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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)**

## **2018 INTERIM RESULTS ANNOUNCEMENT**

The Board of Directors (the “Board”) of Hisense Kelon Electrical Holdings Company Limited (the “Company”) hereby announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2018 (the “Reporting Period”) together with comparative figures for the corresponding period in 2017. This interim results announcement has been reviewed by the Company’s Audit Committee.

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

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

#### **Consolidated Balance Sheet**

<b>Item</b>	<b>Note</b>	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Current assets</b>			
Cash at bank and on hand		3,564,480,487.06	2,996,028,194.89
Balances with clearing companies			
Financial assets at fair value through profit or loss for the current period			82,670.52
Financial assets held-for-trading		939.96	
Derivative financial assets			
Notes and accounts receivable	5	7,897,819,444.91	6,350,259,386.45
Prepayments		236,535,033.07	239,594,948.71

Insurance premium receivable			
Receivables from reinsurers			
Reserves for reinsurance contract receivable			
Others receivables		282,644,311.19	312,462,291.68
Financial assets purchased under agreements to resell			
Inventories		3,702,617,067.29	3,397,860,489.07
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets		1,805,603,720.98	1,551,317,129.32
<b>Total current assets</b>		17,489,701,004.46	14,847,605,110.64
<b>Non-current assets</b>			
Disbursement of entrusted loans and advances			
Financial assets available-for-sale			3,900,000.00
Other bond investments			
Long-term receivables			
Long-term equity investments		2,750,603,129.03	2,372,045,624.57
Other equity instrument investments		3,900,000.00	
Other non-current financial assets			
Investment properties		23,819,958.72	24,997,438.39
Fixed assets		3,308,565,913.59	3,252,289,033.55
Construction in progress		70,669,196.48	148,361,940.80
Productive biological assets			
Oil and gas assets			
Intangible assets		710,549,950.90	716,335,386.22
Development costs			
Goodwill			
Long-term prepaid expenses		7,974,301.95	3,727,675.38
Deferred tax assets		111,176,470.09	104,404,613.17
Other non-current assets			
<b>Total non-current assets</b>		6,987,258,920.76	6,626,061,712.08
<b>Total assets</b>		24,476,959,925.22	21,473,666,822.72
<b>Current liabilities</b>			
Short-term borrowings		200,000,000.00	
Borrowings from central bank			
Receipt of deposits and deposits from other banks			

Financial liabilities at fair value through profit or loss for the current period			373,723.35
Financial liabilities held-for-trading		2,735,600.00	
Derivative financial liabilities			
Notes and accounts payable	6	12,142,013,145.66	10,379,862,551.66
Advances from customers			791,262,245.11
Contract liabilities		380,125,486.60	
Proceeds from disposal of financial assets under agreements to repurchase			
Handling fees and commission payable			
Employee remunerations payable		295,365,483.44	323,419,615.39
Taxes payable		254,202,385.67	265,563,541.86
Other payables		2,689,623,794.48	1,709,226,096.76
Reinsured accounts payable			
Reserves for reinsurance contract			
Customer brokerage deposits			
Securities underwriting brokerage deposits			
Liabilities held for sale			
Non-current liabilities due within one year			
Other current liabilities		922,359,059.39	639,347,580.40
<b>Total current liabilities</b>		16,886,424,955.24	14,109,055,354.53
<b>Non-current liabilities</b>			
Long-term borrowings			
Bonds payable			
Including: Preference shares			
Perpetual debts			
Long-term payables			
Long-term employee remunerations payable			
Accrued Liabilities		348,127,434.73	337,091,145.64
Deferred income		73,276,553.27	73,013,121.41
Deferred tax liabilities		1,126,697.40	1,137,179.22
Other non-current liabilities`			
<b>Total non-current liabilities</b>		422,530,685.40	411,241,446.27
<b>Total liabilities</b>		17,308,955,640.64	14,520,296,800.80
<b>Shareholders' equity</b>			
Share capital		1,362,725,370.00	1,362,725,370.00

Other equity instruments			
Including: Preference shares			
Perpetual debts			
Capital reserves		2,088,891,556.36	2,088,891,556.36
Less: treasury shares			
Other comprehensive incomes		7,334,789.26	7,370,127.86
Special reserves			
Surplus reserves		460,339,686.31	460,339,686.31
General risk provisions			
Undistributed profit		2,729,335,784.39	2,525,976,933.34
<b>Total equity attributable to shareholders of the Company</b>		6,648,627,186.32	6,445,303,673.87
Minority interests		519,377,098.26	508,066,348.05
<b>Total shareholders' equity</b>		7,168,004,284.58	6,953,370,021.92
<b>Total liabilities and shareholders' equity</b>		24,476,959,925.22	21,473,666,822.72

### Consolidated Income Statement

Item	Note	January to June 2018	January to June 2017
<b>I. Total operating revenue</b>		20,370,759,289.58	17,606,357,421.41
Including: Operating revenue	7	20,370,759,289.58	17,606,357,421.41
Interest income			
Insurance premium earned			
Income from handling fees and commission			
<b>II. Total operating costs</b>		19,971,447,150.13	17,262,230,654.38
Including: Operating costs	7	16,624,633,310.44	14,347,700,763.30
Interest expenses			
Handling fees and commission expenses			
Refunded premiums			
Net amount of compensation payout			
Net amount of insurance contract reserves provided			

Policyholder dividend expenses			
Reinsurance premium expenses			
Taxes and surcharges		161,071,308.45	135,074,666.02
Selling and distribution expenses		2,643,873,486.50	2,267,388,760.01
General and administrative expenses		214,080,347.92	220,996,266.44
Research and development expenses		319,451,060.26	287,291,959.34
Financial expenses	8	13,267,112.63	4,669,098.25
Including: Interest expenses		2,472,249.99	
Interest income		15,885,956.22	10,404,401.67
Impairment losses on assets		-3,507,882.40	-890,858.98
Credit impairment loss		-1,421,593.67	
Add: Other income		90,355,764.85	53,818,935.07
Investment income (Loss denoted by “-”)	9	418,752,839.98	366,251,715.27
Including: Share of profit of associates and jointly controlled entities		380,821,164.20	331,090,333.07
Foreign exchange gains (Loss denoted by “-”)			
Gain net exposure to hedging (Loss denoted by “-”)			
Gains from changes in fair value (Loss denoted by “-”)		-2,443,607.21	-14,766,266.84
Gains on disposal of assets (Loss denoted by “-”)		471,937.85	5,509,206.20
<b>III. Operating profits</b>		906,449,074.92	754,940,356.73
Add: Non-operating income		47,013,064.01	74,790,830.33
Less: Non-operating expenses		11,896,255.36	6,370,885.89
<b>IV. Total profits (total loss denoted by “-”)</b>		941,565,883.57	823,360,301.17
Less: Income tax expenses	10	111,675,938.47	117,992,544.82
<b>V. Net profits (net loss denoted by “-”)</b>		829,889,945.10	705,367,756.35

(I) Classified on a going concern basis			
1. Net profit from continuing operations (net loss denoted by “-”)		829,889,945.10	705,367,756.35
2. Net profit from discontinued operations (net loss denoted by “-”)			
(II) Classified by ownership of equity			
1. Profit and loss of minority interests (net loss denoted by “-”)		26,931,931.25	33,268,897.05
2. Net profit attributable to owners of the parent (net loss denoted by “-”)		802,958,013.85	672,098,859.30
<b>VI. Other comprehensive income after tax, net</b>		-35,338.60	-1,378,647.48
Other comprehensive income after tax attributable to shareholders of the parent, net		-35,338.60	-1,378,647.48
(I) Items not to be reclassified into profit or loss			
1. Changes arising from remeasurement of defined benefit plans			
2. Other comprehensive income not to be reclassified into profit or loss under the equity method			
3. Change in fair value of other equity instrument investments			
4. Changes in fair value of enterprise’s own credit risk			
(II) Items to be reclassified into profit or loss		-35,338.60	-1,378,647.48
1. Other comprehensive income to be reclassified into profit or loss under the equity method		136,340.26	
2. Change in fair value of other debt investments			
3. Financial assets reclassified into other comprehensive income			
4. Credit impairment provision for other debt instruments			
5. Reserve for cash flow hedging			
6. Differences on translation of foreign currency financial statements		-171,678.86	-1,378,647.48
7. Others			
Other comprehensive income after tax attributable to minority interests, net			
<b>VII. Total comprehensive income</b>		829,854,606.50	703,989,108.87
Total comprehensive income attributable to shareholders of the parent		802,922,675.25	670,720,211.82

Total comprehensive income attributable to minority interests		26,931,931.25	33,268,897.05
<b>VIII. Earnings per share:</b>			
(I) Basic earnings per share	13	0.59	0.49
(II) Diluted earnings per share	13	0.59	0.49

**Note:**

**1. General information**

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

On 29 January 2007, a share reform scheme (the "Reform of Non-tradable Shares Scheme") was formulated and the scheme was approved in the A shares general meeting, and further approved by Ministry of Commerce PRC on 22 March 2007. After completion of the Reform of Non-tradable Shares Scheme, the Company's non-freely transferable domestic legal person shares were converted into freely transferable A shares (the "Transferable Shares").

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

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

On 19 June 2015, the conditions for exercising the options of the second exercise period of the first share option incentive scheme of the Company were satisfied. The Shenzhen branch of China Securities Depository and Clearing Corporation Limited has approved the registration and the listing of the 4,229,810 new shares issued pursuant to the exercise of share options. As of 30 June 2018, the total number of issued shares of the Company was 1,362,725,370 and the registered capital of the Company was RMB1,362,725,370.00, of which Hisense Air-Conditioning held 516,758,670 shares, representing 37.92% of the Company's total issued share capital and continued to be the immediate controlling shareholder.

On 30 June 2018, directors of the Company were of the opinion that Hisense Company Limited (“Hisense Group”), a state-owned enterprise incorporated in the PRC, was regarded as the ultimate controlling shareholder.

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

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

## **2. Basis of preparation of financial statements**

These financial statements were prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance, and the disclosure requirements under the Rules for the Information Disclosure and Compilation of Companies Publicly Issuing Securities No. 15 - General Rules on Financial Reports (Revised in 2014) issued by the China Securities Regulatory Commission.

The Company is listed in both Mainland and Hong Kong stock exchanges, apart from the relevant regulations mentioned above. Disclosure has to be made in accordance with the applicable provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance on disclosure of information, apart from the relevant regulations mentioned above.

## **3. Significant changes in accounting policies**

Description on the change in accounting policies:

The Ministry of Finance issued the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, the Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets and the Accounting Standards for Business Enterprises No. 24 – Hedge Accounting based on Accounting [2017] No. 7, 8 and 9 on 31 March 2017, the Accounting Standards for Business Enterprises No. 37 – Presentation and Reporting of Financial Instruments based on Accounting [2017] No. 14 on 2 May 2017 and the Accounting Standards for Business Enterprises No. 14 – Revenue based on Accounting [2017] No. 22 on 5 July 2017. The five standards stated above required companies listed both at home and abroad to implement such standards starting on 1 January 2018. The Company started to implement such accounting standards according to the schedule required by the Ministry of Finance

On 15 June 2018, the Ministry of the Finance issued the “Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for Year 2018” (No. 15 [2018] of the Ministry of Finance) which revised the format of financial statements of enterprises. The Company implemented new format of financial statements according to the requirements of the Ministry of Finance.



The change in accounting policies and the adjustment in format of financial statements will not profoundly affect the Company.

#### 4. Segment information

The Group manages its business by segments which are divided based on combinations of business lines and geography. In the manner consistent with the internal reports to the Group's most senior executive management personnel for the purpose of resource allocation and performance assessment, the Group has identified the following three reportable segments: refrigerators and washing machines, air-conditioners, and others (including product components and other electrical household appliances).

(1) Segment information for the current period is as follows:

Amount for current period	Refrigerators and Washing machines	Air-conditioners	Others	Elimination	Total
1. Revenue from external sales	7,922,828,341.20	9,648,456,857.31	868,367,352.14		18,439,652,550.65
2. Revenue from inter-segment transactions			857,738,034.96	-857,738,034.96	
3. Gain from investment in associates and joint ventures	-314,735.33	372,461,536.31	8,674,363.22		380,821,164.20
4. Depreciation and amortization	195,618,680.70	103,030,565.55	38,432,059.81		337,081,306.06
5. Gain from changes in fair value			-2,443,607.21		-2,443,607.21
6. Impairment losses on assets (Including credit impairment loss)	-5,646,597.36	1,115,973.34	-398,852.05		-4,929,476.07
7. Total profit (total loss)	105,589,542.84	738,395,199.57	116,577,309.89	-18,996,168.73	941,565,883.57
8. Total assets	16,386,441,287.17	13,760,463,626.00	3,732,943,459.79	-9,402,888,447.74	24,476,959,925.22
9. Total liabilities	10,946,010,474.75	9,987,436,686.16	1,851,271,388.12	-5,475,762,908.39	17,308,955,640.64
10. Additions to other non-current assets other than long-term equity investments	-69,016,710.87	35,297,606.87	16,358,808.22		-17,360,295.78

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

Amount for corresponding period last year	Refrigerators and Washing machines	Air-conditioners	Others	Elimination	Total
1. Revenue from external sales	6,668,625,568.41	8,524,894,129.91	795,467,248.41		15,988,986,946.73
2. Revenue from inter-segment transactions			677,843,132.62	-677,843,132.62	
3. Gain from investment in associates and joint ventures		331,193,198.81	-102,865.74		331,090,333.07
4. Depreciation and amortization	205,748,643.65	108,892,019.32	43,501,787.92		358,142,450.89
5. Gain from changes in fair value			-14,766,266.84		-14,766,266.84

6. Impairment losses on assets	-1,318,203.17	1,389,590.94	-962,246.75		-890,858.98
7. Total profit (total loss)	33,336,260.70	691,360,632.42	130,510,839.19	-31,847,431.14	823,360,301.17
8. Total assets	14,903,068,963.20	12,904,568,348.40	4,059,752,756.52	-10,438,777,068.80	21,428,612,999.32
9. Total liabilities	9,839,070,015.12	10,217,433,790.94	2,305,089,198.55	-6,549,788,588.26	15,811,804,416.35
10. Additions to other non-current assets other than long-term equity investments	-98,841,500.30	-68,283,534.34	70,165,382.60		-96,959,652.04

## (2) Geographical Information

Region	January to June 2018	January to June 2017
Revenue from domestic transactions	12,421,473,427.49	9,956,646,420.24
Revenue from overseas transactions	6,018,179,123.16	6,032,340,526.49
<b>Total</b>	18,439,652,550.65	15,988,986,946.73
Region	30 June 2018	31 December 2017
Non-current assets-Domestic	6,974,793,253.90	6,613,223,821.24
Non-current assets-Overseas	12,465,666.86	12,837,890.84
<b>Total</b>	6,987,258,920.76	6,626,061,712.08

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

## 5. Notes and accounts receivable

Item	30 June 2018	31 December 2017
Notes receivable	3,276,023,568.30	3,517,031,644.77
Accounts receivable	4,621,795,876.61	2,833,227,741.68
<b>Total</b>	7,897,819,444.91	6,350,259,386.45

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

The aging of trade receivables is analyzed as follows:

Item	30 June 2018	31 December 2017
Within three months	4,324,228,260.86	2,531,579,660.57
Over three months but within six months	62,091,036.30	63,798,420.20

Over six months but within one year	16,002,894.60	10,157,769.52
Over one year	366,883,644.39	372,048,101.92
<b>Total</b>	4,769,205,836.15	2,977,583,952.21
Minus: provision for bad debts	147,409,959.54	144,356,210.53
Book value	4,621,795,876.61	2,833,227,741.68

## 6. Notes and accounts payable

Item	30 June 2018	31 December 2017
Notes payable	6,265,960,051.52	6,141,025,710.22
Accounts payable	5,876,053,094.14	4,238,836,841.44
<b>Total</b>	12,142,013,145.66	10,379,862,551.66

The aging of accounts payables is analyzed as follows:

Item	30 June 2018	31 December 2017
Within one year	5,763,435,934.72	4,127,751,339.22
Over one year	112,617,159.42	111,085,502.22
<b>Total</b>	5,876,053,094.14	4,238,836,841.44

## 7. Operating revenues and Costs

Item	January to June 2018	January to June 2017
Revenue from principal operations	18,439,652,550.65	15,988,986,946.73
Revenue from other operations	1,931,106,738.93	1,617,370,474.68
<b>Total</b>	20,370,759,289.58	17,606,357,421.41
Item	January to June 2018	January to June 2017
Cost of principal operations	14,788,200,733.98	12,796,472,032.26
Cost of other operations	1,836,432,576.46	1,551,228,731.04
<b>Total</b>	16,624,633,310.44	14,347,700,763.30

## 8. Financial expenses

Item	January to June 2018	January to June 2017
Interest expenses	2,472,249.99	
Minus: interest income	15,885,956.22	10,404,401.67
Gain/(loss) on Foreign Exchange	1,752,989.08	17,584,638.25
Others	24,927,829.78	-2,511,138.33

<b>Total</b>	13,267,112.63	4,669,098.25
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## 9. Investment Income

### (1) Particulars of investment gain

<b>Item</b>	<b>January to June 2018</b>	<b>January to June 2017</b>
Investment income of other equity instruments invested in the holding period	10,142,200.00	13,227,800.00
Gain from long-term equity investment under the equity method	380,821,164.20	331,090,333.07
Investment gain from disposal of financial assets at fair value through profit or loss	-271,460.10	3,701,448.14
Investment gain from wealth management products	28,060,935.88	18,232,134.06
<b>Total</b>	418,752,839.98	366,251,715.27

### (2) Investment income of other equity instruments invested in the holding period

<b>Investee</b>	<b>January to June 2018</b>	<b>January to June 2017</b>
Qingdao Hisense International Marketing Co., Ltd.	10,142,200.00	13,227,800.00
<b>Total</b>	10,142,200.00	13,227,800.00

### (3) Gain from long-term equity investment under the equity method

<b>Investee</b>	<b>January to June 2018</b>	<b>January to June 2017</b>
Hisense Hitachi	372,776,271.64	331,193,198.81
Hisense Financial Holdings	8,674,363.22	-102,865.74
Qingdao Hisense Ecommerce Co., Ltd.	-629,470.66	
<b>Total</b>	380,821,164.20	331,090,333.07

## 10. Income tax expenses

<b>Item</b>	<b>January to June 2018</b>	<b>January to June 2017</b>
Current income tax expenses	118,458,277.21	119,998,424.44
Deferred tax expenses	-6,782,338.74	-2,005,879.62
<b>Total</b>	111,675,938.47	117,992,544.82

Certain subsidiaries have been recognised as “high technology” companies and are entitled to a preferential tax rate of 15% (2017: 15%). Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits.

Except as disclosed above, the Company and other group entities, which were established and operated in the PRC, are subject to EIT at a standard rate of 25% (2017: 25%).

### 11. Net Current Assets

Item	30 June 2018	31 December 2017
Current Assets ( Consolidated )	17,489,701,004.46	14,847,605,110.64
Minus: Current Liabilities ( Consolidated )	16,886,424,955.24	14,109,055,354.53
Net Current Assets ( Consolidated )	603,276,049.22	738,549,756.11
Current Assets ( the Parent )	2,225,124,755.45	2,123,334,651.18
Minus: Current Liabilities ( the Parent )	1,681,393,147.81	1,018,999,097.08
Net Current Assets ( the Parent )	543,731,607.64	1,104,335,554.10

### 12. Total Assets Less Current Liabilities

Item	30 June 2018	31 December 2017
Total Assets ( Consolidated )	24,476,959,925.22	21,473,666,822.72
Minus: Current Liabilities ( Consolidated )	16,886,424,955.24	14,109,055,354.53
Total Assets Minus Current Liabilities ( Consolidated )	7,590,534,969.98	7,364,611,468.19
Total Assets ( the Parent )	7,649,212,445.40	7,174,328,292.19
Minus: Current Liabilities ( the Parent )	1,681,393,147.81	1,018,999,097.08
Total Assets Minus Current Liabilities( the Parent )	5,967,819,297.59	6,155,329,195.11

### 13. Earnings per share

#### (a) Basic earnings per share

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

Item	January to June 2018	January to June 2017
Consolidated net profit attributable to ordinary shareholders of the Company	802,958,013.85	672,098,859.30
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	0.59	0.49

#### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated net profit

attributable to ordinary shareholders of the Company adjusted for dilutive potential ordinary shares divided by the adjusted weighted average number of ordinary shares in issue of the Company. For the Reporting Period and the corresponding period ended 30 June 2017, there were no dilutive potential ordinary shares, and therefore the diluted earnings per share were same as the basic earnings per share.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018. No interim dividend was paid for the corresponding period last year.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **I. OVERVIEW**

#### **(I) INDUSTRY OVERVIEW**

Domestic refrigerator sales remained stagnant during the Reporting Period. According to inferential statistics from the China Market Monitor Company Limited (“CMM”), as of June 2018, cumulative retail volume in the refrigerator sector decreased by 1.7% year-on-year. By contrast, the domestic air-conditioner market continued its growth momentum in 2017, driven by favorable factors such as high temperature in the peak season, rapid growth of e-commerce channels and steady growth in demand in the third and fourth-tier markets. According to inferential statistics from the CMM, as of June 2018, cumulative retail volume in the air-conditioner market grew by 16.6% year-on-year. According to statistics from [www.aicon.com.cn](http://www.aicon.com.cn), in the first half of 2018, the overall capacity of the domestic central air-conditioning market increased by 11.6% year-on-year, and the market capacity maintained a growth trend, but the growth rate declined from 2017. In terms of export market, according to customs statistics, the cumulative export volume of refrigerators and air conditioners has experienced a year-on-year decline, trade friction, exchange rate fluctuations and other factors. The foreign trade environment is becoming increasingly complex and severe.

White goods enterprises strive to offer products with better user experience through unceasing technological upgrades and innovations as well as refined management, and continue to optimize the product structure of white goods and upgrade industrial consumption by shifting to air-cooled products from two-door and three-door refrigerators, broadening product offerings with high-end French-style products, and upgrading air-conditioning products with inverter technology, energy efficiency, health and comfort and stronger cooling capacity.

#### **(II) ANALYSIS OF COMPANY’S OPERATION**

During the Reporting Period, the Company persisted in its operational concept of “creating products with high quality, enhancing customer value, improving system efficiency, accelerating industrial development, expanding international market”, and implemented various tasks to steadily improve its scale and efficiency. The Company achieved operating revenues of RMB 20.37 billion, representing a year-on-year increase of 15.70%, and principal operating revenue of RMB18.44 billion, representing a year-on-year increase of 15.33%. Revenue from the refrigerator and washing machine business accounted for 42.97% of the principal operating revenue, representing a year-on-year increase of 18.81%; and revenue from the air-conditioner business accounted for 52.32% of the principal operating revenue, representing a year-on-year increase of 13.18%. The domestic sales business recorded a principal operating revenue of RMB 12.42 billion, representing a year-on-year increase of 24.76%, whereas the export sales business recorded a principal operating revenue of RMB 6.02 billion, representing a year-on-year decrease of 0.23%. Net profits attributable to shareholders in the listed company reached RMB 0.80 billion, representing a year-on-year increase of 19.47%, in which net profits after deducting non-recurring gains or losses were RMB 0.75 billion, representing a year-on-year increase of 23.97%. Earnings per share were RMB 0.59.

The major works of each business are as follows:

### **1. The Refrigerator and Washing Machine Business**

During the Reporting Period, the refrigerator and washing machine branch strived to create high quality products that embrace customer value based on the business philosophy of “home is the essence of home appliances”. Under the pressure of industry stagnancy in operation, the Company achieved a steady recovery of profitability by improving product competitiveness, enhancing system efficiency and other measures. The company achieved steady growth in scale and steady recovery of profitability. In the second quarter of 2018, the gross profit margin of refrigerators and washing machines improved by 2.47 percentage points year-on-year and 1.02 percentage points month to month. The Company adheres to technology development and continues to promote technology-oriented, health-oriented and life-oriented product development and technological innovation. At the 2018 China Refrigerator Industry Summit Forum, the Ronshen “Full-ecological Fresh-keeping” Refrigerator won the 2017-2018 Achievement Award of Purification Standards in China’s Refrigerator Industry by virtue of its innovative “purification” technology. The Caring Combo Washer Dryer received the AWE Most Popular Award (艾普蘭金口碑獎). The Company continued its journey to explore user experience and launch new high-tech products loved by users. The company's high-end products are developing rapidly. The market share of refrigerators, freezers, and washing machines is steadily increasing. According to CMM offline statistics, as of June 2018, the Company’s cumulative retail market share in refrigerators, freezers and washing machines increased by 1.6 percentage point, 2.7 percentage points and 0.9 percentage point year-on-year, respectively. In terms of channels, whilst retaining good strategic partnerships with existing offline customers, the Company has made every effort to

develop e-commerce channels and online market segments, thereby achieving a rapid growth in e-commerce year-on-year. According to CMM online statistics, in the first half of 2018, the online retail sales of Ronshen Refrigerator increased by 56.3% year-on-year, and the online retail sales of Hisense refrigerators increased by 38.7% year-on-year, both far higher than the average growth rate of 29.2% in the industry. In terms of product expansion, the sales of commercial cold chain achieved breakthrough during the Reporting Period, boosting the Company's scale and profitability.

## **2. The Residential Air-conditioner Business**

During the Reporting Period, the residential air-conditioning branch maintained a steady increase in its scale and efficiency by measures such as technology consolidation, product innovation and upgrade, key channel breakthrough and development, targeting at the third and fourth-tier markets and e-commerce market with growth potential and capitalizing on the industry development trend towards high-end and comfortable products. As one of the approaches to enrich the brand image of “Inverter Expert” of Hisense Air Conditioning and in view of the principle of technology orientation, the Company jointly published the White Paper on Comfortable Inverter Development of Air Conditioning Industry with China Household Electrical Appliances Research Institute (中國家用電器研究院) to establish the industry standards of comfortable inverter air-conditioning. “The Development and Application of Key Technologies for Ultra-high Temperature Inverter Air Conditioners in Dusty Atmosphere” project won a third place at the Guangdong Science and Technology Awards. By virtue of enhancing product intelligence and comfort, the Hisense “Prince Charming X” (男神 X) Air Conditioner was included in the “2018 Energy Conservation and Environmental Protection Product Catalogue of the Chinese Association of Refrigeration” as a representative product of the third generation of comfortable inverter air conditioner. In terms of basic work: the Company adheres to the quality concept of “making good, high-quality products”, and the product’s NPS value and key quality indicators continue to improve steadily. In terms of channels, the Company’s product structure has been optimizing as a result of the determined strategy of promoting single-stage inverter air conditioners. According to CMM statistics, in the online sales structure of inverter air-conditioner, Kelon air-conditioners with APF Class I energy efficiency accounted for over 50% of its total retail sales. With the rapid development of e-commerce channels, for the first half of 2018, the online sales of Hisense and Kelon air-conditioners increased by 69.2% and 103.3% year-on-year, respectively, both far higher than the industry average. The Company further strengthened customer management and value enhancement and achieved notable growth in the third and fourth-tier markets by implementing customer classification management and evaluation, accelerating quality network development and further optimizing customer structure.

## **3. The Commercial Air-conditioning Business**

During the Reporting Period, facing pressure from real estate sector regulation, Hisense Hitachi focused on products and users, improved research and development capabilities,



and facilitated lean management and operational excellence in the entire value chain. The Company maintained a positive growth momentum for revenue and steady growth for the major operating indicators. The Company took over the domestic multi-connection business of the “York” brand, facilitating the further expansion of the Company.

The Company always put emphasis on technological research and development, which provides a solid guarantee for product performance improvement and demand for customization. The Integrated Full-inverter Multi-Connected Central Air-conditioning Project with Two-way Mirrored Current-flow Frame Heat Transfer and High Cooling Capacity of the Company won a third place in the Science and Technology Progress Awards by the China National Light Industry Council. By pursuing leadership through a development philosophy of “subsisting for centuries through technological innovation”, the Company kept abreast of the industry development and user needs. The Company’s Hisense Villa Home Series adopts HI-Mit intelligent mobile control system and is able to access to Apple HomeKit, significantly improving the convenience and intelligence of central air conditioning. In addition, in order to better meet the needs of the real estate market, the Company entered into long-term strategic agreements with a number of large-scale housing companies and launched new one-way flow fan and other products tailor-made for the corresponding real estate projects. During the Reporting Period, the real estate business achieved an excellent performance with an increase in revenue by more than 30% year-on-year.

#### **4. Risks faced by the Company and contingency measures**

Looking forward to the second half of 2018, the pressure faced by enterprises will remain enormous under the persisting downward pressure on the domestic economy and the increasingly complicated global business environment. The major risks we face are as follows:

- (1) The declining growth and transaction size of real estate investment will lead to a decline in the demand for the white household appliance market, thus affecting the Company’s sales scale.
- (2) The continued cost pressure: escalated prices of raw materials, and the continuously increasing human resources and labour costs, logistics and transportation costs, installation services costs, etc. will all have a negative impact on the Company’s profitability.
- (3) Trade protectionism is prevalent, and the downward pressure on exports is increasing.
- (4) Exchange rate fluctuation risk: The company's overseas income accounts for more than 30% of the total operating income. The fluctuation of the RMB exchange rate directly affects the export competitiveness of the company's products, thus affecting the company's export operations.

For the second half of 2018, the Company will endeavor to complete the following tasks committedly so as to ensure the steady enhancement of scale and efficiency:

- (1) Further explore user experience and create high quality products that embrace customer value; and continuously optimize product structure.
- (2) Continue to develop e-commerce channels vigorously and enhance the scale of e-commerce and market share; deepen the development of the third and fourth tier markets and build its core sales channels to continuously optimize the customer structure.
- (3) Improve product planning capabilities and product competitiveness, optimize the structure of export products and enhance the scale and efficiency of exports.
- (4) Facilitate industrial development, enhance the core competitiveness of products and achieve rapid business scale growth and economic efficiency in washing machines, commercial air-conditioners, commercial cold chain, environmental control appliances and kitchen appliances.
- (5) Strengthen fund management, reduce capital occupation and accelerate cash flows.

## II. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

### (I) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

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

☐ Yes ☒ No

Items	Reporting Period	Co rresponding period last year	Increase or decrease as compared to corresponding period last year (%)
Operating revenue (RMB)	20,370,759,289.58	17,606,357,421.41	15.70
Net profits attributable to shareholders of listed company (RMB)	802,958,013.85	672,098,859.30	19.47
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	749,401,999.33	604,512,199.63	23.97
Net cash flow from operating activities (RMB)	636,947,655.91	600,148,124.99	6.13
Basic earnings per share (RMB/share)	0.59	0.49	20.41
Diluted earnings per share (RMB/share)	0.59	0.49	20.41
Weighted average rate of return on net assets (%)	11.90	13.09	-1.19 percentage point
Items	End of the Reporting Period	End of last year	Increase or decrease as compared to end of last year (%)
Total assets (RMB)	24,476,959,925.22	21,473,666,822.72	13.99
Net assets attributable to shareholders of listed company (RMB)	6,648,627,186.32	6,445,303,673.87	3.15

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

Unit: RMB

Item	Amount	Description
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	-148,496.77	
Government grants recognized in the profits or losses (excluding government grants	52,967,193.08	

closely related to the Company's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)		
Other non-operating income and expenses other than the aforementioned items	15,189,977.99	
Minus: Effect of income tax	9,013,266.20	
Effect of minority interests (after tax)	5,439,393.58	
Total	53,556,014.52	

### (III) ANALYSIS OF PRINCIPAL BUSINESS

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

Unit: RMB

Items	Closing Balance (current period)	Opening balance (corresponding period last year)	Change (%)	Reasons of change
Construction in progress	70,669,196.48	148,361,940.80	-52.37	Mainly due to the completion of part of the construction transferring to fixed assets
Short-term borrowings	200,000,000.00	-	Not applicable	Mainly due to new short-term borrowings during the reporting period
Other payables	2,689,623,794.48	1,709,226,096.76	57.36	Mainly due to the increase in dividends payable
Other current liabilities	922,359,059.39	639,347,580.40	44.27	Mainly due to the increase in accrued expenses with the increase in scale during the peak season of sales
Operating revenue	20,370,759,289.58	17,606,357,421.41	15.70	No significant changes
Operating costs	16,624,633,310.44	14,347,700,763.30	15.87	No significant changes
Sales expenses	2,643,873,486.50	2,267,388,760.01	16.60	No significant changes
Management expenses	214,080,347.92	220,996,266.44	-3.13	No significant changes
Other income	90,355,764.85	53,818,935.07	67.89	Mainly due to the increase in software tax refunds received
Non-operating income	47,013,064.01	74,790,830.33	-37.14	Mainly due to the decrease in other government subsidies received
Income tax expense	111,675,938.47	117,992,544.82	-5.35	No significant changes
Cash received relating to other operating activities	380,981,372.84	282,834,325.81	34.7	Mainly due to the increase in software tax refunds received
Net cash flow from operating activities	636,947,655.91	600,148,124.99	6.13	No significant changes
Cash received relating to other investing activities	1,580,000,000.00	2,800,000,000.00	-43.57	Mainly due to the reduction of expired wealth management products
Net cash flow from investing activities	-254,622,439.46	895,011,148.88	Not applicable	Mainly due to the reduction of expired wealth management products
Cash paid relating to other financing activities	365,328,088.72	1,016,209,836.70	-64.05	Mainly due to the year-on-year decrease in margin
Net cash flow from financing activities	-178,162,011.40	-1,015,462,333.02	Not applicable	Mainly due to the year-on-year decrease in margin
Net increase in cash and cash equivalents	203,124,203.46	478,520,974.82	-57.55	Mainly due to the decrease in net cash flow from investing activities

### (IV) DESCRIPTION OF PRINCIPAL BUSINESS SEGMENTS

Unit: RMB

Item	Revenue from operating	Costs of operating businesses	Gross profit	Increase or decrease in	Increase or decrease in	Increase or decrease in
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	businesses		margin (%)	revenue from operating businesses as compared to corresponding period last year (%)	costs of operating businesses as compared to corresponding period last year (%)	gross profit margin as compared to corresponding period last year (percentage point)
By industry						
Home appliances manufacturing industry	18,439,652,550.65	14,788,200,733.98	19.80	15.33	15.56	-0.17
By product						
Refrigerators and washing machines	7,922,828,341.20	6,398,661,638.28	19.24	18.81	19.06	-0.17
Air-conditioners	9,648,456,857.31	7,679,113,408.34	20.41	13.18	12.7	0.34
Others	868,367,352.14	710,425,687.36	18.19	9.16	16.81	-5.36
By region						
Mainland	12,421,473,427.49	9,040,237,068.69	27.22	24.76	25.84	-0.63
Overseas	6,018,179,123.16	5,747,963,665.29	4.49	-0.23	2.42	-2.47

### III. CORE COMPETITIVENESS ANALYSIS

#### 1. Technological advantages

The Company adheres to its operating philosophy of “technology orientation” and focuses on “intelligent” 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 thousands of technical personnel. The Company is always committed to enhance its self-driven innovation capacity, strives to enhance the performance and level of intelligentization of its products, in order to improve its core competitiveness and its products’ market competitiveness and provide strong technical support for the Company’s industrial advancement. At the same time, the Company takes the advantage of opportunities created by Hisense Group in sports marketing, accelerating the process of company internationalization and carrying self-brand global developing strategy forward constantly.

#### 2. Brand advantages

The three brand names used in refrigerator and air-conditioner products of the Company, namely “Hisense”, “Ronshen” and “Kelon”, have good brand reputation and market base. Among these brands, the market share of “Hisense” inverter air-conditioners had ranked first in China for thirteen consecutive years, while the market share of “Ronshen” refrigerators had ranked first in China for eleven years. “High technology and high quality” reflects the Company’s core brand value.

### IV. MAJOR SUBSIDIARIES AND COMPANIES IN WHICH THE COMPANY HAS

## **EQUITY INTEREST**

<b>Name of company</b>	<b>Company type</b>	<b>Major product or service</b>	<b>Registered capital</b>	<b>Total assets (RMB ten thousand)</b>	<b>Net assets (RMB ten thousand)</b>	<b>Operating revenue (RMB ten thousand)</b>	<b>Operating profit (RMB ten thousand)</b>	<b>Net profits (RMB ten thousand)</b>
Hisense Hitachi	A company in which the Company has equity interest	Production and sale of commercial air-conditioners	US\$46 million	1,101,544.51	526,238.78	543,762.47	94,977.62	79,639.07

## **LIQUIDITY AND SOURCES OF CAPITAL**

Net cash generated from operating activities of the Group was approximately RMB 636 million for the six months ended 30 June 2018 (for the six months ended 30 June 2017: RMB 600 million).

As at 30 June 2018, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB 3,564 million (as at 30 June 2017: RMB 3,901 million) and bank loans amounting to approximately RMB 200 million (as at 30 June 2017: RMB 0 million).

Total capital expenditures of the Group for the six months ended 30 June 2018 amounted to approximately RMB 146 million (for the six months ended 30 June 2017: RMB 197 million).

## **GEARING RATIO**

As at 30 June 2018, the Group's gearing ratio (calculated according to the formula: total liabilities divided by total assets) was 71% (as at 30 June 2017: 74%).

## **TRUST DEPOSITS**

As at 30 June 2018, the Group did not have any trust deposits with any financial institutions in the PRC. All of the Group's deposits have been deposited in commercial banks and other financial institutions in the PRC and Hong Kong.

## **HUMAN RESOURCES AND REMUNERATION POLICY**

As at 30 June 2018, the Group had approximately 34739 employees, mainly comprising 4365 technical staff, 14190 sales representatives, 348 financial staff, 678 administrative staff and 14575 production staff. The Group had 14 employees with a doctorate degree, 549 with a master's degree and 3828 with a bachelor's degree. There were 786 employees who occupied mid-level positions or above in the Group according to the national standards. For the six months ended 30 June 2018, the Group's staff payroll amounted to RMB1,678 million (corresponding period in 2017 amounted to RMB1,511 million).

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

## **CHARGE ON THE GROUP'S ASSETS**

As at 30 June 2018, the Group's property, plant and equipment (including leasehold land held for own use) and investment properties and trade receivables of approximately RMB 0 million (31 December 2017: 0 million) were pledged as security for the Group's borrowings.

## EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its code for securities transaction by Directors. After having made specific enquiries to the Directors, all Directors of the Board confirmed that they had acted in full compliance with the Model Code during their term of office in the Reporting Period.

## SHARE CAPITAL STRUCTURE

As at 30 June 2018, the share capital structure of the Company was as follows:

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

## TOP TEN SHAREHOLDERS

As at 30 June 2018, there were 39,868 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 Co.,Ltd.	State-owned legal person	516,758,670	37.92%	57.22%	0
HKSCC Nominees Limited <sup>Note</sup>	Foreign legal person	456,537,069	33.50%	99.34%	0
Cental Huijin Investment Ltd.	State-owned legal person	26,588,700	1.95%	2.94%	0
Bank of China Limited – Shangtou Morgan Core Growth Stock Securities Investment Fund	Other	24,348,783	1.79%	2.70%	0
China Merchants Bank Limited – Guotai Growth Preferred Mixed Securities Investment Fund	Other	22,449,100	1.65%	2.49%	0

Bank of Communications Limited – HSBC Jinxin Market Index Equity Securities Investment Fund	Other	10,013,201	0.73%	1.11%	0
China Life Insurance Limited – Traditional-General Insurance Products-005L-CT001 Shen	Other	10,002,869	0.73%	1.11%	0
China Construction Bank Corporation – Guotai Jinxin Stock Securities Investment Fund	Other	9,470,690	0.69%	1.05%	0
China Construction Bank Corporation – China Universal Consumer Industry Mixed Security Investment Fund	Other	8,000,020	0.59%	0.89%	0
Zhang Shao Wu	Domestic natural person	7,200,000	0.53%	0.80%	0

*Note: The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense HK, a party acting in concert with the controlling shareholder of the Company, increased its holdings of H shares of the company by a total of 12.533 million shares in the reporting period. By the end of the reporting period, Hisense HK held a total of 109.735 million shares of H shares of the company, representing 8.05% of the total number of shares of the Company. From 1 July 2018 to 23 July 2018, Hisense HK increased its holdings of H shares of the company by a total of 14.717 million shares. As at the date of this report disclosed, Hisense HK held a total of 124.452 million shares of H shares of the company, representing 9.13% of the total number of shares of the Company.*

## SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
Qingdao Hisense Air-conditioning Co.,Ltd.	516,758,670	RMB ordinary shares
HKSCC Nominees Limited <sup>Note</sup>	456,537,069	Overseas listed foreign shares
Cental Huijin Investment Ltd.	26,588,700	RMB ordinary shares
Bank of China Limited – Shangtou Morgan Core Growth Stock Securities Investment Fund	24,348,783	RMB ordinary shares
China Merchants Bank Limited – Guotai Growth Preferred Mixed Securities Investment Fund	22,449,100	RMB ordinary shares
Bank of Communications Limited – HSBC Jinxin Market Index Equity Securities Investment Fund	10,013,201	RMB ordinary shares
China Life Insurance Limited – Traditional-General Insurance Products-005L-CT001 Shen	10,002,869	RMB ordinary shares
China Construction Bank Corporation – Guotai Jinxin Stock Securities Investment Fund	9,470,690	RMB ordinary shares
China Construction Bank Corporation – China Universal Consumer Industry Mixed Security Investment Fund	8,000,020	RMB ordinary shares
Zhang Shao Wu	7,200,000	RMB ordinary shares

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

So far as is known to any Directors, supervisors and the chief executive of the Company, as at 30 June 2018, the following persons (other than the Directors, supervisors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”), or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited:

***Long position or short position in the shares of the Company***

Name of shareholder	Capacity	Type of shares	Number of shares held	Percentage of the respective type of shares	Percentage of the total number of shares in issue
Qingdao Hisense Air-conditioning Company Limited <sup>Note</sup>	Beneficial owner	A shares	516,758,670(L)	57.22%	37.92%
Qingdao Hisense Electric Holdings Company Limited <sup>Note</sup>	Interest of controlled corporation	A shares	516,758,670(L)	57.22%	37.92%
Hisense Group <sup>Note</sup>	Interest of controlled corporation	A shares	516,758,670(L)	57.22%	37.92%
Hisense HK <sup>Note</sup>	Beneficial owner	H shares	109,735,000 (L)	23.88%	8.05%
Qingdao Hisense Electric Holdings Company Limited <sup>Note</sup>	Interest of controlled corporation	H shares	109,735,000 (L)	23.88%	8.05%
Hisense Group <sup>Note</sup>	Interest of controlled corporation	H shares	109,735,000 (L)	23.88%	8.05%

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

*Note: Hisense Air-conditioning is a company directly owned as to 93.33% by Qingdao Hisense Electric Holdings Company Limited, whereas Hisense HK is a company directly owned as to 100% by Qingdao Hisense Electric Holdings Company Limited. Qingdao Hisense Electric Holdings Company Limited is in turn owned as to 32.36% by Hisense Group and is accustomed or obliged to act in accordance with the directions or instructions of Hisense Group. By virtue of the SFO, Qingdao Hisense Electric Holdings Company Limited and Hisense Group were deemed to be interested in the same parcel of A shares of which Hisense Air-conditioning was interested and in the same parcel of H shares of which Hisense HK was interested.*

Save as disclosed above, as at 30 June 2018, in so far as the Directors, supervisors and chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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

As at 30 June 2018, save as disclosed below, none of the members of the Board, supervisors and the chief executive of the Company and their respective associates held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code.

***Long position in the shares of the Company***

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

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

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

## **AUDIT COMMITTEE**

The Audit Committee of the Company has reviewed the interim results announcement for the period ended 30 June 2018.

## **CORPORATE GOVERNANCE CODE**

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

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

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

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

Foshan City, Guangdong, the PRC, 29 August 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. Zhong Geng Shen and Mr. Cheung Sai Kit.*

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

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

Connected parties	Type of connected transaction	Particulars of connected transaction	Pricing principle of connected transaction	Connected transaction amount (RMB ten thousand)	Percentage of total amount of similar transactions (%)
Hisense Group	Purchase	Finished Goods	Agreed Price	9.95	0.00
Hisense Hitachi	Purchase	Finished Goods	Agreed Price	3.22	0.00
Hisense Group	Purchase	Materials	Agreed Price	8,788.65	0.53
Hisense Electronics	Purchase	Materials	Agreed Price	314.28	0.02
Hisense Hitachi	Purchase	Materials	Agreed Price	468.67	0.03
Hisense Group	Receipt of Services	Receipt of Services	Agreed Price	19,512.75	1.17
Hisense Electronics	Receipt of Services	Receipt of Services	Agreed Price	633.64	0.04
Hisense HK	Agency Financing	Agency Financing	Agreed Price	17,159.84	1.03
Hisense Group	Sale	Finished Goods	Agreed Price	565,078.55	27.74
Hisense Electronics	Sale	Finished Goods	Agreed Price	118.95	0.01
Hisense Hitachi	Sale	Finished Goods	Agreed Price	25,496.16	1.25
Hisense Group	Sale	Materials	Agreed Price	3,336.00	0.16
Hisense Electronics	Sale	Materials	Agreed Price	691.40	0.03
Hisense Hitachi	Sale	Materials	Agreed Price	115.90	0.01
Hisense Group	Sale	Moulds	Agreed Price	4,027.01	0.20
Hisense Electronics	Sale	Moulds	Agreed Price	5,508.17	0.27
Hisense Hitachi	Sale	Moulds	Agreed Price	1,115.68	0.05
Hisense Group	Provisions of Services	Provisions of Services	Agreed Price	668.85	0.03
Hisense Electronics	Provisions of Services	Provisions of Services	Agreed Price	102.24	0.01

As at the end of the Reporting Period, the Company had the balance of deposit of approximately RMB 3.140 billion and interest income received of approximately RMB 13.5616 million, the actual balance of loan of RMB 200 million, balance of electronic bank acceptance bill of approximately RMB 2.96 billion, and the handling fee for opening accounts for electronic bank acceptance bill of approximately RMB 1.6319 million with Hisense Finance. The loan interest paid is RMB 2.4722 million. The actual amount of discounted interest for the provision of draft discount services was approximately RMB 7.5374 million, the actual amount involved for the provision of settlement and sale of foreign exchange services was approximately US\$ 2.6405 million and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was approximately RMB 157,200. The Company has a recourse in the Hisense Financial Holdings, and the balance of commercial factoring business is RMB 99.9730 million; The balance of non-recourse commercial factoring business is RMB 54.4072 million.

## II. CONNECTED TRANSACTION IN RELATION TO JOINT EXTERNAL INVESTMENT

☐ Applicable    ☒ Not applicable

## III. PARTICULARS OF GUARANTEES

☐ Applicable    ☒ Not applicable

## IV. 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	5,050.05	1 January 2018	30 June 2018	5,050.05	14,329.18	10,639.58	-	8,739.65	1.31	-271.51
Source of derivatives investment funding				Export trade payment									
Date of the announcement disclosing the approval of derivatives investment by the Board (if any)				30 March 2018									
Date of the announcement disclosing the approval of derivatives investment during shareholders' meetings (if any)				Not applicable									
Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)				<p>The derivatives business of the Company mainly represents the forward foreign exchange contracts used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company determines a reasonable range of foreign exchange rates to achieve the hedging purpose.</p> <p>The Company has formulated the "Management Measures for the Foreign Exchange Capital Business" and "the Internal Control System for Forward Foreign Exchange Capital Transactions". The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the business of foreign exchange derivatives. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.</p>									
Changes in market price or product fair value of invested derivatives during the Reporting Period, where specific methods and relevant assumptions and parameters used shall be disclosed				<p>The assessment of the fair value of the derivatives carried out by the Company mainly represents the outstanding foreign exchange forward contracts entered into by the Company and banks, which are recognized as transactional financial assets or liabilities based on the difference between the quotation of the outstanding foreign exchange forward contracts and the forward exchange rate as at the end of the period. During the Reporting Period, the Company recognized a gain on change in fair value of the derivatives of RMB -2.4436 million. Investment gain amounted to RMB -0.2715 million, resulting in a</p>									

in the analysis of derivatives' fair value	total profits or losses of RMB -2.7151 million.
Explanations of any significant changes in the Company's accounting policies and specific accounting and auditing principles on derivatives between the Reporting Period and the last reporting period	During the Reporting Period, there were no material changes in the accounting policy and specific accounting and auditing principles for the Company's derivatives business as compared to last reporting period.
Specific opinions of independent Directors on the derivatives investment and risk control of the Company	Opinion of independent directors: Commencement of foreign exchange derivatives business by the Company was beneficial to the Company in the prevention of exchange rate fluctuation risks. The Company has devised the Internal Control System for Forward Foreign Exchange Capital Transactions to strengthen internal control and enhance the management of foreign exchange risks by the Company, and the targeted risk control measures adopted were practicable.

**This announcement is published in both English and Chinese. If there is any conflict between the English and the Chinese versions, the Chinese version shall prevail.**

## DEFINITIONS

In the announcement, unless the context requires otherwise, the following terms or expressions shall have the following meanings:

“Company”, “the Company”	Hisense Kelon Electrical Holdings Company Limited;
“Hisense Air-Conditioning”	Qingdao Hisense Air-Conditioning Company Limited;
“Hisense Electric”	Hisense Electric Co., Ltd.;
“Hisense Finance”	Hisense Finance Co., Ltd.;
“Hisense Financial Holdings”	Qingdao Hisense Financial Holdings Co., Ltd.;
“Hisense Group”	Hisense Company Limited;
“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.;
“Hisense HK”	Hisense (Hong Kong) Company Limited;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“RMB”	Renminbi, the lawful currency of the PRC; and
“%”	Per cent.