets			
Cash at bank and on hand		2,227,421,330.74	1,014,410,146.17
Financial assets at fair value through profit or loss for the current period		9,695,070.04	
Notes receivable		3,281,453,069.10	2,289,706,048.91
Accounts receivable	5	2,725,129,183.33	2,086,596,419.00
Prepayments		174,049,069.34	169,804,372.86
Others receivables		245,420,469.20	234,011,936.52
Inventories		2,660,044,996.38	2,270,139,557.55
Other current assets		1,678,765,851.25	467,872,305.65
Total current assets		13,001,979,039.38	8,532,540,786.66
Non-current assets			
Financial assets available-for-sale		3,900,000.00	3,900,000.00

Long-term equity investments		1,627,383,596.00	1,323,253,353.15
Investment properties		26,456,837.73	28,958,126.07
Fixed assets		3,481,725,652.28	3,529,787,697.68
Construction in progress		72,942,458.27	64,837,848.39
Disposal of fixed assets		907,836.24	1,468,664.05
Intangible assets		737,341,935.68	694,379,768.17
Long-term prepaid expenses		5,158,532.22	10,599,736.59
Deferred tax assets		97,262,720.52	103,091,058.77
Total non-current assets		6,053,079,568.94	5,760,276,252.87
Total assets		19,055,058,608.32	14,292,817,039.53
Liabilities and shareholders' equity			
Current liabilities			
Short-term borrowings			223,496,764.71
Financial liabilities at fair value through pr ofit or loss for the current period			9,767,732.75
Notes payable		5,227,854,741.07	2,931,174,504.52
Accounts payable	6	4,367,268,398.09	2,878,291,676.53
Advances from customers		831,778,792.45	712,934,326.56
Employee remunerations payable		334,204,436.58	250,749,290.94
Taxes payable		222,919,921.87	161,686,275.79
Interests payable			
Dividends payable			
Other payables		1,661,704,359.95	1,483,744,213.15
Other current liabilities		715,840,695.57	794,105,569.67
Total current liabilities		13,361,571,345.58	9,445,950,354.62
Non-current liabilities			
Provisions		314,632,715.41	320,959,024.64
Deferred income		54,687,498.01	51,750,592.81
Deferred tax liability		706,994.87	347,710.13
Total non-current liabilities		370,027,208.29	373,057,327.58
Total liabilities		13,731,598,553.87	9,819,007,682.20
Shareholders' equity			
Share capital		1,362,725,370.00	1,362,725,370.00
Capital reserves		2,092,861,943.89	2,155,529,231.17
Other comprehensive incomes		14,274,706.17	11,482,265.05
Surplus reserves		313,689,564.15	240,622,313.49
Retained profits		1,083,914,592.96	273,658,518.74

Total equity attributable to shareholders of the Company		4,867,466,177.17	4,044,017,698.45
Minority interests		455,993,877.28	429,791,658.88
Total shareholders' equity		5,323,460,054.45	4,473,809,357.33
Total liabilities and shareholders' equity		19,055,058,608.32	14,292,817,039.53

Consolidated Income Statement

Item	Note	2016	2015
Operating revenue	7	26,730,219,497.07	23,471,602,857.98
Operating costs	7	20,486,653,055.35	18,440,738,979.66
Business taxes and surcharges		222,794,528.65	97,160,017.88
Selling and distribution expenses		4,640,737,321.53	4,308,881,508.98
General and administrative expenses		946,745,876.45	905,237,728.27
Financial expenses	8	-85,989,063.41	-71,444,717.51
Impairment losses on assets		-4,435,472.71	4,670,866.73
Gain from changes in fair value		19,462,802.79	-2,539,056.09
Investment gain	9	522,079,140.57	530,171,700.74
Including: Share of profit of associates and joint ventures		534,444,157.61	329,436,651.65
Operating profits		1,065,255,194.57	313,991,118.62
Non-operating income		243,092,611.26	326,848,455.27
Including: Gains on non-current assets		15,941,862.96	2,557,013.97
Non-operating expenses		38,006,334.61	17,185,413.56
Including: Losses on disposal of non-current assets		4,172,176.73	13,709,993.98
Total profits		1,270,341,471.22	623,654,160.33
Less: Income tax expenses	10	128,747,697.52	79,377,763.58
Net profits		1,141,593,773.70	544,276,396.75
Net profits of consolidated parties prior to consolidation			
Net profit attributable to shareholders of the parent		1,087,732,130.38	580,335,074.18
Profit and loss of minority interests		53,861,643.32	-36,058,677.43
Earnings per share			
Basic earnings per share	13	0.80	0.43
Diluted earnings per share	13	0.80	0.43
Other comprehensive income		2,792,441.12	-28,508,619.40
(1) Items to be reclassified into profit and loss in subsequent accounting periods upon satisfaction of required conditions		2,792,441.12	-32,807,417.54
(2) items not to be reclassified into profit and loss in subsequent			4,298,798.14

accounting periods			
Total comprehensive income		1,144,386,214.82	515,767,777.35
Total comprehensive income attributable to shareholders of the parent		1,090,524,571.50	551,826,454.78
Total comprehensive income attributable to minority interests		53,861,643.32	-36,058,677.43

Note:

1.General information

Hisense Kelon Electrical Holdings Company Limited (the “Company”) is a joint stock limited company incorporated in the People’s Republic of China (the “PRC”) on 16 December 1992. The Company’s overseas listed public shares (the “H Shares”) were listed on The Stock Exchange of Hong Kong Limited on 23 July 1996, whereas the Company’s domestic shares (the “A Shares”) were listed on the Shenzhen Stock Exchange on 13 July 1999.

On 29 January 2007, a share reform scheme (the “Reform of Non-tradable Shares Scheme”) was set up for converting the Company’s non-freely transferable domestic legal person shares into freely transferable A shares (“Transferable Shares”) and the scheme was approved and completed in the A shares general meeting , and further approved by Ministry of Commerce PRC on 22 March 2007.

On 31 August 2009, the Company constituted a major asset reorganization and entered into conditional sale and purchase agreement regarding the acquisition of the white goods assets and business (the “White Goods Business”) of Hisense Air-Conditioning(the “Acquisition”). The Acquisition was approved by the CSRC (China Securities Regulatory Commission) on 23 March 2010. On 10 June 2010, the Company allotted and issued 362,048,187 A shares to Hisense Air-Conditioning for the Acquisition.

On 18 June 2013, 612,221,909 restricted A shares of the Company held by Hisense Air-Conditioning were no longer subject to selling moratorium and were listed for trading.

On May 23, 2014, the exercise conditions are satisfied for the company's first exercise period of the first phase of stock option incentive plan. China Securities Depository and Clearing Corporation Limited Shenzhen branch has approved the registration, and the exercise of 4,440,810 new stocks has been approved for listing.

On 19 Jun 2015, the exercise conditions are satisfied for the company's second exercise period of the first phase of stock option incentive plan. China Securities Depository and Clearing Corporation Limited Shenzhen branch has approved the registration, and the exercise of 4,229,810 new stocks has been approved for listing.

As at 31 December 2016, the total number of issued shares of the Company was 1,362,725,370 and the registered capital of the Company was RMB1,362,725,370.00, of which Hisense Air-Conditioning held 584,894,878 shares, representing 44.92% of the Company’s total issued share capital and continued to be the immediate controlling shareholder.

In the opinion of the directors of the Company, as at 31 December 2016, Hisense Company Limited (“Hisense Group”), a state-owned enterprise incorporated in the PRC, is regarded as the ultimate controlling shareholder.

The English names to which some of the companies are referred as in these financial statements represent management's best efforts in translation 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.

2. Basis of preparation

The financial statements are prepared based on going-concern assumption and actual transactions and events according to the Accounting Standards for Business Enterprises - Basic Standard (the Ministry of Finance Order No. 33 Issue, the Ministry of Finance Order No. 76 Amendment) issued by the Ministry of Finance, and 41 specific accounting standards, application guidelines for Accounting Standards for Business Enterprises, explanation of Accounting Standards for Business Enterprises and other relevant regulations (hereinafter collectively referred to as "Accounting Standards For Business Enterprises") issued and revised on February 15, 2006 or later, and the Information Disclosure Regulations for Companies Publicly Issuing Securities No. 15 - General Provisions for Financial Statements (Revised 2014) issued by China Securities Regulatory Commission.

According to the relevant provisions of Accounting Standards for Business Enterprises, the Company's financial accounting is conducted on accrual basis. Except for certain financial instruments, the financial statements take the historical cost as the accounting basis. If an asset is impaired, the provision for impairment shall be accrued in accordance with the relevant provisions.

The Company is listed in both Mainland and Hong Kong stock exchange, besides the abovementioned relevant regulations, the financial statements also comply with applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance.

3. Significant changes in accounting policies

There are no significant changes in the accounting policies, accounting estimate applied in preparing of these financial statements.

4. Segment information

The Group manages its business by divisions which are organized by a mixture of both business lines and geographical areas. 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 three reportable segments: Refrigerators and washing machines, air-conditioners, and others (including product components and other electrical household appliances).

(1) Segment information as at and for the year is as follows:

Amount for current period	Refrigerators and washing machines	Air-conditioners	Others	Elimination	Total
1. Revenue from external sales	12,778,722,120.61	10,380,981,134.10	1,511,221,145.53		24,670,924,400.24
2. Revenue from inter-segment sales			1,421,972,654.09	-1,421,972,654.09	
3. Gain from investment in associates and joint ventures	-36,319,775.98	570,847,737.90	-83,804.31		534,444,157.61

4. Depreciation and amortization	379,801,361.26	229,060,142.67	88,538,067.76		697,399,571.69
5. Gain from changes in fair value	9,363,479.52	9,363,479.52	735,843.75		19,462,802.79
6. Impairment losses on assets	-8,481,794.86	1,378,521.44	2,667,800.71		-4,435,472.71
7. Total profits (Total losses)	339,173,744.17	811,227,846.76	137,598,681.84	-17,658,801.55	1,270,341,471.22
8. Income tax expenses	74,143,764.70	22,934,503.68	31,669,429.14		128,747,697.52
9. Net profits (Net losses)	265,029,979.47	788,293,343.08	105,929,252.70	-17,658,801.55	1,141,593,773.70
10. Total assets	16,353,487,356.13	9,041,182,287.58	4,024,041,294.03	-10,363,652,329.42	19,055,058,608.32
11. Total liabilities	11,403,174,704.17	6,845,206,682.64	2,369,794,279.08	-6,886,577,112.02	13,731,598,553.87
12. Additions to other non-current assets other than long-term equity investments	150,999,965.93	-104,416,041.45	-57,910,851.26		-11,326,926.78

Segment information as at and for last year is as follows:

Amount for last period	Refrigerators and washing machines	Air-conditioners	Others	Elimination	Total
1. Revenue from external sales	11,555,814,929.64	8,986,110,462.69	1,261,753,115.53		21,803,678,507.86
2. Revenue from inter-segment sales			1,079,389,775.96	-1,079,389,775.96	
3. Gain from investment in associates and joint ventures	-67,586,516.45	397,299,600.52	-276,432.42		329,436,651.65
4. Depreciation and amortization	313,722,331.33	194,093,039.02	95,198,586.07		603,013,956.42
5. Gain from changes in fair value	-1,047,895.89	-1,047,895.89	-443,264.31		-2,539,056.09
6. Impairment losses on assets	826,341.84	896,797.23	2,947,727.66		4,670,866.73
7. Total profit (Total loss)	119,249,485.09	274,892,882.63	272,497,698.63	-42,985,906.02	623,654,160.33
8. Income tax expenses	-7,795,680.15	65,156,537.50	22,016,906.23		79,377,763.58
9. Net profit (Net loss)	127,045,165.24	209,736,345.13	250,480,792.40	-42,985,906.02	544,276,396.75
10. Total assets	14,153,219,695.64	9,306,682,399.33	3,830,688,869.63	-12,997,773,925.07	14,292,817,039.53
11. Total liabilities	9,559,782,106.94	7,128,189,003.57	2,163,808,333.46	-9,032,771,761.77	9,819,007,682.20
12. Increased amounts of other non-current assets other than long-term equity investments	34,127,280.60	359,832,752.77	33,529,646.48		427,489,679.85

(2)Geographic information

Category	2016	2015
Revenues from domestic customers	16,208,992,881.10	14,266,558,516.03
Revenues from overseas customers	8,461,931,519.14	7,537,119,991.83
Total	24,670,924,400.24	21,803,678,507.86
Domestic non-current assets	6,051,857,671.33	5,749,543,669.67
Overseas non-current assets	1,221,897.61	10,732,583.20
Total	6,053,079,568.94	5,760,276,252.87

The business of the Company is mainly operated in Mainland China, where the majority of non-current assets of the Company are held, therefore further detailed regional information is not required to be presented.

5.Accounts receivable

Normal credit term of 60 days is granted to customers. The Group allows a credit term no more than one year for large and well-established customers. Sales are usually settled by cash on delivery for small and new customers. Accounts receivables are non-interest bearing.

The aging of accounts receivable is analyzed as follows:

Item	31 December 2016	31 December 2015
Within three months	2,672,469,962.21	2,050,051,659.69
Over three months but within six months	53,608,872.08	33,702,888.63
Over six months but within one year	8,822,472.50	12,424,319.08
Over one year	122,716,362.02	115,640,119.80
Total	2,857,617,668.81	2,211,818,987.20
Less: provision for bad debts	132,488,485.48	125,222,568.20
	2,725,129,183.33	2,086,596,419.00

6.Accounts payable

The aging of accounts payable is analyzed as follows:

Item	31 December 2016	31 December 2015
Within one year	4,228,675,470.71	2,765,359,219.91
Over one year	138,592,927.38	112,932,456.62
Total	4,367,268,398.09	2,878,291,676.53

7.Operating revenues and costs

Item	2016	2015
Revenue from principal operations	24,670,924,400.24	21,803,678,507.86
Revenue from other operations	2,059,295,096.83	1,667,924,350.12
Total	26,730,219,497.07	23,471,602,857.98
Item	2016	2015
Cost of principal operations	18,555,853,421.38	16,966,319,509.39
Cost of other operations	1,930,799,633.97	1,474,419,470.27
Total	20,486,653,055.35	18,440,738,979.66

8.Financial expenses

Item	2016	2015
Interest expenses	7,955,285.77	11,581,630.89
Less: interest income	12,774,479.24	5,689,252.09
Gain/(Loss) on Foreign Exchange	-88,442,403.71	-57,267,840.76
Others	7,272,533.77	-20,069,255.55
Total	-85,989,063.41	-71,444,717.51

9. Investment gain

(1) Particulars of investment gain

Item	2016	2015
Investment income arising from available-for-sale financial assets during holding period	6,004,000.00	7,410,000.00
Gain from long-term equity investment by the equity method	534,444,157.61	329,436,651.65
Gain from disposal of long-term equity investment	-27,416,905.27	135,654,196.76
Gain from disposal of financial assets held-for-trading	-3,007,956.96	57,670,852.33
Gain from Financial product	12,055,845.19	
Total	522,079,140.57	530,171,700.74

(2) Investment income arising from available-for-sale financial assets during holding period

Investee	2016	2015
Qingdao Hisense International Marketing Co., Ltd.	6,004,000.00	7,410,000.00
Total	6,004,000.00	7,410,000.00

(3) Gain from long-term equity investments by the equity method

Investee	2016	2015
Hisense-zhejiang	-36,319,775.98	-67,586,516.45
Attend Logistics Co., Ltd.	-83,804.31	-276,432.42
Hisense Hitachi	570,847,737.90	397,299,600.52
Total	534,444,157.61	329,436,651.65

10. Income tax expenses

Item	2016	2015
Current income tax expenses	122,560,074.53	75,473,364.69
Including: PRC enterprise income taxes	122,560,074.53	75,129,488.44
Hong Kong profit taxes		343,876.25
Deferred tax expenses	6,187,622.99	3,904,398.89
Total	128,747,697.52	79,377,763.58

The reconciliation from income tax calculated based on the applicable tax rates and total profits to the income tax expenses is as follows:

Item	2016
Total profits	1,270,341,471.22
Income tax expenses calculated at statutory (or applicable) tax rates	317,585,367.81
Tax effects of different tax rates applicable to certain subsidiaries	-22,153,127.97
Adjustments of income tax in previous period	7,228,666.62
Effects of non-taxable incomes	-149,028,922.32
Effects of non-deductible costs, expenses and losses	3,392,086.63
Effects of deductible losses not recognized as deferred tax assets in previous period	-22,662,538.61
Effects of deductible temporary differences or deductible losses not recognized as deferred tax assets in current period	19,966,538.98

Others	-25,580,373.62
Income tax expenses	128,747,697.52

Certain subsidiaries have been recognized as “high technology” companies and are entitled to a preferential tax rate of 15% (2015: 15%).

Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits.

Except as disclosed above, the Company and other group entities, which were established and operated in the PRC, are subject to EIT at a standard rate of 25% (2015: 25%).

11.Net current assets

Item	31 December 2016	31 December 2015
Current assets (Consolidated)	13,001,979,039.38	8,532,540,786.66
Less : Current liabilities (Consolidated)	13,361,571,345.58	9,445,950,354.62
Net current assets (Consolidated)	-359,592,306.20	-913,409,567.96
Current assets (the Company)	1,483,357,545.87	2,909,661,756.05
Less : Current liabilities (the Company)	778,639,076.40	2,335,475,827.76
Net Current assets (the Company)	704,718,469.47	574,185,928.29

12.Total assets less current liabilities

Item	31 December 2016	31 December 2015
Total assets (Consolidated)	19,055,058,608.32	14,292,817,039.53
Less : Current liabilities (Consolidated)	13,361,571,345.58	9,445,950,354.62
Total assets less current liabilities (Consolidated)	5,693,487,262.74	4,846,866,684.91
Total assets (the Company)	5,874,988,986.09	7,078,766,344.72
Less : Current liabilities (the Company)	778,639,076.40	2,335,475,827.76
Total assets less current liabilities (the Company)	5,096,349,909.69	4,743,290,516.96

13.Earnings per share

(a)Basic earnings per share

The calculation of basic earnings per share is based on the consolidated net profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding:

Item	2016	2015
Consolidated net profit attributable to ordinary shareholders of the parent	1,087,732,130.38	580,335,074.18
Weighted average number of issued ordinary shares of the Company outstanding	1,362,725,370.00	1,360,962,949.17
Basic earnings per share	0.80	0.43

(b)Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated net profit attributable to ordinary shareholders of the parent adjusted for dilutive potential ordinary shares divided by the adjusted weighted average number of ordinary shares of the Company outstanding. For the years ended 31 December 2016 and 2015, there were no dilutive potential ordinary shares, and therefore the diluted earnings per share were same as the basic earnings per share.

(c)Dividends

The Board proposed to pay a cash dividend of RMB3 (tax inclusive) per 10 shares held by all shareholders on the basis of the total share capital of 1,362,725,370 shares of the Company as at 31 December 2016, without bonus issue and not to issue shares by way of conversion of capital reserve. (2016: pay a cash dividend of RMB1.5 (tax inclusive) per 10 shares).

MANAGEMENT DISCUSSION AND ANALYSIS

I . INDUSTRY OVERVIEW

During the Reporting Period, the downward pressure on the Chinese economy increased, the real estate market first showed an improvement but followed by a decline and the domestic sales market was weak and the refrigerator market continued its downward trend in 2014 and 2015. According to the statistics of China Market Monitor Co., Ltd. (CMM), the cumulative retail sales volume of the refrigerator industry recorded a year-on-year decrease of 4.6% in 2016 and the cumulative retail sales amount decreased by 3.4% year-on-year. Benefiting from the continuous hot weather, the downward trend of the air-conditioner market has been reversed since August. According to the statistics of CMM, the cumulative retail sales volume of the air-conditioner industry recorded a year-on-year increase of 3.5% in 2016 and the cumulative retail sales amount increased by 5.6% year-on-year. In relation to the export market, overseas demand increased gradually, leading to a recovery in the export market. According to the statistics of the Customs, the export volume of refrigeration products rose 13.4% year-on-year in 2016, and the export volume for the air-conditioning products rose 16.8% year-on-year.

The structure of white goods products was upgraded continuously while “Intelligence” and “green” remained as the theme of the industry. In respect of refrigerator products, according to the statistics of CMM, the cumulative retail market share of French-style refrigerators increased by 6.3 percentage points year-on-year in 2016, while the cumulative retail market share of side-by-side refrigerators increased by 2.2 percentage points year-on-year. The cumulative retail market share of air-cooled refrigerators increased by 14.9 percentage points year-on-year and the cumulative retail market share of inverter refrigerators increased by 7.4 percentage points year-on-year. As for air-conditioning products, according to the statistics of CMM, the retail market share of artistic cabinet air-conditioners in the cabinet air-conditioner market increased by 9.1 percentage points year-on-year in 2016. The cumulative retail market share of intelligent air-conditioners increased by 7.9 percentage points year-on-year and the cumulative retail market share of inverter air-conditioners increased by 2.7 percentage points year-on-year.

With the continuous development of intelligent household, many enterprises have shifted their focus from “intelligent household appliance” to “intelligent home”. This will further drive the development of white goods towards the trend of being more intelligent, artistic and high-end.

II. ANALYSIS OF THE COMPANY’S OPERATION

1. Overall situation

During the Reporting Period, in light of the business environment with economic downturn and low demand, the Company adhered to its operating strategies of “maintaining the high-end awareness, accentuating the product advantages, consolidating market network, enhancing system efficiency and expanding the international market” to carry out its business and stopped the declining trend in

its profits of 2014 and 2015 and achieved a larger growth. The Company recorded an operating revenue of RMB 26730 million, representing a year-on-year increase of 13.88%, and a principal operating revenue of RMB 24671 million, representing a year-on-year increase of 13.15%, of which revenue from the refrigerator and washing machine business accounted for 51.80% of the principal operating revenue, representing a year-on-year increase of 10.58%; revenue from the air-conditioner business accounted for 42.08% of the principal operating revenue, representing a year-on-year increase of 15.52%. The domestic sales business recorded a principal operating revenue of RMB 16209 million, representing a year-on-year increase of 13.62%, whereas the export sales business recorded a principal operating revenue of RMB 8462 million, representing a year-on-year increase of 12.27%. The Company recorded net profits attributable to equity holders of the listed company of RMB 1088 million, representing a year-on-year increase of 87.43%, of which net profits after deducting non-recurring profit and loss were RMB998 million, representing a year-on-year increase of 329.29%. Earnings per share were RMB0.80.

During the Reporting Period, the Company was committed to implement measures for enhancing efficiency and reducing costs as well as generalization of products, largely reducing inventories and accelerating the inventory turnover rate. The inventory turnover was reduced by 7 days year-on-year.

As the technology and products of intelligent household appliances and intelligent household industries have gradually become mature which enriched the users' experiences, the market scale is expected to grow rapidly. During the Reporting Period, the Company leveraged on the technological advantages and operating experience in intelligent TV system and operation platform of Hisense Group and achieved a rapid improvement in the intelligent household appliances.

2. Technology orientation

Technological innovation is the primary driving force of product intelligentization and is also the foundation of continuous upgrade and raising the competitiveness of products. The Company adhered to its development strategy of "Technology orientation and prudent operation", and increased the competitiveness of products through upgrading technological innovation, improving product quality and adding value to products.

Refrigerator and washing machine business:

During the Reporting Period, the Company's refrigerator and washing machine business focused on customers' "dissatisfaction" and conducted research and product design based on various dimensions including energy efficiency, silence, fresh-keeping, internal and external appearance, intelligentization and innovative functions, so as to enhance product competitiveness. Technology aspect: The Company produced the fresh-keeping refrigerator with "DBD purification technology" that performs the functions of "hydrating, anti-bacteria and purification" which was recognized as having reached the world-leading level at the technology assessment conference held by China National Light Industry Council, which strengthened the Company's leading position in fresh-keeping technology in the industry. As the first company in China introducing the "automatic in-door ice-making technology", the Company's refrigerator technology was recognized as world-leading technology by the Guangdong Provincial Light Industry Association by virtue of its key technologies such as in-door automatic ice-making installation system, design of water injection system and micro-computer control system. By virtue of innovative technologies, at the

5th China International Consumer Electronics Leader Innovation Awards Ceremony, Hisense “Bei Duo Fen +” refrigerators won the “Technology Innovation Award” of the Leader Innovation Awards; at the 12th “China Household Electrical Appliances Innovation Achievement Award” ceremony, Hisense washing machine won the “Technology Innovation Award” by virtue of the third generation of spin water fall washing technology.

Product aspect: In 2016, the Company launched the 4th generation of the Hisense intelligent refrigerator equipped with the intelligent 4.0 system and offered functions such as online shopping, food storage period enquiry, online cuisine recommendation and intelligent temperature-control using means of intelligent networking technology through Hisense’s smart cloud technology platform. By virtue of its mastery of the development of intelligentization, “Hisense” was awarded the “2015-2016 Intelligent Technological Brand in the Refrigerator Industry” and Hisense “Bei Duo Fen+” refrigerator was awarded “2015-2016 Star of Intelligence in the Refrigerator Industry”.

Outlook design aspect: The Company upheld its strategy of product differentiation, strived to improve the quality of products’ outlook by innovating design theories based on users’ experience. At the iF Hannover Industrial Design Forum held in Hannover, Germany, which is reputed as the “Oscar of Industrial Design”, the three-drum sorting washing machine of Hisense was awarded the 2016 iF Product Award because of its unique design and recognized by international design community.

Air-conditioner business:

As for household air-conditioners, during the Reporting Period, the Company’s air-conditioner business adhered to its development philosophy of “breakthrough in core technology, product innovation and customer satisfaction” and introduced a series of differentiated intelligent inverter products. The Hisense “Pearl” goddess series air-conditioner (海信“珍珠”女神系列掛機) developed by the Company applied the intelligent light-sensor control and combined advanced technology of the industry, including NANO Anti-bacteria Technology and WIFI Intelligent Technology. The Company launched the X700 series artistic cylindrical cabinet air-conditioner, which is designed in a golden ratio shape featuring ultra-wide-angle air supply and high-static pressure and provides extra-long distance airflow. With technological innovation and functional enhancement, users’ experience with product was further improved and the Company’ high-end sophisticated products strategy was further implemented. In 2016, Hisense “Pearl” air-conditioner was awarded “Leading Comfortable Inverter Product in the Air-conditioner Industry in 2016-2017” and “Innovative Product of the Year”; the Company’s X700 series artistic cylindrical cabinet air-conditioner was awarded “Leading Intelligent Technological Innovation of the Chinese Air-conditioner Industry”. The Company was awarded “First Prize of Technology Advancement of Chinese Household Electrical Appliance in China 2016” by virtue of its artistic air-conditioner equipped with decentralized dual-flow ventilation technology. As for commercial air-conditioners, the Company launched the Kelon air-source heat pump heater series with VVI technology, which can discharge water of about 50°C when the temperature is as low as -20°C, achieving a stable and strong heat generation. Kelon central heater, by virtue of its advantages in technology and product quality, successively won the tenders of “coal-to-electricity” projects of seven districts and counties such as Daxing district of Beijing, Tongzhou, Mentougou and Shunyi, placing the Company at the top of the market share of Beijing’s “coal-to-electricity” projects.

3. Refrigerator and washing machine business

During the Reporting Period, the Company was committed to implement its strategy for high-end products. As a result, product quality, intelligentization level and user's experience improved continuously. Leveraging on the "Hisense Cloud" platform of the Hisense Group, the Company has successfully developed various functions of refrigerators such as remote control, food management, cuisine recommendation and online shopping. Currently, this platform has been widely applied in middle-end and high-end refrigerators. In addition, the new high-end products such as 620 Litres cross-design steel products, 500 Litres cross-design four-door refrigerators, which are equipped with "DBD purification and preservation technology" and 485 Litres French-style side-by-side refrigerators were released as scheduled. The high-end product mix was further enriched. According to the statistics of CMM, in 2016, the cumulative retail market share of side-by-side refrigerators of the Company increased 4.05 percentage points year-on-year. Against the macro-environment of weak growth in the domestic sales market, the Company endeavored to explore areas with profit growth so as to speed up the development of its business. Due to the substantial improvement in the scale and economic efficiency of our commercial refrigerators, the commercial refrigerators became a new business for raising efficiency of the Company. As for the foundational work, both product quality and NPS improved continuously. Indicators of key quality projects improved year-on-year and the NPS of products grew steadily. The Company also continued to implement information system projects, "Xinshang-Intelligent Store Management System(信商·智慧門店管理系統)", "WMS" and "SRM" systems as well as security system for research and development were launched as scheduled, which promoted production-efficiency enhancement measures such as manufacturing, research and development and marketing. Moreover, the Company paid great effort on sports marketing and captured the favorable opportunity for Hisense Group's top sponsor of the 2016 European Championships, so as to largely expand its overseas market. It was the first time for "Quality assurance for Ronshen refrigerators" to appear on stage of world-class international sports events, which contributed significantly in enhancing the brand image and the Company's reputation. As one of the major brands in the Australia refrigerator market, Hisense refrigerator was awarded "2016 Most Satisfied Customers Award" in November 2016 by CanstarBlue, a rating agency in Australia.

Driven by the increase of product competitiveness, continuous optimization of product mix and continuous improvement of internal basic management, the operation quality of the Company's refrigerator and washing machine business continued to improve and the gross profit margin of such business increased by 1.52 percentage points year-on-year.

4. Air-conditioner business

As for household air-conditioners, during the Reporting Period, the Company was committed to the promotion of the inverter technology and achieved comparative advantages of our products and perfected our inverters through intelligent technology upgrade and differentiation in appearance. The Company released a "smart ecosphere" strategy and focused on the demands from different users. The Company also combined various advanced technology in the industry such as new dual-mode inverter technology, NANO E360° airflow system, 16.5 dB ultra-silent technology, intelligent light-sensing technology and smart cloud technology and introduced different series of intelligent inverter sophisticated products such as "Xuanzhuan" air-conditioner, "Pearl" air-conditioner and "Xiaoxuanfeng" air-conditioner. As a result, the market share of inverter products steadily increased. According to the statistics of CMM, the cumulative retail market share of our inverter air-conditioners in 2016 increased by 0.78 percentage point year-on-year. As for the sales channel, the Company developed more channels and focused on developing the third and

fourth tier markets. The market scale of Hisense air-conditioner business in third and fourth tier markets was expanded by 21.4% year-on-year. In addition, the Company strictly monitored the inventory level and inventory structure, and substantially accelerated the inventory turnover rate.

As for commercial air-conditioners, Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. (“Hisense Hitachi”, a company in which the Company has equity interest) adhered to the management philosophy of “integrity, professionalism, quality and sophistication” and insisted on using technology to promote innovation in products. In addition to continuing to maintain the advantages in the field of public construction and to have strategic cooperation with a number of real estate companies in the PRC in the real estate field, the scale of Hisense Hitachi in the retail of home installation field maintained a rapid growth of more than 60% for 4 consecutive years. In 2016, Hisense Hitachi recorded an operating revenue of RMB 6532 million, representing a year-on-year increase of 35.81%, and a net profit of RMB 1223 million, representing a year-on-year increase of 44.52%, contributing significantly to the Company’s profit.

As for the export business, the Company boosted its export capacity and entered into international high-end market more swiftly through the opportunity arising from Hisense Group’s sponsorships in sports events, such as the UEFA European Championship, the China’s Olympic National Gymnastics Team, the F1 Team, the Australian Open Tennis Championships and Schalke Football Club. According to the statistics of the Customs, in 2016, the export volume for the air-conditioning products of the Company recorded a year-on-year increase of 32.7%, which was much higher than the industry’s average growth rate of 16.8%.

With the continuous enrichment and upgrade of intelligent inverter sophisticated products and the stable improvement of product competitiveness, and through implementation of our differentiation marketing strategy, the operating results of air-conditioner business grew sharply. Gross profit margin increased by 4.20 percentage points year-on-year.

Major risks and uncertainties

The financial position, operating results and business prospects of the Group may be affected by risks and uncertainties directly or indirectly related to the Group. The following are the major risks and uncertainties which the Company is aware of. In addition to those identified below, there may be other risks and uncertainties which the Company has not been aware of or are currently immaterial, but may become material in the future.

(1) Credit risk

Credit risk is the risk of economic losses arising from the failure of counterparties to fulfil their contractual obligations according to the terms of financial instruments.

The Group maintains substantial amount of its bank balances in several major large state-owned banks in the PRC. With strong support to those state-owned banks from the state, the Board believes that these assets are not exposed to significant credit risk that will result in financial losses.

The Group mitigates its exposure to risks associated with trade and other receivables by dealing with diversified customers with strong financial backgrounds. The Group also requires certain new customers to make cash payments in order to minimise credit risk. The Group maintains strict control over its outstanding receivables and has a credit control policy to minimise credit risk. In addition, all balances of receivable are monitored on an ongoing basis and overdue balances are

followed up by senior management.

The credit risk on derivative instrument transactions of the Group is not significant as the counterparties of derivative instrument transactions are banks which are rated by international credit-rating agencies as banks of high level of credit worthiness.

(2) Liquidity risk

Liquidity risk is the possibility of the Company failing to fulfil its contractual obligations when they fall due owing to its inability to obtain sufficient funding or realise its assets.

In order to mitigate the liquidity risk, the directors have carried out a detailed review on the liquid assets of the Group, including the situation of maturity for its accounts and other payables, availability of borrowings and loan facilities provided by Hisense Finance Co., Ltd., and it is concluded that the Group has adequate funding to fulfil its short-term liabilities and capital expenditure requirements.

(3) Interest rate risk

The interest rate risk that the Group is exposed to is primarily from changes in interest rates of interest-bearing financial assets and liabilities. The interest-bearing financial assets of the Group are mainly deposits with banks, which are mostly short-term in nature, whereas interest-bearing financial liabilities are mainly short-term bank borrowings. As at 31 December 2016, the interest rates of the Group's short-term bank borrowings were at a fixed rate. As all the Group's borrowings were factored accounts receivable, any change in the interest rate is not considered to have a significant impact on the Group's performance.

(4) Foreign currency risk

The Group's monetary assets and transactions are mainly denominated in RMB, HKD, USD, JPY and EUR. The exchange rates between RMB, HKD, USD, JPY and EUR are not pegged, and there is fluctuation in the exchange rates between RMB, USD, JPY and EUR.

Since part of the purchase and the majority of the overseas sales of the Group during the Reporting Period were settled in foreign currency, the Group is exposed to certain 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.

Environmental policies and performance

The Group is committed to achieve sustainable development of the environment and has integrated it into the daily operations of the Group. The Group continued to promote green measures and awareness in its daily business operations, complied with the "6S Management System" and implemented various green office measures, such as: two-sided printing and copying, promoting the use of recycle bags and turning off unused lights and electrical appliances to reduce energy consumption. The Group insisted on the development strategy of "technology orientation", by launching technologically innovative projects to upgrade the energy saving technology and intelligentisation technology for household electrical appliances.

The Group continued to carry out technology improvement and efficiency enhancement projects to enhance efficiency, conserve energy and reduce consumption. The Group also formulated an

environmental protection and resources conservation system and established a sound ISO14001 environmental management system and continuously maintained the effective operation of those systems. The ISO14001 environmental management system of the Group has passed the re-certification audit by the China Academy of Safety Science and Technology in November 2016, which assured the certification remained valid. The Group has established a sound occupational health and safety management system and has formulated the Occupational Health and Safety and Environmental Management System Manual and Procedure Document. The occupational health and safety management system of the Group has passed the re-certification audit by the China Academy of Safety Science and Technology in November 2016, which assured the certification remained valid. The Company continued to organize activities relating to standardisation of safe production and corporate compliance with each of its 7 subsidiaries obtaining an “A Grade Safe Production Standardization Enterprise Certificate”(一級安全生產標準化企業證書) issued by the State Administration of Work Safety in June 2014.

During the Reporting Period, there was no significant production safety accident. The Group did not violate any relevant environmental rules and regulations nor subject to any associated penalties. The Group highly emphasised on and actively perform social responsibilities in order to create coherence between economic benefits and social benefits.

Compliance with laws and regulations

The Group's business is mainly carried out by its subsidiaries in mainland China, and the Company is dually listed on the Shenzhen Stock Exchange and Hong Kong Stock Exchange. Accordingly, the operations of the Group should comply with the relevant laws and regulations of mainland China and Hong Kong. During the Reporting Period, to the best knowledge of the Company, the Group has complied with the relevant laws and regulations of mainland China and Hong Kong which has a significant impact on the business and operations of the Group. There was no material breach of or non-compliance with the applicable laws and regulations which has a significant impact on the business and operations of the Group.

Relationships with staff, customers, suppliers and other persons

The Group continued to improve its occupational training system in order to provide equal opportunities for its staff. The training system enhances the quality of its staff and their career development. In order to provide comprehensive support and healthcare services to its staff, the Group also paid attention to their living environment through building new apartments, canteens and clinic, which were managed by a specialised institution of the Group.

The Group has established and implemented a strict quality control and inspection system over its products. In order to enhance the standard of products and services, the Group has implemented a “guaranteed return and replacement within 30 days” return policy for all its household electrical appliances.

The Group conducted site inspections on the suppliers to determine their compliance with the terms of agreements. The Group has established close and stable relationships with a number of major suppliers, and past records of the Group showed that no significant shortages or delays were experienced when receiving supplies or services from the suppliers. During the Reporting Period, there has not been a major and significant dispute between the Group and the suppliers.

The Group adhered to the principle of “operating with integrity”. The Code of Integrity applies to all staff of the Group and they should strictly comply with the Code of Integrity involving shareholders, staff, customers, partners, government and society.

III. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

(I) 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

Item	2016	2015	Increase or decrease as compared to last year (%)	2014
Operating revenue (RMB)	26,730,219,497.07	23,471,602,857.98	13.88	26,534,420,935.55
Net profits attributable to shareholders of listed company (RMB)	1,087,732,130.38	580,335,074.18	87.43	672,478,632.35
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	997,923,876.59	232,460,457.89	329.29	582,931,287.47
Net cash flow from operating activities (RMB)	2,925,929,985.25	484,261,155.05	504.20	965,990,457.87
Basic earnings per share (RMB/share)	0.80	0.43	86.05	0.50
Diluted earnings per share (RMB/share)	0.80	0.43	86.05	0.50
Weighted average rate of return on net assets (%)	24.23	15.49	8.74	21.65
Items	31 December 2016	31 December 2015	Increase or decrease as compared to end of last year (%)	31 December 2014
Total assets (RMB)	19,055,058,608.32	14,292,817,039.53	33.32	13,266,793,963.74
Net assets attributable to shareholders of listed company (RMB)	4,867,466,177.17	4,044,017,698.45	20.36	3,458,363,028.38

QUARTERLY MAJOR FINANCIAL INDICATORS

Unit: RMB

Item	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenue (RMB)	5,765,448,152.85	7,357,503,378.66	7,307,367,677.79	6,299,900,287.77
Net profits attributable to shareholders of listed company (RMB)	146,360,992.25	412,918,489.06	304,094,646.88	224,358,002.19
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	138,018,516.72	381,142,713.17	281,740,052.09	197,022,594.61
Net cash flow from operating activities (RMB)	-297,155,279.62	1,363,876,550.25	1,334,098,269.54	525,110,445.08

(II) NON-RECURRING PROFIT AND LOSS ITEMS AND AMOUNTS

Unit: RMB

Item	Amount of 2016	Amount of 2015	Amount of 2014	Description
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	-15,647,219.04	124,501,216.75	-2,343,557.57	
Government grants recognized in the profits or losses (excluding government grants closely related to the	104,597,125.81	173,616,297.39	82,298,890.90	

Company's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)				
Other non-operating income and expenses other than the aforementioned items	24,049,500.83	111,227,500.87	39,015,647.68	
Less: Effect of income tax	14,854,388.82	33,493,517.67	15,218,459.01	
Effect of minority interests (after tax)	8,336,764.99	5,889,013.22	-10,027,621.39	
Total	89,808,253.79	347,874,616.29	89,547,344.88	

(III) ANALYSIS OF PRINCIPAL BUSINESS

1. Income

Is the Company's income from sales of goods larger than its income from provision of services?

☒ Yes ☐ No

Industry Category	Item (ten thousand units / sets)	2016	2015	Increase or decrease as compared to corresponding period last year (%)
Home appliances manufacturing industry	Sales volume	1,862	1,646	13.12
	Production volume	1,871	1,570	19.17
	Inventory volume	117	108	8.33

2. Composition of operating revenue

Unit: RMB

Item	2016		2015		Increase or decrease as compared to corresponding period last year (%)
	Amount	Weight to operating revenue (%)	Amount	Weight to operating revenue (%)	
By industry					
Home appliances manufacturing industry	24,670,924,400.24	100.00	21,803,678,507.86	100.00	13.15
By product					
Refrigerators and washing machines	12,778,722,120.61	51.80	11,555,814,929.64	53.00	10.58
Air-conditioners	10,380,981,134.10	42.08	8,986,110,462.69	41.21	15.52
Others	1,511,221,145.53	6.12	1,261,753,115.53	5.79	19.77
By region					
Domestic	16,208,992,881.10	65.70	14,266,558,516.03	65.43	13.62
Overseas	8,461,931,519.14	34.30	7,537,119,991.83	34.57	12.27

3. Composition of operating costs

Unit: RMB ten thousand

Industry Category	Item	2016		2015		Increase or decrease as compared to corresponding period last year (%)
		Amount	Weight to operating costs (%)	Amount	Weight to operating costs (%)	
Home appliances manufacturing industry	Raw materials	1,680,152.40	90.55	1,521,967.68	89.71	10.39
	Staff wages	65,227.38	3.52	59,465.79	3.50	9.69
	Depreciation	54,657.70	2.95	45,550.18	2.68	19.99
	Energy	12,311.39	0.66	14,267.56	0.84	-13.71

4. Expenses

Unit: RMB

Expense Item	2016	2015	Increase or decrease compared to corresponding period last year (%)	Reason for the significant changes
Sales expense	4,640,737,321.53	4,308,881,508.98	7.70	No significant change
Management expense	946,745,876.45	905,237,728.27	4.59	No significant change
Finance expense	-85,989,063.41	-71,444,717.51	N/A	No significant change

5. Cash Flow

Unit: RMB

Item	2016	2015	Increase or decrease as compared to corresponding period last year (%)
Sub-total of cash inflows from operating activities	22,863,018,974.92	15,544,850,363.13	47.08
Sub-total of cash outflows from operating activities	19,937,088,989.67	15,060,589,208.08	32.38
Net cash flows from operating activities	2,925,929,985.25	484,261,155.05	504.20
Sub-total of cash inflows from investing activities	2,158,969,055.54	339,898,396.05	535.18
Sub-total of cash outflows from investing activities	3,355,984,997.99	649,658,954.97	416.58
Net cash flows from investing activities	-1,197,015,942.45	-309,760,558.92	N/A
Sub-total of cash inflows from financing activities	696,098,227.11	1,479,031,479.79	-52.94
Sub-total of cash outflows from financing activities	2,645,390,143.11	1,512,308,178.40	74.92
Net cash flows from financing activities	-1,949,291,916.00	-33,276,698.61	N/A
Net increase in cash and cash equivalents	-217,174,252.29	142,120,391.05	N/A

Explanations of the main contributing factors for significant year-on-year change of the relevant figures

√ Applicable □ Not applicable

The cash inflows from operating activities increased as compared with that for the same period of last year mainly due to increased scale of sales of the Company, the corresponding increase in receipt from sales and the increase in payment received from bank acceptance bills at their maturity during the Reporting Period.

The cash outflows from operating activities increased as compared with that for the same period of last year mainly due to increased scale of sales of the Company and the increase in the expenses of procurement and payment for materials during the Reporting Period.

The cash inflows from investing activities increased as compared with that for the same period of last year mainly due to the increase in the receipt from wealth management products of the Company upon maturity during the Reporting Period.

The cash outflows from investing activities increased as compared with that for the same period of last year mainly due to the increase in the purchase of wealth management products by the Company for investment during the Reporting Period.

The cash inflows from financing activities decreased as compared with that for the same period of last year mainly due to the substantial decrease in the amount of the Company's borrowings during the Reporting Period.

The cash outflows from financing activities increased as compared with that for the same period of last year mainly due to the increase in the margin deposits of the Company during the Reporting Period.

6. Research and development inputs

During the Reporting Period, the Company's research and development focused on improving

product performance, level of intelligentization and users' experience, breaking through core technology, and enriching high-end product mix. We insisted on providing inputs in research and development and technology innovation of products in order to strengthen our products' market competitiveness and the Company's core competitiveness so as to support the Company's industrial advancement with strong technologies.

Description of research and development inputs of the Company

Item	2016	2015	Proportion of change (%)
Number of research and development staff	1093	995	9.85
Proportion of number of research and development staff (%)	3.22	3.02	0.20
Amount of research and development inputs (RMB)	573,604,984.75	507,821,663.05	12.95
Proportion of research and development inputs to operating revenue (%)	2.15	2.16	0.01
Amount of capitalized research and development inputs (RMB)	0	0	0
Proportion of capitalized research and development inputs to research and development inputs	0	0	0

(IV) DESCRIPTION OF INDUSTRIES, PRODUCTS OR REGIONS ACCOUNTING FOR 10% OR ABOVE OF THE REVENUE OR PROFITS FROM OPERATING BUSINESSES OF THE COMPANY

Unit: RMB

Item	Revenue from operating businesses	Costs of operating businesses	Gross profit margin (%)	Increase or decrease in revenue from operating businesses as compared to corresponding period last year (%)	Increase or decrease in costs of operating businesses as compared to corresponding period last year (%)	Increase or decrease in gross profit margin as compared to corresponding period last year (%)
By industry						
Home appliances manufacturing industry	24,670,924,400.24	18,555,853,421.38	24.79	13.15	9.37	2.60
By product						
Refrigerators and washing machines	12,778,722,120.61	9,609,817,899.92	24.80	10.58	8.39	1.52
Air-conditioners	10,380,981,134.10	7,805,544,151.26	24.81	15.52	9.41	4.20
Others	1,511,221,145.53	1,140,491,370.20	24.53	19.77	18.02	1.12
By region						
Domestic	16,208,992,881.10	11,404,909,593.01	29.64	13.62	9.80	2.45
Overseas	8,461,931,519.14	7,150,943,828.37	15.49	12.27	8.69	2.78

(V) ASSETS AND LIABILITIES POSITION

Significant changes in asset items

Unit: RMB

Items	At the end of 2016		At the end of 2015		Change in proportion (%)	Explanation of significant changes
	Amount	Percentage to total assets (%)	Amount	Percentage to total assets (%)		
Monetary funds	2,227,421,330.74	11.69	1,014,410,146.17	7.10	4.59	Mainly due to the increase in net operating cash flows resulted from the improvement of the

						operation of the Company
Notes receivable	3,281,453,069.10	17.22	2,289,706,048.91	16.02	1.20	Mainly due to increase in the scale of the Company payment via the issuance of notes payable and retention of notes receivable during the Reporting Period
Accounts receivable	2,725,129,183.33	14.30	2,086,596,419.00	14.60	-0.30	Mainly due to the increase in scale of sales
Inventories	2,660,044,996.38	13.96	2,270,139,557.55	15.88	-1.92	No significant change
Other current assets	1,678,765,851.25	8.81	467,872,305.65	3.27	5.54	Mainly due to the increase in the purchase of wealth management products by the Company at the end of the Reporting Period
Investment properties	26,456,837.73	0.14	28,958,126.07	0.20	-0.06	No significant change
Long-term equity investment	1,627,383,596.00	8.54	1,323,253,353.15	9.26	-0.72	No significant change
Fixed assets	3,481,725,652.28	18.27	3,529,787,697.68	24.70	-6.42	No significant change
Construction in progress	72,942,458.27	0.38	64,837,848.39	0.45	-0.07	No significant change
Short-term borrowings	-	-	223,496,764.71	1.56	-1.56	Mainly due to the settlement of factoring accounts receivable business by the Company at the end of the Reporting Period
Notes payable	5,227,854,741.07	27.44	2,931,174,504.52	20.51	6.93	Mainly due to the increase in issuance of electronic bills during the Reporting Period
Accounts payable	4,367,268,398.09	22.92	2,878,291,676.53	20.14	2.78	Mainly due to the increase in accounts payable caused by increase in production volume and increase in scale of sales at the end of the Reporting Period
Employee remuneration payable	334,204,436.58	1.75	250,749,290.94	1.75	-0.00	Mainly due to the increase in annual remuneration payable at the end of the Reporting Period
Taxes payable	222,919,921.87	1.17	161,686,275.79	1.13	0.04	Mainly due to the increase in income tax payable at the end of the Reporting Period

(VI) ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Unit: RMB

Items	Amount at the beginning of the period	Gain or loss from change in fair value during the period	Accumulated changes in fair value accounted in equity	Impairment provided during the period	Amount purchased during the period	Amount sold during the period	Amount at the end of the period
Financial assets							
1. Financial assets measured at fair value where changes in fair value are		9,695,070.04					9,695,070.04

accounted for as gain or loss of the period (excluding derivative financial assets)							
2. Derivative financial assets							
3. Financial assets available for sale							
Sub-total of financial assets		9,695,070.04					9,695,070.04
Investment Properties							
Productive biological assets							
Others							
Total		9,695,070.04					9,695,070.04
Financial liabilities	-9,767,732.75	9,767,732.75					

(VII) CORE COMPETITIVENESS ANALYSIS

1. Technological advantages

The Company adheres to its development strategy of “technology orientation” and focuses on “intelligence” and “green” to build its core competitiveness through continual innovations in technologies and products. The Company has top-notch research and development institutions including State-level enterprise technology center, enterprise post-doctoral scientific research station, State-recognized laboratory, and Guangdong Provincial Key Research and Development Center of Engineering Science, and an industry-leading research and development team with over thousands of technical personnel. The Company is continuously committed to enhance its self-driven innovation capacity, strives to enhance the performance and level of intelligentization of its products, in order to improve its core competitiveness and its products’ market competitiveness and provide strong technical support for the Company’s industrial advancement.

2. Brand advantages

The three brand names used in products of the Company, namely “Hisense”, “Ronshen” and “Kelon”, have good brand reputation and market base. Among these brands, the market share of “Hisense” inverter air-conditioners had ranked first in China for thirteen consecutive years, while the market share of “Ronshen” refrigerators had ranked first in China for eleven years. “High technology and high quality” reflects the Company’s core brand value. At the same time, the Company gradually accelerated the process of internationalization and continuously promoted the internationalisation of its own brands. According to the statistical data of GFK, the sale market share of the Company’s refrigerator products in South Africa in November 2016 outperformed its competitors and ranked top in the market for the first time; the sale market share of the Company’s refrigerator products in Australia in 2016 ranked in top three for the first time.

(VIII) Major subsidiaries and companies in which the Company has equity interest

Name of company	Company type	Major business	Registered capital	Total assets (RMB ten thousand)	Net assets (RMB ten thousand)	Operating revenue (RMB ten thousand)	Operating profit (RMB ten thousand)	Net profits (RMB ten thousand)
Hisense Hitachi	A company in which the Company has equity interest	Production and sale of commercial air-conditioners	US\$46 million	686,411.63	341,051.67	651,846.73	136,657.84	122,335.38

Acquisition and disposal of subsidiaries during the Reporting Period

☒ Applicable ☐ Not applicable

Name of company	Means of acquisition and disposal of subsidiaries during the Reporting Period	Effect on the overall production, operation and results
Hisense Changsha Electronic Commerce Limited	Newly established	Meeting the Company's operation needs.
Qingdao Hisense Commercial Cold Chain Co., Ltd	Newly established	Meeting the Company's industrial development needs.
Zhejiang Hisense Electric Appliance Co., Ltd. (Formerly named Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. ("Zhejiang Hisense"))	Equity transfer	This equity transfer increased the Company's percentage of shareholding in Zhejiang Hisense. The equity transfer has been completed and Zhejiang Hisense is no longer a joint venture of the Company but a wholly-owned subsidiary of the Company and its results is now consolidated into the Company's accounts.

(IX)Material changes of major assets

Major assets	Description of the material changes
Equity assets	No significant change
Fixed assets	No significant change
Intangible assets	No significant change
Projects in progress	No significant change

(X) Particulars of acquisition of major equity investment during the Reporting Period

☒ Applicable ☐ Not applicable

Unit: RMB ten thousand

Name of the investee company	Principal business	Investment method	Amount of investment	Percentage of shareholding	Source of funding	Counterparty	Investment period	Product type	Status as at the date of the balance sheet	Expected revenue	Gain or loss during the Reporting Period	Involvement in litigation	Date of disclosure (if any)	Disclosure reference (if any)
Zhejiang Hisense Electric Appliance Co., Ltd. ^{Note}	Development, production and sale of washing machines	Acquisition	US\$1	50%	Own funding	Whirlpool (Hong Kong) Limited	--	--	Equity transfer process has been completed	-	1,383.26	No	4 August 2016	Announcement number: 2016 019 Announcement title: "Announcement regarding the transfer of 50% equity interest in Hisense-Whirlpool (Zhejiang) Electric

	nes and refrige rators													Appliances Co., Ltd.”
Total	--	--	US\$1	--	--	--	--	--	--	-	1,383 .26	--	--	--

Note: Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. is now renamed as Zhejiang Hisense Electric Appliance Co., Ltd.

IV.OUTLOOK

Looking forward to 2017, the downward pressure on the Chinese economy will remain. Market demands on the white goods will still be low. Besides, raw material costs, man power and labour costs, logistics and transportation costs as well as installation service costs will continue to rise, creating great pressure on our operation and development. However, on the other hand, the industry trend of “high-end” and “intelligentization” will continue. After the reduction in the air-conditioner inventory in 2016, the merchants’ inventory volume has been greatly reduced, providing benign conditions for manufacturers’ delivery of products and realizing a healthy market cycle.

In 2017, the Company will firmly uphold the operating strategies of “strengthening the high-end strategy, expanding the advanced network, raising system efficiency, accelerating business expansion, expanding the international market, ensuring economies of scale” to grasp the opportunities of upgrading its business, so as to achieve steady increases in its scale, performance and market share by implementing the following:

1.Strengthening high-end strategies, highlighting high-end products and increasing brand values: to increase investment in pre-research and research and development (R&D), accelerate the mastery of key technology, establish a comprehensive R&D system, continuously enhance its R&D capability, increase R&D efficiency and provide strong technical support for high-end products; strictly monitor the R&D and manufacturing process, ensure product quality, strictly monitor the closed-loop management which has been found problematic in the NPS investigation, focus on resolving users’ major dissatisfaction and ensure achievement of the NPS goals; endeavor to overcome bottlenecks in respect of materials, structure and art work, improve product appearance and improve the brand image; promote high-end products with greater dedication to boost growth, set up a storage management system for high-end products, trace the demand of high-end customers, identify and tackle the problems from user’s experience in a timely manner, promote sales and increase the share of high-end products; continue to leverage on the operation platform under Hisense Group to establish a smart household ecosphere and further increase the scale of the “intelligent household.

2. Optimizing our customer composition and developing a high-quality network: to grasp the rise of the third and fourth tier markets, establish a high-quality customer base, promote brand reputation and growth of business scale of our third and fourth tier markets through customer’s recognition, manage our customer base of the third and fourth tier markets by way of categorization in accordance with their potential value, provide more support to high-quality potential customers and eliminate the poor-quality customers with small business scale and bad reputation; plan to develop durable goods (high price-performance products) with adaptations to the third and fourth tier markets, fulfill the users’ demands, arouse merchants’ motivation and accelerate sales growth.

3. Raising system efficiency: to implement system enhancement with “enhancing efficiency in

marketing” as the emphasis; continue to execute various tasks in automation, generalization and informatization to raise production efficiency.

4. Accelerating business expansion: through establishing a team of talents, enhancing professional R&D capability, implementing the strategy of product differentiation and enhancing product competitiveness to achieve rapid growth in business scale and economic efficiency of “washing machine”, “commercial cold chain”, “commercial air-conditioner”, “environmental appliances” and “kitchen appliances”.

5. Expanding the international market: to adhere to the strategy of “the great overseas market”; to accentuate the concept of high-end from the planning stage in respect of the development of overseas products, improve product quality and the degree of sophistication and meticulousness, produce star products for export, continue to launch high-end product promotion activities and ensure the quality of overseas expansion.

6. Improving capital efficiency: to accelerate inventory turnover and receivable turnover, reduce ineffective use of funds and enhance the ability to utilize capital; carry out detailed management on cost-control and improve the efficiency of capital utilization.

FINAL DIVIDEND

The Group recorded net profit attributable to shareholders of the listed company of RMB 1,087 million for the year ended 31 December 2016. The Board proposed to pay a cash dividend of RMB 3 (tax inclusive) per 10 shares held by all shareholders (the “**Proposed Dividend**”) on the basis of the total share capital of 1,362,725,370 shares of the Company as at 31 December 2016, without bonus issue and not to issue shares by way of conversion of capital reserve (For the year ended 31 December 2015, the Company paid a cash dividend of RMB1.5 (tax inclusive) per 10 shares held by all shareholders on the basis of the total number of shares of the Company being 1,362,725,370 as at 31 December 2015).

The Proposed Dividend is subject to approval by the shareholders at the 2016 annual general meeting (the “**Annual General Meeting**”). Subject to the approval of the Proposed Dividend by the shareholders, the Proposed Dividend is expected to be paid on or about 15 August 2017. The total amount of profits to be so distributed is expected to be RMB408,817,611.00. Details of the payment of the Proposed Dividend will be announced after conclusion of the Annual General Meeting.

LIQUIDITY AND SOURCES OF FUNDS

For the year ended 31 December 2016, net cash generated from operating activities of the Group amounted to approximately RMB 2,926 million (2015: net cash generated from operating activities amounted to approximately RMB 484 million).

As at 31 December 2016, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB 2,227 million (2015: RMB 1,014 million), and no bank loans amounting (2015: RMB 223 million).

Total capital expenditures of the Group for the year ended 31 December 2016 amounted to approximately RMB 295 million (2015: RMB 450 million).

HUMAN RESOURCES AND EMPLOYEES’ REMUNERATION

As at 31 December 2016, the Group had approximately 33,967 employees, mainly comprising

4,305 technical staff, 14,424 sales representatives, 335 financial staff, 733 administrative staff and 14,170 production staff. The Group had 9 employees with a doctorate degree, 458 with a master's degree and 3,840 with a bachelor's degree. For the year ended 31 December 2016, the Group's staff payroll amounted to RMB 2,584 million (corresponding period in 2015 amounting to RMB 2,508 million).

EMPLOYEES' TRAINING AND REMUNERATION POLICY

Employees and talented personnel are the basis for corporate development. Through the platform provided by Hisense College, the Company has established a three-tier training system, a well-rounded curriculum system and a training regulatory system. The Company has also actively promoted the building up of teacher resources internally and externally in order to effectively support the development of its management and technical team and improve its human resources. Every year, the Company will formulate education and training programs for employees based on the annual operational strategy and human resources development needs.

The Company has provided 9528 overall course hours to a total of 94458 participants during the Reporting Period. The courses mainly included areas such as corporate management, quality craftsmanship, corporate culture, production and manufacturing, as well as technological research and development and they are provided for employees at different levels, ranging from base level staff responsible for works such as front-line production and marketing to senior management.

The Company adopts a position-based remuneration policy for its staff. Staff remuneration is determined by reference to the relative importance of and responsibility assumed by the position and other performance factors.

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2016, the Group's did not have property, plant and equipment (including leasehold land held for own use), investment properties and trade receivables (31 December 2015: RMB 324 million) were pledged as security for the Group's borrowings.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

Since part of the purchase and the majority of the overseas sales of the Group during the Reporting Period were denominated in foreign currency, the Group is exposed to certain 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.

PUBLIC FLOAT

The Directors confirm that as at 29 March 2017, based on publicly available information and to the best of their knowledge, 25% or above of the total issued share capital of the Company are held by the public. Therefore, the public float of the Company satisfies the requirement stipulated under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

AUDIT COMMITTEE

The ninth session of the audit committee of the Company has reviewed the final results of the Group for the year ended 31 December 2016.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2017 will be approximately RMB 30 million. The Group has sufficient funds to meet the funding requirement for capital expenditure plans and daily operations.

TRUST DEPOSITS

As at 31 December 2016, 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 institutions in the PRC and Hong Kong.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2016, the Group did not have any long-term bank borrowings and its cash and cash equivalents amounted to RMB 2,227 million (2015: RMB 1,014 million), of which more than RMB 1,969 million are denominated in Renminbi.

As at 31 December 2016, the Group's current liabilities amounted to RMB 13,362 million, non-current liabilities amounted to RMB 370 million, and shareholders' equity attributable to the shareholders of the Company amounted to RMB 4,867 million. Details of the Group's capital structure are set out in the financial statements which will be contained in the annual report of the Company.

GEARING RATIO

As at 31 December 2016, the Group's gearing ratio (calculated according to the formula: total liabilities /total assets) was 72.06% (2015: 68.70%).

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The ninth session of the Board has received a written confirmation from each of the independent non-executive Directors in respect of their independence in accordance with the requirements provided under Rule 3.13 of the Hong Kong Listing Rules. The Company considers that all the independent non-executive Directors of the ninth session of the Board meet the relevant requirements under Rule 3.13 of the Hong Kong Listing Rules and considers them to be independent.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

None of the Directors and the supervisors of the Company has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

The Directors of the ninth session of the Board and the supervisors of the Company do not and did not directly or indirectly hold any material interests in any contract of significance of the Company or its subsidiaries subsisting during or at the end of the year 2016.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the ninth session of the Board have reviewed the continuing connected transactions of the Group for the year 2016, and confirmed that these transactions were conducted in the ordinary course of business of the Group in accordance with the relevant agreements governing them and on normal commercial terms which were fair and reasonable and in the interest of the shareholders of the Company as a whole.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY AUDITORS

After auditing the continuing connected transactions of the Group, the auditors of the Company confirmed that the relevant continuing connected transactions of the Group have been approved by the Board, were carried out in accordance with the Company's pricing policies pursuant to the terms of the agreements of the relevant transactions, and have not exceeded the caps disclosed in the previous announcements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in the Hong Kong Listing Rules as its code for securities transaction by Directors. After having made specific enquiries to the Directors, all Directors of the Board confirmed that they had acted in full compliance with the Model Code during their term of office.

SHARE CAPITAL STRUCTURE

As at 31 December 2016, the share capital structure of the Company was as follows:

Class of shares	Number of shares	Percentage to the total issued share capital
H shares	459,589,808	33.73%
A shares	903,135,562	66.27%
Total	1,362,725,370	100.00%

TOP TEN SHAREHOLDERS

As at 31 December 2016, there were 31,115 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
Qingdao Hisense Air-conditioning Company Limited	State-owned legal person	584,894,878	42.92%	64.76%	0
HKSCC Nominees Limited ^{Note 1}	Foreign legal person	458,145,169	33.62%	99.69%	0
Cental Huijin Investment Ltd.	State-owned legal person	26,588,700	1.95%	2.94%	0

Zhang Shao Wu	Domestic natural person	7,200,000	0.53%	0.80%	0
Bank of China Limited – Huatai-PineBridge Quantified Enhanced Mixed Type Securities Investment Fund	Other	6,516,609	0.48%	0.72%	0
China Construction Bank Corporation - Boshi Yufu Shanghai Shenzhen 300 Index Securities Investment Fund	Other	6,466,000	0.47%	0.72%	0
Industrial and Commercial Bank of China Limited – China Universal Outward Growth Stock-Type Securities Investment Fund	Other	4,999,947	0.37%	0.55%	0
Galaxy Futures Company Limited – Galaxy Futures Prospect No.1 Asset Management Plan	Other	4,765,918	0.35%	0.53%	0
Vanguard Investments Australia Limited - Emerging Markets Stock Index Fund (Stock Exchange)	Foreign legal person	4,168,227	0.31%	0.46%	0
Industrial and Commercial Bank of China Limited – Southern Big Data 100 Index Securities Investment Fund	Other	3,586,525	0.26%	0.40%	0

Notes:

1. 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, increased its holding of H shares of the Company by 16,042,000 H shares during the Reporting Period, representing 1.18% of the total number of shares of the Company. Hisense (Hong Kong) Company Limited is the holder of 97,202,000 H shares in total at the end of the Reporting Period, representing 7.13% of the total number of shares of the Company;
2. At the end of the month prior to the date of publication of this results announcement on 29 March 2017, there were 26,286 shareholders of ordinary shares of the Company in total;
3. Zhang Shao Wu, a shareholder of the Company, holds 7,200,000 shares of the Company through customer credit trading guarantee securities account in Guosen Securities Company Limited.

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
Qingdao Hisense Air-conditioning Company Limited	584,894,878	RMB ordinary shares
HKSCC Nominees Limited	458,145,169	Overseas listed foreign shares
Cental Huijin Investment Ltd.	26,588,700	RMB ordinary shares

Zhang Shao Wu	7,200,000	RMB ordinary shares
Bank of China Limited – Huatai-PineBridge Quantified Enhanced Mixed Type Securities Investment Fund	6,516,609	RMB ordinary shares
China Construction Bank Corporation - Boshi Yufu Shanghai Shenzhen 300 Index Securities Investment Fund	6,466,000	RMB ordinary shares
Industrial and Commercial Bank of China Limited – China Universal Outward Growth Stock-Type Securities Investment Fund	4,999,947	RMB ordinary shares
Galaxy Futures Company Limited – Galaxy Futures Prospect No.1 Asset Management Plan	4,765,918	RMB ordinary shares
Vanguard Investments Australia Limited - Emerging Markets Stock Index Fund (Stock Exchange)	4,168,227	Overseas listed foreign shares
Industrial and Commercial Bank of China Limited – Southern Big Data 100 Index Securities Investment Fund	3,586,525	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 《上市公司收購管理辦法》 (Administrative Measures for the Takeover of Listed Companies).

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES

So far as is known to the Directors, supervisors and the chief executive of the Company, as at 31 December 2016, 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 (the “Hong Kong Stock Exchange”):

Long position or short position in the shares of the Company

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	584, 894,878 (L)	64.76%	42.92%
Qingdao Hisense Electric Holdings Company Limited <i>Note 1</i>	Interest of controlled corporation	A shares	584, 894,878 (L)	64.76%	42.92%
Hisense Company Limited <i>Note 1</i>	Interest of controlled corporation	A shares	584, 894,878 (L)	64.76%	42.92%

Hisense (Hong Kong) Company Limited ^{Note 1}	Beneficial owner	H shares	97,202,000 (L)	21.15%	7.13%
Qingdao Hisense Electric Holdings Company Limited ^{Note 1}	Interest of controlled corporation	H shares	97,202,000 (L)	21.15%	7.13%
Hisense Company Limited ^{Note 1}	Interest of controlled corporation	H shares	97,202,000 (L)	21.15%	7.13%

The letter “L” denotes a long position, the letter “S” denotes a short position and the letter “P” denotes lending pool.

Notes:

1. *Qingdao Hisense Air-conditioning Company Limited is a company directly owned as to 93.33% by Qingdao Hisense Electric Holdings Company Limited, whereas Hisense (Hong Kong) Company Limited is a company directly owned as to 100% by Qingdao Hisense Electric Holdings Company Limited. Qingdao Hisense Electric Holdings Company Limited is in turn owned as to 32.36% 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 and in the same parcel of H shares of which Hisense (Hong Kong) Company Limited was interested.*

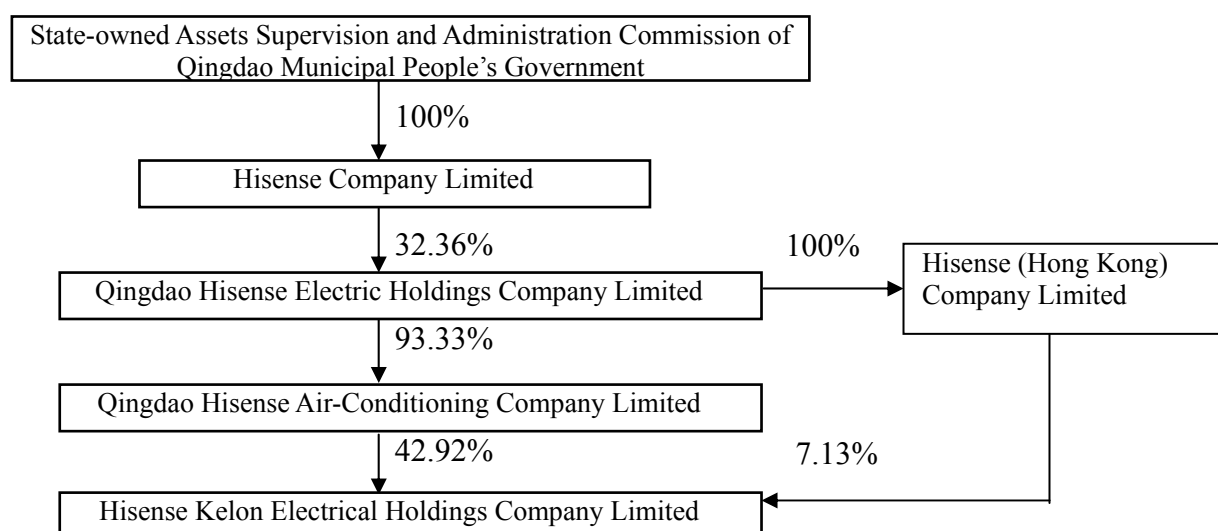
Save as disclosed above, as at 31 December 2016, in so far as the Directors, supervisors and chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

PARTICULARS OF THE CONTROLLING SHAREHOLDERS OF THE COMPANY

1. Qingdao Hisense Air-Conditioning Company Limited, the controlling shareholder of the Company, was incorporated on 17 November 1995. Its registered address is Changsha Road, Hi-tech Industrial Zone, Qingdao, the PRC and the legal representative is Mr. Tang Ye Guo and its registered capital is RMB674.79 million. Its business scope is the development and manufacture of air-conditioning products and injection moulds and the provision of after-sale repairing services for its products (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure).
2. The beneficial controller of the Company is Hisense Company Limited, which was incorporated in August 1979 with its registered address at No. 17 Donghai West Road, Shinan, Qingdao. Mr. Zhou Houjian is the legal representative of Hisense Company Limited and its registered capital is RMB806.17 million. The scope of business includes: the entrusted operation of state-owned assets; the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small household appliances, disc players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; the development of software and the provision of internet services; the technological development and the provision of consultation services; the self-operated import and export business (with its operation subject to the list of projects as approved by the MOFTEC); the foreign economic and technical cooperation (with its operation subject to the list of projects as approved by the

MOFTEC); operation of property rights transaction and provision of brokerage and information services; provision of industrial travel agency services; provision of relevant business trainings, property management, leasing of tangible property and leasing of immovable property (projects which require permit/approval under the laws, commencement of operations of the businesses which require approval from the relevant department).

3. The ultimate beneficial controller of the Company is the State-owned Assets Supervision and Administration Commission of Qingdao Municipal People's Government.
4. Relationship between the Company and its beneficial controllers:



5. During the Reporting Period, there was no change in the controlling shareholders of the Company.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, save as disclosed below and in the sub-section “Movements of the share options during the Reporting Period” under the section headed “Summary on adoption of first share option incentive scheme and the grant thereunder”, none of the members of the Board, supervisors and the chief executive of the Company 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 Hong Kong Stock Exchange pursuant to the Model Code.

Long position in the shares of the Company

Name of Director	Nature of interest	Number of shares	Percentage to the total issued shares of the Company (%)	Percentage to the relevant class of issued shares of the Company (%)
Tang Ye Guo	Beneficial owner	831,600 A Shares	0.061	0.092
Jia Shao Qian	Beneficial owner	539,060 A Shares	0.040	0.060
Wang Yun Li	Beneficial owner	52,120 A Shares	0.004	0.006

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2016, the aggregate amount of the Group's purchases from the top five suppliers was RMB3,064 million, representing 16.52% of the total purchase amount of the Group for the year and the aggregate sales amount to the top five customers was RMB 6,438 million, representing 26.09% of the total sales amount of the Group for the year.

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 securities.

AUDITOR

On 24 June 2016, as considered and approved at the shareholders' general meeting, the Company agreed to re-appoint Ruihua Certified Public Accountants as the auditor of the Company for the financial year of 2016, and the Board was authorized to fix their remuneration.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of the Company or the relevant PRC laws.

TAXATION

Pursuant to the relevant tax regulations, the Company is required to withhold and pay corporate income tax at the rate of 10% when distributing dividends to non-resident enterprise shareholders whose names appear on the H-share register of members.

SUMMARY ON ADOPTION OF FIRST SHARE OPTION INCENTIVE SCHEME AND THE GRANT THEREUNDER

(1) Purpose of the Scheme

The first share option incentive scheme (the "Scheme") was adopted by the Company on 1 August 2011. The Scheme is formulated to further refine the management structure of the Company, provide long-term rewards and retention incentives for the senior and mid-level management, key technical, sales and management personnel of the Company, fully motivate their pro-activeness and creativity, closely correlate their interests with the long term development of the Company, and allow sustainable development of the Company.

The participants include the directors of the Company (exclusive of the independent directors and external directors who are not officers of Hisense Group and its subsidiaries (other than the Company and its subsidiaries), senior management (including president, vice president, financial controller, secretary to the Board, company secretary and other officers which are regarded as senior management under the Articles of Association) of the Company, mid-level management staff of the Company and its subsidiaries, and such key technical personnel of the Company and its subsidiaries as determined by the Board.

(2) Movements of the share options during the Reporting Period

No.	Name	Position	Outstanding share options as at 1	Number of share options	Number of share options	Number of share options	Outstanding share options as
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			January 2016 ('0000 shares)	exercised during the Reporting Period ('0000 shares)	lapsed during the Reporting Period ('0000 shares)	cancelled during the Reporting Period ('0000 shares)	at 31 December 2016 ('0000 shares)
1	Tang Ye Guo	Chairman	42.84	-	42.84	42.84	0
2	Jia Shao Qian	Director, Vice-President	28.894	-	28.894	28.894	0
3	Wang Yun Li	Director, Vice-President	30.651	-	30.651	30.651	0
4	Wang Zhi Gang	Former Director, Vice-President	6.12	-	6.12	6.12 <i>(Note 2)</i>	0
5	Mid level management staff and key personnel		340.182	-	340.182	340.182	0
	Total		448.687	-	448.687	448.687	0

Notes:

1. All share options available for issue under the Scheme have been granted.
2. Mr. Wang Zhi Gang has resigned from his position as director on 5 May 2016.
3. The Share Options for subscribing 4,486,870 A Shares which were granted on 31 August 2011 pursuant to the Scheme have lapsed on 31 August 2016 and were cancelled on 5 September 2016 (details of which are disclosed in the Company's overseas regulatory announcement dated 5 September 2016).

(3) The grant date and the exercise price of the share options

The grant date of the share options is 31 August 2011 and the exercise price is RMB7.65 per share.

(4) Validity period of the share options

The validity period of the share options under the grant shall be a term of 5 years commencing from the grant date.

(5) Exercise Arrangement

The exercise of the share options under the grant is subject to a restriction period of 2 years, during which period the rights are not exercisable.

Subject to the fulfillment of the exercise conditions, the share options under the grant can be exercised in batches after the expiry of the 2-year period from the grant date according to the following exercise arrangement:

- i. 33% of the share options granted to each participant shall become exercisable on the trading day immediately after the second anniversary of the grant date (2 September 2013) until the trading day falling on the fifth anniversary of the grant date (31 August 2016);
- ii. another 33% of the share options granted to each participant shall become exercisable on the trading day immediately after the third anniversary of the grant date (1 September 2014) until the trading day falling on the fifth anniversary of the grant date (31 August 2016); and
- iii. the remaining 34% of the share options granted to each participant shall become exercisable on the trading day immediately after the fourth anniversary of the grant date (1 September 2015) until the trading day falling on the fifth anniversary of the grant date (31 August 2016).

Where the participant is a director or member of the senior management, share options of not less than 20% of the total share options granted to such participant can only be exercised after the participant has reached a pass grade or above in the performance appraisal for his/ her employment (or office).

In addition, during the validity period of the share options, the maximum gain which the participants can obtain from the share option incentives shall not exceed 40% of their remuneration level (inclusive of the gain from the share option incentives) when the share options were granted. In the event that the gain from the share option incentive exceeds the above proportion, share options which have not been exercised will not be exercised.

Unless approved in the general meeting, the aggregate number of underlying shares which may be acquired by any participant through the Scheme or other effective share option incentive schemes of the Company (if any) at any time shall not exceed 1% of the Company's total share capital of the same class, and the maximum entitlement which may be granted to a participant (including exercised, cancelled and outstanding share options) within any 12-month period shall not exceed 1% of the Company's total share capital of the same class.

(6) Determination method of exercise price

The exercise price of the grant is the higher of the following two prices: (i) the closing price of the A shares on the last trading day immediately preceding the date of the announcement of the summary of the Scheme (that is, 29 November 2010), which was RMB7.65 per share; and (ii) the average closing price of the A shares during the last 30 trading days immediately preceding the date of announcement of the summary of the Scheme, which was RMB7.37 per share. Therefore, the exercise price is RMB7.65 per share.

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

(I) On 10 November 2015, the Company entered into the Business Co-operation Framework Agreement, Financial Services Agreement, Business Framework Agreement 1, Business Framework Agreement 2 and the Purchase Financing Agency Framework Agreement with Hisense Group, Hisense Electric, Hisense Finance, Hisense Hitachi, Hisense-Whirlpool and Hisense Hong Kong respectively. On 3 August 2016, the Company entered into a supplemental agreement to the Financial Services Agreement and Hisense Finance with Hisense Finance.

Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding approximately 42.92% (then owned approximately 44.93% of the issued shares of the Company as at the date of the agreement) of the issued shares of the Company and Hisense Hong Kong holds approximately 7.13% (then owned approximately 5.96% of the issued shares of the Company as at the date of the agreement) of the issued shares of the Company and Hisense Electric is owned as to 39.35% (then owned as to 39.35% as at the date of the agreement) by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries (including without limitation Hisense Marketing and its subsidiaries) are connected persons of the Company according to the Hong Kong Listing Rules. Hisense Finance is a subsidiary of Hisense Group, Hisense Finance therefore is a connected person of the Company according to the Hong Kong Listing Rules. As certain directors of the Company are also senior management of Hisense Hitachi and Hisense-Whirlpool, Hisense Hitachi and Hisense-Whirlpool are connected persons of

the Company according to the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange.

Details of the Business Co-operation Framework Agreement with Hisense Group and Hisense Electric, the Financial Services Agreement with Hisense Finance, Business Framework Agreement 1 with Hisense Hitachi and Business Framework Agreement 2 with Hisense-Whirlpool can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 10 November 2015, 2 December 2015, 3 August 2016 and 8 September 2016 respectively.

As Hisense Group is the beneficial controller of both Hisense Hong Kong and the Company, Hisense Hong Kong is a connected person of the Company under the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange. Hisense Hong Kong is also a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Since the financial assistance arrangement under the Purchase Financing Agency Framework Agreement would be for the benefit of the Company on normal commercial terms where no security over the assets of the Company was to be granted in respect of the financial assistance, such arrangement was exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules. Details of the Purchase Financing Agency Framework Agreement can be found in the announcement published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 10 November 2015.

The above transactions (other than the Business Framework Agreement 1 with Hisense Hitachi and the Business Framework Agreement 2 with Hisense-Whirlpool) constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. The Company confirmed that it had complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules for the relevant connected transactions (other than the Purchase Financing Agency Framework Agreement which is exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules). Specific information of the Business Co-operation Framework Agreement and the Financial Services Agreement is set out as follows:

1. The Business Co-operation Framework Agreement with Hisense Group and Hisense Electric

On the one hand, the supply of home electrical appliances, raw materials and parts and components, equipment and moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries can help to lower the production costs of the Group as a result of the increase in production level, which in turn enhance the market competitiveness of the Group's products. At the same time, the Group can continue to develop overseas market and enhance brand competitiveness and awareness. The Group can also increase market share by selling products through the online platform of Hisense Group and Hisense Electric which reduces the product circulation links. Provision of services to Hisense Group and/or its subsidiaries will increase the income of the Group. On the other hand, taking into account the product quality, prices and services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries, purchases of home electrical appliances, equipment, raw materials and parts and components from Hisense Group, Hisense Electric and/or their respective subsidiaries and engagement of their services can meet the manufacture needs of the Company and the development of related business, and can also help reduce costs. Hisense

Marketing, a subsidiary of Hisense Group, has over 10 years' experience in overseas operations, professional expertise and mature market network and channels in overseas market. By engaging the export agency services of Hisense Group and/or its subsidiaries which will provide professional management services to the Group for its development of the international market, the Group can largely reduce costs which would have to be committed for running the operation by itself, and use the available resources on the research and development and the quality warranties for the products to be exported, which will be beneficial to the Group in enhancing the stable development of its export business at the same time. As such, the Company entered into the Business Co-operation Framework Agreement with Hisense Group and Hisense Electric, the principal terms of which are as follows:

- (1) The Business Co-operation Framework Agreement shall commence from the date of approval of the Business Co-operation Framework Agreement from 1 January 2016 until 31 December 2016, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the mutual purchase of home electrical appliances between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances from time to time. Pricing for the mutual purchase of raw materials, equipments, parts and components between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness. Pricing for the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries is the market price determined by the open bidding process. Pricing for the mutual provision of services between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services in the industry. The fees payable by the Group for the provision of the agency services for export for the white goods of the Group is calculated by multiplying the Group's revenue from export of the relevant type of products (which shall be the final amount of revenue for sales by the Group to third party customers in RMB) with an export agency fee percentage. Taking into consideration the audited rate of the charges actually incurred by Hisense Marketing and/or its subsidiaries for providing agency services for export to the Group for the period from March 2011 to June 2012, the rate of the charges actually incurred during the first half of 2012 (being 7.24%) shall be used as the base percentage and the corresponding profit margin for export agency services payable by the Group to Hisense Group and/or its subsidiaries shall be determined according to the growth rate of the revenue from export subject to the export agency services in 2016, pursuant to which the export agency fee percentage during the term of the Business Co-operation Framework Agreement shall also be determined as provided in the table below

Growth rate of the revenue from export subject to the export agency services	Corresponding profit margin for export agency services	Corresponding export agency fee percentage
Below 0%	0%	7.24%

0-5% (inclusive of 5%)	0.5%	7.74%
5-10% (inclusive of 10%)	0.8%	8.04%
10-15% (inclusive of 15%)	1%	8.24%
Above 15%	1.1%	8.34%

Note: Growth rate of the revenue from export subject to the export agency services = (the Group's audited revenue from export subject to the export agency services in 2016 - the Group's audited revenue from export subject to the export agency services in 2012) / the Group's audited revenue from export subject to the export agency services in 2012.

(3) Payment term(s) for the transactions between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto. The fees for the provision of the agency services for export of the white goods products of the Group will be calculated on a monthly basis and the relevant members of the Group should pay the monthly fee for the preceding month by way of telegraphic transfer or bills.

(4) The annual caps under the Business Co-operation Framework Agreement are shown in the table below:

Unit: RMB (ten thousand) (exclusive value-added tax)

Types of connected transactions	Division by products or services	Connected person	Annual cap
Sale of products and materials	Sale of home electrical appliances products by the Group	Hisense Group	359,430
		Hisense Electric	20
	Sale of equipment by the Group	Hisense Group	369
	Sale of moulds by the Group	Hisense Group	25,138
		Hisense Electric	9,600
	Sale of raw materials, parts and components by the Group	Hisense Group	3,374
		Hisense Electric	5,960
Provision of services	Provision of design, processing services and property services by the Group	Hisense Group	2,170
	Provision of labour services by the Group	Hisense Electric	200
Purchase of products and	Purchase of home electrical appliances products by the Group	Hisense Group	63
		Hisense Electric	29

Types of connected transactions	Division by products or services	Connected person	Annual cap
materials	Purchase of raw materials, parts and components by the Group	Hisense Group	1,173
		Hisense Electric	2,412
Receipt of services	Receipt of material processing, installation and maintenance, property, medical, leasing, design, inspection, agency services for import and export, property construction, management consultancy, technical support and information system maintenance by the Group	Hisense Group	17,742
	Receipt of property services by the Group	Hisense Electric	2,392
	Receipt of agency services for export of the white goods by the Group	Hisense Group	39,900

2. The Financial Services Agreement and the Supplemental Agreement to the Financial Services Agreement with Hisense Finance

The Group is expected to benefit from the rates on loans and deposits offered by Hisense Finance to the Group, which will be equal to or more favourable than those offered by the PRC commercial banks, and at the same time, Hisense Finance's better understanding of the operations of the Group which should allow the provision of more expedient and efficient services than those offered by PRC commercial banks. On the other hand, Hisense Finance is regulated by 中國銀行業監督管理委員會 (China Banking Regulatory Commission) and engages into the provision of financial services in compliance with the regulations and operation requirements issued by the relevant regulatory authorities. The primary customers of Hisense Finance are the companies within the Hisense Group. In general, as the risks exposed to Hisense Finance are less than those exposed to the financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard the customers' funds more effectively. As such, the Company entered into the Financial Services Agreement and the Supplemental Agreement to the Financial Services Agreement with Hisense Finance, the principal terms of which are as follows:

- (1) The term of the Financial Services Agreement shall commence from the date of approval of the Financial Services Agreement from 1 January 2016 until 31 December 2017, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.
- (2) The services to be provided by Hisense Finance to the Group include deposit services, loan and electronic bank acceptance bill (電子銀行承兌匯票) services, draft discount services (票據貼現服務), settlement and sale of foreign exchange services (結售匯服務) and agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務).

- (3) The interest rate payable for the Group's deposits with Hisense Finance shall not be lower than the rate payable by normal commercial banks in the PRC for comparable deposits. The interest rate charged for the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans. The service fees charged for the provision of electronic bank acceptance bill services by Hisense Finance for the Group shall not be higher than the standard service fees charged by normal commercial banks in the PRC for comparable services. Hisense Finance may require the Group to provide guarantee or security or pledge over assets in respect of the loan services and the electronic bank acceptance bill services rendered, depending on the then circumstances and business needs. The discount rate for the provision of draft discount services by Hisense Finance to the Group shall be determined on the basis of the rediscount rate (再貼現利率) quoted by The People's Bank of China and with reference to market level and shall not be higher than the discount rate charged by normal commercial banks in the PRC providing such services to the Group. The level of services (including the level of exchange rates) for the settlement and sale of foreign exchange at Hisense Finance shall not be worse than the level of services (including the level of exchange rates) of normal commercial banks in the PRC providing such services to the Group. The charging standard for service fees chargeable for the provision of agency services such as settlements services for receipt and payment of funds by Hisense Finance for the Group shall not be higher than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC during the corresponding period.
- (4) The maximum daily balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the cap of RMB3,000,000,000 (inclusive of interest) on any given day. The maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the cap of RMB4.5 billion (inclusive of interest and service fees). The annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the Financial Services Agreement shall not exceed the cap of RMB50,000,000. The annual amount settled or sold by Hisense Finance for the Group shall not exceed the cap of US\$700,000,000. The annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務) shall not exceed the cap of RMB3,000,000.

(II) During the Reporting Period, certain connected transactions in relation to ordinary operation have been entered into, details of which are as follows:

Connected parties	Type of connected transaction	Particulars of connected transaction	Pricing principle of connected transaction	Connected transaction amount (RMB ten thousand)	Percentage of total amount of similar transactions (%)
Hisense Group	Purchase	Finished goods	Agreed price	1.51	0.00
Hisense Electric	Purchase	Finished goods	Agreed price	13.40	0.00
Zhejiang Hisense	Purchase	Finished goods	Agreed price	19,868.55	0.97
Hisense Group	Purchase	Materials	Agreed price	1,078.73	0.05
Hisense Electric	Purchase	Materials	Agreed price	1,489.45	0.07
Zhejiang Hisense	Purchase	Materials	Agreed price	653.48	0.03
Hisense Hitachi	Purchase	Materials	Agreed price	745.50	0.04
Zhejiang Hisense	Purchase	equipment	Agreed price	111.11	0.01

Hisense Group	Receipt of services	Receipt of services	Agreed price	48,552.73	2.37
Hisense Electric	Receipt of services	Receipt of services	Agreed price	1,457.52	0.07
Hisense Hong Kong	Receipt of purchase financing agency services	Receipt of purchase financing agency services	Agreed price	25,760.84	1.26
Hisense Group	Sale	Finished goods	Agreed price	300,737.19	11.25
Hisense Electric	Sale	Finished goods	Agreed price	17.22	0.00
Hisense Hitachi	Sale	Finished goods	Agreed price	19,286.05	0.72
Hisense Group	Sale	Materials	Agreed price	3,257.99	0.12
Hisense Electric	Sale	Materials	Agreed price	2,881.25	0.11
Zhejiang Hisense	Sale	Materials	Agreed price	382.15	0.01
Hisense Hitachi	Sale	Materials	Agreed price	355.13	0.01
Hisense Group	Sale	Moulds	Market price	23,196.62	0.87
Hisense Electric	Sale	Moulds	Market price	8,499.35	0.32
Zhejiang Hisense	Sale	Moulds	Market price	85.47	0.00
Hisense Hitachi	Sale	Moulds	Market price	860.47	0.03
Hisense Group	Provision of services	Provision of services	Agreed price	1,246.91	0.05
Hisense Electric	Provision of services	Provision of services	Agreed price	43.61	0.00
Zhejiang Hisense	Provision of services	Provision of services	Agreed price	7.52	0.00

As at the end of the Reporting Period, the Company and its subsidiaries had the balance of deposit of RMB1,909,000,000 and interest income received of RMB10,366,500, the actual balance of loan of RMB0, balance of electronic bank acceptance bill of RMB2,865,000,000, and the handling fee for opening accounts for electronic bank acceptance bill of RMB2,912,900 with Hisense Finance. The actual amount of discounted interest for the provision of draft discount services was RMB3,563,700, the actual amount involved for the provision of settlement and sale of foreign exchange services was US\$15,480,000 and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was RMB313,100.

(III) During the Reporting Period, the Company and its connected persons (within the meaning under Chapter 14A of the Hong Kong Listing Rules) have entered into the following agreements, involving transactions between the Group and the relevant connected persons after the Reporting Period:

No.	Agreement	Counterparty to the agreement	Particulars of connected transactions	Annual cap
1	Business Co-operation Framework Agreement dated 17 November 2016	Hisense Group and Hisense Electric	Purchase of home electrical appliances by the Group	RMB1,600,000
			Purchase of raw materials, parts and components by the Group	RMB118,670,000
			Receipt of services by the Group	RMB582,600,000
			Supply of home electrical appliances by the Group	RMB10,241,130,000
			Supply of equipment by the Group	RMB19,300,000
			Supply of moulds by the Group	RMB451,000,000
			Supply of raw materials, parts and components by the Group	RMB112,090,000
			Provision of services by the Group	RMB37,280,000
3	Purchase Financing Agency Framework Agreement dated 17 November 2016	Hisense Hong Kong	Receipt of financing agency services by the Group to purchase imported raw materials, components and equipment	US\$65,000,000

The term of the Business Co-operation Framework Agreement and the Purchase Financing Agency Framework Agreement commences from the date of approval of such agreements by the independent shareholders (that is, 9 January 2017) until 31 December 2017. The relationship between the Group on one hand and Hisense Group, Hisense Electric and Hisense Hong Kong on the other hand has been disclosed above.

Details of the agreements can be found in the announcements and the circular published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 17 November 2016 and 23 December 2016 respectively.

CORPORATE GOVERNANCE CODE

To the best knowledge and information of the Company, during the Reporting Period, the Company has complied with the code provisions in the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules.

PUBLICATION OF ANNUAL REPORT ON THE INTERNET WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE COMPANY

All information about the annual report as required by Appendix 16 to the Hong Kong Listing Rules will be published on the Hong Kong 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
Hisense Kelon Electrical Holdings Company Limited
Tang Ye Guo
Chairman

Foshan City, Guangdong, the PRC, 29 March 2017

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. Ma Jin Quan, Mr. Xu Xiang Yi and Mr. Wang Xin Yu .

NOTE: SUPPLEMENTARY INFORMATION AS REQUIRED BY THE HONG KONG STOCK EXCHANGE IN RELATION TO THE COMPANY'S A SHARE ANNUAL RESULTS ANNOUNCEMENT

I .PARTICULARS OF THE REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position	Gender	Age	Status	Total amount of remuneration before tax received from the Company(RM B ten thousand)	Whether receive remuneration from connected party of the Company
Tang Ye Guo	Chairman	Male	54	Current	268.36	No
Liu Hong Xin	Director	Male	50	Current	0	Yes
Lin Lan	Director	Male	59	Current	0	Yes
Dai Hui Zhong	Director	Male	51	Current	243.71	No
Jia Shao Qian	Director, President	Male	44	Current	166.62	No
Wang Yun Li	Director, Vice President	Male	44	Current	169.25	No
Ma Jin Quan	Independent non-executive Director	Male	74	Current	0	No
Xu Xiang Yi	Independent non-executive Director	Male	61	Current	11.5	No
Wang Xin Yu	Independent non-executive Director	Male	46	Current	24	No
Liu Zhen Shun	Chairman of Supervisory Committee	Male	47	Current	0	Yes
Yang Qing	Supervisor	Male	43	Current	0	Yes
Fan Wei	Supervisor	Female	51	Current	54.46	No
Wang Zhi Gang	Vice President	Male	47	Current	117.59	No
Gao Yu Ling	Person in charge of finance	Female	36	Current	113.96	No
Xia Feng	Former Secretary to the Board	Male	40	Resigned	46.93	No
Wong Tak Fong	Company Secretary	Female	49	Current	17.19	No
Tian Ye	Former Director, Former President	Male	42	Resigned	0	Yes
Wang Ai Guo	Former Independent non-executive Director	Male	52	Resigned	11.5	No

II . The decision-making procedures and basis of determination of the remuneration of the Directors, supervisors and senior management

The remuneration of the Directors of the Company is determined based on suggestions made to the Board by the remuneration and appraisal committee of the Board on the basis of the duties of the Directors and the remuneration level of other listed companies in the same industry, and is subject to consideration and approval by the Board and the shareholders at general meetings.

The remuneration of the supervisors is determined based on suggestions made by the supervisory committee on the basis of the duties of the supervisors and the remuneration level of other listed companies in the same industry and is subject to consideration and approval by the Board and the shareholders at general meetings.

The remuneration and appraisal committee of the Board makes remuneration suggestion to the Board based on the senior management's experience, responsibilities, risk and pressure undertaken for operation under his/her management and his/her contribution to the Company. The said remuneration suggestion is determined and approved by the Board. The final remuneration received by the senior management is also linked with his/her annual performance review.

The Company determines and pays the remuneration of the Directors, supervisors and senior management in accordance with the above requirements and procedures.

III. PARTICULARS OF GUARANTEES

√ Applicable ☐ Not applicable

Unit: RMB (in ten thousand)

Unit: RMB (in ten thousand)

External guarantee given by the Company (excluding guarantees for its subsidiaries)								
The guaranteed party	Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount	Limit on guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	Whether the guarantee is given for any connected party
Nil	—	—	—	—	—	—	—	—
Total limit on the amount of external guarantees approved during the Reporting Period (A1)				0	Actual amount of external guarantees during the Reporting Period (A2)		0	
Total limit on the amount of external guarantees which has been approved at the end of the Reporting Period (A3)				0	Total balance of actual amount of external guarantees at the end of the Reporting Period (A4)		0	
Guarantees given by the Company for its subsidiaries								
The guaranteed party	Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount	Guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	Whether the guarantee is given for any connected party
Guangdong Refrigerator	11November 2015	50,000	2015-3-9	9.61	Joint liability guarantee;	2015.3.9-2016.1.31	Yes	No
Guangdong Refrigerator	11November 2015	50,000	2014-7-7	119.49	Joint liability guarantee	2014.7.7-2016.6.12	Yes	No
Guangdong Air-conditioner	11November 2015	30,000	2015-10-26	584.70	Joint liability guarantee	2015.10.26-2016.1.12	Yes	No
Home Appliances Co	11November 2015	5,000	2014-6-20	60.00	Joint liability guarantee	2014.6.20-2016.6.11	Yes	No
Home Appliances Co	11November 2015	5,000	2015-8-20	127.87	Joint liability guarantee;	2015.8-20-2016.5.30	Yes	No
Ronsheng Plastic	11November 2015	6,000	2015-10-16	908.52	Joint liability guarantee	2015.10.16-2016.2.29	Yes	No
Total limit on the amount of guarantees for subsidiaries approved during the Reporting Period (B1)				0	Actual amount of guarantees for subsidiaries during the Reporting Period		1,810.19	

				(B2)				
Total limit on the amount of guarantees for subsidiaries which has been approved at the end of the Reporting Period (B3)		153,500.00		Total balance of actual amount of guarantees for subsidiaries at the end of the Reporting Period (B4)		0		
Guarantees given by the subsidiaries for its subsidiaries								
The guaranteed party	Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount	Limit on guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	Whether the guarantee is given for any connected party
Nil	—	—	—	—	—	—	—	—
Total limit on the amount of guarantees for subsidiaries approved during the Reporting Period (C1)				Actual amount of guarantees for subsidiaries during the Reporting Period (C2)		0		
Total limit on the amount of guarantees for subsidiaries which has been approved at the end of the Reporting Period (C3)				Total balance of actual amount of guarantees for subsidiaries at the end of the Reporting Period (C4)		0		
Total guaranteed amount of the Company (being the sum of the previous three major items)								
Total limit on the amount of guarantees approved during the Reporting Period (A1+B1+C1)				Actual amount of guarantees during the Reporting Period (A2+B2+C2)		1,810.19		
Total limit on the amount of guarantees which has been approved at the end of the Reporting Period (A3+B3+C3)		153,500.00		Total balance of actual amount of guarantees at the end of the Reporting Period (A4+B4+C4)		0		
Proportion of actual amount of guarantees (being A4+B4+C4) to the net assets of the Company				0%				
Including:								
Guaranteed amount provided for shareholders, beneficial controlling parties and their connected parties (D)				0				
Guaranteed amount provided directly or indirectly for the guaranteed party with gearing ratio over 70% (E)				0				
Total guaranteed amount over 50% of the net asset (F)				0				
Sum of the above three guarantees (D+E+F)				0				
Statement on possibility to assume joint liabilities for guarantees which have not expired				Nil				
Description of provision of external guarantee in violation of prescribed procedures				Nil				

IV. PARTICULARS OF ENTRUSTED WEALTH MANAGEMENT

✓ Applicable ☐ Not applicable

Unit: RMB (in ten thousand)

Name of trustee	Whether it is a connected transaction	Product type	Amount of consigned financing	Commencement date	Expiration date	Mode of determining remuneration	The actual amount of principal received during the Reporting Period	Amount of provision for impairment (if any)	Expected revenue	Actual amount of profit and loss during the Reporting Period	Actual recovery of profit and loss during the Reporting Period
Bank	No	Bank's wealth management product	306,100	1 January 2016	31 December 2016	agreement	196,100.00		2,550.64	1,205.58	1,205.58

Total					196,100.00		2,550.64	1,205.58	1,205.58
Source of funding for consigned financing	Internal funding of the Company								
Total amount of overdue principal and revenue which was not yet recovered	0								
Legal disputes involved (if applicable)	Not applicable								
Date of publishing the announcement in respect of the Board meeting held to approve the entrusted wealth management (if applicable)	24 October 2016								
Date of publishing the announcement in respect of the Shareholders' meeting held to approve the entrusted wealth management (if applicable)	Not applicable								
Whether there is any plan for entrusted wealth management in the future	Yes								

V.DERIVATIVES INVESTMENT

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	31 December 2016	83,342.85	119,947.77	146,688.87		56,601.75	11.63	1,645.48
Source of derivatives investment funding				Export trade receipts									
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,				<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 locks in the foreign exchange rates within a reasonable range to achieve the hedging purpose.</p> <p>The Company has formulated the "Management Measures for the Foreign Exchange Capital</p>									

operation risk, legal risk etc.)	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 derivatives business. 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 during the Reporting Period, 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 19.4628 million. Investment gain amounted to RMB -3.008 million, resulting in a total profits or losses of RMB16.4548 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 on the derivatives investment and risk control of the Company	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.

VI.DESCRPTION OF CHANGES IN SCOPE OF CONSOLIDATION AS COMPARED TO FINANCIAL REPORT LAST YEAR

☒ Applicable ☐ Not applicable

Newly consolidated subsidiary:

The Company has established two new subsidiaries, namely Hisense Changsha Electronic Commerce Limited, Qingdao Hisense Commercial Cold Chain Co., Ltd and subsidiary, namely Foshan Shunde Bao Hong Property Management Company Limited during the Reporting Period, and their results were consolidated into the Company’s accounts for the Reporting Period.

During the Reporting Period, the Company acquired from Whirlpool (Hong Kong) Limited its 50% equity interest in Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. (which is now renamed as Zhejiang Hisense Electric Appliance Co., Ltd.). The equity transfer has been completed and Zhejiang Hisense Electric Appliance Co., Ltd. became a wholly-owned subsidiary of the Company and its results is now consolidated into the Company’s accounts.

This announcement is published in both English and Chinese. 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 Air-Conditioning”	Qingdao Hisense Air-Conditioning Company Limited
“Hisense Electric”	Hisense Electric Co., Ltd.
“Hisense Group”	Hisense Company Limited
“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.
“Zhejiang Hisense”	Zhejiang Hisense Electric Appliance Co., Ltd. , formerly Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd.
“Hisense Finance”	Hisense Finance Company Limited
“Hisense International”	Hisense International Co., Ltd.
“Hisense Hong Kong”	Hisense (Hong Kong) Company Limited
“Guangdong Greencool”	Guangdong Greencool Enterprise Development Company Limited
“Greencool Companies”	Guangdong Greencool and other related parties
“Guangdong Refrigerator”	Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.
“Guangdong Air-Conditioner”	Hisense (Guangdong) Air-Conditioner Co., Ltd.
“Home Appliances Co”	Guangdong Hisense Home Appliances Co., Ltd., formerly known as Guangdong Kelon Fittings Co., Ltd., of which the change of name was effective on 10 April 2014
“Ronsheng Plastic”	Foshan Shunde Rongsheng Plastic Co., Ltd
“RMB”	Renminbi
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited