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HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

海信科龍電器股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00921)

**ANNOUNCEMENT OF RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

All members (the "Directors") of the board of directors (the "Board") of Hisense Kelon Electrical Holdings Company Limited (the "Company" or "Hisense Kelon") announce the annual audited results of the Company and its subsidiaries (collectively the "Group" or "Kelon") for the year ended 31 December 2017 (the "Reporting Period") together with the 2016 comparative figures, prepared in accordance with China Accounting Standards for Business Enterprises ("China Accounting Standards"). The following financial information is prepared in accordance with China Accounting Standards:

**FINANCIAL INFORMATION PREPARED IN ACCORDANCE WITH CHINA
ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES**
(Unless otherwise specified, all amounts are denominated in RMB)

Consolidated Balance Sheet

Item	Note	31 December 2017	31 December 2016
Assets			
Current assets			
Cash at bank and on hand		2,996,028,194.89	2,227,421,330.74
Financial assets at fair value through profit or loss for the current period		82,670.52	9,695,070.04
Notes receivable		3,517,031,644.77	3,281,453,069.10
Accounts receivable	5	2,833,227,741.68	2,725,129,183.33
Prepayments		239,594,948.71	174,049,069.34
Interest receivable		151,200.00	
Others receivables		312,311,091.68	245,420,469.20
Inventories		3,397,860,489.07	2,660,044,996.38
Other current assets		1,551,317,129.32	1,678,765,851.25
Total current assets		14,847,605,110.64	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		2,372,045,624.57	1,627,383,596.00
Investment properties		24,997,438.39	26,456,837.73
Fixed assets		3,251,808,744.32	3,481,725,652.28
Construction in progress		148,361,940.80	72,942,458.27
Disposal of fixed assets		480,289.23	907,836.24
Intangible assets		716,335,386.22	737,341,935.68
Long-term prepaid expenses		3,727,675.38	5,158,532.22
Deferred tax assets		104,404,613.17	97,262,720.52
Total non-current assets		6,626,061,712.08	6,053,079,568.94
Total assets		21,473,666,822.72	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		373,723.35	
Notes payable		6,141,025,710.22	5,227,854,741.07
Accounts payable	6	4,238,836,841.44	4,367,268,398.09
Advances from customers		791,262,245.11	831,778,792.45
Employee remunerations payable		323,419,615.39	334,204,436.58
Taxes payable		265,563,541.86	222,919,921.87
Interests payable			
Dividends payable			
Other payables		1,709,226,096.76	1,661,704,359.95
Other current liabilities		639,347,580.40	715,840,695.57
Total current liabilities		14,109,055,354.53	13,361,571,345.58
Non-current liabilities			
Provisions		337,091,145.64	314,632,715.41
Deferred income		73,013,121.41	54,687,498.01
Deferred tax liability		1,137,179.22	706,994.87
Total non-current liabilities		411,241,446.27	370,027,208.29
Total liabilities			

		14,520,296,800.80	13,731,598,553.87
Shareholders' equity			
Share capital		1,362,725,370.00	1,362,725,370.00
Capital reserves		2,088,891,556.36	2,092,861,943.89
Other comprehensive incomes		7,370,127.86	14,274,706.17
Surplus reserves		460,339,686.31	313,689,564.15
Retained profits		2,525,976,933.34	1,083,914,592.96
Total equity attributable to shareholders of the Parent		6,445,303,673.87	4,867,466,177.17
Minority interests		508,066,348.05	455,993,877.28
Total shareholders' equity		6,953,370,021.92	5,323,460,054.45
Total liabilities and shareholders' equity		21,473,666,822.72	19,055,058,608.32

Consolidated Income Statement

Item	Note	2017	2016
Operating revenue	7	33,487,590,387.45	26,730,219,497.07
Operating costs	7	26,969,830,953.33	20,486,653,055.35
Business taxes and surcharges		325,301,170.51	222,794,528.65
Selling and distribution expenses		4,771,756,662.02	4,640,737,321.53
General and administrative expenses		1,044,734,733.11	946,745,876.45
Financial expenses	8	9,777,593.76	-85,989,063.41
Impairment losses on assets		38,044,368.26	-4,435,472.71
Gain from changes in fair value		-9,986,122.87	19,462,802.79
Investment gain	9	1,562,397,646.46	522,079,140.57
Including: Share of profit of associates and joint ventures		735,944,911.05	534,444,157.61
Gains on disposal of asset		4,136,179.65	12,711,655.36
Other income		125,483,420.20	
Operating profits		2,010,176,029.90	1,077,966,849.93
Non-operating income		237,692,697.13	228,586,888.96
Including: Gains on non-current assets		2,077,154.44	1,436,140.66
Non-operating expenses		15,577,352.42	36,212,267.67
Including: Losses on disposal of non-current assets		8,330,147.77	2,378,109.79
Total profits		2,232,291,374.61	1,270,341,471.22
Less: Income tax expenses	10	181,067,121.45	128,747,697.52
Net profits		2,051,224,253.16	1,141,593,773.70

Classified by continuity of operation			
Net profit from continuing operation		2,051,224,253.16	1,141,593,773.70
Net profit from discontinued operation			
Classified by ownership of equity			
Net profit attributable to shareholders of the parent		1,997,530,073.54	1,087,732,130.38
Profit and loss of minority interests		53,694,179.62	53,861,643.32
Other comprehensive income		-6,705,531.28	2,792,441.12
Total comprehensive income		2,044,518,721.88	1,144,386,214.82
Total comprehensive income attributable to shareholders of the parent		1,990,625,495.23	1,090,524,571.50
Total comprehensive income attributable to minority interests		53,893,226.65	53,861,643.32
Earnings per share	13		
Basic earnings per share		1.47	0.80
Diluted earnings per share		1.47	0.80

Notes:

1.General information

Hisense Kelon Electrical Holdings Company Limited (the “Company”) is a 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 Hong Kong Stock Exchange on 23 July 1996, whereas the Company’s domestic shares (the “A Shares”) were listed on the Shenzhen Stock Exchange on 13 July 1999.

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

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

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

On 23 May, 2014, the exercise conditions are satisfied for the Company's first exercise period of the

first phase of stock option incentive plan. China Securities Depository and Clearing Corporation Limited Shenzhen branch has approved the registration, and the exercise of 4,440,810 new stocks approved for listing.

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

As at 31 December 2017, 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.

In the opinion of the directors of the Company, as at 31 December 2017, Hisense Company Limited ("Hisense Group"), a state-owned enterprise incorporated in the PRC, is regarded as the ultimate controlling shareholder.

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

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

2.Basis of preparation

The financial statements are prepared based on going-concern assumption and actual transactions and events according to the Accounting Standards for Business Enterprises - Basic Standard (the Ministry of Finance Order No. 33 Issue, the Ministry of Finance Order No. 76 Amendment) issued by the Ministry of Finance, and 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 15 February 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, this 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 the 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 Hong Kong Stock Exchange (the “Hong Kong Listing Rules”) and the disclosure requirements of the Hong Kong Companies Ordinance.

3. 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 and Disposal Groups Held for Sale and Termination of Business 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.

On 25 December 2017, the Ministry of the Finance issued the “Notice of the Ministry of Finance on Revising and Issuing the Format of Financial Statements of General Enterprises” (No. 30 [2017] of the Ministry of Finance) (the “Notice”) which requires all financial statements for the year 2017 and thereafter be prepared in accordance with the Notice.

Prior to the issuance of the Notice, the Company took into account the disposal gain or loss arising from the fixed assets, construction in progress and intangible assets in calculating the non-operating income and non-operating expenses. After the Notice came into effect, the Company took into account the disposal gain or loss arising from the fixed assets, construction in progress and intangible assets in calculating the asset disposal gain, and adjusted the comparative figures during the comparable period in accordance with the Notice. The change in accounting policy and the adjustment in accounting subject merely affect the presentation of the financial statements but will not affect the profit and loss, total assets and net assets of the Company.

There were no changes in accounting estimate of the Company during the Reporting Period.

4. Segment information

The Group manages its business by divisions which are organized by a mixture of both business

lines and geographical areas. The information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has identified the following three reportable segments: refrigerators and washing machines, air-conditioners, and others (including product components and other electrical household appliances).

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

Amount for current period	Refrigerators and washing machines	Air-conditioners	Others	Elimination	Total
1. Revenue from external sales	14,110,925,211.40	14,587,570,871.00	1,731,557,425.66		30,430,053,508.06
2. Revenue from inter-segment sales			1,532,162,384.83	-1,532,162,384.83	
3. Gain from investment in associates and joint ventures	-485,120.74	731,516,261.29	4,913,770.50		735,944,911.05
4. Depreciation and amortization	397,085,954.36	213,982,047.99	97,936,397.24		709,004,399.59
5. Gain from changes in fair value	-4,716,426.32	-4,716,426.32	-553,270.23		-9,986,122.87
6. Impairment losses on assets	3,420,192.57	31,900,224.52	2,723,951.17		38,044,368.26
7. Total profit (Total loss)	77,095,307.72	1,249,018,672.67	948,188,500.17	-42,011,105.95	2,232,291,374.61
8. Total assets	16,371,138,556.05	11,497,620,081.72	3,809,305,882.95	-10,204,397,698.0	21,473,666,822.72
9. Total liabilities	11,027,922,339.72	7,721,893,570.20	1,804,121,334.07	-6,033,640,443.19	14,520,296,800.80
10. Additions to other non-current assets other than long-term equity investments	-30,992,581.07	-132,175,143.60	-8,512,160.76		-171,679,885.43

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

Amount for last period	Refrigerators and washing machines	Air-conditioners	Others	Elimination	Total
1. Revenue from external sales	12,778,722,120.61	10,380,981,134.10	1,511,221,145.53		24,670,924,400.24
2. Revenue from inter-segment sales			1,421,972,654.09	-1,421,972,654.09	
3. Gain from investment in associates and joint ventures	-36,319,775.98	570,847,737.90	-83,804.31		534,444,157.61
4. Depreciation and amortization	379,801,361.26	229,060,142.67	88,538,067.76		697,399,571.69
5. Gain from changes in fair value	9,363,479.52	9,363,479.52	735,843.75		19,462,802.79
6. Impairment losses on assets	-8,481,794.86	1,378,521.44	2,667,800.71		-4,435,472.71
7. Total profit (Total loss)	339,173,744.17	811,227,846.76	137,598,681.84	-17,658,801.55	1,270,341,471.22
8. Total assets	16,353,487,356.13	9,041,182,287.58	4,024,041,294.03	-10,363,652,329.42	19,055,058,608.32
9. Total liabilities	11,403,174,704.17	6,845,206,682.64	2,369,794,279.08	-6,886,577,112.02	13,731,598,553.87
10. Increased amounts of other non-current assets other than long-term equity investments	150,999,965.93	-104,416,041.45	-57,910,851.26		-11,326,926.78

(2) Geographic information

Category	2017	2016
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Revenues from domestic customers	20,575,313,709.67	16,208,992,881.10
Revenues from overseas customers	9,854,739,798.39	8,461,931,519.14
Total	30,430,053,508.06	24,670,924,400.24
Domestic non-current assets	6,613,223,821.45	6,051,857,671.33
Overseas non-current assets	12,837,890.84	1,221,897.61
Total	6,626,061,712.08	6,053,079,568.94

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

5.Accounts receivable

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

The aging of accounts receivable is analyzed as follows:

Item	31 December 2017	31 December 2016
Within three months	2,531,579,660.57	2,672,469,962.21
Over three months but within six months	63,798,420.20	53,608,872.08
Over six months but within one year	10,157,769.52	8,822,472.50
Over one year	372,048,101.92	122,716,362.02
Total	2,977,583,952.21	2,857,617,668.81
Less: provision for bad debts	144,356,210.53	132,488,485.48
Book value	2,833,227,741.68	2,725,129,183.33

6.Accounts payable

The aging of accounts payable is analyzed as follows:

Item	31 December 2017	31 December 2016
Within one year	4,127,751,339.22	4,228,675,470.71
Over one year	111,085,502.22	138,592,927.38
Total	4,238,836,841.44	4,367,268,398.09

7.Operating revenues and costs

Item	2017	2016
Revenue from principal operations	30,430,053,508.06	24,670,924,400.24
Revenue from other operations	3,057,536,879.39	2,059,295,096.83
Total	33,487,590,387.45	26,730,219,497.07
Item	2017	2016
Cost of principal operations	24,038,279,128.40	18,555,853,421.38
Cost of other operations	2,931,551,824.93	1,930,799,633.97

Total	26,969,830,953.33	20,486,653,055.35
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8.Financial expenses

Item	2017	2016
Interest expenses		7,955,285.77
Less: interest income	28,856,412.64	12,774,479.24
Gain/(Loss) on Foreign Exchange	32,092,103.57	-88,442,403.71
Others	6,541,902.83	7,272,533.77
Total	9,777,593.76	-85,989,063.41

9.Investment gain

(1) Particulars of investment gain

Item	2017	2016
Investment income arising from available-for-sale financial assets during holding period	13,227,800.00	6,004,000.00
Gain from long-term equity investment by the equity method	735,944,911.05	534,444,157.61
Gain from disposal of long-term equity investment	789,851,622.56	-27,416,905.27
Gain from disposal of financial assets held-for-trading	-2,554,083.63	-3,007,956.96
Gain from financial product	25,927,396.48	12,055,845.19
Total	1,562,397,646.46	522,079,140.57

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

Investee	2017	2016
Qingdao Hisense International Marketing Co., Ltd.	13,227,800.00	6,004,000.00
Total	13,227,800.00	6,004,000.00

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

Investee	2017	2016
Hisense-zhejiang Electrical Co., Ltd.		-36,319,775.98
Attend Logistics Co., Ltd.		-83,804.31
Hisense Hitachi	732,001,382.03	570,847,737.90
Hisense Financial Holdings	4,913,770.50	
Qingdao Hisense Electric Business Co., Ltd.	-970,241.48	
Total	735,944,911.05	534,444,157.61

10.Income tax expenses

Item	2017	2016
Current income tax expenses	187,778,829.75	122,560,074.53
Including: PRC enterprise income taxes	177,445,449.35	122,560,074.53
Hong Kong profit taxes	10,333,380.40	
Deferred tax expenses	-6,711,708.30	6,187,622.99
Total	181,067,121.45	128,747,697.52

The reconciliation from income tax calculated based on the applicable tax rates and total profits to

the income tax expenses is as follows:

Item	2017
Total profits	2,232,291,374.61
Income tax expenses calculated at statutory (or applicable) tax rates	558,072,843.65
Tax effects of different tax rates applicable to certain subsidiaries	-44,356,390.30
Adjustments of income tax in previous period	28,615.76
Effects of non-taxable incomes	-226,613,463.51
Effects of non-deductible costs, expenses and losses	4,946,716.84
Effects of deductible losses not recognized as deferred tax assets in previous period	-176,819,601.98
Effects of deductible temporary differences or deductible losses not recognized as deferred tax assets in current period	105,819,781.92
Effects of additional deduction relating to costs of research and development	-40,011,380.93
Others	
Income tax expenses	181,067,121.45

Certain subsidiaries have been recognized 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, other subsidiaries of the Company which are established and operated in the PRC, are subject to enterprise income tax at a standard rate of 25% (2016: 25%).

11. Net current assets

Item	31 December 2017	31 December 2016
Current assets (Consolidated)	14,847,605,110.64	13,001,979,039.38
Less : Current liabilities (Consolidated)	14,109,055,354.53	13,361,571,345.58
Net current assets (Consolidated)	738,549,756.11	-359,592,306.20
Current assets (the Parent)	2,123,334,651.18	1,483,357,545.87
Less : Current liabilities (the Parent)	1,018,999,097.08	778,639,076.40
Net Current assets (the Parent)	1,104,335,554.10	704,718,469.47

12. Total assets less current liabilities

Item	31 December 2017	31 December 2016
Total assets (Consolidated)	21,473,666,822.72	19,055,058,608.32
Less : Current liabilities (Consolidated)	14,109,055,354.53	13,361,571,345.58
Total assets less current liabilities (Consolidated)	7,364,611,468.19	5,693,487,262.74
Total assets (the Parent)	7,174,328,292.19	5,874,988,986.09
Less : Current liabilities (the Parent)	1,018,999,097.08	778,639,076.40
Total assets less current liabilities (the Parent)	6,155,329,195.11	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 of the outstanding:

Item	2017	2016
Consolidated net profit attributable to ordinary shareholders of the parent	1,997,530,073.54	1,087,732,130.38
Weighted average number of issued ordinary shares of the Company outstanding	1,362,725,370.00	1,362,725,370.00
Basic earnings per share	1.47	0.8

(b)Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated net profit attributable to ordinary shareholders of the parent adjusted for dilutive potential ordinary shares divided by the adjusted weighted average number of ordinary shares of the Company outstanding. For the years ended 31 December 2017 and 2016, there were no dilutive potential ordinary shares, and therefore the diluted earnings per share were same as the basic earnings per share.

(c)Dividends

The Board proposed to pay a cash dividend of RMB4.4 (tax inclusive) per 10 shares held by all shareholders on the basis of the total share capital of 1,362,725,370 shares of the Company as at 31 December 2017, without bonus issue and not to issue shares by way of conversion of capital reserve. (2016: paid a cash dividend of RMB3 (tax inclusive) per 10 shares).

MANAGEMENT DISCUSSION AND ANALYSIS

I . INDUSTRY OVERVIEW

Domestic refrigerator sales remained weak during the Reporting Period. According to inferential statistics from the China Market Monitor Company Limited (“CMM”), in 2017, cumulative retail volume in the refrigerator sector grew by only 3.7% year-on-year. By contrast, the air-conditioner market had an impressive performance. According to inferential statistics from CMM, in 2017, cumulative retail volume in the air-conditioner market grew by 27.5% year-on-year. The performance of the central air-conditioner sector was also satisfactory. According to statistics from www.aicon.com.cn, in 2017, the domestic central air-conditioner market grew by approximately 20% year-on-year. Performance in the export market remained stable. According to Customs statistics, in 2017, the export volume of refrigeration products grew by 11.5% year-on-year, while the export volume of air-conditioning products grew by 11.5% year-on-year.

The current structural optimisation of white goods products and upgraded consumption in the PRC are being driven by continuing supply-side structural reform. CMM statistics show the offline cumulative retail market share of French-style refrigerators increased by 5.8 percentage points year-on-year in 2017, while the offline cumulative retail market share of side-by-side refrigerators increased by 1.9 percentage points for the same period. Offline cumulative retail market share for artistic cabinet air-conditioners in the offline cabinet air-conditioner market increased by 6.1 percentage points year-on-year; and for the offline cumulative retail market share APF Class I inverter air-conditioners increased by 16 percentage points year-on-year.

With the emerging era of “artificial intelligence 2.0” and, consumers’ increasing demand for a quality home life poses new challenges and demands new ideas in the development of household appliance enterprises. Enterprises are taking a demand-oriented approach, focusing on future developing intelligent technologies and enhancing user experience.

II. ANALYSIS OF THE COMPANY’S OPERATION

During the Reporting Period, faced with the complexity of international and domestic economic conditions, the Company persisted in its operational direction 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”, and implemented various tasks to steadily improve its scale and efficiency. The Company achieved operating revenues of RMB33.488 billion, representing a year-on-year increase of 25.28%, and principal operating revenue of RMB30.43 billion, representing a year-on-year increase of 23.34%. Revenue from the refrigerator and washing machine business accounted for 46.37% of the principal operating revenue, representing a year-on-year increase of 10.43%; and revenue from the air-conditioner business accounted for 47.94% of the principal operating revenue, representing a year-on-year increase of 40.52%. The domestic sales business recorded a principal operating revenue of RMB20.575 billion, representing a year-on-year increase of 26.94%, whereas the export sales business recorded a principal operating revenue of RMB9.855 billion, representing a year-on-year increase of 16.46%. Net profits attributable to shareholders in the listed company reached RMB1.998 billion, representing a year-on-year increase of 83.64%, in which net profits after deducting non-recurring gains or losses were RMB1.013 billion, representing a year-on- year increase of 1.49%. Earnings per share were RMB1.47.

During the Reporting Period, the Company continued optimising its internal workflows, accelerating the turnover of capital, reducing its inventory level and increasing its efficiency in capital utilisation. Turnover of inventories was accelerated by 2.89 days year-on-year while turnover of accounts receivable was accelerated by 2.53 days year-on-year. The Company’s gearing ratio has significantly improved, which has decreased by 4.44 percentage points from the beginning to the end of the Reporting Period.

The Company continued to develop and introduce innovative new technologies and products while exploring user demands. It has established and fully implemented an operating strategy of “developing satisfactory products with high quality” to significantly enhance the quality, exquisiteness and intelligence of its products. The major works of each business are as follows:

1. The Refrigerator and Washing Machine Business

During the Reporting Period, the domestic refrigerator market continued to show a lack of growth momentum. Due to the sluggish growth and other unfavourable factors such as continuous rise in raw material prices, the profitability of the Company’s refrigerator and washing machine business declined. The Company responded by solidifying its operational foundations and strength, curbing declining operational trends and preparing for the recovery of profitability. In the fourth quarter of 2017, the gross profit margin improved by 0.8 percentage points compared to the third quarter.

The Company insisted on technology consolidation and product innovation and kept enhancing the level of technologies such as “purification”, “energy efficiency”, “instant cooling” and “remote

control". The Company's "Research and Application of Intelligent and Parametric Control of Energy-saving Technology for Cross Side-by-side Frost-free Refrigerator ("十字對開無霜冰箱智能參數化控制節能技術研究及應用"項目) received a second prize in the Science and Technology Invention Awards from the China National Light Industry Council (中國輕工業聯合會). The Hisense Master series washing machines, the world's first three-drum washing machines as introduced by the Company, received various awards including the "AWE 2017 Appliance Design Award" (AWE2017艾普蘭設計獎), the "IFA Product Design Innovation Gold Award", the "Leader Innovation Award of the 6th China International Consumer Electronics Leader Innovation Awards" and "Product of the Year 2017" for their innovation in the aspects of product functions, outlook design and users' experiences. The Company's strategy of implementing "intelligence" was exemplified in the "JD-Hisense intelligent refrigerator" jointly introduced with JD. Developed as a component of the "Internet of Things", the unit enables users to check and manage food inventory via smartphone and make "one-click" purchases using its intelligent food identification function, which is a breakthrough in the development of the intelligent refrigerator. The Company adhered to a high-end strategy, and new products such as the Hisense "Tianji" refrigerator series, the Ronshen "Full Ecological" refrigerator series, and the Hisense "Master Washer" and "warm Idol" washing machine series, were launched to the market as scheduled, increasing the Company's share of the high-end market share. According to CMM statistics, the Company's offline cumulative retail market share in side-by-side refrigerators was 19.9% in 2017, representing a year-on-year increase of 1.5 percentage point. The Company also constantly sought breakout opportunities in existing market segments by launching different new products such as the Hisense "Bingbing Upright" refrigerator, which promoted growth in scale. As to foundational work, the Company signed an endorsement contract with a "new generation" Ronshen brand spokesperson, sponsored China Central Television programmes, and launched a series of public welfare activities to gradually promote brand awareness. The Company boosted its cooperation with schools, enterprises and research institutes, and promoted the implementation of key quality projects. As a result, key indicators for the quality of its refrigerators and washing machines and early return rates has significantly improved, and earned the Company an upgrade from "quality assurance" to "win by quality". In a quality promotion conference for Guangdong household appliances, the Company's refrigerator products became the first in the industry to achieve "same production line, same standard and same quality" for both export and domestic sales. In terms of exports, the Company continued to expand in the key emerging overseas market. According to GFK statistics, Hisense refrigerators' cumulative market share of volume sales in Australia reached 18.4% in 2017, representing year-on-year increase of 2.6 percentage points, and ranking first in the industry. Hisense refrigerators' cumulative market share of volume sales in South Africa reached 27.7% in 2017, representing year-on-year increase of 1.9 percentage points, and ranking second in the industry.

2. The Residential Air-conditioner Business

During the Reporting Period, the domestic air-conditioner market maintained rapid growth as affected by exceptionally hot weather and a rising rigid demand in third- and fourth-tier markets. The Company actively grasped the increment in the industry and consumption upgrades which achieved a significant increase in its scale and benefits. The Company strengthened its foundations for breakthroughs and promoted continuous innovation in key and core technologies. Its "R&D and Application of Redundant Variables Analysis and Control Technology in Air-conditioner with Wide Climate Belt Project" ("變量冗餘分析控制技術在寬氣候空調器上的研發及應用項目")

won second prize at the Science and Technology Progress Awards from the China National Light Industry Council. The Company emphasized on product innovation and committed to comprehensive upgrading its inverters, intelligence technologies and artistic pursuit. The Hisense “Male Idol” series (海信“男神”系列空調) and the upgraded Hisense “Male Idol X” series air conditioners introduced by the Company brought attention to humidity functions for the first time. Advanced intelligent technologies and outstanding design earned the “Male Idol” an “AWE2017 Appliance Innovation Award” (“AWE2017艾普蘭創新獎”); while “Male Idol X” won the “Highend Benchmark Award of China’s Air-conditioner Industry in 2017” (2017中國空調產業高端標杆獎). The Company always focuses on environmental protection and green design, and Hisense air-conditioning series products were named as “Green Product Leaders 2017” and won the “International Award on Green Design 2017” at the Green Production & Consumption International Conference 2017. At the 13th Dragon Design Foundation Awards, the Company’s research and development team was recognized as a “Pioneer Team of Green Design” in 2017. The Company insisted on high-end strategies, actively promoted high-end products, and introduced new products such as the Hisense “Male Idol” series air-conditioners, the Kelon “Tulip” (鬱金香系列) and “Silent Beauty” (靜美人系列) series air-conditioners while significantly improving its sales structure. According to CMM statistics, in the offline sales structure of inverter air-conditioner, air-conditioner products of “Hisense” with APF Class I energy efficiency accounted for 46.4% of its total retail sales, while air-conditioner products of “Kelon” with APF Class I energy efficiency accounted for 58.7% of its total retail sales; and the market share of inverter products has steadily increased. The offline cumulative retail market share for the Company’s inverter cabinet stood at 10.41%, representing a year-on-year increase of 0.55 percentage point. Fundamentally, the Company worked to improve all aspects of product quality and indicators such as early return rates of products were optimized. The Company successively launched MES, WMS and CRM information systems to further improve the level of informatisation. The Company further consolidated and strengthened its sales channels and achieved satisfactory growth in the third and fourth tiers of the market by optimising its customer base, and expanding its high-quality network. The Company promoted the transformation of Kelon into a “youth brand”, and at the 2017-18 China Air Conditioning Summit Forum, Kelon air-conditioning was recognised as the “preferred air-conditioner brand by young people”. In respect of exports, the Company continued to vigorously explore overseas markets. According to Customs statistics, the export volume of air-conditioning products increased by 35% year-on-year, greatly exceeding the industry’s 11.5% growth rate in 2017.

3. The Central Air-conditioner Business

In keeping with its management philosophy of “integrity, professionalism, quality and exquisiteness”, Hisense Hitachi focused on products and users, devoted substantial effort to research and development, and facilitated lean management and efficient operation. During the Reporting Period, the Company exceeded its operational goals while relevant financial indicators such as operating revenues, operating profits and operating cash flow all continuously improved. Additionally, market share steadily increased. According to the 2017 National Report on the Central Air-conditioning Market (《2017 年度中央空調市場全國報告》) issued by www.aircon.com.cn, Hisense Hitachi multi-couple unit products enjoy a market share of 22.2%, representing a year-on-year increase of 1.4 percentage points. Thanks to the outstanding performance of various brands, the multi-split unit business of Hisense Hitachi kept growing substantially, and household multi-split unit products in particular, maintained a dramatic increase in sales. Income derived from

home products has increased rapidly for consecutive years. Hisense Hitachi acquired the York brand's domestic multi-split unit business, which was completed in February 2018, and this could further expand the business scale.

The Company provided strong support for enhanced product performance and user experience through studies on variable-frequency drive technology, new efficient heat transfer technology, multi-split technology for independent control of temperature and humidity, and intelligent voice control technology. Its "Wind, Solar and New Energy-driven Compressor" project was awarded third prize in the Science and Technology Progress Awards by the China National Light Industry Council, while the "Silent Small Multi-split Central Air-conditioner with Higher Ratio of Cooling Capacity to Weight" project won a third prize at the China Machinery Industry Science and Technology Awards. By pursuing leadership through a development philosophy of "subsisting for centuries through technological innovation" and self-positioning as "The Future Pioneer", Hisense Hitachi maintained its pace of product innovation. The Hisense "G2 Series Full DC Inverter Central Air-conditioner" features outstanding energy efficiency (it can generate four units of heat from one unit of electricity), high quality and an excellent user experience. Other new introductions include the "Blue Flame" series air-source heat pump product for "coal-to-clean energy" projects in the north, and series of differentiated Hisense ultra-low temperature air cooled chiller products. The latter are specifically designed to meet heating demands in cold areas during winter, and can operate at a temperature as low as -26 °C while discharging water at a temperature of 60 °C.

Environmental policies and performance

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

The Group continued to carry out technology improvement and efficiency enhancement projects to enhance efficiency, conserve energy and reduce consumption. The Group also formulated an environmental protection and resources conservation system and established a sound ISO14001 environmental management system and continuously maintained the effective operation of those systems. The ISO14001 environmental management system of the Group has passed the re-certification audit by the China Academy of Safety Science and Technology in December 2017, which assured the certification remained valid. The Group has established a sound occupational health and safety management system and has formulated the Occupational Health and Safety and Environmental Management System Manual and Procedure Document. The occupational health and safety management system of the Group has passed the re-certification audit by the China Academy of Safety Science and Technology in December 2017, which assured the certification remained valid. During the Reporting Period, two corporations of the Company passed the National Occupational Safety and Health Management System Grade I assessment. To date, there are 9 subsidiaries of the Company which have met the Grade I standard as assessed by the National Occupational Safety and Health Management System.

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

Compliance with laws and regulations

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

Relationships with staff, customers, suppliers and other persons

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

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

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

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

III. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

(I) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

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

Yes No

Item	2017	2016	Increase or decrease as compared to last year (%)	2015
Operating revenue (RMB)	33,487,590,387.45	26,730,219,497.07	25.28	23,471,602,857.98

Net profits attributable to shareholders of listed company (RMB)	1,997,530,073.54	1,087,732,130.38	83.64	580,335,074.18
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	1,012,806,955.02	997,923,876.59	1.49	232,460,457.89
Net cash flow from operating activities (RMB)	455,048,576.31	2,925,929,985.25	-84.45	484,261,155.05
Basic earnings per share (RMB/share)	1.47	0.80	83.75	0.43
Diluted earnings per share (RMB/share)	1.47	0.80	83.75	0.43
Weighted average rate of return on net assets (%)	35.12	24.23	10.89	15.49
Items	at the end of 2017	at the end of 2016	Increase or decrease as compared to end of last year (%)	at the end of 2015
Total assets (RMB)	21,473,666,822.72	19,055,058,608.32	12.69	14,292,817,039.53
Net assets attributable to shareholders of listed company (RMB)	6,445,303,673.87	4,867,466,177.17	32.42	4,044,017,698.45

QUARTERLY MAJOR FINANCIAL INDICATORS

Unit: RMB

Item	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenue (RMB)	7,708,966,633.23	9,897,390,788.18	8,787,929,877.11	7,093,303,088.93
Net profits attributable to shareholders of listed company (RMB)	256,258,113.99	415,840,745.31	1,057,547,302.62	267,883,911.62
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	245,995,510.99	358,516,688.64	304,076,728.89	104,218,026.50
Net cash flow from operating activities (RMB)	-283,670,463.69	883,818,588.68	315,645,487.34	-460,745,036.02

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

Unit: RMB

Item	Amount of 2017	Amount of 2016	Amount of 2015
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	787,734,808.88	-15,647,219.04	124,501,216.75
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)	151,239,597.39	104,597,125.81	173,616,297.39
Costs of corporate restructuring such as staff placement expenses and integration costs			-22,087,867.83
Other non-operating income and expenses other than the aforementioned items	113,236,402.15	24,049,500.83	111,227,500.87
Less:Effect of income tax	48,767,136.54	14,854,388.82	33,493,517.67
Effect of minority interests (after tax)	18,720,553.36	8,336,764.99	5,889,013.22
Total	984,723,118.52	89,808,253.79	347,874,616.29

(III) ANALYSIS OF PRINCIPAL BUSINESS

1. Income

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

Yes No

Industry Category	Item (ten thousand units / sets)	2017	2016	Increase or decrease as compared to corresponding
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				period last year (%)
Home appliances manufacturing industry	Sales volume	2,096	1,862	12.57
	Production volume	2,114	1,871	12.99
	Inventory volume	135	117	15.38

2. Composition of operating revenue

Unit: RMB

Item	2017		2016		Increase or decrease as compared to corresponding period last year (%)
	Amount	Weight to operating revenue (%)	Amount	Weight to operating revenue (%)	
<u>By industry</u>					
Home appliances manufacturing industry	30,430,053,508.06	100.00	24,670,924,400.24	100.00	23.34
<u>By product</u>					
Refrigerators and washing machines	14,110,925,211.40	46.37	12,778,722,120.61	51.80	10.43
Air-conditioners	14,587,570,871.00	47.94	10,380,981,134.10	42.08	40.52
Others	1,731,557,425.66	5.69	1,511,221,145.53	6.12	14.58
<u>By region</u>					
Domestic	20,575,313,709.67	67.62	16,208,992,881.10	65.70	26.94
Overseas	9,854,739,798.39	32.38	8,461,931,519.14	34.30	16.46

3. Composition of operating costs

Unit: RMB ten thousand

Industry Category	Item	2017		2016		Increase or decrease as compared to corresponding period last year (%)
		Amount	Weight to operating costs (%)	Amount	Weight to operating costs (%)	
Home appliances manufacturing industry	Raw materials	2,221,770.42	92.43	1,680,152.40	90.55	32.24
	Staff wages	71,056.94	2.96	65,227.38	3.52	8.94
	Depreciation	55,751.56	2.32	54,657.70	2.95	2.00
	Energy	12,396.96	0.52	12,311.39	0.66	0.70

4. Expenses

Unit: RMB

Expense Item	2017	2016	Increase or decrease as compared to corresponding period last year (%)	Reason for the significant changes
Sales expense	4,771,756,662.02	4,640,737,321.53	2.82	No significant changes
Management expense	1,044,734,733.11	946,745,876.45	10.35	No significant changes
Finance expense	9,777,593.76	-85,989,063.41	N/A	Mainly caused by the increased loss in exchange rate
Income tax expense	181,067,121.45	128,747,697.52	40.64	Mainly caused by the corresponding increase in payable income tax as a result of the

			increase in the Company's profit
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5. Cash Flow

Unit: RMB

Item	2017	2016	Increase or decrease as compared to corresponding period last year (%)
Sub-total of cash inflows from operating activities	25,873,346,562.68	22,863,018,974.92	13.17
Sub-total of cash outflows from operating activities	25,418,297,986.37	19,937,088,989.67	27.49
Net cash flows from operating activities	455,048,576.31	2,925,929,985.25	-84.45
Sub-total of cash inflows from investing activities	5,073,544,791.60	2,158,969,055.54	135.00
Sub-total of cash outflows from investing activities	4,342,463,973.07	3,355,984,997.99	29.39
Net cash flows from investing activities	731,080,818.53	-1,197,015,942.45	N/A
Sub-total of cash inflows from financing activities	13,791,204.00	696,098,227.11	-98.02
Sub-total of cash outflows from financing activities	1,033,958,292.64	2,645,390,143.11	-60.91
Net cash flows from financing activities	-1,020,167,088.64	-1,949,291,916.00	N/A
Net increase in cash and cash equivalents	157,334,076.78	-217,174,252.29	N/A

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

✓ Applicable Not applicable

The increase in cash inflows from investing activities was mainly due to the increase in the amount received from the disposal of the subsidiaries.

The decrease in cash inflows from financing activities was mainly because there was no account receivable financing business during the same period.

The decrease in cash outflows from financing activities was mainly because there was no account receivable financing business during the same period

6. Research and development inputs

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

Description of research and development inputs of the Company

Item	2017	2016	Change in proportion (%)
Number of research and development staff	1170	1093	7.04
Proportion of number of research and development staff (%)	3.47	3.22	0.25
Amount of research and development inputs (RMB)	704,820,493.05	573,604,984.75	26.67
Proportion of research and development inputs to operating revenue (%)	2.17	2.15	0.02
Amount of capitalized research and development inputs (RMB)	0	0	-
Proportion of capitalized research and development inputs to research and development inputs	0	0	-

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

Unit: RMB

Item	Revenue from operating businesses	Costs of operating businesses	Gross profit margin (%)	Increase or decrease in revenue from operating businesses as compared to corresponding period last year (%)	Increase or decrease in costs of operating businesses as compared to corresponding period last year (%)	Increase or decrease in gross profit margin as compared to corresponding period last year (percentage point)
By industry						
Home appliances manufacturing industry	30,430,053,508.06	24,038,279,128.40	21.00	23.34	29.55	-3.78
By product						
Refrigerators and washing machines	14,110,925,211.40	11,366,758,054.95	19.45	10.43	18.28	-5.35
Air-conditioners	14,587,570,871.00	11,283,422,898.42	22.65	40.52	44.56	-2.16
Others	1,731,557,425.66	1,388,098,175.03	19.84	14.58	21.71	-4.70
By region						
Domestic	20,575,313,709.67	14,880,565,691.25	27.68	26.94	30.48	-1.96
Overseas	9,854,739,798.39	9,157,713,437.15	7.07	16.46	28.06	-8.42

(V) ASSETS AND LIABILITIES POSITION

Significant changes in asset items

Unit: RMB

Items	At the end of 2017		At the end of 2016		Change in proportion (%)	Explanation of significant changes
	Amount	Percentage to total assets (%)	Amount	Percentage to total assets (%)		
Monetary funds	2,996,028,194.89	13.95	2,227,421,330.74	11.69	2.26	Mainly because at the end of the Reporting Period, some of the wealth management products became mature and were redeemed and the consideration received from the transfer of shares in subsidiaries increased
Accounts receivable	2,833,227,741.68	13.19	2,725,129,183.33	14.30	-1.11	No significant changes
Inventories	3,397,860,489.07	15.82	2,660,044,996.38	13.96	1.86	No significant changes
Investment properties	24,997,438.39	0.12	26,456,837.73	0.14	-0.02	No significant changes
Long-term equity investment	2,372,045,624.57	11.05	1,627,383,596.00	8.54	2.51	Mainly due to the increase in recognised investment return in Hisense Hitachi, a joint venture company and the increase in investment in Hisense Financial Holdings
Fixed assets	3,251,808,744.32	15.14	3,481,725,652.28	18.27	-3.13	No significant changes
Construction in progress	148,361,940.80	0.69	72,942,458.27	0.38	0.31	Mainly due to the increase in technological improvement

						investment in fixed assets
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(VI) ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Unit: RMB

Items	Amount at the beginning of the period	Gain or loss from change in fair value during the period	Accumulated changes in fair value accounted in equity	Impairment provided during the period	Amount purchased during the period	Amount sold during the period	Amount at the end of the period
Financial assets							
1. Financial assets measured at fair value where changes in fair value are accounted for as gain or loss of the period (excluding derivative financial assets)	9,695,070.04	-9,612,399.52					82,670.52
2. Derivative financial assets							
3. Financial assets available for sale							
Sub-total of financial assets	9,695,070.04	-9,612,399.52					82,670.52
Investment Properties							
Productive biological assets							
Others							
Total	9,695,070.04	-9,612,399.52					82,670.52
Financial liabilities		-373,723.35					-373,723.35

(VII) CORE COMPETITIVENESS ANALYSIS

1. Technological advantages

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

its products, in order to improve its core competitiveness and its products' market competitiveness and provide strong technical support for the Company's industrial advancement.

2. Brand advantages

The three brand names used in products of the Company, namely "Hisense", "Ronshen" and "Kelon", have good brand reputation and market base. Among these brands, the market share of "Hisense" inverter air-conditioners had ranked first in China for thirteen consecutive years, while the market share of "Ronshen" refrigerators had ranked first in China for eleven years. "High technology and high quality" reflects the Company's core brand value. At the same time, the Company gradually accelerated the process of internationalization and continuously promoted the internationalisation of its own brands. According to the statistical data of GFK, the sale market share of the Company's refrigerator products in South Africa in 2017 ranked top in the market.

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

Name of company	Company type	Major business	Registered capital	Total assets (RMB ten thousand)	Net assets (RMB ten thousand)	Operating revenue (RMB ten thousand)	Operating profit (RMB ten thousand)	Net profits (RMB ten thousand)
Hisense Hitachi	A company in which the Company has equity interest	Production and sale of commercial air-conditioners	US\$46 million	963,531.58	449,042.22	940,177.24	190,329.65	156,717.76

Acquisition and disposal of subsidiaries during the Reporting Period

Applicable Not applicable

Name of company	Means of acquisition and disposal of subsidiaries during the Reporting Period	Effect on the overall production, operation and results
Hisense 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 and performance.
Foshan City Shunde District Baohong Management Company Limited	Transfer	Better utilize the Company's existing assets to increase economic benefits and efficiency in utilisation of the Company's assets

(IX) Material changes of major assets

Major assets	Description of the material changes
Equity assets	Mainly due to the increase in recognised investment return in Hisense Hitachi, a joint venture company and the increase in investment in Hisense Financial Holdings
Fixed assets	No significant change
Intangible assets	No significant change
Projects in progress	Mainly due to the increase in investment on technological improvement in fixed assets

(X) Particulars of disposal of major equity during the Reporting Period

Applicable Not applicable

Unit: RMB ten thousand

Contracting party	Subject matter	Date of disposal	Transaction price	The amount of net profit attributable by the disposed shares from the beginning of the Reporting Period to the date of disposal	Effect of the Disposal to the Company	Ratio of the amount of profit attributable by the disposed shares to the total amount of profit	pricing policy of the price of the disposal	Is it a connected transaction	The connected relationship with the contracting party	Whether all the relevant equity interests have been transferred	Whether it is implemented in accordance with the plan, if not, please provide the reason and the measures adopted by the Company	Date of disclosure
Ningbo Meisha Bonded Port Yingmei Investment Management Company Limited	80% of the equity interest in Foshan City Shunde District Baohong Management Company Limited	26 th September 2017	68,404.8	-258.07	Better utilize the Company's existing assets to increase economic benefits and efficiency in utilisation of the Company's assets	35%	arm's length negotiation	No	No	Yes	Yes	3 August 2017

IV.OUTLOOK

Looking forward to 2018, expectations for the market scale demand for refrigerators and air-conditioners tend to diminish. According to estimated statistics from China Market Monitor Co., Ltd. (CMM), sales volume for refrigerators in 2018 is expected to increase by 4% year-on-year, while sales volume for air-conditioners will drop by 5% year-on-year. Taking the increasing costs of raw material, logistics, manpower and labour into consideration, the great operational and developmental pressures on enterprises persists. On the other hand, full implementation of the “rural revitalisation strategy” will increase rural income levels and their purchasing power, bringing policy benefits to white goods enterprises. In addition, the continuing upgrade of consumption in the white goods market, the gradual increase of replacement demand in the refrigerator market, and the accelerated integration of online and offline channels are creating new opportunities for the enterprises’ operations.

In 2018, the Company will maintain its overall concept of “creating products with high quality, enhancing customer value, accelerating industrial development, expanding international market” to achieve sustainable development. To this end, the following will be implemented:

1. Creating high quality products that embrace customer value: Targeting the benefits of industry consumption upgrading and oriented by user demand and user experience, developing strongly profitable products that satisfy different customer preferences; firmly implementing the operational philosophy of “to elevate customer value, to produce high quality product”, improving our product competitiveness and increasing the “adhesiveness” of users.
2. Improving operational capabilities and enhancing scale and market share of e-commerce: Improving our organisational structure and reinforcing the incentive mechanism to provide institutional support for the e-commerce business; increasing promotion, optimising the user shopping experience, improving conversion rates, launching more plans for online hit products; strengthening distribution management and enhancing channel competitiveness.
3. Laying down a solid managerial foundation to improve system efficiency: continuing implementation of automation, informatisation and generalization of work, as well as process improvement and optimisation, achieving manufacturing efficiency enhancement; through measures such as informatisation and shutting down underperforming stores to improve output efficiency of individual stores and products so as to achieve marketing efficiency; via TCP analysis and measures such as shortening planning cycles and generalisation, achieving research and development efficiency enhancement; and through strengthening the assessment mechanism, to ensure the realisation of our goal in efficiency enhancement.
4. Improving product quality and facilitating industrial development: Enhancing product quality, seizing significant customers, and achieving rapid business scale growth and economic efficiency in washing machines, commercial air-conditioners, commercial cold chain, environmental control appliances and kitchen appliances.
5. Improving product competitiveness, enhancing export scale and efficiency: Strengthening product planning capabilities and ensuring product competitiveness via technological innovation and product platform; optimising product structure and customer structure; taking advantage of Hisense Group’s official sponsorship of the 2018 FIFA World Cup, enhancing proactive promotion, expanding the market, and enhancing scale and efficiency.
6. Improving capital efficiency: Accelerating inventory and receivable turnovers, reducing ineffective use of funds and enhancing ability to utilise capital; carrying out detailed management of cost-control and improving efficiency of capital utilisation.

FINAL DIVIDEND

The Group recorded net profit attributable to shareholders of the listed company of RMB1,997.53 million for the year ended 31 December 2017. The Board proposed to pay all shareholders a cash dividend of RMB 4.4 (tax inclusive) per 10 shares held by such shareholder (the “**Proposed Dividend**”) on the basis of the total share capital of 1,362,725,370 shares of the Company as at 31 December 2017, without bonus issue and not to issue shares by way of conversion of capital reserve (For the year ended 31 December 2016, the Company paid to all shareholders a cash dividend of RMB3 (tax inclusive) per 10 shares held by such shareholders on the basis of the total share capital of the Company being 1,362,725,370 shares as at 31 December 2016).

The Proposed Dividend is subject to approval by the shareholders at the 2017 annual general

meeting (the “**Annual General Meeting**”). Subject to the approval of the Proposed Dividend by the shareholders, the Proposed Dividend is expected to be paid on or about 15 August 2018. The total amount of profits to be so distributed is expected to be RMB599,599,162.80. Details of the payment of the Proposed Dividend will be announced after the conclusion of the Annual General Meeting.

LIQUIDITY AND SOURCES OF FUNDS

For the year ended 31 December 2017, net cash generated from operating activities of the Group amounted to approximately RMB455 million (2016: net cash generated from operating activities amounted to approximately RMB 2,926 million).

As at 31 December 2017, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB2,996 million (2016: RMB 2,227 million), and no bank loans (2016: no bank loans).

Total capital expenditures of the Group for the year ended 31 December 2017 amounted to approximately RMB390 million (2016: RMB 295 million).

HUMAN RESOURCES AND EMPLOYEES’ REMUNERATION

As at 31 December 2017, the Group had approximately 33,743 employees, mainly comprising 4,469 technical staff, 14,322 sales representatives, 345 financial staff, 742 administrative staff and 13,865 production staff. The Group had 17 employees with a doctorate degree, 538 with a master’s degree, 4,038 with a bachelor’s degree and 29,150 with a degree under bachelor. For the year ended 31 December 2017, the Group’s staff payroll amounted to RMB 2,866 million (corresponding period in 2016 amounting to RMB 2,584 million).

EMPLOYEES’ TRAINING AND REMUNERATION POLICY

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

The Company has provided a total of 10,847 course hours to a total of 144,701 participants during the Reporting Period. The courses mainly include areas such as corporate management, quality craftsmanship, corporate culture, production and manufacturing as well as technological research and development and they are provided for employees at different levels, ranging from base level staff who are responsible for works such as front-line production and marketing to senior management.

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

CHARGE ON THE GROUP’S ASSETS

As at 31 December 2017, the Group did not have any property, plant and equipment (including

leasehold land held for own use), investment properties and trade receivables (31 December 2016: nil) which were pledged as security for the Group's borrowings.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

Since part of the purchase and the majority of the overseas sales of the Group during the Reporting Period were denominated in foreign currency, the Group is exposed to certain risk of exchange rate fluctuation. The Group has used financial instruments such as import/export documentary bills and forward contracts for exchange rate hedging purpose.

PUBLIC FLOAT

The Directors confirm that as at 29 March 2018, based on publicly available information and to the best of their knowledge, 25% or above of the total issued share capital of the Company were held by the public. Therefore, the public float of the Company satisfies the requirement stipulated under the Hong Kong Listing Rules.

AUDIT COMMITTEE

The ninth session of the audit committee of the Company has reviewed the final results of the Group for the year ended 31 December 2017.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2018 will be approximately RMB 46 million. The Group has sufficient funds to meet the funding requirement for purposes such as capital expenditure plans and daily operations.

TRUST DEPOSITS

As at 31 December 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.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017, the Group did not have any long-term bank borrowings and its cash and cash equivalents amounted to RMB2,996 million (2016: RMB2,227 million), of which more than RMB2,656 million are denominated in Renminbi.

As at 31 December 2017, the Group's current liabilities amounted to RMB14,109 million, non-current liabilities amounted to RMB411 million, and shareholders' equity attributable to the shareholders of the Company amounted to RMB6,445 million. Details of the Group's capital structure are set out in the financial statements which will be contained in the annual report of the Company.

GEARING RATIO

As at 31 December 2017, the Group's gearing ratio (calculated according to the formula: total liabilities /total assets) was 67.62% (2016: 72.06%).

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

The Directors of the ninth session of the Board and the supervisors of the Company do not and did not directly or indirectly hold any material interests in any contract of significance of the Company or its subsidiaries subsisting during or at the end of the year 2017.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the ninth session of the Board have reviewed the continuing connected transactions of the Group for the year 2017, and confirmed that these transactions were conducted in the ordinary course of business of the Company in accordance with the relevant agreements governing them and on normal commercial terms which were fair and reasonable and in the interest of the shareholders of the Company as a whole.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY AUDITORS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

SHARE CAPITAL STRUCTURE

As at 31 December 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 31 December 2017, there were 35,036 shareholders of the Company (the “Shareholders”) in total, of which the top ten Shareholders were as follows:

Name of Shareholder	Nature of Shareholder	No. of shares held	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company	No. of shares held subject to trading moratorium
Qingdao Hisense Air-conditioning Company Limited	State-owned legal person	516,758,670	37.92%	57.22%	0
HKSCC (Nominees) Limited ^{Note1}	Foreign legal person	458,176,069	33.62%	99.69%	0
Central Huijin Investment Ltd.	State-owned legal person	26,588,700	1.95%	2.94%	0
China Merchants Bank Co., Ltd. - Cathay Pacific Growth Optimized Hybrid Securities Investment Fund ^{Note2}	Other	23,455,864	1.72%	2.60%	0
Bank of China Co., Ltd. - Putting Up JP Morgan Core Growth Equity Securities Investment Fund	Other	16,906,166	1.24%	1.87%	0
Taikang Life Insurance Co., Ltd. - Investment Link - Industry Configuration	Other	11,041,582	0.81%	1.22%	0
China Construction Bank Corporation - Cathay Pacific Jinxin Securities Investment Fund ^{Note2}	Other	10,711,093	0.79%	1.19%	0
China Life Insurance Co., Ltd. - Traditional - General Insurance - 005L-CT001	Other	10,340,256	0.76%	1.14%	0
Hong Kong Securities Clearing Company Limited	Foreign legal person	8,203,199	0.60%	0.91%	0
China Construction Bank Corporation - Huitianfu Consumer Industry Hybrid Securities Investment Fund	Other	8,000,038	0.59%	0.89%	0

Notes:

1. The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense (Hong Kong) Company Limited, a party acting in concert with the controlling shareholder of the Company, held a total of 97,202,000 H shares of the Company as at the end of the Reporting Period, representing 7.13% of the total number of shares of the Company;
2. The manager of both China Merchants Bank Co., Ltd. - Cathay Pacific Growth Optimized Hybrid Securities Investment Fund and China Construction Bank Corporation - Cathay Pacific Jinxin Securities Investment Fund is Cathay Pacific Fund Management Co., Ltd.;
3. As at the date being one month preceding the date of this announcement of result (that is, 29 March 2018), the total number of shareholders holding ordinary shares is 37,418.

Save as disclosed above, the Company is not aware of whether any shareholders is connected with each other or any of them is a party acting in concert with any of the other within the meaning of 《上市公司收购管理办法》(Administrative Measures for the Takeover of Listed Companies).

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADEABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
Qingdao Hisense Air-conditioning Company Limited	516,758,670	RMB ordinary shares
HKSCC (Nominees) Limited ^{Note1 附註1}	458,176,069	Overseas listed foreign shares
Central Huijin Asset Management Co., Ltd.	26,588,700	RMB ordinary shares
China Merchants Bank Co., Ltd. - Cathay Pacific Growth Optimized Hybrid Securities Investment Fund ^{Note2}	23,455,864	RMB ordinary shares
Bank of China Co., Ltd. - Putting Up JP Morgan Core Growth Equity Securities Investment Fund	16,906,166	RMB ordinary shares
Taikang Life Insurance Co., Ltd. - Investment Link - Industry Configuration	11,041,582	RMB ordinary shares
China Construction Bank Corporation - Cathay Pacific Jinxin Securities Investment Fund ^{Note2}	10,711,093	RMB ordinary shares
China Life Insurance Co., Ltd. - Traditional - General Insurance - 005L-CT001	10,340,256	RMB ordinary shares
Hong Kong Securities Clearing Company Limited	8,203,199	Overseas listed foreign shares
China Construction Bank Corporation - Huitianfu Consumer Industry Hybrid Securities Investment Fund	8,000,038	RMB ordinary shares

Note:

- 1 · The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense (Hong Kong) Company Limited, a party acting in concert with the controlling shareholder of the Company, held a total of 97,202,000 H shares of the Company as at the end of the Reporting Period, representing 7.13% of the total number of shares of the Company;
- 2 · The manager of both China Merchants Bank Co., Ltd. - Cathay Pacific Growth Optimized Hybrid Securities Investment Fund and China Construction Bank Corporation - Cathay Pacific Jinxin Securities Investment Fund is Cathay Pacific Fund Management Co., Ltd.;
- 3 · As at the date being one month preceding the date of this announcement of result (that is, 29 March 2018), the total number of shareholders holding ordinary shares is 37,418.

Save as disclosed above, the Company is not aware of whether any shareholders is connected with each other or any of them is a party acting in concert with any of the other within the meaning of 《上市公司收購管理辦法》(Administrative Measures for the Takeover of Listed Companies).

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

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

Long position or short position in the shares of the Company

Name of shareholder	Capacity	Type of shares	Number of shares held	Percentage of the respective type of shares	Percentage of the total number of shares in issue
Qingdao Hisense Air-conditioning Company Limited ^{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 Company Limited ^{Note 1}	Interest of controlled corporation	A shares	516,758,670 (L)	57.22%	37.92%
Hisense (Hong Kong) Company Limited ^{Note 1}	Beneficial owner	H shares	97,202,000 (L)	21.15%	7.13%
Qingdao Hisense Electric Holdings Company Limited ^{Note 1}	Interest of controlled corporation	H shares	97,202,000 (L)	21.15%	7.13%
Hisense Company Limited ^{Note 1}	Interest of controlled corporation	H shares	97,202,000 (L)	21.15%	7.13%

The letter "L" denotes a long position.

Notes:

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

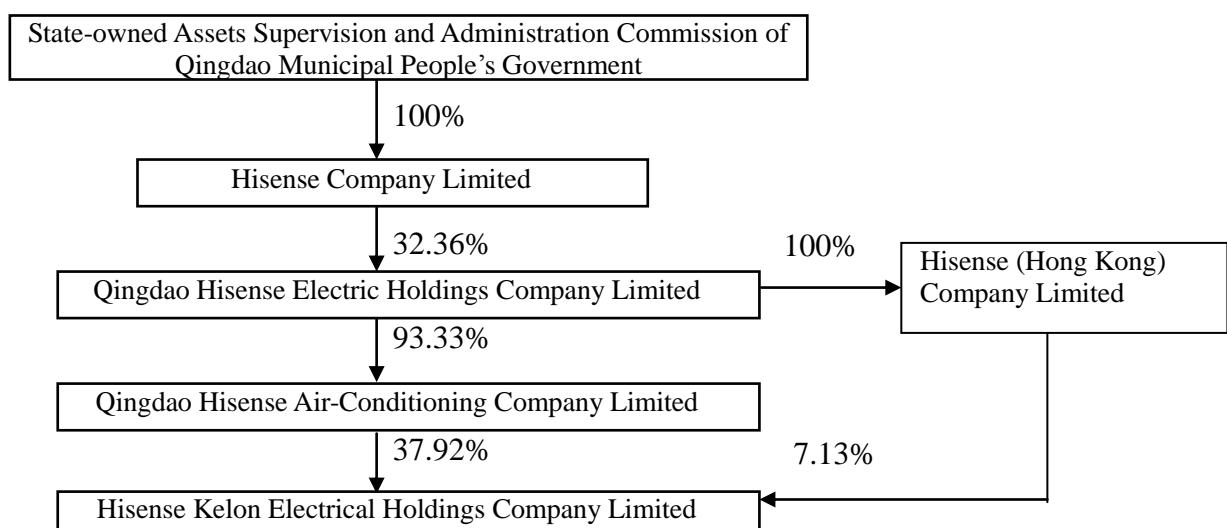
Save as disclosed above, as at 31 December 2017, in so far as the Directors, supervisors and the chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

PARTICULARS OF THE CONTROLLING SHAREHOLDERS OF THE COMPANY

1. Qingdao Hisense Air-Conditioning Company Limited, the controlling shareholder of the Company, was incorporated on 17 November 1995. Its registered address is Changsha Road, Hi-tech Industrial Zone, Qingdao, the PRC and the legal representative is Mr. Tang Ye Guo and its registered capital is RMB674.79 million. Its business scope is the development and manufacture of air-conditioning products and injection moulds and the provision of after-sale repairing services for its products (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure).
2. The beneficial controller of the Company is Hisense Company Limited, which was incorporated in August 1979 with its registered address at No. 17 Donghai West Road, Shinan, Qingdao. Mr. Zhou Houjian is the legal representative of Hisense Company Limited and its

registered capital is RMB806.17 million. The scope of business includes: the entrusted operation of state-owned assets; the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small household appliances, disc players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; the development of software and the provision of internet services; the technological development and the provision of consultation services; the self-operated import and export business (with its operation subject to the list of projects as approved by the MOFTEC); the foreign economic and technical cooperation (with its operation subject to the list of projects as approved by the MOFTEC); operation of property rights transaction and provision of brokerage and information services; provision of industrial travel agency services; provision of relevant business trainings, property management, leasing of tangible property and leasing of immovable property (projects which require permit/approval under the laws, commencement of operations of the businesses which require approval from the relevant department).

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



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

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

As at 31 December 2017, save as disclosed below, none of the members of the Board, supervisors and the chief executive of the Company held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Long position in the shares of the Company

Name of Director	Nature of interest	Number of shares	Percentage to the	Percentage to the
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			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

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2017, the aggregate amount of the Group's purchases from the top five suppliers was RMB4,609 million, representing 19.16% of the total purchase amount of the Group for the year and the aggregate sales amount to the top five customers was RMB12,564 million, representing 41.28% of the total sales amount of the Group for the year.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDITOR

On 28 June 2017, as considered and approved at the shareholders' general meeting of the Company, the Company agreed to re-appoint Ruihua Certified Public Accountants as the auditor of the Company for the financial year of 2017, and the Board was authorized to fix their remuneration.

PRE-EMPTIVE RIGHTS

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

TAXATION

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

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

(I) On 10 November 2015, the Company entered into the Financial Services Agreement with Hisense Finance. On 3 August 2016, the Company entered into the Supplemental Agreement to the Financial Services Agreement with Hisense Finance. On 17 November 2016, the Company entered into the Business Co-operation Framework Agreement, Business Framework Agreement 1 and the Purchase Financing Agency Framework Agreement with Hisense Group, Hisense Electric, Hisense Hitachi and Hisense Hong Kong respectively. On 10 May 2017, the Company entered into a Second Supplemental Agreement to the Financial Services Agreement and the Factoring Services Agreement with Hisense Finance and Hisense Commercial Factoring respectively. On 31 August 2017, the Company entered into the supplemental agreement to Business Framework Agreement 1 with Hisense Hitachi.

Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding approximately 37.92% of the issued shares of the Company and Hisense Hong Kong holds approximately 7.13% of the issued shares of the Company and Hisense Electric is owned as to 39.53% by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries (including without limitation Qingdao Hisense International Co., Ltd and its subsidiaries) are connected persons of the Company according to the Hong Kong Listing Rules. Hisense Finance and Hisense Commercial Factoring are subsidiaries of Hisense Group, Hisense Finance and Hisense Commercial Factoring therefore are connected persons of the Company according to the Hong Kong Listing Rules. As certain directors of the Company are also senior management of Hisense Hitachi, Hisense Hitachi is a connected person of the Company according to the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange.

Details of the Business Co-operation Framework Agreement with Hisense Group and Hisense Electric, the Financial Services Agreement, the Supplemental Agreement and the Second Supplemental Agreement to the Financial Services agreement with Hisense Finance, the Business Framework Agreement 1 and the supplemental agreement to the Business Framework Agreement 1 with Hisense Hitachi and the Factoring Services Agreement with Hisense Commercial Factoring can be found in the announcements and the circulars published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 10 November 2015, 2 December 2015, 3 August 2016, 8 September 2016, 17 November 2016, 23 December 2016, 10 May 2017, 8 June 2017 and 31 August 2017 respectively.

As Hisense Group is the beneficial controller of both Hisense Hong Kong and the Company, Hisense Hong Kong is a connected person of the Company under the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange. Hisense Hong Kong is also a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Since the financial assistance arrangement under the Purchase Financing Agency Framework Agreement would be for the benefit of the Company on normal commercial terms where no security over the assets of the Company was to be granted in respect of the financial assistance, such arrangement was exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules. Details of the Purchase Financing Agency Framework Agreement can be found in the announcement published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 17 November 2016.

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

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

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

- (1) The Business Co-operation Framework Agreement shall commence from the date of approval of the Business Co-operation Framework Agreement from 9 January 2017 until 31 December 2017, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the mutual purchase of home electrical appliances between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances. Pricing for the mutual purchase of raw materials, equipments, parts and components between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness. Pricing for the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries is the market price determined by the open bidding process. Pricing for the mutual provision of services between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services in the industry.
- (3) The annual caps under the Business Co-operation Framework Agreement are shown in the table below:

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

Types of connected transactions	Division by products or services	Connected person	Annual cap
Sale of products and materials	Sale of home electrical appliances products by the Group	Hisense Group	1,023,899
		Hisense Electric	214
	Sale of equipment by the Group	Hisense Group	1,930
		Hisense Group	33,100
	Sale of moulds by the Group	Hisense Electric	12,000

Types of connected transactions	Division by products or services	Connected person	Annual cap
	Sale of raw materials, parts and components by the Group	Hisense Group	4,809
		Hisense Electric	6,400
Provision of services	Provision of design, processing services and property services by the Group	Hisense Group	3,528
	Provision of labour services by the Group	Hisense Electric	200
Purchase of products and materials	Purchase of home electrical appliances products by the Group	Hisense Group	100
		Hisense Electric	60
	Purchase of raw materials, parts and components by the Group	Hisense Group	10,407
		Hisense Electric	1,460
Receipt of services	Receipt of material processing, installation and maintenance, property, medical, leasing, design, inspection, testing, property construction, management consultancy, technical support and information system maintenance by the Group	Hisense Group	54,854
	Receipt of property services by the Group	Hisense Electric	3,406

2. The Financial Services Agreement, the Supplemental Agreement to the Financial Services Agreement and the Second Supplemental Agreement to the Financial Services Agreement with Hisense Finance and the Factoring Services Agreement with Hisense Commercial Factoring

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

Agreement to the Financial Services Agreement with Hisense Finance, the principal terms of which are as follows:

- (1) The term of the Financial Services Agreement shall commence from the date of approval of the Financial Services Agreement from 1 January 2016 until 31 December 2017, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.
- (2) The services to be provided by Hisense Finance to the Group include deposit services, loan and electronic bank acceptance bill (電子銀行承兌匯票) services, draft discount services (票據貼現服務), settlement and sale of foreign exchange services (結售匯服務) and agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務).
- (3) The maximum daily balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the cap of RMB6,000,000,000 (inclusive of interest) on any given day. The maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the cap of RMB6,000,000,000 (inclusive of interest and service fees). The annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the Financial Services Agreement shall not exceed the cap of RMB50,000,000. The annual amount settled or sold by Hisense Finance for the Group shall not exceed the cap of US\$700,000,000. The annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務) shall not exceed the cap of RMB3,000,000.

In order to meet the operational needs of the Company, the Company and Hisense Commercial Factoring have entered into the Factoring Services Agreement, the major terms of which are set out below:

- (1) The term of the Factoring Services Agreement shall commence from the date of approval of the Financial Services Agreement from 28 June 2017 until 27 June 2018, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.
- (2) The daily closing balance of the recourse factoring services provided by Hisense Commercial Factoring to the Company at Hisense Commercial Factoring under the Factoring Services Agreement shall not exceed RMB100,000,000 (inclusive of interest). The aggregated annual value of the transactions conducted for the non-recourse factoring services provided by Hisense Commercial Factoring to the Company under the Factoring Services Agreement during the term of the Factoring Services Agreement shall not exceed RMB500,000,000 (inclusive of interest).

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

Connected parties	Type of connected transaction	Particulars of connected transaction	Pricing principle of connected transaction	Connected transaction amount (RMB ten thousand)	Percentage of total amount of similar transactions (%)
Hisense Group	Purchase	Finished goods	Agreed price	87.35	

Hisense Electric	Purchase	Finished goods	Agreed price	7.51	
Hisense Group	Purchase	Materials	Agreed price	10,325.28	0.38
Hisense Electric	Purchase	Materials	Agreed price	879.67	0.03
Hisense Hitachi	Purchase	Materials	Agreed price	1,230.73	0.05
Hisense Group	Receipt of services	Receipt of services	Agreed price	43,232.31	1.60
Hisense Electric	Receipt of services	Receipt of services	Agreed price	1,950.62	0.07
Hisense Hong Kong	Receipt of purchase financing agency services	Receipt of purchase financing agency services	Agreed price	33,427.12	1.24
Hisense Group	Sale	Finished goods	Agreed price	739,896.93	22.09
Hisense Electric	Sale	Finished goods	Agreed price	68.04	
Hisense Hitachi	Sale	Finished goods	Agreed price	39,078.82	1.17
Hisense Group	Sale	Materials	Agreed price	4,264.09	0.13
Hisense Electric	Sale	Materials	Agreed price	2,726.54	0.08
Hisense Hitachi	Sale	Materials	Agreed price	199.05	0.01
Hisense Group	Sale	Moulds	Market price	32,189.43	0.96
Hisense Electric	Sale	Moulds	Market price	7,653.88	0.23
Hisense Hitachi	Sale	Moulds	Market price	2,037.44	0.06
Hisense Group	Sale	Equipment	Agreed price	27.93	0.01
Hisense Group	Provision of services	Provision of services	Agreed price	2,096.82	0.06
Hisense Electric	Provision of services	Provision of services	Agreed price	9.87	
Hisense Hitachi	Provision of services	Provision of services	Agreed price	13.16	

As at the end of the Reporting Period, the Company and its subsidiaries had the balance of deposit of RMB2,618 million and interest income received of RMB25.7674 million, the actual balance of loan of RMB0 balance of electronic bank acceptance bill of RMB3,227 million, and the handling fee for opening accounts for electronic bank acceptance bill of RMB4.0205 million with Hisense Finance. The actual amount of discounted interest for the provision of draft discount services was RMB5.79 million, the actual amount involved for the provision of settlement and sale of foreign exchange services was 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 RMB0.3101 million. The Company and its subsidiaries had the actual balance of the recourse factoring services of RMB0 and the actual value of the transaction conducted for the non-recourse factoring services is RMB401.181 million with Hisense Commercial Factoring.

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

No.	Agreement	Counterparty to the agreement	Particulars of connected transactions	Annual cap(RMB ten thousand)
1	Business Co-operation Framework Agreement dated 28 November 2017	Hisense Group and Hisense Electric	Purchase of home electrical appliances by the Group	167
			Purchase of raw materials, parts and components by the Group	23,586
			Receipt of services by the Group	64,248
			Supply of home electrical appliances by the Group	1,305,186
			Supply of equipment by the Group	1,650
			Supply of moulds by the Group	45,355
			Supply of raw materials, parts and components by the Group	18,073
			Provision of services by the Group	3,022
2	Purchase Financing Agency Framework Agreement dated 28 November 2017	Hisense Hong Kong	Receipt of financing agency services by the Group to purchase imported raw materials, components and equipment	US\$100 million
3	Financial Services Agreement dated 28 November 2017	Hisense Finance	Receipt of deposit service by the Group	The maximum daily balance is 650,000
			Receipt of loan, electronic bank acceptance bill service by the Group	The maximum daily balance is 600,000
			Receipt of draft discount service by the Group	5,000
			Receipt of settlement and sale of foreign exchange by the Group	US\$500 million
			Receipt of agency services such as settlement services for receipt and payment of funds by the Group	300
4	Financial Business Framework Agreement dated 28 November 2017	Hisense Financial Holdings	Receipt of factoring business by the Group	The daily closing balance of the recourse factoring services: 10,000; Non-recourse factoring: 50,000

The terms of the Business Co-operation Framework Agreement, the Purchase Financing Agency Framework Agreement and the Financial Services Agreement commence from the date of which such agreements were approved by the independent shareholders (that is, 18 January 2018) until 31 December 2018. The Financial Business Framework Agreement commences from the date on which such agreement was approved by the independent shareholders (that is, 18 January 2018) until 31 December 2019. The relationship between the Group on one hand and Hisense Group, Hisense Electric, Hisense Hong Kong, Hisense Finance and Hisense Financial Holdings on the other hand has been disclosed above.

Details of the agreements can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 28 November 2017 and 3 January 2018 respectively.

CORPORATE GOVERNANCE CODE

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

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

All information about the annual report as required by Appendix 16 to the Hong Kong Listing Rules will be published on the Hong Kong Stock Exchange's website (<http://www.hkex.com.hk>) and the Company's website (<http://www.kelon.com>) in due course.

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

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

Name	Position	Gender	Age	Status	Total amount of remuneration before tax received from the Company(RM B ten thousand)	Whether receive remuneration from connected party of the Company
Tang Ye Guo	Chairman	Male	55	Current	326.89	No
Liu Hong Xin	Director	Male	51	Current	0	Yes
Lin Lan	Director	Male	60	Current	0	Yes
Dai Hui Zhong	Director	Male	52	Current	11.67	Yes
Jia Shao Qian	Director, President	Male	45	Current	195.20	No
Wang Yun Li	Director, Vice President	Male	45	Current	227.49	No
Ma Jin Quan	Independent non-executive Director	Male	75	Current	14	No
Xu Xiang Yi	Independent non-executive Director	Male	62	Current	14	No
Liu Xiao Feng	Independent non-executive Director	Male	56	Current	6.55	No
Liu Zhen Shun	Chairman of Supervisory Committee	Male	48	Current	0	Yes

Yang Qing	Supervisor	Male	44	Current	0	Yes
Fan Wei	Supervisor	Female	51	Current	79.29	No
Wang Zhi Gang	Vice President	Male	48	Current	163.63	No
Gao Yu Ling	Person in charge of finance	Female	37	Current	97.09	No
Huang Qian Mei	Secretary to the Board	Female	34	Current	20.75	No
Wong Tak Fong	Company Secretary	Female	50	Current	17.32	No
Wang Xin Yu	Former Independent non-executive Director	Male	47	Resigned	17.45	No
Wang Ai Guo	Former Independent non-executive Director	Male	53	Resigned	0	No
Xia Feng	Former Secretary to the Board	Male	41	Resigned	8.05	Yes

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

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

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

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

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

III . CONNECTED TRANSACTION IN RELATION TO JOINT EXTERNAL INVESTMENT

Unit: RMB (in ten thousand)

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 (RMB ten thousand)	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	Controlled by the same beneficial controller	Hisense Financial Holdings Co., Ltd.	Engaged in asset management, investment management, equity investment, equity	100,000.00	244,344.81	102,045.50	2,047.40

International Co., Ltd., Qingdao Hisense Intelligent Commercial System Co., Ltd., Qingdao Hisense Electronic Equipment Co., Ltd.			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.				
Progress of significant projects in progress of the joint venture company (if any)				Not applicable.			

IV. PARTICULARS OF ENTRUSTED WEALTH MANAGEMENT

unit: RMB ten thousand

Product Type	Source of funding for entrusted wealth management	Subscription amount of entrusted wealth management	Amount of undue principal and revenue	Overdue balance
Bank wealth management product	self-owned funds	163,000.00	108,000.00	0
Entrusted wealth management product	self-owned funds	30,000.00	0	0
Total		193,000.00	108,000.00	0

PARTICULARS OF INDIVIDUAL SIGNIFICANT TRANSACTION OR LOW SAFETY, IMMBOILE, UNGUARANTEED HIGH RISK ENTRUSTED WEALTH MANAMGENT

Name of issuing institution (or name)	Type of issuing institution or issuer	Product type	Amount	source of funding	commencement date	termination date	Funding	Compensation Method	Reference annual rate of return	expected profit if any	The actual amount of profit or loss	Actual profit or less upon redemption	Amount of provision for impairment	Whether any legal disputes involve	any future plans to entrust wealth

of issuer)										during the Report ing Period	during the Report ing Period	(if any)	ed	manag ement	
The Agricultural Bank of China	Bank	Non-principal-guaranteed with floating return	50000	self-owned funds	18 October 2016	7 February 2017	Bank wealth management product	The agreed referential annual return in contract	3.7%	567.67	567.67	already redeemed on time	0	Yes	Yes
Shanghai Pudong Development Bank Co., Ltd.	Bank	Non-principal-guaranteed with floating return	60000	self-owned funds	22 March 2017	28 March 2017	Bank wealth management product	The agreed referential annual return in contract	3.45%	39.70	39.70	already redeemed on time	0	Yes	Yes
Total			110000	--	--	--	--	--	--	607.37	607.37	--	0	--	--

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	31 December 2017	56,601.75	9,020.59	60,572.29		5,050.05	0.78	-1,254.02
Source of derivatives investment funding													
Litigation involved (if applicable)													
Date of the announcement 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>Company locks in the foreign exchange rates within a reasonable range to achieve the hedging purpose.</p> <p>The Company has formulated the “Management Measures for the Foreign Exchange Capital Business” and “the Internal Control System for Forward Foreign Exchange Capital Transactions”. The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the derivatives business. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.</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 during the Reporting Period, which are recognized as transactional financial assets or liabilities based on the difference between the quotation of the outstanding foreign exchange forward contracts and the forward exchange rate as at the end of the period. During the Reporting Period, the Company recognized a gain on change in fair value of the derivatives of RMB-9.9861 million. Investment gain amounted to RMB-2.5541 million, resulting in a total profits or losses of RMB-12.5402 million.</p>
Explanations of any significant changes in the Company's accounting policies and specific accounting and auditing principles on derivatives between the Reporting Period and the last reporting period	<p>During the Reporting Period, there were no material changes in the accounting policy and specific accounting and auditing principles for the Company's derivatives business as compared to last reporting period.</p>
Specific opinions of independent Directors on the derivatives investment and risk control of the Company	<p>Opinion of independent directors: Commencement of foreign exchange derivatives business by the Company was beneficial to the Company in the prevention of exchange rate fluctuation risks. The Company has devised the Internal Control System for Forward Foreign Exchange Capital Transactions to strengthen internal control and enhance the management of foreign exchange risks by the Company, and the targeted risk control measures adopted were practicable.</p>

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

Newly consolidated subsidiary:

The Company has established a new subsidiary, namely Hisense Mould (Deutschland) GmbH during the Reporting Period and its results are now consolidated into the Company's account for the Reporting Period.

Cease to be a subsidiary:

During the Reporting Period, Kelon (Japan) Limited, the then wholly owned subsidiary of the Company, was deregistered and its results ceased to form part of the Company's account for the Reporting Period.

During the Reporting Period, the Company transferred all its equity interest in Foshan City Shunde District Baohong Management Company Limited. The corresponding procedure relating to the transfer of equity interests have completed. As such, the result of the said company ceased to form part of the Company's account for the Reporting Period.

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” or “Kelon”	Hisense Kelon Electrical Holdings Company Limited
“Hisense Air-Conditioning”	Qingdao Hisense Air-Conditioning Company Limited
“Hisense Electric”	Hisense Electric Co., Ltd.
“Hisense Group”	Hisense Company Limited
“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.
“Hisense Finance”	Hisense Finance Company Limited
“Hisense Hong Kong”	Hisense (Hong Kong) Company Limited
“Hisense Financial Holdings”	Qingdao Hisense Financial Holdings Co., Ltd.
“Hisense Commercial Factoring”	Hisense Commercial Factoring Co., Ltd
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“RMB”	Renminbi
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

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

Foshan City, Guangdong, the PRC, 29 March 2018

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. Liu Xiao Feng.