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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)

2017 FIRST QUARTERLY REPORT

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

I. IMPORTANT NOTICE

1. The board of directors (the "Board"), the supervisory committee (the "Supervisory Committee"), the directors (the "Directors"), the supervisors (the "Supervisors") and the senior management (the "Senior Management") of the Company warrant that there are no false representation or misleading statements contained in, or material omissions from, this report; and jointly and severally accept legal responsibility for the truthfulness, accuracy and completeness of the information contained herein.
2. Mr. Tang Ye Guo, the person in charge of the Company and Ms. Gao Yu Ling, the person in charge of the accounting function and Ms. Liang Hong Tao, the person in charge of the accounting department, warrant the truthfulness, accuracy and completeness of the contents of the financial statements in this quarterly report.
3. All Directors attended the Board meeting for considering and approving the 2017 first quarterly report.
4. The financial statements of the Company for the first quarter of 2017 have not been audited by accountants.
5. The full text of the Company's balance sheet, income statement and cash flow statement are published on the website as designated by the Shenzhen Stock Exchange for release of information: <http://www.cninfo.com.cn>.

II. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

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

Yes No

Item	Reporting period	Corresponding period last year	Increase or decrease as compared to corresponding period last year (%)
Operating revenue (RMB)	7,708,966,633.23	5,765,448,152.85	33.71
Net profits attributable to shareholders of listed company (RMB)	256,258,113.99	146,360,992.25	75.09
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	245,995,510.99	138,018,516.72	78.23
Net cash flow from operating activities (RMB)	-283,670,463.69	-297,155,279.62	N/A
Basic earnings per share (RMB/share)	0.19	0.11	72.73
Diluted earnings per share (RMB/share)	0.19	0.11	72.73
Weighted average rate of return on net assets (%)	5.13	3.55	1.58
Item	End of the reporting period	End of the previous financial year	Increase or decrease as compared to end of the previous financial year (%)
Total assets (RMB)	20,567,207,249.35	19,055,058,608.32	7.94
Net assets attributable to shareholders of listed company (RMB)	5,118,903,411.82	4,867,466,177.17	5.17

Extraordinary profit and loss items and amounts

Applicable Not applicable

Unit: RMB

Item	Amount from the beginning of the year to the end of the reporting period	Description
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	-2,165,136.73	
Government grants recognized in the profits or losses of the current period (excluding government grants closely related to the Company's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	12,750,511.16	
Other non-operating income and expenses other than the aforementioned items	2,700,506.13	
Less: Effect of income tax	2,466,627.90	
Effect of minority interests (after tax)	556,649.66	
Total	10,262,603.00	--

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

Unit: shares

Total number of shareholders of ordinary shares at the end of the reporting period	26,090
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The shareholding of the top ten holders of ordinary shares

Name of Shareholder	Nature of Shareholder	Percentage to the total issued share capital of the Company (%)	No. of shares held	No. of shares held subject to selling restrictions	Situation of pledged or frozen shares	
					Share status	Quantity
Qingdao Hisense Air-conditioning Company Limited	State-owned legal person	40.04	545,632,170	0		
HKSCC Nominees Limited ^{Note1}	Foreign legal person	33.62	458,173,069	0		
Cental Huijin Investment Ltd.	Domestic non-state-owned legal person	1.95	26,588,700	0		
Zhang Shao Wu	Domestic natural person	0.53	7,200,000	0		
China Construction Bank (Asia) Corporation Limited – China Universal Consumer Industries Mixed Securities Investment Fund	Other	0.45	6,199,963	0		
China Citic Bank Corporation Limited -- Bank Of Communications Schroder Strategic Return and Flexible Allocation Mixed Securities Investment Fund	Other	0.39	5,369,706	0		
Vanguard Investments Australia Limited - Emerging Markets Stock Index Fund (Stock Exchange)	Foreign legal person	0.31	4,168,227	0		
Bank of China Limited – Huatai- PineBridge Quantified Enhanced Mixed Type Securities Investment Fund	Other	0.30	4,123,895	0		
Industrial and Commercial Bank of China Limited – E Fund Value Selection Mixed Securities Investment Fund	Other	0.29	4,000,000	0		
Industrial and Commercial Bank of China Limited – China Universal Outward Growth Stock-Type Securities Investment Fund	Other	0.29	4,000,000	0		

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

Name of Shareholder	Number of shares held not subject to selling restrictions	Class	
		Class	Quantity
Qingdao Hisense Air-conditioning Company Limited	545,632,170	RMB ordinary shares	545,632,170
HKSCC Nominees Limited ^{Note1}	458,173,069	Overseas listed foreign shares	458,173,069
Cental Huijin Investment Ltd.	26,588,700	RMB ordinary shares	26,588,700
Zhang Shao Wu	7,200,000	RMB ordinary shares	7,200,000

China Construction Bank (Asia) Corporation Limited – China Universal Consumer Industries Mixed Securities Investment Fund	6,199,963	RMB ordinary shares	6,199,963
China Citic Bank Corporation Limited -- Bank Of Communications Schroder Strategic Return and Flexible Allocation Mixed Securities Investment Fund	5,369,706	RMB ordinary shares	5,369,706
Vanguard Investments Australia Limited - Emerging Markets Stock Index Fund (Stock Exchange)	4,168,227	RMB ordinary shares	4,168,227
Bank of China Limited – Huatai- PineBridge Quantified Enhanced Mixed Type Securities Investment Fund	4,123,895	RMB ordinary shares	4,123,895
Industrial and Commercial Bank of China Limited – E Fund Value Selection Mixed Securities Investment Fund	4,000,000	RMB ordinary shares	4,000,000
Industrial and Commercial Bank of China Limited – China Universal Outward Growth Stock-Type Securities Investment Fund	4,000,000	RMB ordinary shares	4,000,000

Note:

The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense (Hong Kong) Company Limited, a party acting in concert with the controlling shareholder of the Company, is the holder of 97.202 million H shares in total at the end of the Reporting Period, representing 7.13% of the total number of shares of the Company.

IV. SIGNIFICANT MATTERS

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

√Applicable □ Not applicable

Unit: RMB

Balance sheet items	Closing balance	Opening balance	Change (%)	Reason for the change
Cash at bank and on hand	3,272,006,189.45	2,227,421,330.74	46.90	mainly due to the increase in the receipt from bank wealth management products upon maturity during the Reporting Period, resulting in an increase in bank deposits at the end of the Reporting Period
Accounts receivable	3,749,563,698.33	2,725,129,183.33	37.59	mainly due to the increase in scale of sales, resulting in an increase in accounts receivable at the end of the Reporting Period accordingly
Prepayments	244,238,833.08	174,049,069.34	40.33	mainly due to the increase in prepayments for materials at the end of the Reporting Period
Other receivables	398,626,627.21	245,420,469.20	62.43	mainly due to the increase in export tax rebate receivable at the end of the Reporting Period
Other current assets	493,028,240.90	1,678,765,851.25	-70.63	mainly due to the increase in the receipt from bank wealth management products upon maturity during the Reporting Period, resulting in a decrease in receivable from bank wealth management products at the end of the Reporting Period
Construction in progress	95,909,283.38	72,942,458.27	31.49	mainly due to the increase in investment in technological transformation of fixed assets during the Reporting Period
Accounts payable	5,425,858,735.53	4,367,268,398.09	24.24	mainly due to the increase in production volume during the Reporting Period, resulting in an increase in purchase and accounts payable accordingly

Income statement items	Balance from the beginning of the year to the end of the reporting period	Balance for the corresponding period last year	Change (%)	Reason for the change
Operating revenue	7,708,966,633.23	5,765,448,152.85	33.71	mainly due to increased scale of sales for all kinds of products of the Company during the Reporting Period
Operating costs	6,236,378,852.26	4,434,666,093.54	40.63	mainly due to increased scale of sales during the Reporting Period, resulting in an increase in operating costs accordingly
Taxes and surcharges	56,723,782.71	17,659,456.02	221.21	mainly because the fund for waste electronic products and other related taxes were included under taxes and surcharges during the Reporting Period, whereas these were included under expenses in the previous period, resulting in a year-to-year increase
Investment income	154,151,506.95	60,933,991.33	152.98	mainly due to the increase in recognized investment income from the joint venture, Hisense Hitachi, during the Reporting Period
Non-operating income	30,344,393.77	14,744,756.50	105.80	mainly due to the increase in government grants received during the Reporting Period
Statement of cash flow items	Balance from the beginning of the year to the end of the reporting period	Balance for the corresponding period last year	Change (%)	Reason for the change
Cash received from sales of goods and rendering of services	5,488,284,731.73	3,620,635,956.46	51.58	mainly due to the increased scale of sales during the Reporting Period and the corresponding increase in receipt from sales
Tax rebates received	218,538,450.61	142,745,597.46	53.10	mainly due to the increase in export tax rebates received during the Reporting Period
Other cash received concerning operating activities	99,485,764.98	68,791,241.88	44.62	mainly due to the increase in government grants received during the Reporting Period
Cash paid for purchases of commodities and receipt of services	4,135,021,138.12	2,250,503,833.18	83.74	mainly due to the increased scale of sales during the Reporting Period and the corresponding increase in payments for purchase of materials and etc.
Cash received relating to other investing activities	2,100,000,000.00	200,000,000.00	950.00	due to the increase in the redeemed wealth management products during the Reporting Period.
Cash paid relating to other investing activities	900,000,000.00		N/A	due to the increase in the purchase of wealth management products during the Reporting Period.
Cash received from borrowings		412,302,006.60	-100.00	due to no loans having been obtained during the Reporting Period
Cash paid for repayment of borrowings		263,068,803.48	-100.00	due to no loans having been obtained during the Reporting Period
Cash paid relating to other financing activities	1,046,312,052.86		N/A	mainly due to the increase in the margin deposits during the Reporting Period

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

√Applicable □ Not applicable

The Company entered into a framework agreement with Ningbo Meishan Bonded Port Yingmei Investment Management Company Limited* (寧波梅山保稅港區盈美投資管理有限公司) (“Yingmei”) on 11 January 2017, pursuant to which Yingmei agreed to purchase from the Company the entire equity interest in Foshan City Shunde District Baohong Property Management Company Limited* (佛山市順德區寶弘物業管理有限公司) (a wholly-owned subsidiary of the Company) at the consideration of RMB892,560,000.

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

√Applicable □ Not applicable

Subject matter of undertakings	Undertaking party(ies)	Type of undertakings	Subject matter of undertakings	Time of undertakings	Time limit of undertakings	Status of performance
Undertakings made in report on acquisition or report on changes in shareholding	Hisense Company Limited (“ Hisense Group ”), Qingdao Hisense Air-conditioning Company Limited (“ Hisense Air-Conditioning ”)	Other undertakings	<p>1.After the acquisition of subject shares by Hisense Air-Conditioning, the undertaking parties would deal with possible connected transactions with the Company in strict compliance with the relevant laws and regulations, and the relevant requirements of China Securities Regulatory Commission, the Stock Exchange, the Shenzhen Stock Exchange and the Articles of Association of the Company based on the market principles of justice, fairness, openness and reasonableness, without prejudicing the interests of the Company and other shareholders.</p> <p>2.The undertaking parties will not exploit their positions and controlling influence as the largest shareholders of the Company to induce the Company to provide them with rights which are more favourable than those offered to third parties in respect of business cooperation and other aspects;</p> <p>3.The undertaking parties will not exploit their positions and controlling influence as the largest shareholders of the Company to seek priority rights in concluding transactions with the Company;</p> <p>4.The undertaking parties will not conduct transactions with the Company on terms which are less favourable than market prices and will not engage in any acts detrimental to the interests of the Company through such transactions.</p>	12 October 2005	—	Ongoing
Undertakings made during asset restructuring	Hisense Group, Hisense Air-Conditioning	Undertakings on business competition, connected transactions and use of capital	<p>Undertakings on avoidance of business competition:</p> <p>1.Upon the completion of this transaction, all white goods-related assets and businesses of Hisense Air-Conditioning, Hisense Group and their controlled corporations have been injected into the Company. There is no business competition between the other assets and businesses retained by Hisense Air-Conditioning, Hisense Group and their controlled corporations and those of the Company and its controlled corporations.</p> <p>2.For future development, where Hisense Air-Conditioning, Hisense Group and their controlled corporations obtain any business development opportunities which are suitable for the Company and its controlled corporations, the Company and its controlled corporations may pursue such development based on their needs and Hisense Air-Conditioning, Hisense Group and their controlled corporations will provide the necessary support and assistance to the Company and its controlled</p>	9 June 2010	—	Ongoing

			<p>corporations.</p> <p>3. So long as Hisense Air-Conditioning is the controlling shareholder of the Company and Hisense Group is the beneficial controller of the Company, Hisense Air-Conditioning, Hisense Group and their controlled corporations will not develop any businesses or projects of a nature identical or similar to businesses of the Company and its controlled corporations in China or overseas; and will cease to directly or indirectly engage in businesses competing with the Company and its controlled corporations through setting up joint venture, cooperation, joint operation or by way of operating leases, subcontract and entrusted management with any third parties.</p> <p>4. Hisense Air-Conditioning and Hisense Group will not exploit their direct or indirect advantageous shareholding position in the Company to engage in any acts detrimental to the interests of the Company and other shareholders, in particular the medium and small shareholders.</p> <p>5. Where Hisense Air-Conditioning and Hisense Group breach the above undertakings and guarantees, they will immediately terminate businesses competing with the Company and its controlled corporations and adopt the necessary rectification and remedial measures; at the same time, they will be jointly and severally liable to compensate the Company and its controlled corporations for all losses and consequences resulted from breach of the above undertakings and guarantees.</p>			
	Hisense Group, Hisense Air-Conditioning	Undertakings on business competition, connected transactions and use of capital	<p>Undertakings on regulation and minimization of connected transactions:</p> <p>1. Upon the completion of this transaction, Hisense Air-Conditioning and Hisense Group would continue to exercise the rights of shareholders or directors and perform the obligations of shareholders or directors in strict compliance with the laws and regulations such as the Company Law, and the relevant requirements of the Articles of Association of the Company, and abstain from voting on resolutions in relation to connected transactions between related companies and the Company at general meetings and board meetings.</p> <p>2. Upon completion of this transaction, connected companies will minimise connected transactions with the Company. In the course of conducting any necessary and unavoidable connected transactions, the Company will ensure that they are conducted fairly on the basis of market principle and fair pricing, and the Company will adopt the decision making procedures and perform obligation in relation to information disclosure in accordance with the relevant requirements of the laws and regulations, regulatory documents and the Articles of Association of the Company.</p> <p>3. In case Hisense Air-Conditioning and Hisense Group breach the undertakings and guarantees, they will be</p>	9 June 2010	—	Ongoing

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

4. Estimate of operating results for January to June 2017

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

Applicable Not applicable

5. Derivatives investment

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	56,601.75	1 January 2017	31 March 2017	56,601.75		4,881.44		51,720.31	10.10	351.44
Total				56,601.75	--	--	56,601.75		4,881.44		51,720.31	10.10	351.44
Source of derivatives investment funding				Export trade payment									
Litigation involved (if applicable)				Not applicable									
Date of the announcement				30 March 2017									

disclosing the approval of derivatives investment by the Board (if any)	
Date of the announcement disclosing the approval of derivatives investment during shareholders' meetings (if any)	--
Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)	<p>The derivatives business of the Company mainly represents the forward foreign exchange contracts used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company determines a reasonable range of foreign exchange rates to achieve the hedging purpose.</p> <p>The Company has formulated the "Management Measures for the Foreign Exchange Capital Business" and the "Internal Control System for Forward Foreign Exchange Capital Transactions". The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the business of foreign exchange derivatives. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.</p>
Changes in market price or product fair value of invested derivatives during the Reporting Period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives' fair value	<p>The assessment of the fair value of the derivatives carried out by the Company mainly represents the outstanding foreign exchange forward contracts entered into by the Company and banks, which are recognized as transactional financial assets or liabilities based on the difference between the quotation of the outstanding foreign exchange forward contracts and the forward exchange rate as at the end of the period. During the Reporting Period, the Company recognized a gain on change in fair value of the derivatives of RMB0.2908 million. Investment gain amounted to RMB 3.2236 million, resulting in a total profits or losses of RMB 3.5144 million.</p>
Explanations of any significant changes in the Company's accounting policies and specific accounting and auditing principles on derivatives between the Reporting Period and the last reporting period	<p>During the Reporting Period, there were no material changes in the accounting policies and specific accounting and auditing principles for the Company's derivatives business as compared to the last reporting period.</p>
Specific opinions of independent Directors on the derivatives investment and risk control of the Company	<p>Opinion of independent directors: Commencement of foreign exchange derivatives business by the Company was beneficial to the Company in the prevention of exchange rate fluctuation risks. The Company has devised the Internal Control System for Forward Foreign Exchange Capital Transactions to strengthen internal control and enhance the management of foreign exchange risks by the Company, and the targeted risk control measures adopted were practicable.</p>

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

Applicable Not applicable

7. Illegal external guarantees

Applicable Not applicable

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

Applicable Not applicable

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

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

Foshan City, Guangdong, the PRC, 13 April 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.