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# Hisense 海信科龙

## HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

### 海信科龍電器股份有限公司

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 00921)**

### 2016 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 2016 (the “Reporting Period”) together with comparative figures for the corresponding period in 2015. This interim results announcement has been reviewed by the Company’s Audit Committee.

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

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

#### Consolidated Balance Sheet

Item	Note	30 June 2016	31 December 2015
<b>Assets</b>			
<b>Current assets</b>			
Cash at bank and on hand		<b>2,086,541,421.01</b>	1,014,410,146.17
Financial assets at fair value through profit or loss for the current period			
Notes receivable		<b>3,198,213,709.39</b>	2,289,706,048.91
Accounts receivable	5	<b>3,480,922,808.73</b>	2,086,596,419.00
Prepayments		<b>144,538,379.42</b>	169,804,372.86
Others receivables		<b>263,917,080.47</b>	234,011,936.52
Inventories		<b>2,118,856,499.16</b>	2,270,139,557.55
Other current assets		<b>626,343,884.03</b>	467,872,305.65

<b>Total current assets</b>		<b>11,919,333,782.21</b>	8,532,540,786.66
<b>Non-current assets</b>			
Financial assets available-for-sale		<b>3,900,000.00</b>	3,900,000.00
Long-term equity investments		<b>1,353,001,374.73</b>	1,323,253,353.15
Investment properties		<b>27,707,481.40</b>	28,958,126.07
Fixed assets		<b>3,424,574,371.47</b>	3,529,787,697.68
Construction in progress		<b>70,876,339.34</b>	64,837,848.39
Disposal of fixed assets		<b>933,019.53</b>	1,468,664.05
Intangible assets		<b>694,744,378.55</b>	694,379,768.17
Long-term prepaid expenses		<b>7,396,685.81</b>	10,599,736.59
Deferred tax assets		<b>94,385,863.57</b>	103,091,058.77
<b>Total non-current assets</b>		<b>5,677,519,514.40</b>	5,760,276,252.87
<b>Total assets</b>		<b>17,596,853,296.61</b>	14,292,817,039.53
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Short-term borrowings		<b>248,102,137.59</b>	223,496,764.71
Financial liabilities at fair value through profit or loss for the current period		<b>716,847.98</b>	9,767,732.75
Notes payable		<b>4,444,534,151.45</b>	2,931,174,504.52
Accounts payable	6	<b>3,975,928,414.37</b>	2,878,291,676.53
Advances from customers		<b>502,253,817.62</b>	712,934,326.56
Employee remunerations payable		<b>242,790,794.88</b>	250,749,290.94
Taxes payable		<b>239,766,016.93</b>	161,686,275.79
Interests payable			
Dividends payable		<b>204,436,525.50</b>	
Other payables		<b>1,672,625,997.79</b>	1,483,744,213.15
Other current liabilities		<b>893,915,241.52</b>	794,105,569.67
<b>Total current liabilities</b>		<b>12,425,069,945.63</b>	9,445,950,354.62
<b>Non-current liabilities</b>			
Provisions		<b>281,120,516.56</b>	320,959,024.64
Deferred income		<b>51,971,085.09</b>	51,750,592.81
Deferred tax liability		<b>507,942.24</b>	347,710.13
<b>Total non-current liabilities</b>		<b>333,599,543.89</b>	373,057,327.58
<b>Total liabilities</b>		<b>12,758,669,489.52</b>	9,819,007,682.20
<b>Shareholders' equity</b>			
Share capital		<b>1,362,725,370.00</b>	1,362,725,370.00

Capital reserves		2,155,529,231.17	2,155,529,231.17
Other comprehensive incomes		12,444,291.01	11,482,265.05
Surplus reserves		240,622,313.49	240,622,313.49
Retained profits		628,529,194.55	273,658,518.74
<b>Total equity attributable to shareholders of the Company</b>		<b>4,399,850,400.22</b>	4,044,017,698.45
Minority interests		438,333,406.87	429,791,658.88
<b>Total shareholders' equity</b>		<b>4,838,183,807.09</b>	4,473,809,357.33
<b>Total liabilities and shareholders' equity</b>		<b>17,596,853,296.61</b>	14,292,817,039.53

### Consolidated Income Statement

Item	Note	January to June 2016	January to June 2015
<b>Operating revenue</b>	7	<b>13,122,951,531.51</b>	13,611,148,619.89
Operating costs	7	10,044,258,231.63	10,800,650,891.99
Business taxes and surcharges		53,955,707.45	30,886,280.24
Selling and distribution expenses		2,172,369,108.67	2,210,836,967.94
General and administrative expenses		458,091,291.92	430,232,672.22
Financial expenses	8	-33,394,686.74	-24,809,869.01
Impairment losses on assets		-14,037,482.78	20,873,327.47
Gain from changes in fair value		9,050,884.77	53,113,821.77
Investment gain	9	190,519,070.38	290,512,875.51
Including: Share of profit of associates and joint ventures		189,978,021.58	127,811,784.18
<b>Operating profits</b>		<b>641,279,316.51</b>	486,105,046.32
Non-operating income		56,931,787.09	101,692,390.83
Including: Gains on non-current assets		785,867.64	1,040,721.35
Non-operating expenses		1,651,046.75	9,347,599.79
Including: Losses on disposal of non-current assets		760,157.38	7,334,966.96
<b>Total profits</b>		<b>696,560,056.85</b>	578,449,837.36
Less: Income tax expenses	10	105,932,299.43	64,380,329.92
<b>Net profits</b>		<b>590,627,757.42</b>	514,069,507.44
Net profits of consolidated parties prior to consolidation			

Net profit attributable to shareholders of the parent		<b>559,279,481.31</b>	505,717,733.90
Profit and loss of minority interests		<b>31,348,276.11</b>	8,351,773.54
<b>Earnings per share</b>			
Basic earnings per share	13	<b>0.41</b>	0.37
Diluted earnings per share	13	<b>0.41</b>	0.37
<b>Other comprehensive income</b>		<b>962,025.96</b>	-30,230,236.21
(1) Items to be reclassified into profit and loss in subsequent accounting periods upon satisfaction of required conditions		<b>962,025.96</b>	-818,758.48
(2) items not to be reclassified into profit and loss in subsequent accounting periods			-29,411,477.73
<b>Total comprehensive income</b>		<b>591,589,783.38</b>	483,839,271.23
Total comprehensive income attributable to shareholders of the parent		<b>560,241,507.27</b>	475,487,497.69
Total comprehensive income attributable to minority interests		<b>31,348,276.11</b>	8,351,773.54

**Note:**

**1. General information**

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

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

On 31 August 2009, the Company’s proposal for a major asset reorganization and the acquisition of the white goods assets and business (the “White Goods Business”) of Hisense Air-Conditioning(the “Acquisition”) was approved in the Company’s shareholders’ meeting. The Acquisition was approved by the PRC’s China Securities

Regulatory Commission (the “CSRC”) on 23 March 2010. On 10 June 2010, the Company allotted and issued 362,048,187 A shares to Hisense Air-Conditioning.

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

On 19 Jun 2015, the conditions for exercising the options of the second exercise period of the first share option incentive scheme of the Company were satisfied. The Shenzhen branch of China Securities Depository and Clearing Corporation Limited has approved the registration and the listing of the 4,229,810 new shares issued pursuant to the exercise of share options. As at 30 June 2016, the total number of issued shares of the Company was 1,362,725,370 and the registered capital of the Company was RMB1,362,725,370.00, of which Hisense Air-Conditioning held 612,316,909 shares, representing 44.93% of the Company’s total issued share capital and continued to be the immediate controlling shareholder.

On 30 June 2016, 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 2010) issued by the CSRC.

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

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

### 4. Segment information

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

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

Amount for current period	Refrigerators and Washing machines	Air-conditioners	Others	Elimination	Total
1. Revenue from external sales	6,041,357,800.87	5,416,889,955.83	702,655,969.83		12,160,903,726.53
2. Revenue from inter-segment			672,173,231.55	-672,173,231.55	
3. Share of profit of associates and joint ventures	-27,362,398.33	217,424,224.22	-83,804.31		189,978,021.58
4. Depreciation and amortization	179,950,744.44	119,090,768.20	38,805,693.36		337,847,206.00
5. Gain from changes in fair value	4,433,060.83	4,433,060.83	184,763.11		9,050,884.77
6. Impairment losses on assets	-8,131,026.03	-5,829,456.75	-77,000.00		-14,037,482.78
7. Total profit (total loss)	221,281,099.54	408,548,324.16	84,389,434.70	-17,658,801.55	696,560,056.85
8. Income tax expenses	57,025,180.64	27,478,787.50	21,428,331.29		105,932,299.43
9. Net profit (net loss)	164,255,918.90	381,069,536.66	62,961,103.41	-17,658,801.55	590,627,757.42
10. Total assets	14,011,715,077.91	10,750,661,852.88	3,973,369,533.57	-11,138,893,167.75	17,596,853,296.61
11. Total liabilities	9,460,920,837.23	8,507,616,636.87	2,443,239,743.62	-7,653,107,728.20	12,758,669,489.52
12. Additions to other non-current assets other than long-term equity investments	-8,463,922.16	-60,147,376.91	-43,893,460.98		-112,504,760.05

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	6,136,651,831.84	5,793,122,043.63	558,005,340.02		12,487,779,215.49
2. Revenue from inter-segment			566,503,360.66	-566,503,360.66	
3. Share of profit of in associates and joint ventures	-34,905,811.85	162,841,037.27	-123,441.24		127,811,784.18
4. Depreciation and amortization	197,664,510.72	92,360,362.20	45,985,763.32		336,010,636.24

5. Gain from changes in fair value	23,117,472.33	24,524,066.45	5,472,282.99		53,113,821.77
6. Impairment losses on assets	12,150,229.02	8,365,319.47	357,778.98		20,873,327.47
7. Total profit (total loss)	106,105,797.34	274,655,711.17	252,174,499.30	-54,486,170.45	578,449,837.36
8. Income tax expenses	52,917,164.89	770,306.50	10,692,858.53		64,380,329.92
9. Net profit (net loss)	53,188,632.45	273,885,404.67	241,481,640.77	-54,486,170.45	514,069,507.44
10. Total assets	12,402,487,086.05	12,421,901,717.31	3,870,706,529.19	-12,516,493,360.94	16,178,601,971.61
11. Total liabilities	8,290,649,600.96	9,921,667,497.54	2,511,371,115.46	-8,992,403,692.82	11,731,284,521.14
12. Additions to other non-current assets other than long-term equity investments	74,572,137.17	383,326,275.66	-38,574,427.58		419,323,985.25

## (2) Geographical Information

Item	January to June 2016	January to June 2015
Revenue from external customers - Mainland	7,532,607,084.66	8,403,560,311.36
Revenues from external customers - Overseas	4,628,296,641.87	4,084,218,904.13
Total	<b>12,160,903,726.53</b>	<b>12,487,779,215.49</b>
Item	30 June 2016	31 December 2015
Non-current assets - Mainland	5,667,444,725.96	5,749,543,669.67
Non-current assets - Overseas	10,074,788.44	10,732,583.20
Total	<b>5,677,519,514.40</b>	<b>5,760,276,252.87</b>

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

## 5. Trade receivables

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

The aging of trade receivables is analyzed as follows:

Item	30 June 2016	31 December 2015
Within three months	3,443,770,208.83	2,050,051,659.69
Over three months but within six months	36,465,867.29	33,702,888.63
Over six months but within one year	8,666,638.68	12,424,319.08
Over one year	115,189,806.55	115,640,119.80
Total	<b>3,604,092,521.35</b>	<b>2,211,818,987.20</b>

Less: provision for bad debts	<b>123,169,712.62</b>	<b>125,222,568.20</b>
	<b>3,480,922,808.73</b>	<b>2,086,596,419.00</b>

## 6. Trade payables

The aging of trade payables is analysed as follows:

Item	30 June 2016	31 December 2015
Within one year	3,860,745,341.20	2,765,359,219.91
Over one year	115,183,073.17	112,932,456.62
Total	<b>3,975,928,414.37</b>	<b>2,878,291,676.53</b>

## 7. Revenue and cost of sales

Item	January to June 2016	January to June 2015
Revenue from main operations	12,160,903,726.53	12,487,779,215.49
Revenue from other operations	962,047,804.98	1,123,369,404.40
Total	<b>13,122,951,531.51</b>	<b>13,611,148,619.89</b>
Item	January to June 2016	January to June 2015
Cost of main operations	9,175,148,808.22	9,781,224,754.56
Cost of other operations	869,109,423.41	1,019,426,137.43
Total	<b>10,044,258,231.63</b>	<b>10,800,650,891.99</b>

## 8. Financial expenses

Item	January to June 2016	January to June 2015
Interest expenses	6,579,120.82	5,543,081.06
less: interest income	4,109,203.50	2,896,619.54
Gain/(loss) on Foreign Exchange	-37,017,657.72	-16,495,792.59
Others	1,153,053.66	-10,960,537.94
<b>Total</b>	<b>-33,394,686.74</b>	<b>-24,809,869.01</b>

## 9. Investment Income

(1) Summary of investment income

Item	January to June 2016	January to June 2015
Income from long-term equity investment - the cost method	6,004,000.00	7,410,000.00
Income from long-term equity investment - the equity method	189,978,021.58	127,811,784.18



Income from disposal of long-term equity investment		135,598,968.15
Income from disposal of financial assets held for trading	-6,164,321.06	19,692,123.18
Income from purchases wealth management products	701,369.86	
<b>Total</b>	<b>190,519,070.38</b>	<b>290,512,875.51</b>

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

Investee	<b>January to June 2016</b>	January to June 2015
Hisense International Co., Ltd.	6,004,000.00	7,410,000.00
<b>Total</b>	<b>6,004,000.00</b>	<b>7,410,000.00</b>

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

Investee	<b>January to June 2016</b>	January to June 2015
Attend Logistics Co., Ltd.	-83,804.31	-123,441.24
Hisense-Whirlpool	-27,362,398.33	-34,905,811.85
Hisense Hitachi	217,424,224.22	162,841,037.27
<b>Total</b>	<b>189,978,021.58</b>	<b>127,811,784.18</b>

## 10. Income tax expenses

<b>Item</b>	<b>January to June 2016</b>	January to June 2015
Income tax expenses	97,227,104.23	95,447,366.39
Inc: Current income tax calculated according to tax law and related regulations in Mainland China	97,227,104.23	88,651,587.23
Current income tax calculated according to tax law and related regulations in Hong Kong		6,795,779.16
Deferred tax expenses	8,705,195.20	-31,067,036.47
<b>Total</b>	<b>105,932,299.43</b>	<b>64,380,329.92</b>

Certain subsidiaries have been recognised as “high technology” companies and are entitled to a preferential tax rate of 15% (2015: 15%). Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits.

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

## 11. Net Current Assets

Item	30 June 2016	31 December 2015
Current Assets ( Consolidated )	11,919,333,782.21	8,532,540,786.66
Less : Current Liabilities ( Consolidated )	12,425,069,945.63	9,445,950,354.62
Net Current Assets ( Consolidated )	-505,736,163.42	-913,409,567.96
Current Assets ( the Company )	2,664,934,074.41	2,909,661,756.05
Less : Current Liabilities ( the Company )	2,092,914,531.12	2,335,475,827.76
Net Current Assets ( the Company )	572,019,543.29	574,185,928.29

## 12.Total Assets Less Current Liabilities

Item	30 June 2016	31 December 2015
Total Assets ( Consolidated )	17,596,853,296.61	14,292,817,039.53
Less : Current Liabilities ( Consolidated )	12,425,069,945.63	9,445,950,354.62
Total Assets less Current Liabilities ( Consolidated )	5,171,783,350.98	4,846,866,684.91
Total Assets ( the Company )	6,847,349,216.68	7,078,766,344.72
Less : Current Liabilities ( the Company )	2,092,914,531.12	2,335,475,827.76
Total Assets Less Current Liabilities ( the Company )	4,754,434,685.56	4,743,290,516.96

## 13. Earnings per share

### (a) Basic earnings per share

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

Item	January to June 2016	January to June 2015
Consolidated net profit attributable to ordinary shareholders of the Company	559,279,481.31	505,717,733.90
Weighted average number of ordinary shares in issue of the Company	1,362,725,370.00	1,359,200,528.33
Basic earnings per share	0.41	0.37

### (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 2015, 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 2016. No interim dividend was paid for the corresponding period last year.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **I .ANALYSIS OF THE COMPANY’S OPERATION**

#### **1. Overall operation of the Company**

During the Reporting Period, the performance of domestic white goods market remained sluggish. According to the statistics of China Market Monitor Company Limited (CMM), as at June 2016, the cumulative retail volume of the refrigerator industry declined by 9.29% and its cumulative retail amount decreased by 7.78% year-to-year, the cumulative retail volume of the air-conditioner industry decreased by 6.74% and its cumulative retail amount decreased by 5.84% year-to-year. The overseas market has picked up. According to the Customs statistics, the export volume of the refrigeration industry in the first half of 2016 increased by 11.50% year-to-year, and the export volume of the air-conditioning industry increased by 19.70% year-to-year.

During the Reporting Period, the Company insisted on the operating directions of “adhering to high-end awareness, highlighting product advantages, consolidating market network, enhancing system efficiency and exploring international market” formulated at the beginning of the year to implement various tasks. The Company recorded operating revenue of RMB 13123 million, representing a year-to-year decrease of 3.59%, and principal operating revenue of RMB 12161 million, representing a year-to-year decrease of 2.62%. Among these, the revenue from the refrigerator and washing machine business accounted for 49.68% of the principal operating revenue, representing a year-to-year decrease of 1.55%; revenue from the air-conditioner business accounted for 44.54% of the principal operating revenue, representing a year-to-year decrease of 6.49%; the domestic sales business recorded a principal operating revenue of RMB 7533 million, representing a year-to-year decrease of 10.36%, whereas the export sales business recorded a principal operating revenue of RMB 4628 million, representing a year-to-year increase of 13.32%. The Company achieved net profits attributable to shareholders of the listed company of RMB 559 million, representing a year-to-year increase of 10.59%, and the earnings per share were RMB0.41, in which the net profits, net of non-recurring gains or losses, was 519 million, representing a year-to-year increase of 80.56%.

During the Reporting Period, the Company adhered to implement various efficiency enhancement, cost reduction and product popularity projects formulated at the beginning of the year. The inventory turnover of the Company’s refrigerators accelerated by 13 days year-to-year by strongly reducing inventory occupancy and accelerating inventory turnover. In addition, as the technology and products of smart home appliances and smart living industry are gradually maturing and users are getting more and more experienced in

using them, the market scale can hopefully expand rapidly. With the technological advantages and operation experience gained by Hisense Group in smart television system and operation platform, the Company will strive for a rapid growth in the scale of its smart home appliances and smart living operation.

## **2. Refrigerators and washing machines business**

During the Reporting Period, the refrigerators and washing machines business of the Company adhered to the “spirit of craftsmanship”, followed the concept of “providing good refrigerators for Chinese families”, as well as insisted on enhancing the product quality, intelligence level and user experience. The Company launched the “ Beiduofen+ (倍多分+)” cross French-door refrigerator series with exquisite appearance, large capacity and new intelligent control system”, which won the 2016 China Household Electrical Appliance Product Prize (中國家電艾普蘭產品獎). By enhancing its variety of high-end cross door refrigerator products, our product sales structure has gradually improved with a further increase in gross profit margin and profitability of the products. According to the statistics of CMM, the market share of the Company in the cross door refrigerator retail volume in the first half of 2016 increased by 5.04 percentage points year-to-year; the gross profit margin of the Company’s refrigerators and washing machines business also significantly increased by 3.34 percentage points. Moreover, the Company emphasized on developing sports marketing by grasping the opportunity of Hisense Group becoming the global sponsor of UEFA European Football Championship 2016. “Quality assurance for Ronshen refrigerators” first appeared in the major international sports event, which greatly enhanced the image of our brand and the Company. The operating quality of the refrigerators and washing machines business was continuously improved by enhancing product competitiveness, optimizing the product structure and improving internal fundamental management on an ongoing basis.

## **3. Air-conditioner business**

During the Reporting Period, our air-conditioner business continued to focus on product intelligentization and differentiation and further enhanced the product competitiveness by upgrading intelligent products and pursuing technological innovation. The Company launched different types of differentiating products such as a new model of “Xuanzhuang (炫轉)” air-conditioner, “Pearl (珍珠)” air-conditioner with beauty function and UEFA European Football Championship commemorative model “Little Fighter (小炫風)” air-conditioner to improve user experience by enhancing smart function. In the 2016 Cold Air-conditioning Industry Summit and China Intelligent Air Conditioning Forum (2016 冷年空調產業高峰會暨中國智能空調高峰論壇), Hisense’s “Pearl” air-conditioner won the Innovative Product Award in the air-conditioning industry with its advanced intelligent technology and product creativity. In respect of export, by implementing strategies like sports marketing and actively adjusting product structure as well as increasing overseas marketing effort of inverter products, the growth of air-conditioning products of the Company remained higher than the industry growth. According to the Customs export

statistics, the export volume of the Company's air-conditioning products in the first half of 2016 increased by 30.9% year-to-year, which was higher than the industry growth level of 19.7%. The operating quality of the Company's air-conditioning business was improved by enhancing product competitiveness, optimizing the product structure and improving internal fundamental management on an ongoing basis. During the Reporting Period, the decline of the gross profit margin of the Company's air-conditioning business in 2015 was overturned and its gross profit margin significantly increased by 2.08 percentage points.

#### **4. Outlook**

Looking ahead to the second half of 2016, the continuous high temperature across the nation during July and August allows the air conditioner industry to digest and clear its stock. The substantial drop in the stock level of the Company and within the industry is favourable to the beginning of a new air conditioner production year and to the creation of a virtuous cycle in the market. It is expected that the air conditioner industry will not repeat the passive situation it suffered at the second half of 2015 when the stock of the industry as a whole stayed at a high level. The Company will seize this golden opportunity in the industry and in the market and will commit to perform the following tasks to ensure our operation will be steadily enhanced:

**Marketing:** Increasing the marketing effort of high-end products and increasing its proportion; optimizing customer structure and enhancing the gross profit margin of products; actively adjusting the product structure in order to accelerate the enhancement of the quality of overseas market expansion.

**Channel management:** Maintaining building of the best management team; enlarging the three-tier to four-tier core network coverage; expanding the network of core stores; improving the channel network quality; enhancing the ability of online operation and increasing the scale and proportion of e-commerce.

**Enhancing customers' satisfaction:** Further improving product quality and raising the service standards such as specification, timeliness and skills; improving the service quality and enhancing customers' satisfaction.

**System improvement:** Improving system with the key strategy of "improving marketing efficiency"; continuing to ensure enhancement of manufacturing efficiency by implementing measures such as automation, universalness and information technology.

**Cost control:** Strengthening the cost control ability and increasing the ratio of cost input to output.

**Capital management:** Strengthening the receivables management, continuing to improve inventory management, accelerating inventory and receivables turnover and settling the due receivables and abnormal occupancy of inventories; and enhancing the efficiency of

capital utilization.

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

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

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

Yes  No

Items	Reporting Period	Corresponding period last year	Increase or decrease as compared to corresponding period last year (%)
Operating revenue (RMB)	13,122,951,531.51	13,611,148,619.89	-3.59
Net profits attributable to shareholders of listed company (RMB)	559,279,481.31	505,717,733.90	10.59
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	519,161,229.89	287,527,945.85	80.56
Net cash flow from operating activities (RMB)	1,066,721,270.63	-199,164,845.29	N/A
Basic earnings per share (RMB/share)	0.41	0.37	10.81
Diluted earnings per share (RMB/share)	0.41	0.37	10.81
Weighted average rate of return on net assets (%)	13.04	13.66	-0.62
Items	End of the Reporting Period	End of last year	Increase or decrease as compared to end of last year (%)
Total assets (RMB)	17,596,853,296.61	14,292,817,039.53	23.12
Net assets attributable to shareholders of listed company (RMB)	4,399,850,400.22	4,044,017,698.45	8.80

### ( 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)	25,710.26	
Government grants recognized in the profits or losses (excluding government grants closely related to the Company's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	45,211,964.43	
Other non-operating income and expenses other than the aforementioned items	6,123,838.46	
Less:Effect of income tax	4,477,695.78	
Effect of minority interests (after tax)	6,765,565.95	
Total	40,118,251.42	--

### (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 (correspondence period last year)	Change (%)	Reasons of change
Cash and cash equivalents	2,086,541,421.01	1,014,410,146.17	105.69	Mainly due to continuous improvement of the Company's operation, an increase in operating profit and a decrease in inventory occupancy resulted in an increase in operating cash flow and net cash amount
Notes receivable	3,198,213,709.39	2,289,706,048.91	39.68	Mainly due to an increase in payment in form of notes as it is the peak season for sales as at the end of the Reporting Period
Accounts receivable	3,480,922,808.73	2,086,596,419.00	66.82	Mainly due to the end of the Reporting Period being the peak season for sales, increased sales resulted in an increase in accounts receivable
Other current assets	626,343,884.03	467,872,305.65	33.87	Mainly due to an increase in purchase of investment and wealth management products
Notes payable	4,444,534,151.45	2,931,174,504.52	51.63	Mainly due to an increase in in billing and notes payable at the end of the Reporting Period
Accounts payable	3,975,928,414.37	2,878,291,676.53	38.14	Mainly due to an increase in accounts payable caused by an increase in production volume as it is the peak season for sales and production as at the end of the Reporting Period
Taxes payable	239,766,016.93	161,686,275.79	48.29	Mainly due to an increase in VAT and income taxes payable as at the end of the Reporting Period
Business taxes and surcharges	53,955,707.45	30,886,280.24	74.69	Mainly due to the change in the corresponding taxes and surcharges caused by the change in amount of taxes payable
Financial expenses	-33,394,686.74	-24,809,869.01	N/A	Mainly due to an increase in foreign exchange gains
Loss from asset devaluation	-14,037,482.78	20,873,327.47	N/A	Mainly due to a decrease in expected loss on value depreciation caused by optimization of inventory structure and acceleration of turnover during the Reporting Period
Profit from fair value changes	9,050,884.77	53,113,821.77	-82.96	Mainly due to changes in outstanding forward transactions and changes in settlement for due transactions for the current period
Investment income	190,519,070.38	290,512,875.51	-34.42	Mainly due to a decrease in investment income caused by the recognized investment gain from disposal of equity interests of Huayi Compressor in the previous period which did not occur in the current period
Non-operating income	56,931,787.09	101,692,390.83	-44.02	Mainly due to a decrease in government grants received during the current period
Income tax expenses	105,932,299.43	64,380,329.92	64.54	Mainly due to the changes in deferred income tax of the companies
Cash received from product sales and rendering of services	9,029,697,663.46	6,227,820,959.38	44.99	Mainly due to an increase in payment received from bank acceptance bills at their maturity and an increase in payment collection from export business during the current period
Cash paid for purchase of goods and services received	4,727,872,044.53	3,292,850,945.61	43.58	Mainly due to an increase in notes payable at maturity during the Reporting Period
Cash received from disposals of investments	160,230,000.00	330,278,145.68	-51.49	Mainly due to the returns in investment received from disposal of equity interests of

Items	Closing Balance(current period)	Opening balance (correspondence period last year)	Change (%)	Reasons of change
				Huayi Compressor in the previous period which did not occur in the current period
Cash paid to acquire fixed assets, intangible assets and other long-term assets	129,400,021.03	289,212,638.80	-55.26	Mainly due to a decrease in infrastructure investment of the Company during the Reporting Period
Cash paid for repayment of borrowings	542,305,035.90	799,523,193.18	-32.17	Mainly due to the changes in factoring accounts receivable business

#### (IV) DESCRIPTION OF PRINCIPAL BUSINESS SEGMENTS

Unit: RMB

Item	Revenue from operating businesses	Costs of operating businesses	Gross profit margin (%)	Increase or decrease in revenue from operating businesses as compared to corresponding period last year (%)	Increase or decrease in costs of operating businesses as compared to corresponding period last year (%)	Increase or decrease in gross profit margin as compared to corresponding period last year (%)
<b>By industry</b>						
Home appliances manufacturing industry	12,160,903,726.53	9,175,148,808.22	24.55	-2.62	-6.20	2.88
<b>By product</b>						
Refrigerators and washing machines	6,041,357,800.87	4,483,624,314.27	25.78	-1.55	-5.79	3.34
Air-conditioners	5,416,889,955.83	4,186,656,955.15	22.71	-6.49	-8.94	2.08
Others	702,655,969.83	504,867,538.80	28.15	25.92	18.94	4.22
<b>By region</b>						
Mainland	7,532,607,084.66	5,291,560,808.05	29.75	-10.36	-13.84	2.83
Overseas	4,628,296,641.87	3,883,588,000.17	16.09	13.32	6.70	5.21

### III.CORE COMPETITIVENESS ANALYSIS

#### 1. Technological advantages

The Company adheres to its operating philosophy of “technology orientation” and focuses on “energy-saving by inverter technology” and “green and environmental friendliness” to build its core competitiveness through continual innovations in technologies and products. The Company has top-notch research and development institutions including State-level enterprise technology center, enterprise post-doctoral scientific research station, State-recognized laboratory, and Guangdong Provincial Key Research and Development Center of Engineering Science, and an industry-leading research and development team with 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.



## 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

Name of company	Company type	Industry	Major product or service	Registered capital	Total assets (RMB ten thousand)	Net assets (RMB ten thousand)	Operating revenue (RMB ten thousand)	Operating profit (RMB ten thousand)	Net profits (RMB ten thousand)
Hisense Hitachi	A company in which the Company has equity interest	Home appliances industry	Production and sale of commercial air-conditioners	US\$46 million	548,166.36	265,518.12	281,540.16	40,965.44	46,801.82

## LIQUIDITY AND SOURCES OF CAPITAL

Net cash generated from operating activities of the Group was approximately RMB 1,066 million for the six months ended 30 June 2016 (for the six months ended 30 June 2015: RMB -199 million).

As at 30 June 2016, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB 2,086 million (as at 30 June 2015: RMB879 million) and bank loans amounting to approximately RMB 248 million (as at 30 June 2015: RMB 388 million).

Total capital expenditures of the Group for the six months ended 30 June 2016 amounted to approximately RMB 129 million (for the six months ended 30 June 2015: RMB289 million).

## GEARING RATIO

As at 30 June 2016, the Group’s gearing ratio (calculated according to the formula: total liabilities divided by total assets) was 73% (as at 30 June 2015: 73%).

## TRUST DEPOSITS

As at 30 June 2016, the Group did not have any trust deposits with any financial institutions in the PRC. All of the Group’s deposits have been deposited in commercial banks and other financial institutions in the PRC and Hong Kong.

## HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2016, the Group had approximately 32,226 employees, mainly comprising

4,857 technical staff, 14,595 sales representatives, 351 financial staff, 783 administrative staff and 11,640 production staff. The Group had 9 employees with a doctorate degree, 378 with a master's degree and 3,795 with a bachelor's degree. There were 419 employees who occupied mid-level positions or above in the Group according to the national standards. For the six months ended 30 June 2016, the Group's staff payroll amounted to RMB1,338 million (corresponding period in 2015 amounted to RMB1,362 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 2016, the Group's property, plant and equipment (including leasehold land held for own use) and investment properties and trade receivables of approximately RMB 237 million (31 December 2015: RMB417 million) were pledged as security for the Group's borrowings.

### **EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE**

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

### **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 2016, the share capital structure of the Company was as follows:

<b>Class of shares</b>	<b>Number of shares</b>	<b>Percentage to the total issued share capital</b>
<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 2016, there were 28,478 shareholders of the Company (the "Shareholders") in total, of which the top ten Shareholders were as follows:

Name of Shareholder	Nature of Shareholder	No. of shares held	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company	No. of shares held subject to trading moratorium
Hisense Air-conditioning	State-owned legal person	612,316,909	44.93%	67.80%	0
HKSCC Nominees Limited <sup>Note1</sup>	Foreign legal person	459,144,769	33.69%	99.90%	0
Cental Huijin Investment Ltd.	Domestic non-state-owned legal person	26,588,700	1.95%	2.94%	0
China Securities Finance Corporation Limited	Domestic non-state-owned legal person	18,379,176	1.35%	2.04%	0
Zhang Shao Wu <sup>Note2</sup>	Domestic natural person	7,200,000	0.53%	0.80%	0
ICBC Credit Suisse Fund - Agricultural Bank of China - ICBC Credit Suisse China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Southern Fund - Agricultural Bank of China - Southern China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Boshi Fund - Agricultural Bank of China - Boshi China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Dacheng Fund - Agricultural Bank of China - Dacheng China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Central European Fund - Agricultural Bank of China - Central European China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Guangfa Fund - Agricultural Bank of China - Guangfa China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Huaxia Fund - Agricultural Bank of China - Huaxia China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Jiashi Fund - Agricultural Bank of China - Jiashi China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Yifangda Fund - Agricultural Bank of China - Yifangda China Securities	Other	6,518,300	0.48%	0.72%	0

Financial Asset Management Plan					
Yinhua Fund - Agricultural Bank of China - Yinhua China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0

Notes:

1. The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense Hong Kong, a party acting in concert with the controlling shareholder of the Company, is the holder of 81.16 million H shares in total at the end of the Reporting Period, representing 5.96% of the total number of shares of the Company.

2. Zhang Shao Wu, a shareholder of the Company, holds 7,200,000 shares of the Company through customer credit trading guarantee securities account in Guosen Securities Company Limited.

#### SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
Hisense Air-conditioning	612,316,909	RMB ordinary shares
HKSCC Nominees Limited	459,144,769	Overseas listed foreign shares
Cental Huijin Investment Ltd.	26,588,700	RMB ordinary shares
China Securities Finance Corporation Limited	18,379,176	RMB ordinary shares
Zhang Shao Wu	7,200,000	RMB ordinary shares
ICBC Credit Suisse Fund - Agricultural Bank of China - ICBC Credit Suisse China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Southern Fund - Agricultural Bank of China - Southern China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Boshi Fund - Agricultural Bank of China - Boshi China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Dacheng Fund - Agricultural Bank of China - Dacheng China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Central European Fund - Agricultural Bank of China - Central European China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Guangfa Fund - Agricultural Bank of China - Guangfa China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Huaxia Fund - Agricultural Bank of China - Huaxia China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Jiashi Fund - Agricultural Bank of China - Jiashi China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Yifangda Fund - Agricultural Bank of China - Yifangda China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Yinhua Fund - Agricultural Bank of China - Yinhua China Securities Financial Asset Management Plan	6,518,300	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 2016, the following persons (other than the Directors, supervisors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”), or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited:

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

Name of shareholder	Capacity	Type of shares	Number of shares held	Percentage of the respective type of shares	Percentage of the total number of shares in issue
Qingdao Hisense Air-conditioning Company Limited <i>Note 1</i>	Beneficial owner	A shares	612,316,909(L)	67.80%	44.93%
Qingdao Hisense Electric Holdings Company Limited <i>Note 1</i>	Interest of controlled corporation	A shares	612,316,909(L)	67.80%	44.93%
Hisense Group <i>Note 1</i>	Interest of controlled corporation	A shares	612,316,909(L)	67.80%	44.93%
Hisense Hong Kong <i>Note 1</i>	Beneficial owner	H shares	81,160,000 (L)	17.66%	5.96%
Qingdao Hisense Electric Holdings Company Limited <i>Note 1</i>	Interest of controlled corporation	H shares	81,160,000 (L)	17.66%	5.96%
Hisense Group <i>Note 1</i>	Interest of controlled corporation	H shares	81,160,000 (L)	17.66%	5.96%
Prime Capital Management Company Limited <i>Note 2</i>	Investment manager	H shares	54,971,255 (L)	11.96%	4.03%
Citigroup Inc. <i>Note 3</i>	Person having security interests in shares and custodian corporation/ approved lending agent	H shares	28,395,596(L) 2,467,000(S) 3,344,986(P)	6.17(L) 0.53(S) 0.72(P)	2.08% 0.18% 0.25%

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

Notes:

1. *Hisense Air-conditioning is a company directly owned as to 93.33% by Qingdao Hisense Electric Holdings Company Limited, whereas Hisense Hong Kong is a company directly owned as to 100% by Qingdao Hisense Electric Holdings Company Limited. Qingdao Hisense Electric Holdings Company Limited is in turn owned as to 32.36% by Hisense Group and is accustomed or obliged to act in accordance with the directions or instructions of Hisense Group. By virtue of the SFO, Qingdao Hisense Electric Holdings Company Limited and Hisense Group were deemed to be interested in the same parcel of A shares of which Hisense Air-conditioning was interested and in the same parcel of H shares of which Hisense Hong Kong was interested.*
2. *Prime Capital Management Company Limited was interested in a total of 54,971,255 H shares in the capacity of an investment manager by virtue of the SFO.*
3. *By virtue of the SFO, Citigroup Inc. was interested in these H shares, in which Citigroup Global Markets Limited was interested in the long position of 25,050,610 H shares and the short position of 2,467,000 H shares and Citibank N.A. was interested in the long position of 3,344,986 H shares. Among such interests in the H shares, Citigroup Inc. was interested in the long position of 21,721,612 H shares as person having security interests, the long position of 3,344,986 H shares as custodian corporation or approved lending agent and the long position of 3,328,998H shares and the short position of 2,467,000 H shares as interest of controlled corporation.*

Save as disclosed above, as at 30 June 2016, in so far as the Directors, supervisors and chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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

As at 30 June 2016, save as disclosed below and in the section “The First Share Option Incentive Scheme”, 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 Company	Percentage to the relevant class of issued shares of the Company
Tang Ye Guo	Beneficial owner	1,260,000 A Shares <sup>(Note 1)</sup>	0.09%	0.14%
Jia Shao Qian	Beneficial owner	828,000 A Shares <sup>(Note 2)</sup>	0.06%	0.09%
Wang Yun Li	Beneficial owner	358,630 A Shares <sup>(Note 3)</sup>	0.03%	0.04%

Notes:

1. Of these 1,260,000 A Shares, 831,600 A Shares were beneficially owned by Mr. Tang Ye Guo and he was also interested in share options to subscribe for 428,400 A Shares of the Company (representing approximately 0.03% of the total issued share capital of the Company and approximately 0.05% of the total issued A shares of the Company as at the 30 June 2016).
2. Of these 828,000 A Shares, 539,060 A Shares were beneficially owned by Mr. Jia Shao Qian and he was also interested in share options to subscribe for 288,940 A Shares of the Company (representing approximately 0.02% of the total issued share capital of the Company and approximately 0.03% of the total issued A shares of the Company as at the 30 June 2016).
3. Of these 358,630 A Shares, 52,120 A Shares were beneficially owned by Mr. Wang Yun Li and he was also interested in share options to subscribe for 306,510 A Shares of the Company (representing approximately 0.02% of the total issued share capital of the Company and approximately 0.03% of the total issued A shares of the Company as at the 30 June 2016).

## 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 2016.

## THE FIRST SHARE OPTION INCENTIVE SCHEME

### (1) Movements of the share options during the Reporting Period

No.	Name	Position	Outstanding share options as at 1 January 2016 ('0000 shares)	Number of share options exercised during the Reporting Period ('0000 shares)	Number of share options lapsed during the Reporting Period ('0000 shares)	Number of share options cancelled during the Reporting Period ('0000 shares)	Outstanding share options as at 30 June 2016 ('0000 shares)
1	Tang Ye Guo	Chairman	42.84	-	-	-	42.84
2	Jia Shao Qian	Director, Vice-President	28.894	-	-	-	28.894
3	Wang Yun Li	Director, Vice-President	30.651	-	-	-	30.651
4	Wang Zhi Gang	Former Director, Vice-President	6.12	-	-	-	6.12
5	Mid level management staff and key personnel		340.182	-	-	-	340.182
	Total		448.687	-	-	-	448.687

*Notes:*

- 1. All share options available for issue under the first share option incentive scheme have been granted.*
- 2. Mr. Wang Zhi Gang has resigned from his position as director on 5 May 2016.*
- 3. As this scheme will expire on 31 August 2016, after the expiration date of this scheme, share options granted but not yet exercised will lapse automatically. On 25 August 2016, the Resolution on cancellation of share options granted but not yet exercised under the first share option incentive scheme of the Company was approved in the third meeting in 2016 held by the board of directors of the Company, and it is agreed that, after the expiration date of this scheme, a total of 4.48687 million share options granted but not yet exercised under this scheme will be cancelled involving 139 grantees.*

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

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

**(3) Validity period of the share options**

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

**(4) Exercise Arrangement**

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

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

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

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



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

## **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, 25 August 2016

*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. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo.*

## **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 Electric	Purchase	Finished goods	Agreed price	11.42	0.00
Hisense -Whirlpool	Purchase	Finished goods	Agreed price	10,713.79	1.07

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	Materials	Agreed price	150.29	0.01
Hisense Electric	Purchase	Materials	Agreed price	95.45	0.01
Hisense -Whirlpool	Purchase	Materials	Agreed price	82.64	0.01
Hisense Hitachi	Purchase	Materials	Agreed price	388.81	0.04
Hisense Group	Receipt of services	Receipt of services	Agreed price	23,855.70	2.38
Hisense Electric	Receipt of services	Receipt of services	Agreed price	962.86	0.10
Hisense Hong Kong	Receipt of purchase financing agency services	Receipt of purchase financing agency services	Agreed price	10,403.39	1.04
Hisense Group	Sale	Finished goods	Agreed price	152,907.67	11.65
Hisense Electric	Sale	Finished goods	Agreed price	5.56	-
Hisense Hitachi	Sale	Finished goods	Agreed price	7,644.35	0.58
Hisense Group	Sale	Materials	Agreed price	1,674.11	0.13
Hisense Electric	Sale	Materials	Agreed price	1,010.15	0.08
Hisense Hitachi	Sale	Materials	Agreed price	66.33	0.01
Hisense Group	Sale	Moulds	Market price	10,197.08	0.78
Hisense Electric	Sale	Moulds	Market price	5,531.88	0.42
Hisense -Whirlpool	Sale	Moulds	Market price	85.47	0.01
Hisense Hitachi	Sale	Moulds	Market price	345.30	0.03
Hisense Group	Provision of services	Provision of services	Agreed price	865.33	0.07
Hisense -Whirlpool	Provision of services	Provision of services	Agreed price	63.07	-

As at the end of the Reporting Period, the Company and its subsidiaries had the balance of deposit of approximately RMB1,498,000,000 and interest income received of approximately RMB3,282,100, the actual balance of loan of RMB 0, balance of electronic bank acceptance bill of approximately RMB2,624,000,000, and the handling fee for opening accounts for electronic bank acceptance bill of approximately RMB1,376,500 with Hisense Finance. The actual amount of discounted interest for the provision of draft discount services was approximately RMB3,563,700, the actual amount involved for the provision of settlement and sale of foreign exchange services was approximately US\$15,480,000 and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was approximately RMB177,200.

## II. ENTRUSTED WEALTH MANAGEMENT

Applicable  Not applicable

Unit: RMB (in ten thousand)

Name of trustee	Connection	Whether it is a connected transaction	Product type	Amount of entrusted wealth management	Commencement date	Expiration date	Mode of determining remuneration	The actual amount of principal received during the Reporting Period	Amount of provision for impairment (if any)	Expected revenue	Actual amount of profit and loss during the Reporting Period
Bank	No	No	Bank's wealth management product	16,100	2016-04-18	2016-08-01	Non-guaranteed and floating income, investment revenue rate (annual rate of 4.84%)	0		221.80	0
Bank	No	No	Bank's wealth management product	20,000	2016-06-30	2016-09-06	Non-guaranteed and floating income, investment revenue rate (annual rate of 4.40%)	0		161.53	0
<b>Total</b>				<b>36,100</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>0</b>		<b>383.33</b>	<b>0</b>
Source of funding for entrusted wealth management			Internal funding of the Company								
Total amount of overdue principal and revenue which was not yet recovered			0								
Legal disputes involved (if applicable)			Not applicable								
Date of publishing the announcement in respect of the Board meeting held to approve the entrusted wealth management (if applicable)			Not applicable								
Date of publishing the announcement in respect of the Shareholders' meeting held to approve the entrusted wealth management (if applicable)			Not applicable								

### III. PARTICULARS OF GUARANTEES

Applicable     Not applicable

Unit: RMB (in ten thousand)

External guarantee given by the Company (excluding guarantees for its subsidiaries)								
The guaranteed party	Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount	Limit on guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	Whether the guarantee is given for any connected party
Nil	—	—	—	—	—	—	—	—
Total limit on the amount of external guarantees approved during the Reporting Period (A1)				0	Actual amount of external guarantees during the Reporting Period (A2)		0	
Total limit on the amount of external guarantees which has been approved at the end of the Reporting Period (A3)				0	Total balance of actual amount of external guarantees at the end of the Reporting Period (A4)		0	
Guarantees given by the Company for its subsidiaries								
The guaranteed party	Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount	Guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	Whether the guarantee is given for any connected party
Guangdong Refrigerator	11November 2015	50,000	2015-3-9	9.61	Joint liability guarantee;	2015.3.9-2016.1.31	Yes	Yes
Guangdong Refrigerator	11November 2015	50,000	2014-7-7	119.49	Joint liability guarantee	2014.7.7-2016.6.12	Yes	Yes
Guangdong Air-conditioner	11November 2015	30,000	2015-10-26	584.70	Joint liability guarantee	2015.10.26-2016.1.12	Yes	Yes
Home Appliances Co	11November 2015	5,000	2014-6-20	60.00	Joint liability guarantee	2014.6.20-2016.6.11	Yes	Yes
Home Appliances Co	11November 2015	5,000	2015-8-20	127.87	Joint liability guarantee;	2015.8-20-2016.5.30	Yes	Yes
Ronsheng Plastic	11November 2015	6,000	2015-10-16	908.52	Joint liability guarantee	2015.10.16-2016.2.29	Yes	Yes
Total limit on the amount of guarantees for subsidiaries approved during the Reporting Period (B1)				0	Actual amount of guarantees for subsidiaries during the Reporting Period (B2)		1,810.19	
Total limit on the amount of guarantees for subsidiaries which has been approved at the end of the Reporting Period (B3)				153,500.00	Total balance of actual amount of guarantees for subsidiaries at the end of the Reporting Period (B4)		0	
Guarantees given by the subsidiaries for its subsidiaries								
The guaranteed party	Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount	Limit on guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	Whether the guarantee is given for any connected party

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

#### IV.DERIVATIVES INVESTMENT

Unit: RMB (in ten thousand)

Name of operators of derivatives investment	Connection	Whether or not a connected transaction	Type of derivatives investment	Initial investment of derivatives investment	Effective Date	Expiry Date	Investment at the beginning of the Reporting Period	Amount of purchase during the Reporting Period	Amount of disposal during the Reporting Period	Amount of provision for impairment (if any)	Investment at the end of the Reporting Period	Proportion of investment to the net asset of the Company at the end of the Reporting Period (%)	Actual amount of profit and loss during the Reporting Period
Bank	No	No	Forward foreign exchange contracts	83,342.85	1 January 2016	30 June 2016	83,342.85	50,716.09	69,967.03		64,091.91	14.57	288.66
Source of derivatives investment funding			Export trade payment										
Date of the announcement disclosing the approval of			30 March 2016										

derivatives investment by the Board (if any)	
Date of the announcement disclosing the approval of derivatives investment during shareholders' meetings (if any)	25 June 2016
Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)	<p>The derivatives business of the Company mainly represents the forward foreign exchange contracts used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company determines a reasonable range of foreign exchange rates to achieve the hedging purpose.</p> <p>The Company has formulated the "Management Measures for the Foreign Exchange Capital Business" and "the Internal Control System for Forward Foreign Exchange Capital Transactions". The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the business of foreign exchange derivatives. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.</p>
Changes in market price or product fair value of invested derivatives during the Reporting Period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives' fair value	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 9.0509 million. Investment gain amounted to RMB -6.1643 million, resulting in a total profits or losses of RMB2.8866 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 Group"	Hisense Company Limited

“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.
“Hisense-Whirlpool”	Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd.
“Hisense Finance”	Hisense Finance Company Limited
“Hisense International”	Hisense International Co., Ltd.
“Hisense Hong Kong”	Hisense (Hong Kong) Company Limited
“Guangdong Greencool”	Guangdong Greencool Enterprise Development Company Limited
“Greencool Companies”	Guangdong Greencool and other related parties
“Guangdong Refrigerator”	Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.
“Guangdong Air-Conditioner”	Hisense (Guangdong) Air-Conditioner Co., Ltd.
“Home Appliances Co”	GuangDong Hisense Home Appliances Co.,Ltd.. Its former name is Guangdong Kelon Fittings Co., Ltd., which has been changed since 10 April 2014
“Ronsheng Plastic”	Foshan Shunde Rongsheng Plastic Co., Ltd
“Foshan Intermediate Court”	Intermediate People’s Court of Foshan City, Guangdong Province
“RMB”	Renminbi
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited