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Hisense 海信科龙

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 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the “Board”) of Hisense Kelon Electrical Holdings Company Limited (the “Company”) hereby announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2017 (the “Reporting Period”) together with comparative figures for the corresponding period in 2016. This interim results announcement has been reviewed by the Company’s Audit Committee.

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	30 June 2017	31 December 2016
Assets			
Current assets			
Cash at bank and on hand		3,900,614,157.25	2,227,421,330.74
Financial assets at fair value through profit or loss for the current period			9,695,070.04
Notes receivable		2,408,697,765.69	3,281,453,069.10
Accounts receivable	5	4,732,996,618.97	2,725,129,183.33
Prepayments		198,056,545.58	174,049,069.34
Others receivables		441,822,972.75	245,420,469.20
Inventories		2,834,958,196.07	2,660,044,996.38
Other current assets		384,256,493.04	1,678,765,851.25
Total current assets		14,901,402,749.35	13,001,979,039.38
Non-current assets			
Financial assets available-for-sale		3,900,000.00	3,900,000.00
Long-term equity investments		2,198,473,929.07	1,627,383,596.00
Investment properties		25,494,073.06	26,456,837.73
Fixed assets		3,345,511,110.56	3,481,725,652.28
Construction in progress		121,410,404.41	72,942,458.27
Disposal of fixed assets		824,584.98	907,836.24
Intangible assets		728,545,607.20	737,341,935.68
Long-term prepaid expenses		3,646,900.74	5,158,532.22
Deferred tax assets		99,403,639.95	97,262,720.52
Total non-current assets		6,527,210,249.97	6,053,079,568.94
Total assets		21,428,612,999.32	19,055,058,608.32
Liabilities and shareholders' equity			
Current liabilities			
Short-term borrowings			
Financial liabilities at fair value through profit or loss for the current period		5,071,196.80	

Item	Note	30 June 2017	31 December 2016
Notes payable		5,631,545,292.10	5,227,854,741.07
Accounts payable	6	5,243,379,145.50	4,367,268,398.09
Advances from customers		778,652,810.80	831,778,792.45
Employee remunerations payable		257,253,279.43	334,204,436.58
Taxes payable		255,711,911.82	222,919,921.87
Interests payable			
Dividends payable		408,817,611.00	
Other payables		1,916,807,274.78	1,661,704,359.95
Other current liabilities		917,190,154.53	715,840,695.57
Total current liabilities		15,414,428,676.76	13,361,571,345.58
Non-current liabilities			
Provisions		330,782,307.63	314,632,715.41
Deferred income		65,751,397.28	54,687,498.01
Deferred tax liability		842,034.68	706,994.87
Total non-current liabilities		397,375,739.59	370,027,208.29
Total liabilities		15,811,804,416.35	13,731,598,553.87
Shareholders' equity			
Share capital		1,362,725,370.00	1,362,725,370.00
Capital reserves		2,092,861,943.89	2,092,861,943.89
Other comprehensive incomes		12,896,058.69	14,274,706.17
Surplus reserves		313,689,564.15	313,689,564.15
Retained profits		1,347,195,841.26	1,083,914,592.96
Total equity attributable to shareholders of the Company		5,129,368,777.99	4,867,466,177.17
Minority interests		487,439,804.98	455,993,877.28
Total shareholders' equity		5,616,808,582.97	5,323,460,054.45
Total liabilities and shareholders' equity		21,428,612,999.32	19,055,058,608.32

Consolidated Income Statement

Item	Note	January to June 2017	January to June 2016
Operating revenue	7	17,606,357,421.41	13,122,951,531.51
Operating costs	7	14,347,700,763.30	10,044,258,231.63
Business taxes and surcharges		135,074,666.02	53,955,707.45
Selling and distribution expenses		2,267,388,760.01	2,172,369,108.67
General and administrative expenses		508,288,225.78	458,091,291.92
Financial expenses	8	4,669,098.25	-33,394,686.74
Impairment losses on assets		-890,858.98	-14,037,482.78
Gain from changes in fair value		-14,766,266.84	9,050,884.77
Investment gain	9	366,251,715.27	190,519,070.38
Including: Share of profit of associates and joint ventures		331,090,333.07	189,978,021.58
Other income		35,231,407.16	—
Operating profits		730,843,622.62	641,279,316.51
Non-operating income		101,429,806.22	56,931,787.09
Including: Gains on non-current assets		9,181,467.94	785,867.64
Non-operating expenses		8,913,127.67	1,651,046.75
Including: Losses on disposal of non-current assets		7,893,283.68	760,157.38
Total profits		823,360,301.17	696,560,056.85
Less: Income tax expenses	10	117,992,544.82	105,932,299.43
Net profits		705,367,756.35	590,627,757.42
Net profits of consolidated parties prior to consolidation			
Net profit attributable to shareholders of the parent		672,098,859.30	559,279,481.31
Profit and loss of minority interests		33,268,897.05	31,348,276.11
Earnings per share			
Basic earnings per share	13	0.49	0.41
Diluted earnings per share	13	0.49	0.41
Other comprehensive income			
(1) Items to be reclassified into profit and loss in subsequent accounting periods upon satisfaction of required conditions		-1,378,647.48	962,025.96
(2) items not to be reclassified into profit and loss in subsequent accounting periods			
Total comprehensive income		703,989,108.87	591,589,783.38
Total comprehensive income attributable to shareholders of the parent		670,720,211.82	560,241,507.27
Total comprehensive income attributable to minority interests		33,268,897.05	31,348,276.11

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 formulated and the scheme was approved in the A shares general meeting, and further approved by Ministry of Commerce PRC on 22 March 2007. After completion of the Reform of Non-tradable Shares Scheme, the Company’s non-freely transferable domestic legal person shares were converted into freely transferable A shares (the “Transferable Shares”).

On 31 August 2009, the Company’s proposal for a major asset reorganization and the acquisition of the white goods assets and business (the “White Goods Business”) of Hisense Air-Conditioning (the “Acquisition”) was approved in the Company’s shareholders’ meeting. The Acquisition was approved by the PRC’s China Securities Regulatory Commission (the “CSRC”) on 23 March 2010. On 10 June 2010, the Company allotted and issued 362,048,187 A shares to Hisense Air-Conditioning.

On 23 May 2014, the conditions for exercising the options of the first exercise period of the first share option incentive scheme of the Company were satisfied. The Shenzhen branch of China Securities Depository and Clearing Corporation Limited has approved the registration and the listing of the 4,440,810 new shares issued pursuant to the exercise of share options.

On 19 June 2015, the conditions for exercising the options of the second exercise period of the first share option incentive scheme of the Company were satisfied. The Shenzhen branch of China Securities Depository and Clearing Corporation Limited has approved the registration and the listing of the 4,229,810 new shares issued pursuant to the exercise of share options. As at 30 June 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 516,758,670 shares, representing 37.92% of the Company’s total issued share capital and continued to be the immediate controlling shareholder.

On 30 June 2017, directors of the Company were of the opinion that Hisense Company Limited (“Hisense Group”) , a state-owned enterprise incorporated in the PRC, was regarded as the ultimate controlling shareholder.

The English names by which some of the companies are referred to in these financial statements represent management’s best efforts in translating their Chinese names as no English names have been registered for these companies. The Group, comprising the Company and its subsidiaries, is principally engaged in the manufacture and sale of refrigerators and air-conditioners.

The address of the registered office and principal place of business of the Company is No. 8 Ronggang Road, Ronggui, Shunde, Foshan, the PRC.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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 42 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

Description on the change in accounting policies of the Company during the Reporting period:

On 28 April 2017, the Ministry of Finance issued the Accounting Standards for Business Enterprises No. 42 – Non-current assets held for sale, disposal groups and discontinued operation based on Accounting [2017] No. 13, and such accounting standards were implemented since 28 May 2017. On 10 May 2017, the Ministry of Finance issued the Accounting Standards for Business Enterprises No. 16 – Government grants (2017 revision) based on Accounting [2017] No. 15, and such accounting standards were implemented since 12 June 2017. The Company started to implement the above two accounting standards according to the schedule required by the Ministry of Finance.

Prior to the implementation of the Accounting Standards for Business Enterprises No. 16 – Government grants (2017 revision), the Company included the government grants received in the non-operating income. After the implementation of the Accounting Standards for Business Enterprises No. 16 – Government grants (2017 revision), the Company applied the new standard to the government grants which existed on 1 January 2017, while adjustments were made on the government grants newly conferred between 1 January 2017 and the date of implementation of this standard in accordance with this standard, which were: the government grants relating to ordinary activities and existed after 1 January 2017 would be included in other income; the government grants not relating to ordinary activities would be included in non-operating income.

The changes in accounting policies and the adjustments of accounting subjects only affect the presentation of financial statements. They do not affect the profits and losses, total assets, and net assets of the Company, and do not involve the retroactive adjustments of the financial statements in previous years.

There was no change in accounting estimate during the Reporting period.

4. SEGMENT INFORMATION

The Group manages its business by segments which are divided based on combinations of business lines and geography. In the manner consistent with the internal reports to the Group's most senior executive management personnel 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 for the current period is as follows:

Amount for current period	Refrigerators and Washing machines	Air-conditioners	Others	Elimination	Total
1. Revenue from external sales	6,668,625,568.41	8,524,894,129.91	795,467,248.41		15,988,986,946.73
2. Revenue from inter-segment			677,843,132.62	-677,843,132.62	
3. Share of profit of associates and joint ventures		331,193,198.81	-102,865.74		331,090,333.07
4. Depreciation and amortization	205,748,643.65	108,892,019.32	43,501,787.92		358,142,450.89
5. Gain from changes in fair value			-14,766,266.84		-14,766,266.84
6. Impairment losses on assets	-1,318,203.17	1,389,590.94	-962,246.75		-890,858.98
7. Total profit (total loss)	33,336,260.70	691,360,632.42	130,510,839.19	-31,847,431.14	823,360,301.17
8. Total assets	14,903,068,963.20	12,904,568,348.40	4,059,752,756.52	-10,438,777,068.80	21,428,612,999.32
9. Total liabilities	9,839,070,015.12	10,217,433,790.94	2,305,089,198.55	-6,549,788,588.26	15,811,804,416.35
10. Additions to other non-current assets other than long-term equity investments	-98,841,500.30	68,283,534.34	70,165,382.60		-96,959,652.04

Segment information for the corresponding period last year is as follows:

Amount for corresponding period last year	Refrigerators and Washing machines	Air-conditioners	Others	Elimination	Total
1. Revenue from external sales	6,041,357,800.87	5,416,889,955.83	702,655,969.83		12,160,903,726.53
2. Revenue from inter-segment			672,173,231.55	-672,173,231.55	
3. Share of profit of associates and joint ventures	-27,362,398.33	217,424,224.22	-83,804.31		189,978,021.58
4. Depreciation and amortization	179,950,744.44	119,090,768.20	38,805,693.36		337,847,206.00
5. Gain from changes in fair value	4,433,060.83	4,433,060.83	184,763.11		9,050,884.77
6. Impairment losses on assets	-8,131,026.03	-5,829,456.75	-77,000.00		-14,037,482.78
7. Total profit (total loss)	221,281,099.54	408,548,324.16	84,389,434.70	-17,658,801.55	696,560,056.85
8. Total assets	14,011,715,077.91	10,750,661,852.88	3,973,369,533.57	-11,138,893,167.75	17,596,853,296.61
9. Total liabilities	9,460,920,837.23	8,507,616,636.87	2,443,239,743.62	-7,653,107,728.20	12,758,669,489.52
10. Additions to other non-current assets other than long-term equity investments	-8,463,922.16	-60,147,376.91	-43,893,460.98		-112,504,760.05

(2) Geographical Information

Region	January to June 2017	January to June 2016
Revenue from external customers-Mainland	9,956,646,420.24	7,532,607,084.66
Revenues from external customers-Overseas	6,032,340,526.49	4,628,296,641.87
Total	<u>15,988,986,946.73</u>	<u>12,160,903,726.53</u>
Region	30 June 2017	31 December 2016
Non-current assets-Mainland	6,514,744,583.11	6,051,857,671.33
Non-current assets-Overseas	12,465,666.86	1,221,897.61
Total	<u>6,527,210,249.97</u>	<u>6,053,079,568.94</u>

* The Company is mainly operated in Mainland China, where the majority of non-current assets are located as well; therefore no further detailed geographical information is required to be reported.

5. TRADE RECEIVABLES

Normal credit term of 60 days is granted to customers. The Group allows a credit term of not exceeding one year for large and well-established customers from the date of invoice. Sales are usually settled by cash on delivery for small and new customers. Trade receivables are non-interest bearing.

The aging of trade receivables is analyzed as follows:

Item	30 June 2017	31 December 2016
Within three months	4,677,268,489.38	2,672,469,962.21
Over three months but within six months	56,902,244.30	53,608,872.08
Over six months but within one year	9,032,219.44	8,822,472.50
Over one year	115,728,324.98	122,716,362.02
Total	4,858,931,278.10	2,857,617,668.81
Less: provision for bad debts	125,934,659.13	132,488,485.48
	<u>4,732,996,618.97</u>	<u>2,725,129,183.33</u>

6. TRADE PAYABLES

The aging of trade payables based on their recording dates is analyzed as follows:

Item	30 June 2017	31 December 2016
Within one year	5,087,589,288.18	4,228,675,470.71
Over one year	155,789,857.32	138,592,927.38
Total	<u>5,243,379,145.50</u>	<u>4,367,268,398.09</u>

7. REVENUE AND COST OF SALES

Item	January to June 2017	January to June 2016
Revenue from main operations	15,988,986,946.73	12,160,903,726.53
Revenue from other operations	1,617,370,474.68	962,047,804.98
Total	17,606,357,421.41	13,122,951,531.51

Item	January to June 2017	January to June 2016
Cost of main operations	12,796,472,032.26	9,175,148,808.22
Cost of other operations	1,551,228,731.04	869,109,423.41
Total	14,347,700,763.30	10,044,258,231.63

8. FINANCIAL EXPENSES

Item	January to June 2017	January to June 2016
Interest expenses		6,579,120.82
less: interest income	10,404,401.67	4,109,203.50
Gain/ (loss) on Foreign Exchange	17,584,638.25	-37,017,657.72
Others	-2,511,138.33	1,153,053.66
Total	4,669,098.25	-33,394,686.74

9. INVESTMENT INCOME

(1) Summary of investment income

Item	January to June 2017	January to June 2016
Gain from available-for-sale financial assets during holding period	13,227,800.00	6,004,000.00
Gain from long-term equity investment under the equity method	331,090,333.07	189,978,021.58
Gain from disposal of financial assets at fair value through profit or loss	3,701,448.14	-6,164,321.06
Gain from purchase of wealth management products	18,232,134.06	701,369.86
Total	366,251,715.27	190,519,070.38

(2) Income from long-term equity investment-the cost method

Investee	January to June 2017	January to June 2016
Hisense International Co., Ltd.	13,227,800.00	6,004,000.00
Total	13,227,800.00	6,004,000.00

(3) Income from long-term equity investment-the equity method:

Investee	January to June 2017	January to June 2016
Zhejiang Hisense		-27,362,398.33
Attend		-83,804.31
Hisense Hitachi	331,193,198.81	217,424,224.22
Hisense Financial Holdings	-102,865.74	
Total	331,090,333.07	189,978,021.58

10. INCOME TAX EXPENSES

Item	January to June 2017	January to June 2015
Income tax expenses	119,998,424.44	97,227,104.23
Deferred tax expenses	-2,005,879.62	8,705,195.20
Total	117,992,544.82	105,932,299.43

Certain subsidiaries have been recognised as “high technology” companies and are entitled to a preferential tax rate of 15% (2016: 15%) .Hong Kong Profits Tax is calculated at 16.5% (2016: 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% (2016: 25%) .

11. NET CURRENT ASSETS

Item	30 June 2017	31 December 2016
Current Assets (Consolidated)	14,901,402,749.35	13,001,979,039.38
Less: Current Liabilities (Consolidated)	15,414,428,676.76	13,361,571,345.58
Net Current Assets (Consolidated)	-513,025,927.41	-359,592,306.20
Current Assets (the Company)	1,359,580,226.55	1,483,357,545.87
Less: Current Liabilities (the Company)	1,459,255,393.64	778,639,076.40
Net Current Assets (the Company)	-99,675,167.09	704,718,469.47

12. TOTAL ASSETS LESS CURRENT LIABILITIES

Item	30 June 2017	31 December 2016
Total Assets (Consolidated)	21,428,612,999.32	19,055,058,608.32
Less: Current Liabilities (Consolidated)	15,414,428,676.76	13,361,571,345.58
Total Assets less Current Liabilities (Consolidated)	6,014,184,322.56	5,693,487,262.74
Total Assets (the Company)	6,541,825,502.58	5,874,988,986.09
Less: Current Liabilities (the Company)	1,459,255,393.64	778,639,076.40
Total Assets Less Current Liabilities (the Company)	5,082,570,108.94	5,096,349,909.69

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	January to June 2017	January to June 2016
Consolidated net profit attributable to ordinary shareholders of the Company	672,098,859.30	559,279,481.31
Weighted average number of ordinary shares in issue of the Company	1,362,725,370.00	1,362,725,370.00
Basic earnings per share	<u>0.49</u>	<u>0.41</u>

(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 Company adjusted for dilutive potential ordinary shares divided by the adjusted weighted average number of ordinary shares in issue of the Company. For the Reporting Period and the corresponding period ended 30 June 2016, there were no dilutive potential ordinary shares, and therefore the diluted earnings per share were same as the basic earnings per share.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017. No interim dividend was paid for the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

I. SUMMARY

(I) INDUSTRY OVERVIEW

During the Reporting Period, the performance of domestic white goods markets was diverse: the refrigerator market had insufficient rigid demand and weak growth. According to the inferential statistics of China Market Monitor Company Limited (CMM), as at June 2017, the cumulative retail volume of the refrigerator industry grew by 1.7% and its cumulative retail amount grew by 4.8% year-on-year. Benefited from the de-stocking of the inventory in 2016 which released the space for supplement, scorching weather and the recovery of third and fourth tier markets, the performance of the air-conditioner market was impressive. According to the inferential statistics of CMM, as at June 2017, the cumulative retail volume of the air-conditioner market grew by 26.3% and its cumulative retail amount improved by 31.9% year-on-year. In relation to the export market, the markets of the overseas major economies continued to pick up and the export demand increased. According to the statistics of the Customs, the export volume of refrigeration products grew by 17.1% and the export amount grew by 18.1% year-on-year in the first half of 2017 while the export volume of air-conditioning products grew by 12.3% and the export amount grew by 4.6% year-on-year.

Under the “intelligent” and “high-end” background of the new normal, the user needs are constantly updated and diversified, followed by constant upgrades and improvements in product technology, features, appearance, layout, etc., and the product structure of white goods market has been changing continuously.

(II) ANALYSIS OF COMPANY’S OPERATION

1. Overall situation of Company’s operation.

During the Reporting Period, the Company insisted on the operating directions of “strengthening the high-end strategy, expanding the high-quality network, enhancing system efficiency, accelerating the industrial expansion, expanding into international markets, ensuring the economies of scale” to implement various tasks in order to achieve steady increase of the Company’s scale and efficiency. However, as affected by unfavourable factors, such as the appreciation of RMB and the continuously rising prices of raw materials, the gross profit margin of enterprises was under pressure and the Company’s gross profit margin recorded a decline year-on-year. The Company achieved operating revenue of RMB17,606 million, representing a year-on-year increase of 34.16%, and principal operating revenue of RMB15,989 million, representing a year-on-year increase

of 31.48%, among which, revenue from the refrigerator and washing machine business accounted for 41.71% of the principal operating revenue, representing a year-on-year increase of 10.38%; revenue from the air-conditioner business accounted for 53.32% of the principal operating revenue, representing a year-on-year increase of 57.38%; the domestic sales business recorded a principal operating revenue of RMB9,957 million, representing a year-on-year increase of 32.18%, whereas the export sales business recorded a principal operating revenue of RMB6,032 million, representing a year-on-year increase of 30.34%. The Company achieved net profits attributable to shareholders of the listed company of RMB672 million, representing a year-on-year increase of 20.17%, in which the net profits after non-recurring gains or losses were RMB605 million, representing a year-on-year increase of 16.44%, and the earnings per share were RMB0.49.

During the Reporting Period, the Company continued to enhance the optimization of internal workflow as well as largely reducing its inventory level and accelerating the turnover of inventories. The turnover of inventories was reduced by 4.8 days year-on-year.

2. Air-conditioner business

As for household air-conditioners, during the Reporting Period, the Company adhered to its policy of introducing high-end products. By the implementation of foundation work such as the upgrades, efficiency enhancement and quality improvement of intelligent product and technology, the competitiveness of our products was further enhanced. With its advanced intelligent technologies and outstanding appearance design, the Hisense “Male Idol” series air conditioner (海信“男神”系列空調) introduced by the Company was awarded “2017 Appliance Innovation Award” (“2017艾普蘭創新獎”) at the 2017 China Appliance & Electronics World Expo (2017年中國家電及消費電子博覽會). As for the foundation work, in face of increasing market demand, the Company accelerated the turnover of capital for the supply chain, continuously deepened the process optimization, automation upgrade and accelerated the application of information, so as to promote the continuous improvement of production efficiency and achieved a year-on-year increase of 28% in per capita efficiency and a year-on-year increase of 2.13 percentage points in the saving of production costs. The Company strengthened the quality control mechanism to lower the quality loss. The core quality index of the Company was improved continuously as the NPS index of the product quality aspect of “Hisense” and “Kelon” brands improved by 25.6% and 26.1% year-on-year, respectively. As for the sales channel, the Company developed more outlets and focused on developing the third and fourth tier markets. The sales revenue in third and fourth tier markets increased significantly year-on-year. The Company vigorously expanded the network of high-quality customers so that the number of high-quality customers increased significantly, which laid a solid foundation for the subsequent growth of scale. As for the export business, the Company increased overseas marketing efforts for its products. According to the Customs export statistics, the export volume of the Company’s air-conditioning products in the first half of 2017 increased by 70.8% year-on-year, which was much higher than the industry average of 12.3%.

As for commercial air-conditioners, Hisense Hitachi, a company in which the Company has equity interest, had advanced international production equipment and quality assurance facilities. By adhering to the philosophy of using technology to promote technical innovation, Hisense Hitachi kept introducing new air-conditioning products to support the rapid increase in scale and profitability as it has fully mastered the world's advanced core production technologies. During the Reporting Period, the orders secured and the receivables collected of Hisense Hitachi achieved huge breakthrough, recording a year-on-year increase of 56.92% in operating revenue, further enhancing the Company's operating efficiency.

During the Reporting Period, as affected by unfavourable factors such as the continuously rising prices of raw materials, the gross profit margin of the air-conditioner business of the Company dropped by 2.64 percentage points as compared to the corresponding period. Facing pressure from squeezing gross profit margin, the Company promoted the enhancement of the operation quality of its air-conditioner business through increasing the product competitiveness, continuously optimizing the structures of products and customers, continuously improving the internal basic management and accelerating the turnover of inventories.

3. Refrigerator and washing machine business

During the Reporting Period, the Company adhered to the “spirit of craftsmanship” and insisted on the creation of “professional brand, differentiated products” so as to enhance its product competitiveness. Technologically, certified by the safety and anti-bacteria certification organization, CQC, the “full ecological antibacterial fresh-keeping technology” introduced by the Company can achieve a whole-refrigerator antibacterial performance rate of 99.8%. Leveraging on the leading advancement of products in the aspect of healthy and antibacterial technology development, at the 2017 Chinese Refrigerator Industry Summit, “Ronshen” was awarded “The Healthy and Antibacterial Leading Brand in the Refrigerator Industry 2016-2017”. As for the products, the “Ronshen refrigerator” launched a series of new “zero degree • purity” products, which are equipped with the full ecological antibacterial fresh-keeping technology. “Hisense refrigerator” launched the new intelligent 5.0 refrigerator which further enriched its line of intelligent high-end refrigerators. As for the export business, the Company insisted on optimizing the structure of overseas customers and strengthening the relationship and cooperation with major strategic customers. According to the statistics of GFK, the sales market share of Hisense's refrigerators in South Africa in the first half of 2017 increased by 3.3 percentage points year-on-year, ranking second in the industry.

However, as affected by multiple factors, such as the continuously weak demand of the domestic sales market, weak growth in the scale, cost pressure resulted from the continuously rising prices of raw materials etc., the declined profitability of the Company's refrigerator and washing machine business and the gross profit margin decreased as compared to the corresponding period last year. Facing the operational pressure, the Company further quantified and deepened "value engineering" and "benchmark management" by establishing the TCP (total cost efficiency) team through combining with the DFMA (Design for Manufacturing and Assembly) platform in order to enhance the cost efficiency and market competitiveness of the products, curb the impact of continuously rising prices of raw materials on the operation, and pave way for the recovery of profitability in the second half of the year.

4. Risks faced by the Company and contingency measures

Looking forward to the second half of 2017, the market competition will be more intense. The demand of the domestic sales market of the refrigerator industry will remain low while the operational pressure will still be grim. As the rapid development of the real estate market may not sustain, the air-conditioner market will gradually show a trend of steady growth, coupled with the high prices of raw materials, fluctuations of exchange rates and other factors, these will bring great pressure to the operation and development of enterprises. The major risks we face are as follows:

- (1) The slowdown of the macroeconomic growth will lead to a decline in consumption demand such that the demand of the white household appliance market in which the Company's principal products of "refrigerators" and "air-conditioners" are located will also be affected, thus affecting the Company's sales scale.
- (2) The continued cost pressure escalated prices of raw materials, and the continuously increasing human resources and labour costs, logistics and transportation costs, installation services costs, etc. will all have a negative impact on the Company's profitability.
- (3) Risks from the fluctuations of exchange rates: as overseas revenue accounted for more than 30% of the Company's overall operating income, the fluctuation of exchange rate of RMB will directly affect the competitiveness of the Company's exported products, which will affect the operation of exports by the Company.

For the second half of 2017, the product structure upgrades of the white goods will be in continuous steady progress with “intelligent”, “high-end”, “green” and “healthy” being set as the main tones. The Company will seize the favourable opportunities in the industry and the market to complete the following tasks committedly so as to ensure the steady enhancement of scale and efficiency:

- (1) Continue to strengthen the high-end strategy and promote high-end products; improve the product structure, optimize the customer structure and increase the gross profit margin of products; strengthen the promotional effort for products online.
- (2) Vigorously develop the e-commerce market, and enhance the scale of e-commerce and market share; develop key areas to promote the enhancement of overall scale; deepen the development of the third and fourth tier markets and build its core sales channels; expand into international markets and enhance the scale of export.
- (3) Fully implement the efficiency enhancement and cost reduction tasks from the research and development, manufacturing, marketing to other aspects.
- (4) Accelerate the industrial development, improve the product layout, highlight the differentiating functions of products, enhance the core competitiveness of products, and achieve rapid growth in business scale and economic efficiency of “washing machine”, “commercial air-conditioner”, “commercial cold chain”, “environmental appliances” and “kitchen appliances”.
- (5) Strengthen the management of receivables, continue to improve inventory management, accelerate the turnover of inventories and trade receivables, firmly enforce the settlement of overdue receivables and old inventories and improve the efficiency of capital utilization.

II. 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

Items	Reporting Period	Corresponding period last year	Increase or decrease as compared to corresponding period last year (%)
Operating revenue (RMB)	17,606,357,421.41	13,122,951,531.51	34.16
Net profits attributable to shareholders of listed company (RMB)	672,098,859.30	559,279,481.31	20.17
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	604,512,199.63	519,161,229.89	16.44
Net cash flow from operating activities (RMB)	600,148,124.99	1,066,721,270.63	-43.74
Basic earnings per share (RMB/share)	0.49	0.41	19.51
Diluted earnings per share (RMB/share)	0.49	0.41	19.51
Weighted average rate of return on net assets (%)	13.09	13.04	0.05

Items	End of the Reporting Period	End of last year	Increase or decrease as compared to end of last year (%)
Total assets (RMB)	21,428,612,999.32	19,055,058,608.32	12.46
Net assets attributable to shareholders of listed company (RMB)	5,129,368,777.99	4,867,466,177.17	5.38

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

Item	Amount	Unit: RMB Description
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	1,288,184.26	
Government grants recognized in the profits or losses (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)	64,983,381.34	
Other non-operating income and expenses other than the aforementioned items	26,245,112.95	
Less: Effect of income tax	17,269,535.16	
Effect of minority interests (after tax)	7,660,483.72	
Total	<u>67,586,659.67</u>	

(III) ANALYSIS OF PRINCIPAL BUSINESS

Changes of major financial information as compared to corresponding period in previous year

Items	Closing balance (current period)	Opening balance (end of last year)	Change (%)	Unit: RMB Reasons of change
Cash and cash equivalents	3,900,614,157.25	2,227,421,330.74	75.12	Mainly due to an increase in net operating cash flow of the Company during the Reporting Period and the redemption of wealth management products upon maturity as at the end of the Reporting Period
Accounts receivable	4,732,996,618.97	2,725,129,183.33	73.68	Mainly because the end of the Reporting Period was the peak season for sales, thus increased sales resulted in a corresponding increase in accounts receivable
Other receivables	441,822,972.75	245,420,469.20	80.03	Mainly due to an increase in refund of tax for exports receivable as at the end of the Reporting Period
Other current assets	384,256,493.04	1,678,765,851.25	-77.11	Mainly due to the redemption of wealth management products upon maturity as at the end of the Reporting Period
Long-term equity investments	2,198,473,929.07	1,627,383,596.00	35.09	Mainly due to the recognition of gain from investment in Hisense Hitachi and the additional investment in Hisense Financial Holdings
Construction in progress	121,410,404.41	72,942,458.27	66.45	Mainly due to an increase in the investment in technology transformation as at the end of the Reporting Period

Items	The Reporting Period	Previous period (corresponding period last year)	Change (%)	Reasons of change
Operating revenue	17,606,357,421.41	13,122,951,531.51	34.16	Mainly due to a substantial growth of the sales of the air-conditioner business
Operating costs	14,347,700,763.30	10,044,258,231.63	42.84	Mainly due to a corresponding increase in costs following an increase in revenue from sales
Taxes and surcharges	135,074,666.02	53,955,707.45	150.34	Mainly due to a year-on-year increase resulted from the inclusion of taxes such as waste electronic fund into taxes and surcharges in accordance with the requirement of the standards during the Reporting Period
Investment income	366,251,715.27	190,519,070.38	92.24	Mainly due to an increase in gain from investment in Hisense Hitachi
Non-operating income	101,429,806.22	56,931,787.09	78.16	Mainly due to an increase in the government grants received
Cash received from sales of goods and rendering of services	12,156,017,540.22	9,029,697,663.46	34.62	Mainly due to a corresponding increase in receipts following an increase in sales
Tax rebates received	591,629,782.01	434,364,375.99	36.21	Mainly due to an increase in refund of tax for exports received following a growth of the scale of export
Cash paid for purchases of commodities and receipt of services	8,187,278,779.82	4,727,872,044.53	73.17	Mainly due to an increase in the payment to purchase following an increase in sales
Cash received relating to other investing activities	2,800,000,000.00	200,000,000.00	1,300.00	Mainly due to an increase in redemption of wealth management products
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	197,559,248.87	129,400,021.03	52.67	Mainly due to an increase in the investment in technology transformation of fixed assets
Cash paid for investments	240,000,000.00		N/A	Due to the new investment in Hisense Financial Holdings during the Reporting Period
Cash paid relating to other investing activities	1,500,000,000.00	361,000,000.00	315.51	Due to an increase in the purchase of wealth management products
Cash received from borrowings		699,918,728.63	N/A	Due to the accounts receivable factoring and borrowing business in the corresponding period which did not occur in the Reporting Period
Cash paid for repayment of borrowings		542,305,035.90	N/A	Due to the accounts receivable factoring and borrowing business in the corresponding period which did not occur in the Reporting Period
Cash paid for distribution of dividends, profit or payment of interest expenses	13,043,592.32	28,395,158.78	-54.06	Mainly due to the payment of interest of factoring loans in the corresponding period which did not occur in the Reporting Period
Cash paid relating to other financing activities	1,016,209,836.70	1,190,281.40	85,275.60	Mainly due to an increase in security deposit during the Reporting Period

(IV) DESCRIPTION OF PRINCIPAL BUSINESS SEGMENTS

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	15,988,986,946.73	12,796,472,032.26	19.97	31.48	39.47	-4.59
By product						
Refrigerators and washing machines	6,668,625,568.41	5,374,279,321.90	19.41	10.38	19.86	-6.38
Air-conditioners	8,524,894,129.91	6,814,028,367.21	20.07	57.38	62.76	-2.64
Others	795,467,248.41	608,164,343.15	23.55	13.21	20.46	-4.60
By region						
Mainland	9,956,646,420.24	7,184,100,335.59	27.85	32.18	35.77	-1.91
Overseas	6,032,340,526.49	5,612,371,696.67	6.96	30.34	44.52	-9.13

III. CORE COMPETITIVENESS ANALYSIS

1. Technological advantages

The Company adheres to its operating philosophy of “technology orientation” and focuses on “energy-saving by inverter technology” and “green and environmental friendliness” 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 about one thousand technical personnel. The Company is always 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 refrigerator and air-conditioner 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 benefited from the favorable opportunity of sports marketing development by Hisense Group and accelerated the process of internationalization so as to continuously promote the strategy of internationalization of its own brands.

IV. MAJOR SUBSIDIARIES AND COMPANIES IN WHICH THE COMPANY HAS EQUITY INTEREST

Major subsidiaries and companies in which the Company has equity interest and accounting for over 10% of the net profit of the Company

Name of company	Company type	Industry	Major product or service	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	Manufacturing industry	Production and sale of commercial airconditioners	US\$46 million	859,333.16	410,302.48	441,781.49	85,516.74	71,128.03

Acquisition and disposal of subsidiaries during the Reporting Period

Name of company	Means of acquisition and disposal of subsidiaries during the Reporting Period	Effect on the overall production, operation and results
Hisense Mould (Deutschland) GmbH	Newly established	To satisfy the Company’s operation needs.
Kelon (Japan) Limited	Cancellation of registration	The cancellation of registration of this company will not have any significant impact on the Company’s overall production operation and performance.

LIQUIDITY AND SOURCES OF CAPITAL

Net cash generated from operating activities of the Group was approximately RMB600 million for the six months ended 30 June 2017 (for the six months ended 30 June 2016: RMB 1,066 million).

As at 30 June 2017, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB 3,901 million (as at 30 June 2016: RMB 2,086 million) and bank loans amounting to approximately RMB 0 million (as at 30 June 2016: RMB248 million).

Total capital expenditures of the Group for the six months ended 30 June 2017 amounted to approximately RMB197 million (for the six months ended 30 June 2016: RMB129 million).

GEARING RATIO

As at 30 June 2017, the Group's gearing ratio (calculated according to the formula: total liabilities divided by total assets) was 74% (as at 30 June 2016: 73%).

TRUST DEPOSITS

As at 30 June 2017, 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.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2017, the Group had approximately 33,274 employees, mainly comprising 4,539 technical staff, 14,261 sales representatives, 199 financial staff, 682 administrative staff and 13,593 production staff. The Group had 11 employees with a doctorate degree, 492 with a master's degree and 3,851 with a bachelor's degree. There were 551 employees who occupied mid-level positions or above in the Group according to the national standards. For the six months ended 30 June 2017, the Group's staff payroll amounted to RMB1,551 million (corresponding period in 2016 amounted to RMB1,338 million).

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 30 June 2017, the Group did not have (31 December 2016: nil) property, plant and equipment (including leasehold land held for own use), investment properties and trade receivables 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.

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 Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its code for securities 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 in the Reporting Period.

SHARE CAPITAL STRUCTURE

As at 30 June 2017, 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 30 June 2017, there were 29,414 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
Hisense Air-conditioning	State-owned legal person	516,758,670	37.92%	57.22%	0
HKSCC Nominees Limited <i>Note 1</i>	Foreign legal person	458,155,069	33.62%	99.69%	0
Cental Huijin Investment Ltd.	Domestic non-state-owned legal person	26,588,700	1.95%	2.94%	0
China Construction Bank Limited – China Universal Consumer Industries Mixed Security Investment Fund	Others	10,401,823	0.76%	1.15%	0
China Construction Bank Corporation –Great Wall Brand Prime Choice Mixed Securities Investment Fund	Others	8,145,953	0.60%	0.90%	0
Zhang Shao Wu	Domestic natural person	7,200,000	0.53%	0.80%	0
National Social Security Fund Combination 114	Others	6,260,382	0.46%	0.69%	0
Bank of Communications-Huaxia Blue-chip Core Mixed Securities Investment Fund (LOF)	Others	5,559,119	0.41%	0.62%	0
Industrial and Commercial Bank of China Limited-China Universal Asset Management Emerging Consumption Equity Securities Investment Fund	Others	5,019,668	0.37%	0.56%	0
China Citic Bank Corporation Limited – Bank Of Communications Schroder Strategic Return and Flexible Allocation Mixed Securities Investment Fund	Others	4,691,787	0.34%	0.52%	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, a party acting in concert with the controlling shareholder of the Company, 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.

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
Hisense Air-conditioning	516,758,670	RMB ordinary shares
HKSCC Nominees Limited	458,155,069	Overseas listed foreign shares
Cental Huijin Investment Ltd.	26,588,700	RMB ordinary shares
China Construction Bank Limited – China Universal Consumer Industries Mixed Security Investment Fund	10,401,823	RMB ordinary shares
China Construction Bank Corporation – Great Wall Brand Prime Choice Mixed Securities Investment Fund	8,145,953	RMB ordinary shares
Zhang Shao Wu	7,200,000	RMB ordinary shares
National Social Security Fund Combination 114	6,260,382	RMB ordinary shares
Bank of Communications-Huaxia Blue-chip Core Mixed Securities Investment Fund (LOF)	5,559,119	RMB ordinary shares
Industrial and Commercial Bank of China Limited-China Universal Asset Management Emerging Consumption Equity Securities Investment Fund	5,019,668	RMB ordinary shares
China Citic Bank Corporation Limited – Bank Of Communications Schroder Strategic Return and Flexible Allocation Mixed Securities Investment Fund	4,691,787	RMB ordinary shares

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES

So far as is known to any Directors, supervisors and the chief executive of the Company, as at 30 June 2017, 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:

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 ^{Note 1}	Beneficial owner	A shares	516,758,670 (L)	57.22%	37.92%
Qingdao Hisense Electric Holdings Company Limited ^{Note 1}	Interest of controlled corporation	A shares	516,758,670 (L)	57.22%	37.92%
Hisense Group ^{Note 1}	Interest of controlled corporation	A shares	516,758,670 (L)	57.22%	37.92%
Hisense Hong Kong ^{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 Group ^{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. Hisense Air-conditioning is a company directly owned as to 93.33% by Qingdao Hisense Electric Holdings Company Limited, whereas Hisense Hong Kong 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 Group and is accustomed or obliged to act in accordance with the directions or instructions of Hisense Group. By virtue of the SFO, Qingdao Hisense Electric Holdings Company Limited and Hisense Group were deemed to be interested in the same parcel of A shares of which Hisense Air-conditioning was interested and in the same parcel of H shares of which Hisense Hong Kong was interested.

Save as disclosed above, as at 30 June 2017, in so far as the Directors, supervisors and chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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

As at 30 June 2017, save as disclosed below, none of the members of the Board, supervisors and the chief executive of the Company and their respective associates held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code.

Long position in the shares of the Company

Name of Director	Nature of interest	Number of shares	Percentage to the	Percentage to the
			total issued shares of the Company	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%

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the interim results announcement for the period ended 30 June 2017.

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 Listing Rules.

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

An interim report containing all information as required by Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited ([http: //www.hkex.com.hk](http://www.hkex.com.hk)) and the Company's website ([http: //www.kelon.com](http://www.kelon.com)) in due course.

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

Foshan City, Guangdong, the PRC, 10 August 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.

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

I. PARTICULARS OF CONNECTED TRANSACTIONS IN RELATION TO ORDINARY BUSINESS OCCURRED DURING THE REPORTING PERIOD

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 transaction (%)
Hisense Group	Purchase	Finished goods	Agreed price	0.51	0.00
Hisense Electronics	Purchase	Finished goods	Agreed price	2.27	0.00
Hisense Group	Purchase	Materials	Agreed price	4,042.68	0.28
Hisense Electronics	Purchase	Materials	Agreed price	537.94	0.04
Hisense Hitachi	Purchase	Materials	Agreed price	565.51	0.04
Hisense Group	Receipt of services	Receipt of services	Agreed price	19,548.89	1.36
Hisense Electronics	Receipt of services	Receipt of services	Agreed price	461.60	0.03
Hisense Hong Kong	Receipt of purchase financing agency services	Receipt of purchase financing agency services	Agreed price	19,061.49	1.33
Hisense Group	Sale	Finished goods	Agreed price	426,118.97	24.20
Hisense Electronics	Sale	Finished goods	Agreed price	71.79	0.00
Hisense Hitachi	Sale	Finished goods	Agreed price	20,621.19	1.17
Hisense Group	Sale	Materials	Agreed price	2,282.08	0.13
Hisense Electronics	Sale	Materials	Agreed price	1,069.54	0.06
Hisense Hitachi	Sale	Materials	Agreed price	93.05	0.01
Hisense Group	Sale	Moulds	Market price	13,916.64	0.79
Hisense Electronics	Sale	Moulds	Market price	4,235.90	0.24
Hisense Hitachi	Sale	Moulds	Market price	183.59	0.01
Hisense Group	Provision of services	Provision of services	Agreed price	1,214.19	0.07
Hisense Hitachi	Provision of services	Provision of services	Agreed price	0.45	0.00

As at the end of the Reporting Period, the Company and its subsidiaries had the balance of deposit of approximately RMB3.321 billion and interest income received of approximately RMB9.7381 million, the actual balance of loan of RMB0, balance of electronic bank acceptance bill of approximately RMB4 billion, and the handling fee for opening accounts for electronic bank acceptance bill of approximately RMB2.1502 million with Hisense Finance. The actual amount of discounted interest for the provision of draft discount services was approximately RMB1.6454 million the actual amount involved for the provision of settlement and sale of foreign exchange services was approximately RMB73.6946 million and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was approximately RMB0.1562 million.

II. CONNECTED TRANSACTION IN RELATION TO JOINT EXTERNAL INVESTMENT

Joint venture parties	Connected relationship	Name of the joint venture company	Major business of the joint venture company	Registered capital of the joint venture company	Total assets of the joint venture company (RMB ten thousand)	Net asset of the joint venture company (RMB ten thousand)	Net profit of the joint venture company (RMB ten thousand)
Hisense Financial Investment Co., Ltd., Hisense International Co., Ltd., Qingdao Hisense Intelligent Commercial System Co., Ltd., Qingdao Hisense Electronic Equipment Co., Ltd.	Controlled by the same beneficial controller	Hisense Financial Holdings Co., Ltd.	Engaged in asset management, investment management, equity investment, equity investment management, venture capital investment, and venture capital investment management with its own capital, security business investment management, entrusted management of equity investment fund, technology investment and technology consultation in financial software, business management and consultation, business information consultation, commencement of creditors' investment, short-term financial investment, investment planning and consultation which targeted on the entity's economic project within the approved regions.	RMB1 billion	92,453.4	92,407.1	-42.86
Progress of significant projects in progress of the joint venture company (if any)				Not applicable.			

III. ENTRUSTED WEALTH MANAGEMENT

√ Applicable □ Not applicable

Unit: RMB (in ten thousand)

Name of trustee	Connection	Whether it is a connected transaction	Product type	Amount of entrusted wealth management	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
Bank	No	No	Bank's wealth management product	150,000	1 January, 2017	31 December 2017	Agreement	280,000.00			1,823.21
Total				150,000				280,000.00			1,823.21
Source of funding for entrusted wealth management										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)										18 November 2016	
Date of publishing the announcement in respect of the Shareholders' meeting held to approve the entrusted wealth management (if applicable)										10 January 2017	

IV. PARTICULARS OF GUARANTEES

☐ Applicable ☒ Not applicable

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	56,601.75	1 January 2017	30 June 2017	56,601.75	3,552.99	25,454.38	–	34,700.36	6.77	–1,106.48
Source of derivatives investment funding												Export trade payment	
Date of the announcement disclosing the approval of derivatives investment by the Board (if any)												30 March 2017	
Date of the announcement disclosing the approval of derivatives investment during shareholders’ meetings (if any)												Not applicable	
Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)				The derivatives business of the Company mainly represents the 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.									
				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.									
Changes in market price or product fair value of invested derivatives during the Reporting Period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives’ fair value				The assessment of the fair value of the derivatives carried out by the Company mainly represents the outstanding foreign exchange forward contracts entered into by the Company and banks, which are recognized as transactional financial assets or liabilities based on the difference between the quotation of the outstanding foreign exchange forward contracts and the forward exchange rate as at the end of the period. During the Reporting Period, the Company recognized a gain on change in fair value of the derivatives of RMB-14.7663 million. Investment gain amounted to RMB 3.7015 million, resulting in a total profits or losses of RMB-11.0648 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.									

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 Co., Ltd.
“Hisense Electronics”	Qingdao Hisense Electronics Co., Ltd.
“Hisense Group”	Hisense Co., Ltd.
“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.
“Hisense Finance”	Hisense Finance Co., Ltd.
“Hisense Hong Kong”	Hisense (Hong Kong) Co., Ltd.
“Hisense Financial Holdings”	Hisense Financial Holdings Co., Ltd.
“RMB”	Renminbi
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited