

Midea Group Co., Ltd.

The 2017 Annual Report



31 March 2018

Letter to Shareholders

Fifty years ago, in 1968, Midea founder, He Xiangjian, sowed the seeds of Midea's enterprises with the goal of improving lives. After half a century, Midea has prospered into a towering presence and become a technology group with operations in consumer appliances, HVAC systems, robotics and industrial automation systems, and smart supply chain (logistics) as it takes the lead in grasping new opportunities brought forth by industrial networks, digitalization, artificial intelligence, and human-machine collaboration.

Each momentous advancement in human history is dependent on the grand context of the era; we must salute and express our gratitude to this vibrant time, for it was in these 40 years of economic reforms in China that gave birth to entrepreneurship and propagated the nation's revival. Each generation of Midea people has fought through dire times, and their unwavering resolve and courage to embrace changes and innovation has advanced Midea's glorious transformation from that small rural workshop 50 years ago.

Midea achieved some remarkable results in 2017, boasting a 51.35% growth in revenue to RMB241.92 billion, while net profit attributable to shareholders of the company rose by 17.70% to RMB17.28 billion. Midea ranked 450th in the Fortune 500 rankings of 2017, moving up 31 places from the previous year. Midea also ranked 335th in the Forbes 2017 Global 2000, an improvement of 67 ranks. According to the "BrandZ™ Top 100 Most Valuable Chinese Brands 2018", Midea rose to the 26th spot in their rankings and maintained its lead as the highest-ranking home appliance brand in three consecutive years. Midea was featured among the Top 10 companies of CCTV's "National Brands Plan" and it has been selected as one of the top ten public companies in China by CCTV for two consecutive years. As of the end of 2017, Midea's market value reached RMB 363 billion after an annual growth of more than 100%.

By the age of fifty, people must be able to understand and accept their place in the world, give up on superficial complaints, and be free of idle thoughts. To be an evergreen enterprise, we should keep up with the times, set high goals, restore confidence in entrepreneurship and the creative spirit, and undertake tasks set forth by the times.

This era's changes have been beyond imaginable. Half of the top Fortune 500 companies from 2000 have disappeared from the rankings. A large group of companies that were once great have fallen from grace in 2017. Under the swift current of changes of this era, Midea

must remain humble and respectful while embracing changes and innovation in order to keep up with the times. We must always keep a progressive mind and an entrepreneurial spirit to fulfill our dreams and abandon mediocrity. Today, Midea must progress with simultaneous grace and vigor; much like the flowing Amazon River, still waters run deep. Today, Midea must look to the stars while keeping its feet planted firmly on the ground in order to strike forward thousands of miles with small steps.

Our past is merely a preface to our future achievements. In 2018, Midea will be moving forward with a new transformative phase and reform with greater courage and resolve. We shall boldly choose what is right; only by abandoning the alluring sights before us can we make long-term plans for the future and attain our renaissance. Our struggles inside our cocoon shall give birth to a beautiful butterfly embodied in yet another glorious era for Midea.

This year, Midea shall initiate a new round of change based on user-centric core values as we reconstruct the value chain, corporate structure, and corporate culture to improve user experience and create value for users.

We shall continue to focus on fostering internal growth within the company and seize market opportunities in consumptive and structural upgrades. We shall build a user-centric business model and management system to expand investment in innovation, improve the R&D environment, innovate incentive systems, recruit top R&D talents, and improve R&D layout. We shall also continue to improve user experience and build high-quality products to improve the overall core competitive ability of our products.

We shall further promote transformation of corporate digitalization and use software and data to construct and drive high-performance operations in the value chain, including R&D, planning, manufacturing, procurement, quality, logistics, customer service, and installation. We aim to implement an end-to-end synergy, advance flexible customization, production platformization and modularization, digitalized craftsmanship, smart logistics, smart customer services, and other in-depth reforms to strengthen the foundation of industrial internet.

We shall continue to advance the integration and business development in robotics and automation and speed up our preparation for the entire industrial automation and robotics sectors. We shall seize opportunities in the robotics market in China and advance the integration and rapid growth of domestic robots in China. We shall improve our capabilities

in developing core robotic parts and software systems as well as integrate artificial intelligence and sensory and visual technologies for expansion into new sectors such as smart manufacturing, smart logistics, smart home, and medical and recovery.

We shall advance the integration and synergy of global operations and M&A projects and advance Midea's global presence to establish a framework for different sectors, different market spaces and regions, and different cultural backgrounds and mindsets. We shall promote our global sales operations and increase the growth of our own brand as we strengthen risk controls overseas and establish a comprehensive overseas corporate governance and compliance system.

Midea is standing at the forefront of the era, but only by actively seeking changes and rapid reforms can it fulfill its mission in the midst of the great rejuvenation of the Chinese nation, resonate with the nation, and write a more beautiful chapter.

The path towards transformation is still long and arduous. In 2018, the Midea team shall demonstrate resolve and courage for reforms in every opportunity and make unremitting efforts. The peak may be steep but we must climb.

Hereby, we would like to thank all shareholders for their company, support and trust, and pay tribute to all shareholders and investors who are committed to our value creation!

Board of Directors, Midea Group Co., Ltd.

March 2018

Section I Important Statements, Contents and Definitions

The Board of Directors, the Supervisory Committee, directors, supervisors and senior management of Midea Group Co., Ltd. (hereinafter referred to as the “Company”) hereby guarantee that the information presented in this report is free of any misrepresentations, misleading statements or material omissions, and shall together be wholly liable for the truthfulness, accuracy and completeness of its contents.

All directors of the Company attended the Board meeting to review this Annual Report. There are no directors, supervisors, or senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this Annual Report.

The financial statements for 2017 have been audited by PricewaterhouseCoopers China (LLP) and have obtained a standard unqualified audit report.

Mr. Fang Hongbo, Chairman of the Board and President of the Company and Mr. Xiao Mingguang, Director of Finance of the Company, have represented and warranted that the financial statements in this report are true and complete.

The Board has considered and approved the following dividend payout plan for the year 2017: based on the Company's total existing shares of 6,584,022,574, it is proposed that the Company should distribute a cash dividend of RMB12 (tax inclusive) per 10 shares to all the shareholders.

The future plans and some forward-looking statements mentioned in this report shall not be considered as virtual promises of the Company to investors. Therefore, investors are kindly reminded to pay attention to possible investment risks.

This report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

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Definitions

Term	Definition
The “Company”, “Midea”, “Midea Group” or the “Group”	Midea Group Co., Ltd.
Midea Holding	Midea Holding Co., Ltd.
Little Swan	Wuxi Little Swan Company Limited
Toshiba	Toshiba Corporation
TLSC	Toshiba Lifestyle Products & Services Corporation
KUKA	KUKA Aktiengesellschaft
SMC	Servotronics Motion Control Ltd. and its subsidiaries
MECCA	MECCA International (BVI) Limited
RMB, RMB'000, RMB'0,000	In RMB yuan, in RMB thousand yuan, in RMB ten thousand yuan
Reporting Period	1 January 2017 to 31 December 2017

Section II Company Profile and Key Financial Results

1. Corporate Information

Stock abbreviation	Midea Group	Stock code	000333
Stock exchange where the shares of the Company are listed	Shenzhen Stock Exchange		
Name of the Company in Chinese	美的集团股份有限公司		
Abbr. of the Company name in Chinese	美的集团		
Name of the Company in English (if any)	Midea Group Co., Ltd.		
Abbr. of the Company name in English (if any)	Midea Group		
Legal representative	Fang Hongbo		
Registered address	Midea Headquarters Building, No. 6 Midea Avenue, Beijiao Town, Shunde District, Foshan City, Guangdong Province, China		
Postal code	528311		
Business address	Midea Headquarters Building, No. 6 Midea Avenue, Beijiao Town, Shunde District, Foshan City, Guangdong Province, China		
Postal code	528311		
Company website	http://www.midea.com		
E-mail	IR@midea.com		

2. Contact Us

	Company Secretary	Representative for Securities Affairs
Name	Jiang Peng	Ou Yunbin
Address	Midea Headquarters Building, No. 6 Midea Avenue, Beijiao Town, Shunde District, Foshan City, Guangdong Province, China	
Tel.	0757-22607708	0757-23274957
Fax	0757-26605456	
E-mail	IR@midea.com	

3. Information Disclosure and Place Where the Annual Report Is Kept

Newspaper designated by the Company for information disclosure	China Securities Journal, Securities Times and Shanghai Securities News
Website designated by the China Securities Regulatory Commission (CSRC) for the publication of the Annual Report	http://www.cninfo.com.cn
Place where the Annual Report of the Company is kept	Office of the Board of Directors of the Company

4. Company Registration and Alteration

Organization code	91440606722473344C
Changes in main business activities since the Company was listed (if any)	None
Changes of controlling shareholder of the Company (if any)	None

5. Other Relevant Information

Accounting firm engaged by the Company

Name of the accounting firm	PricewaterhouseCoopers China (LLP)
Business address of the accounting firm	11/F., PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC
Name of accountants writing signatures	Huang Meimei and Qiu Xiaoying

Sponsor engaged by the Company to continuously perform its supervisory function during the Reporting Period

Applicable N/A

Financial advisor engaged by the Company to continuously perform its supervisory function during the Reporting Period

Applicable N/A

Name of the financial advisor	Business office of the financial advisor	Representative of the financial advisor	Supervisory period
CITIC Securities Co., Ltd.	CITIC Securities Tower, No. 8 Zhong Xin San Road, Futian District, Shenzhen City, Guangdong Province 518040	Wu Renjun and Li Wei	2017.1.6-2018.12.31

Note: Upon the receipt of a personnel change notice from CITIC Securities Co., Ltd. on 8 March 2018, the Company issued an announcement stating that Mr. Lin Junjian of CITIC Securities was no longer responsible for relevant work during the supervisory period due to his personal reasons. Mr. Li Wei would replace him to work with Mr. Wu Renjun as a representative of the financial advisor during the supervisory period.

6. Key Accounting Data and Financial Indicators

Whether the Company performed a retroactive adjustment to or restatement of accounting

data

 Yes No

	2017	2016	2017-over-2016 change (%)	2015
Operating revenues (RMB'000)	240,712,301	159,044,041	51.35%	138,441,226
Net profits attributable to shareholders of the Company (RMB'000)	17,283,689	14,684,357	17.70%	12,706,725
Net profits attributable to shareholders of the Company before non-recurring gains and losses (RMB'000)	15,614,103	13,492,866	15.72%	10,911,341
Net cash flow from operating activities (RMB'000)	24,442,623	26,695,009	-8.44%	26,764,254
Basic earnings per share (RMB/share)	2.66	2.29	16.16%	2.00
Diluted earnings per share (RMB/share)	2.63	2.28	15.35%	1.99
Weighted average ROE (%)	25.88%	26.88%	-1.00%	29.06%
	31 December 2017	31 December 2016	Change of 31 December 2017 over 31 December 2016	31 December 2015
Total assets (RMB'000)	248,106,858	170,600,711	45.43%	128,841,935
Net assets attributable to shareholders of the Company (RMB'000)	73,737,437	61,126,923	20.63%	49,201,852

Notes: 1. According to an international professional evaluation agency and Chinese accounting standards, the amortization of the M&A expense on KUKA and TLSC for 2017 was recognized at RMB2,413,944,000.

2. As of the end of 2017, as per Chinese accounting standards, the share-based payments for the Company's equity incentive schemes were recognized at RMB841,566,000 for 2017.

3. For 2017, KUKA achieved operating revenue of RMB26,722,910,000, up 18% YoY.

Total share capital of the Company on the last trading session before disclosure:

Total share capital of the Company on the last trading session before disclosure (share)	6,584,022,574
Fully diluted earnings per share based on the latest share capital above (RMB/share)	2.63

Whether there are any corporate bonds

Yes No

7. Differences in Accounting Data under Domestic and Overseas Accounting Standards

7.1 Differences in the net profits and net assets disclosed in the financial reports prepared under China Accounting Standards (CAS) and International Financial Reporting Standards (IFRS)

Applicable N/A

No such differences for the Reporting Period.

7.2 Differences in the net profits and net assets disclosed in the financial reports prepared under CAS and foreign accounting standards

Applicable N/A

No such differences for the Reporting Period.

7.3 Reasons for the differences

Applicable N/A

8. Key Financial Results by Quarter

RMB'000

	2017 Q1	2017 Q2	2017 Q3	2017 Q4
Operating revenues	59,755,914	64,694,151	62,498,801	53,763,435
Net profits attributable to shareholders of the Company	4,352,587	6,458,735	4,186,853	2,285,514
Net profits attributable to shareholders of the Company before non-recurring gains and losses	4,263,125	5,628,641	4,078,172	1,644,165
Net cash flow from operating activities	7,008,571	6,887,361	6,171,710	4,374,981

Whether there are any material differences between the financial indicators above or their summations and those which have been disclosed in the Company's quarterly or semi-annual reports

Yes No

9. Non-recurring Profits and Losses

Applicable N/A

RMB'000

Item	2017	2016	2015	Note
Profit or loss from disposal of non-current	1,363,041	-134,258	-242,814	

assets				
Government grants accounted for, in the profit or loss for the current period (except for the government grants closely related to the business of the Company and given at a fixed amount or quantity in accordance with the State's uniform standards)	1,332,301	1,330,065	1,348,652	
Profit generated for the costs of the Company in the acquisition of subsidiaries, associates or joint ventures are lower than the fair value of the Company's share in the identifiable net assets of the investees			19,513	
Profit or loss from entrusted investments or entrusted asset management			1,008,770	
Corporate restructuring costs (e.g. staff replacement costs and expenses for consolidation)				
Except for effectively hedging business related to normal business operations of the Company, profit or loss arising from the change in the fair value of held-for-trading financial assets and liabilities, as well as investment profit or loss produced from the disposal of held-for-trading financial assets and liabilities and available-for-sale financial assets	77,484	-25,408	369,806	
Impairment provision reversal of the accounts receivable on which			45,752	

the impairment test is carried out separately				
Other non-operating income and expenditure except above-mentioned items	-238,243	246,361	-16,398	
Less: Corporate income tax	702,139	272,925	505,642	
Minority interests (after tax)	162,858	-47,656	232,255	
Total	1,669,586	1,191,491	1,795,384	--

Explain the reasons if the Company classifies an item as a non-recurring profit/loss according to the definition in the <Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public—Non-Recurring Profits and Losses>, or classifies any non-recurring profit/loss item mentioned in the said explanatory announcement as a recurring profit/loss item

Applicable N/A

No such cases for the Reporting Period.

Section III Business Profile

1. Business Scope in the Reporting Period

1.1 Summary of business scope

Midea is a technologies group in HVAC systems, consumer appliances, robotics & industrial automation systems, and smart supply chain (logistics). Midea offers diversified products and services, including HVAC centered on residential air-conditioning, commercial air-conditioning, heating & ventilation systems; consumer appliances centered on kitchen appliances, refrigerators, laundry appliances, and various small home appliances; robotics and industrial automation systems centered on KUKA and joint ventures with YASKAWA; and smart supply chain (logistics) centered on Annto Logistics Technology Co., Ltd. as a service platform providing integrated solutions.

Upholding the principle of “Creating Value for Customers”, Midea is committed to improving lives for consumers. Midea focuses on continuous technological innovation to improve products and services, and to make life more comfortable and pleasant for around 300 million users, major customers and strategic partners from all fields across the globe every year.

Midea, a global operating company, has now established a global platform of over 135 thousand employees, around 200 subsidiaries, more than 60 overseas branches and 12 strategic business units, as well as being the majority shareholder of KUKA, a Germany-based world-leading company in robotics and automation, with a stake of approximately 95%.

1.2 Position in the household appliance industry

Midea has been given excellent credit ratings by the three major international credit rating agencies, Standard & Poor's, Fitch Ratings and Moody's. The Ratings are in leading position among home appliance manufacturers worldwide as well as among Chinese non State-owned enterprises.

Midea ranks No. 450 on the *2017 Fortune Global 500* list, a big step forward compared to No. 481 in 2016. On the *Forbes 2017 Global 2000* list, Midea ranks No. 335, beating down another 67 competitors on the list from where it was last year. In addition, Midea has climbed to No. 26 on the *WPP 2018 BrandZ™ Top 100 Most Valuable Chinese Brands* list, making it the highest-ranking among home appliances brands for 3 consecutive years. Also, in the “National Brands Plan” launched by CCTV, China’s national state-run television broadcaster, Midea is selected again as one of the top 10 brands and has been recognized by CCTV as one of China’s Top 10 Listed Companies for two years in a row. At the end of 2017, the market value of Midea reached RMB363 billion, an increase of more than 100% for 2017. Over 20% of its shares are held by international institutional investors.

According to data from AVC, the table below shows the offline market shares and rankings of the Company’s primary household appliance products (by retail sales) in 2017:

Product category	Market share	Ranking
Air conditioners	24.6%	2
Laundry appliances	24.6%	2
Refrigerators	10.7%	3
Rice cookers	44.8%	1
Electric pressure cookers	47.7%	1
Induction cookers	52.5%	1
Electric fans and heaters	45.0%	1
Microwave ovens	45.3%	2
Water purifiers	23.1%	2
Electric water heaters	19.6%	3
Gas water heaters	11.4%	3
Hobs	7.0%	4
Range hoods	8.5%	4

Midea's online sales during 2017 exceeded RMB40 billion, up 80% YoY and accounting for 30% of its total domestic sales, which means Midea remains the best-selling household appliance maker online (by combined sales through major e-commerce channels of Tmall, JD and Suning). The table below shows the online market shares and rankings of the Company's primary household appliance products (by retail sales) in 2017:

Product category	Market share	Ranking
Air conditioners	24%	2
Laundry appliances	29%	1
Refrigerators	15%	2
Range hoods	17%	1
Rice cookers	33%	1
Induction cookers	42%	1
Electric kettles	25%	1
Electric heaters	21%	1
Garment steamers	30%	1
Electric ovens	21%	1
Electric water heaters	34%	1
Gas water heaters	21%	1
Air to water heat pump	38%	1
Water dispensers	30%	1
Water purifiers	12%	3

1.3 Industry review and outlook

a. The industry of residential air conditioners

In 2017, benefiting from the stable operation of macro economy, the industrial structure and consumption upgrading, the outburst of emerging market, and other comprehensive effects

achieved by various positive factors, the household appliance enterprises have made unremitting effort to perform the supply-side structural reform, enhance the technical innovation and the product structure optimization, and seize the opportunities for the consumption and product structure upgrading. In despite of the rise in raw material costs and the pressure caused by corresponding regulatory policies, main operation indices realized their steady growth. According to the data from the State Statistics Bureau, the total output of household refrigerators achieved 86.703 million from January to December in 2017, up 13.6% year on year; residential air conditioners 180.398 million, up 26.4% YoY; and domestic washing machines 75.009 million, up 3.2% YoY. From January to December in 2017, the revenue of the household appliance industry amounted to RMB 1513.57 billion (with a cumulative year-on-year increase of 18.7%), and the total profit RMB 116.93 billion (with a cumulative year-on-year increase of 6.1%). In 2017, the overall market scale of kitchen appliance achieved nearly RMB 100 billion and maintained its rapid growth trend. As indicated by the monitoring data from AVC, the market terminal retail sales of the kitchen appliances in 2017 achieved RMB 69.4 billion with a year-on-year increase of 9.0%, of which, the retails sales of range hoods achieved RMB 41.44 billion with a year-on-year increase of 9.7%, gas hobs RMB 21.53 billion with 8.1%, sterilizer RMB 5.38 billion with 7.6%, and dishwashers RMB 4.4 billion with 129.2%.

In 2017, the online sales in the household appliance industry still maintained its high-speed growth, and the scale of the B2C domestic household appliance's online market (including the mobile terminal) amounted to RMB 490.6 billion with a year-on-year increase of 27.6%. In addition, the penetration rate of the online market of the household appliance industry also reached a high record (26.5%), and the online sales of traditional major appliances (including air conditioners, refrigerators and washing machines etc.) achieved a year-on-year increase of 70%. As the high-end upgrading of online market, domestic brands begin to occupy the dominant position.

In 2017, the development of the household appliance industry demonstrated the following features: 1) due to the rise in raw material costs and the consumption and industrial upgrading, various home appliance enterprises accelerated the product upgrading and

updating and improved their high-end layout; 2) while the e-commerce maintained its high-speed growth, the integration of various retail channels would speed up, and the business mode of “online+offline+logistics+service” is changing the market; 3) based on the Internet of Things Technology, with the overall platform of hardware, software and cloud computing, the smart home ecosphere would become the mainstream, including of the remote control, the interconnection of household appliances, and the self-learning; 4) the “hardware+service” age would come, and the sales of both hardware and services would become an important feature of the entire household appliance industry; 5) the health concept would be accepted by more and more people, as people are inclined to pursue the healthy life, the way to keep human health would be an important factor while designing various household appliances. Household appliances or various functions positioned to diet and health, home environment and personal care would become the consumption hot topics; 6) the intelligent manufacturing era of the household appliance industry would gradually come. As driven by applicable national policies, various household appliance enterprises would speed up their transformation and intelligentizing process, and the intelligent ecosystem would thus be established in the future integrating R&D, manufacturing, sales, user interaction and post-sale services; 7) the development of kitchen appliances and domestic appliances would drive the increase of entire industry. As the improvement of the living standard, demand for the improvement of life quality would become higher, and the growth rate of kitchen appliances and domestic appliances were expected to be higher than that of other traditional household appliances.

b. The industry of robotics and industrial automation

As predicted by International Federation of Robotics (IFR), the global sales of industrial robots would achieve 347,000 units in 2017, year-on-year increase of 18%. In the next three years, the annual sales of the global industrial robots will maintain the growth rate of 15%, and the sales of that will exceed 500,000 units in 2020, and the newly-increased total sales will reach about 1.7 million units. Since 2013, China has consecutively been the world's top 1 robots consumption country, and the growth rate of Chinese robots industrial scale has basically maintained above 20%, playing an important role in the steady increase of the

global robots industrial scale. According to the relevant data, the amount of industrial robots reached 136,600 units in the Chinese market in 2017 with a year-on-year increase of 60%, accounting for 1/3 of the total output in the world. As stated by IFR, the reason for the rapid increase of the robots in China is that the robots density in China is relatively low. In China, robots density is only about 68 robots per every 10,000 workers, and the robots density in Korea is 10 times of that in China. In terms of robots usage density, Korea now occupies the dominant position (every 10,000 workers own 631 robots) and is followed by Singapore (488 robots) and Germany (309 robots). In the world, the average robots density is 74 robots per 10,000 workers.

As predicted by the World Health Organization, in 2050, 35% of Chinese people will be over 60 years old, and China will become one of the severest aging countries in the world. The labor shortage and the rise in labor costs will also propel the rapid growth of demands for automation and intelligent devices including industrial robots, and the development space of the domestic robots industry will be broad. Meanwhile, robots will also be widely applied to various manufacturing processes, and the general equipment manufacturing industry, the household appliance manufacturing industry, the electronic equipment manufacturing industry, the rubber and plastics manufacturing industry (except the motor industry) will become more and more dependent of the large-scale industrial robots, and such dependence is also expected to extend to the textile industry and logistics industry (high labor intensity), the defense and military industry & the civil explosive industry (high risk), the pharmacy, semiconductor and food industry (high requirements in the clean production environment), and the ceramics and brick-making industry (harmful to human health). Therefore, the Chinese industrial robots market in the future is promising, and the market scale is expected to reach RMB 100 billion.

2. Significant Changes in the Main Assets

2.1 Significant changes in the main assets

Main assets	Reasons for any significant change
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Equity assets	Up 19% YoY, primarily driven by acquisition of subsidiaries
Intangible assets	Up 121% YoY, primarily driven by acquisition of subsidiaries
Construction in progress	Up 51% YoY, primarily driven by acquisition of subsidiaries

2.2 Main assets overseas

Applicable N/A

3. Core Competitiveness Analysis

3.1 As one of the leaders among the global household appliance makers and a dominator in the major appliance sectors, Midea Group provides high-quality, one-stop home solutions through its wide product range, complete with full specifications.

As a white goods and HVAC enterprise with a whole industrial chain and full product line, Midea Group has developed a complete industrial chain combining R&D, manufacturing and sales of key components and finished products, supported by an industry-leading R&D centre and the manufacturing technology of core components (such as compressors, electrical controls and magnetrons), and ultimately based on its powerful capabilities in logistics and services. Midea is widely known as a top appliance and HVAC brand in China. Its dominance in the major appliance and HVAC markets means that it can provide a wide range of competitive product sets. It also means internal synergies in brand awareness, price negotiation as a whole, customers' needs research and R&D investments. Compatibility, coordination and interaction among household appliances have become increasingly important since smart home is gaining popularity. With a full product line, Midea has had a head start in providing a combined and compatible e-home platform with integrated home solutions for customers.

3.2 Global R&D resource integration capabilities, continuing lead in R&D and technical innovation

The Group is focused on building a competitive, multi-layered global R&D system centering on user experience and product functions, which represents world-class R&D input and strength. With more than RMB20 billion invested in R&D over the past five years, the Group has set up a total of 20 research centers in nine countries including China, with its R&D employees over 10,000 and senior foreign experts over 300. As shown in *The State of Innovation Report 2017* released by Clarivate Analytics, Midea Group has processed the most invention patents in the global household appliance sector for the past three years in a row. While establishing its own research centers around the world, the Group has also signed technical cooperation agreements with domestic and foreign scientific research institutions, such as MIT, UC Berkeley, UIUC, Stanford, Purdue University, Tsinghua University and the Chinese Academy of Sciences, in order to establish joint labs and build a global innovation ecosystem. The Group's long-term focus on building technology, marketing, product and open innovation systems, building a cutting-edge research system and building reserves in technology for the mid/long term, has provided a solid foundation for the Group to maintain technical superiority across the globe.

3.3 A stronger network of global operations developed and designed with Midea's continual global resource allocation and investments, globally-advanced manufacturing capabilities and advantage of scale

The success of a series of global acquisitions and new business expansion moves has further solidified Midea's global operations and leading advantages in robotics and automation. With the world's leading production capacity and experience, and a wide variety of products as well as its production bases all over the world, the Group has been able to expand rapidly into the emerging overseas markets and is becoming a stronger competitor in those mature overseas markets. The Group is one of the biggest manufacturers in the world for many product categories, which gives it competitive edges in efficiency and cost that its overseas competitors are unable to obtain. Overseas sales of the Group's accounts for close to 50% of the total sales revenue. Its products have been exported to over 200 countries and it owns 18 overseas manufacturing bases and dozens of overseas marketing units. In addition, with a deep knowledge and understanding on product characteristics and

product demands in overseas market, Midea is promoting world-wide branding and expanding through global collaboration and cooperation set up. In this way, the global competitiveness of Midea is increased steadily.

3.4 Broad channel networks and a well-established smart supply chain system ensuring the steady growth of Midea's online and off-line sales

By virtue of years of development and investments, Midea Group has formed an all-dimensional market coverage. In the mature first and second-tier markets, the Company has developed and maintained good partnerships with large home appliance retail chains. While in the broad third and fourth-tier markets, the Company uses flagship stores, specialty shops, traditional channels and new channels as effective supplements. Already, the Company has achieved 100% coverage in first and second-tier markets, as well as over 95% coverage in third and fourth-tier markets. Additionally, the Company's dominance in branding, products, offline channels and logistics distribution have also created powerful guarantees for the Company's rapid expansion of its e-commerce business and channels. Achieving the highest online sales among China's household appliance manufacturers, Midea's online sales exceeded RMB40 billion (around 30% of Midea's total domestic sales) in 2017.

With advanced smart equipment technology, Annto Logistics Technology Co., Ltd. (Annto), a subsidiary of Midea, has possessed core competitiveness and advantages in logistics automation. Annto has established an efficient, customer-oriented and quick response nationwide warehouses and direct distribution network, which covers 118 logistics centers nationwide and can offer fast delivery which can be finished in 24 hours within 100 kilometers and in 48 hours within 200 kilometers. Annto increases its investments in logistics automation, warehousing robotics, etc. Annto made in-depth research in smart logistics equipment, smart logistics solutions, big data analysis and artificial intelligence has achieved remarkable results. Automatic guided vehicles (AGVs) with visual navigation and laser guiding system developed by Annto has an industry-leading technical performance. Additionally, the mobile terminal system, the smart tracking equipment and the 3D visual technology developed by Annto all promote the efficiency of logistics intelligentization.

3.5 A solid foundation for digitalization-driven Industrial Internet operations

Midea has been promoting a strategy of “Smart Home + Smart Manufacturing”. With continual research and investment in artificial intelligence (AI), chip, sensor, big data, cloud computing and other new technologies, Midea has built the biggest AI team in the household appliance industry, which is committed to enabling products, machines, production processes and systems to sense, perceive, understand and make decision with the combination of big data and AI, in order to reduce intermediaries for man-machine interaction to the minimum and create truly smart appliances without any assistance in interaction.

Upon years of a digitalized reform characterized by “One Midea, One System, One Standard”, Midea has successfully materialized operations driven by software and data through its value chain, connecting end to end and covering R&D, PO, scheduling, flexible manufacturing, procurement, follow-up of product quality, logistics, installation & post-sale services, etc. The Group’s cloud platform has made come true C2M flexible manufacturing, platform-based, modularized and digitalized production techniques, logistics simulation, intelligent logistics, digital marketing, digital customer service, etc. In addition to applying these cloud platform solutions to its manufacturing bases across the world and tens of thousands of its products, the Group also markets these solutions to other companies and sectors. Therefore, it is safe to say that Midea has built a solid foundation regarding industrial internet systems.

3.6 Sound corporate governance mechanism and effective incentive mechanism to provide a solid foundation for Midea’s sustained and steady development

Paying close attention to the construction of a governance framework, regarding its corporate control, centralization and decentralization systems, the Group formed a mature management system for professional managers. The divisional system has been in operation for many years, and its performance-oriented evaluation and incentive mechanism featuring full decentralization has become a training and growth platform for the Group’s professional managers. The Group’s senior management team consists of professional managers who have been trained and forged in the operational practices of Midea Group. They have been working for Midea on average for more than 15 years, so they all have rich

industry and professional experience, a deep understanding of the home appliance industry throughout both China and the world, and an accurate understanding of the industry's functioning environment and corporate operations management. The Company's advantages in systems and mechanisms have laid a solid foundation for the efficient and effective business operations, as well as the promising, stable and sustainable future development of the Company.

So far, the Company has launched four stock option incentive schemes, one restricted share incentive scheme and three "partner" stock ownership schemes for key managerial and technical personnel, marking the establishment of a governance structure aligning the interests of management and shareholders, as well as the formulation of an incentive scheme comprising long and short-term incentives and restrains.

Section IV Performance Discussion and Analysis

1. Overview

In the first half of 2017, guided by the three core strategies of “Leading Products, Operational Efficiency and Global Operations”, Midea focused on improving products, investigating users’ needs, increasing input to technology, and promoting lean management and excellent performance through the value chain. As a result, the business objectives set for the year were successfully fulfilled, sales revenue of each product categories reached fast growth, and product quality and reputation kept improving. Meanwhile, the integration of the global acquisitions proceeded well, further strengthening Midea’s competitiveness in various product categories and global operation synergies. For 2017, Midea achieved, on a consolidated basis, total revenue of RMB241.919 billion, up 51.35% YoY; and net profits attributable to Midea Group shareholders of RMB17.284 billion, up 17.70% year-on-year.

In 2017, the Company carried out the following tasks:

a. Focused on users, continuously optimized the product structure and steadily improved product competitive advantages

—— Residential Air Conditioners: by virtue of the powerful and solid technical advantages and aggressive and bold innovations, Midea residential air conditioners have won many honors and wide recognition of all sectors from home and abroad. During the IF Award appraisal campaign, three kinds of Midea residential air conditioners won the IF Design awards; during the conference of EU Energy Efficiency Standard Upgrading, Midea actively participated in establishing corresponding EU standards, advocated the upgrading of the industrial energy efficiency and improved its global influences; in 2017, Midea won two awards conferred by the Ministry of Science and Technology--Outstanding Private Science and Technology Enterprise and First Prize for Innovative Product; during the appraisal campaign of The 14th Top China Real Estate, Midea residential air conditioners was awarded “The First-choice Powerful Brand for China Real Estate”; under the organization of

China National Light Industry Associations, two projects completed by Midea (High IQ Room Air Conditioner Key Technology Research and Industrialization and Integral-type Air Conditioner Mute Key Technology Research and Industrialization) were unanimously authenticated to achieve a leading level in the world by the authoritative expert panel. In the list of the 19th Chinese Outstanding Patented Invention & Industrial Design published by the State Intellectual Property Bureau of China, the patents of “the floor air conditioner air duct structure and indoor unit” and “the intelligent power module and the manufacturing method” won the Excellence Awards. In 2017-2018 China Air Conditioning Industry Summit Forum, Midea Air Conditioners won four industrial awards, including Leader Brand on Health & Comfort Technology of 2017-2018 Air Conditioner Industry, Star of Comfort Technology of 2017-2018 Air Conditioner Industry, King of High Temperature of 2017-2018 Air Conditioner Industry and Outstanding Chinese Air Conditioner Installer of 2017-2018 Air Conditioner Industry.

— Commercial Air Conditioners: depending on its rich technology accumulated in many years, Midea holds over 1,000 patents. By virtue of its remarkable product advantages and brand influence, Midea has won more than 50,000 important projects in the world (including the FIFA World Cup stadiums in Brazil, Rio Olympic Games stadiums,, Singapore Changi International Airport, the UAE Government Residential Villa, Exhibition halls of the EXPO 2010 and the EXPO 2015 etc.) providing various world-level air solutions, relating to various fields such as hotels, real estate, education, sports and transportation etc.. In 2017, Midea won the bidding of 2018 FIFA World Cup Russia Venues Air Conditioner Project, proving its global competitiveness again. According to relevant monitoring data collected by Commercial Air Conditioner Market, the share occupied by Midea Air Conditioners in the Chinese commercial air conditioner market reached 15.4%, ranking first in this industry. The new-generation MDVS Full-DC Inverter Intelligent Multi-link air conditioner is driven by the M-Ai Full Frequency Conversion quasi two-stage compression technology and can enable the 24-hour real-time monitoring, the remote diagnosis, and the automatic repairing application. As a matter of fact, it has realized an all-round upgrading from three aspects—energy-saving, comfortableness and intelligence, and won the Golden Prize of The 7th Hong

Kong Innovative Science and Technology Achievements; in the real estate market, Midea has developed various commercial air conditioners, including the MDV X series of commercial air conditioners for the exclusive use of villas, the TR series of residential air conditioners dedicated to the duplex apartments and the large apartments, the air-water heat pump as the solution of domestic hot water, the fresh air processing machine as the indoor air quality solution, the gas boiler for the household heating, the household appliances dedicated to the “coal to electricity” conversion project in northern China, and the air source heat pump, and is able to offer various complete and professional air conditioning, hot water, fresh air and heating solutions. During the appraisal campaign of The 14th Top China Real Estate, Midea was awarded “The First-choice Powerful Brand for China Real Estate”; in the field of rail traffic, Midea commercial air conditioner has occupied the majority share in the domestic high-speed railway market. According to relevant statistics, Midea has served 650 high-speed train stations, covering more than 300 cities and involved in more than 50% of national high-speed train heating and ventilation projects. In 44 cities obtaining the approval for the construction of metro, Midea has earned orders from 20 cities for their urban metro engineering, and covered 18 provinces, occupying 45% of all cities with metros. Midea is also reputed as the brand involving the most cities, covering the longest metro mileage and receiving the most orders.

— Laundry Appliances: since the Company has owned the world-leading frequency conversion technology and various core technologies including the intelligent drive control, the structural design and the industrial design, it has obtained more than 2,000 patents related to laundry appliances, and developed its own technical advantages in the industry. Adhering to the high-quality principle, the Company made great effort to continuously promote various boutique engineering projects, enhanced the technical innovation and R&D investment, improved the product structure and enriched the medium and hi-end product layout. Through strengthening research on consumers’ needs and having an insight into the users’ pain points and the market demands, the Company has solved the users’ pain points and further optimized the product structure by various innovative solutions including the i-Add, the water magic cube, the i-WIFI, the cold wash, the nanometer silver disinfection, the

anti-allergy, the ultrasonic wash and the classified wash etc. Little Swan has won the AWE Award, and the Beverly washing machine the Household Appliance Innovation Award. In addition, the Little Swan Washing & Drying AIO machine has obtained the anti-allergic testing certificate, and the wall-mounted washing machine the Golden Prize of the 10th China Outstanding Patented Technology and Industrial Design in Jiangsu Province. Meanwhile, the Little Swan Testing Center has been authenticated by German CTF Accredited Laboratory. In 2017 China Washing Machine & Clothes Dryer Industry Summit Forum, Midea washing machines won six awards. As the technical advantages are further strengthened and the product's competitiveness are continuously improved, Midea laundry appliances win wide recognition from the customers and the markets.

—— Refrigerators: the Company will continuously manufacture innovative first-class products and usher in the product upgrading in the refrigerator industry. Midea BCD-629 Frequency Conversion Air-cooled Refrigerator can present the customers with a new intelligent experience by means of 360-degree sensitive temperature sensing and various intelligent settings such as the timely cooling adjustment, the remote temperature control, the expiry reminder, the online report to repair etc.; Midea Vandelo BCD-532 French Refrigerator has dug deep into the user's needs, and won 2017 Red Dot Design Award by virtue of various delicate designs including 90-degree Door Opening, independent multifunctional area, cosmeceuticals container on the indoor, the precise control of temperature and humidity, the full-open drawer, and the curved surface light source in association with the breathing lights for dynamic disinfection. In 2017 China Refrigerator Industry Summit Forum, Midea was entitled as Leading Brand on Innovative Technology of 2016-2017 China Refrigerator Industry, 532 Golden Refrigerator won the award of Leading Fresh Refrigerator of 2016-2017 China Refrigerator Industry, and BCD-525 Refrigerator obtained the award of Hi-end Intelligent Best-seller Product of 2016-2017 China Refrigerator Industry.

—— Small Household Appliances: the Company has relied on its continuous technical innovations to drive the improvement of product, and many small household appliances have won various authoritative awards at home and abroad for consecutive years, including

the IF Design Award, the Red Dot Award, and the AWE Award etc., which has manifested the international first-class product competitiveness of Midea. Midea “Polar Light” range hood adopted the “Sky-eye Monitoring” system to monitor the real-time temperature changes and automatically adjust corresponding working conditions without any manual operation, With the large air flow of 20m³/min, the technology of high temperature steam-cleaning completely solve the user’s trouble; Midea M-BOX “Cooking Robot” Electric Cooker has won the AWE Award (Golden Award) by virtue of various intelligent functions including rice identification, rice placement, rice washing, watering and cooking etc.; Midea Vacuum Transformer IH Electric Cooker has made many breakthroughs in the IH Heating Technology and is able to intelligently identify the type of rice and match the cooking curve of each rice type to satisfy different needs of consumers, and it also won the golden prize of the multi-stage IH Heating Technology at the IFA exhibition; Midea 105kpa High-speed Aroma Electric Pressure Cooker is able to finish cooking in 19 minutes and perform sterilization at the high-temperature of 121°C, and steadily ranks the first in the pressure cooker industry; Midea Hi-end High-speed Blenders of “Gangtiexia” and “Xiaogangpao” have taken the initiative in applying the eccentric disturbed flow technology and their diversified functions and the high efficiency in boiling have won positive comments from the world, ranking the first in this industry; Midea built-in dishwasher has integrated the functions of Chinese washing machine, fruit & vegetable cleaner, food waste grinder and kitchen sink to completely solve various kitchen problems, with one button for disposal of food waste, and create a cleaning, comfortable and high-end experience for the customers; Midea free-installation dishwasher has broken through the restriction of installation and has the diversified cleaning modes, including 29 minutes cleaning mode, which is specially designed for small families; Midea Qingyu Smart Fan has applied the biomimetic feather blade design to blow softly and satisfy the needs of children and the aged, and it can also be linked with the air conditioner to provide different work programs under different temperature conditions; Midea wireless hand-held cleaner POWER P75 has applied the fast charging technology and equipped with the multiple-cone filtering system and the powerful motor to maintain the powerful suction and the long-lasting electric quantity, and it has won the award of Annual Innovative Product

at the IFA; Midea Beverly G400E Water Purifier has a compact volume with the 1L/min net water flux to provide customers the diversified high-quality experience; Midea Beverly I8 Water Heater has applied various innovative technologies including the 3.0T zero-cold water, an adaptive constant-temperature system and the sine sonic noise reduction technology, and won 2017 AWE Award.

b. Continuously increased the R&D investment, focused on the innovative R&D, promoted the global R&D layout and established the leading technology-driven Hi-tech company.

Emphasis has been placed to increase the R&D investment, construct the innovation system and steadily improve various products. Various platforms including Technical Innovation, User Innovation and Product Innovation etc. are also applied to support the overall technical breakthroughs. Meanwhile, special effort is also made to continuously perfect Midea 4-grade R&D System Management Mode, systematically establish the technical innovation planning system from the product strategic planning to the technical planning, improve the standards of high-quality project system, simplify and optimize the product platform, focus on breakthrough in the advanced technology research and the generic technology research, highlight the overall arrangement of the medium and long-term technical reserves and the long-term competitiveness improvement, and develop the core selling points of product.

In 2017, great effort was made to continuously improve the global R&D layout of Midea Group, and the company indeed made progress in speeding up corresponding technical research and materializing the localized development both in scope and in depth through integrating the global R&D resources: in April, the Emerging Technology Center (ETC) in Silicon Valley opened, and the America Research Center in Louisville moved to a new office; in May, the Japan Research Center was established, and Midea European R&D and Innovation Center was founded in Graz, Austria; in June, Midea User Experience & Innovation (Shanghai) Lab was formally open for business; in July, Singapore R&D Center was established, and Germany R&D Center was in preparation. At the end of 2017, Midea Group established 20 R&D Centers all over the world, covering 9 countries (China included). While enhancing the global R&D Center layout, Midea has also signed the technical cooperation agreements with various first-class scientific research institutions at home and

abroad, including MIT, UC Berkeley, UIUC, Stanford, Purdue University, Tsinghua University and Chinese Academy of Sciences etc. in order to set up the united lab, deepen the technical cooperation and create the global innovative ecosystem.

While carrying out the core technology research, Midea has attached great importance to the transformation of R&D achievements, and continuously won many awards and certificates. Midea Smart Technology Co., Ltd. was recognized as Guangdong Provincial Internet of Things Smart Home Engineering and Technological Research Center, and Guangdong Provincial White Household Appliances Technical Innovation Center by the Department of Science and Technology of Guangdong Province. In 2017, 16 technologies were identified by the authoritative expert panel to achieve the international leading level, including High IQ Room Air Conditioner Key Technology Research and Industrialization, Eccentric Disturbed Flow and Multi-layer Steady Fire IH Technology-based High-speed Blender Research and Industrialization, M-Ai Full Frequency Conversion Quasi Two-stage Compression Technology and its application to MDVS, the application of spray technology in the ultra-wide circumstance temperature high-temperature backwater distributed central heating system, the research and application of household kitchen ventilator intelligent steam cleaning technology, the research and industrialization of the new-generation variable-frequency power source applied to the micro-wave oven, the modular easy-to-clean materials and their application in kitchen appliances, and the AC No-polar Frequency Conversion Technology etc.. In the field of industrial design, the Company won 72 international design awards in 2017, including 20 German Red Dot Awards, 26 American IDEA Awards, 17 German IF Awards, 5 Japanese GMARK Awards and 4 Korean GD Awards etc.

In 2017, Midea applied for 16,934 patents in total, including 7,714 patents for invention. At the end of 2017, the number of domestic patents applied by Midea exceeded 70,000 in total and 35,000 patents were effective. According to The State of Innovation Report 2017 issued by Clarivate Analytics, the number of patents obtained by Midea in the field of household appliances has ranked the first in the world for three consecutive years, and also ranked the first in domestic appliances and kitchen appliances.

c. Continued with the marketing reform and the channel transformation, improved the channel efficiency and promoted the rapid growth of e-commerce business.

The Company continued with the transformation of channel, simplified the tiers of offline channels, canceled the 2-tier dealers, focused on the core channels, completely propelled the optimization and integration of agents and the empowerment construction, connected the commodities, capital, information and logistics, promoted the direct sales on various e-commerce platforms, decreased the channel inventory, largely improved the channel efficiency, and strengthened the full-category synergy of the domestic sales terminals. In 2017, the Company set up 29 business centers in China in charge of undertaking the full-category synergy in various regions. Through clearly defining the responsibilities and rights, the energy and vitality of various business centers can thus be stimulated. Meanwhile, the united promotion activities in diversified forms were frequently held in line with the actual situation, achieving remarkable results. About 1,000 core shop managers were employed to strengthen the shop's full-category synergy, the shopping guide ordering, the purchase package and the sharing of shopping guide, further promote the synergistic basic construction, propel the improvement and upgrading of the domestic sales synergy proceeding in the aspects of the organizational system, the institutional rules, the methods and abilities and the resources incentive mechanism, and enhance the channel's long-term sustainable development.

Efforts were also made to continuously deepen the channel layout. In 2017, by making use of Midea multi-category synergistic advantages, the Company continued to develop and expand six major sales channels including flagship stores, Suning, Gome, Regional Chains (TOP Clients), micro-region chains (VIP Clients) and township exclusive shops so as to realize the channel layout at different levels from the villages and towns, the counties to the first-tier cities. The cooperation with Gome and Suning would be deepened, and it's also necessary to actively promote the cooperation with TOP Club and strengthen the construction of VIP medium and small-sized chain clubs. In the meantime, special effort was made to cooperate with various house fittings chain platforms. In 2017, Midea took the initiative to establish the Whole House Appliances Experience Hall, and in line with the

consumer's home decoration style and life style, the most suitable intelligent household appliances package could be customized for the customers. In this case, the consumers only need to place an order and their demands for all needed appliances could thus be satisfied without worrying about any installation problem because the Company would provide the consumers with the one-stop services (including the pre-sales service, the post-sales service and the installation and delivery service) and devoted to providing more comfortable home life experience for the users. Moreover, the Company also expanded new channels, successively developed corresponding platform-based reward points accumulation business (including banks, communication and aviation), continuously broadened new retail channels and diversified the cross-industry cooperation.

The e-commerce supply chain system efficiency was enhanced through focusing on the user experience. By taking advantage of Midea's omni-channel layout featuring "Online User and Order+Offline Flagship Store+Logistics and Storage", the Internet-based big data platform was established by depending on the full-category products. Besides, it's also necessary to improve the user operation system, explore the digital precision marketing based on the user and big data, and promote the omni-channel project through linking the online products, the offline products, orders and users together. In 2017, the whole online sales exceeded RMB 40 billion with a year-on-year increase of 70%.

d. Relying on the advanced technology and the intelligent equipment technology, developed the core competitiveness and capacity advantages based on the automation of logistics.

Relying on Annto Logistics Platform, the Company has established the high-efficiency integrated storage and delivery service, and continued improving the delivery network based on the warehouses, strengthened the trunk movement allocating capacity and the system's flexibility, integrated the online and offline marketing activities and the logistics, warehousing and delivery resources, reduced corresponding operating cost, and enhanced the entire link's response and the customer experience. In 2017, the Company completed the layout of the quick-response nationwide direct delivery network to satisfy the customer's needs. Since such network covered 118 cities in China, delivery could be finished in 24 hours within 100km, and 48 hours 200km. In the same year, the revenue from the end-to-end integrated

warehousing and delivery business reached 20% of the total revenue of Annto.

Unremitting effort will be made to develop the core competitiveness based on the automation of logistics, continuously increase the investment into the automation of logistics and the warehousing robots, and deepen relevant researches and output favorable results from various aspects such as the intelligent logistics equipment, the intelligent logistics solutions, the big data analysis and the artificial intelligence. In 2017, AGV products with proprietary intellectual property rights of Annto, equipped with AIR-PICK Visual Navigation system and SLAM laser guiding system, featured advanced and outstanding technical performance, and corresponding multi-agent robot control program was also worked out and put into use; through researching, developing and applying the 4GRF mobile terminal, the digitized and paperless field management could thus be realized with high efficiency and rapid deployment; the whole logistics process was visible by developing and applying intelligent tracking devices; the logistics system could be intelligentized by researching and applying the 3D visual technology.

In 2017, Annto developed its external partners and made concerted effort to establish the advanced and high-efficiency logistics service system, obviously improving its influences in this industry. During the Double Eleven period (November 11), Annto efficiently undertook the Double Eleven Project for Tmall, and various operating indice were in the front rank among Cainiao Alliance Large Transport Partners. As a result, Annto won the Jinhong Award of Cainian Alliance, and received wide recognition from the entire industry. In October 2017, Annto and Jingdong Logistics cooperated with each other to establish the 300,000 m² cloud warehouse project (five warehouses in four places), integrating relevant regional logistics resources, linking corresponding data platform, effectively reducing the operating cost of the industrial chain, warehousing and delivery, and providing various e-commerce platforms and brand owners with professional, standardized and high-efficiency e-commerce logistics services.

e. Implemented the “Digitization 2.0” Project and promoted the whole value chain operating management by means of digitization.

It's necessary to actively implement the “Digitization 2.0” Project, and drive the linking of the

end-to-end business by means of the software and data with the C2M (Customization) as the guiding principle. Meanwhile, all links (R&D, the supply chain, manufacturing, finance, and customer service) will be driven by orders and data to realize the flexible delivery. A digital planning platform has been established, in which way, all data from the value chain throughout the process will be collected and analyzed by means of the big data platform. The product concept database is also built to complete the analysis of the product life cycle data and accordingly support the product digitization planning; in terms of the product development, Midea propelled the product design of parameterization, standardization, modularization and platformization, and by implementing the super BOM, sales stimulated and determined the platform architecture, the module division, and the solidification and optimization of the modular interface; the digital process management system would be established to realize the electronization and structuralization of the process management data. However, C2M Phase I has made a breakthrough in the channel customization. Namely, the customers can directly customize their products on the selection and matching platform, which means that Midea has entered into the age of customization.

In addition, great importance shall be attached to promote the digitization of the channel terminal business and the online management and upgrade the CCS2.0 System. The Midea Cloud Sales System is newly launched to support and guarantee the customer's basic information maintenance, the buying and selling relationship management, the purchase-sell-stock data management, the price/order/sales management and the implementation of policies so as to largely enhance the channel inventory's authenticity control, realize the information transparency and sharing, and provide corresponding data support and system guarantee for various sales strategies. In 2017, the RMS System (Retail Management System) was released to enable two major functions with the improvement of the terminal marketing efficiency as the core, including the realization of Service Terminal Management (including the terminal inspection, work diary, promotion management, purchase-sell-stock data search) and the improvement of shopping guide (including retail reporting, salary calculation and payment, and live class). CCS, Midea Cloud Sales System and RMS served as the three fundamental management systems to support the sales in domestic market,

covering the whole channel, the information management of terminal stores, the delivery, the distribution and the retail. As a result, all business processes can be completed online, the information will be visualized and the efficiency improved.

The customer service system has completely combined with the mobile terminals in order to fully improve the work efficiency of all information staffs and various management levels. Meanwhile, electronic bills are also available now, including Electronic Invoice and Electronic Contract, and the electronic signature technology is also introduced. Besides, the legal person's identity information and three major certificates can also be authenticated online. Further, the signing of contract is visualized in real time, which will not only improve the contract signing efficiency and correctness, but also save corresponding costs.

By means of the integrated planning and purchasing project, the supply chain's upstream and downstream can thus be connected; the production can be stimulated and the seamless connection between the planning and the implementation will be realized. The production scheduling will be optimized in line with the actual production performance, and the 2-4 hour scheduling and stock system has also been established to realize the intensive production scheduling and the intensive delivery, preparing a high-efficiency supply system for the flexible manufacturing and increasing 83% production scheduling efficiency. Special attention is also paid to implement the supplier planned production synergy, the logistics synergy and the full coverage of the vehicle entry booking system, strengthen the capacity visualization synergy efficiency and the system's usability, and support the order tracking throughout the process. By means of the prior order scheduling, it is possible to realize the quick appraisal of the factory's orders received based on T+3 Mode, the precise positioning and efficient analysis of corresponding resources gaps, which will promote the systematical implementation of the general collecting mode and effectively reduce corresponding product costs.

It's also required to expand the big data technology platform, improve the enterprise-level indicator system and the data operation mechanism in order to visualize the whole process and drive the full-field data. Related data will be collected based on various products, materials, techniques and projects for the purpose of data research, and two kinds of R&D

data sub-products have also been developed including Product Cube and R&D Steward; in terms of the data from domestic sales and export sales, the omni-channel data monitoring system shall be established to focus on the product sales structure, the price system and the market layout, visualizing all data ranging from the order placement to the after-sales service; the big manufacturing data shall regard the visualization of capacity as the core objective, and completely improve the digital management on the manufacturing field; big financial and economic data shall be analyzed and applied to measure the profit and loss, the profitability and the costs indicators so as to provide a valid data support for the enterprise's endogenous growth.

f. Efficiently promoted Midea's globalized business layout and business growth; strengthened the operation organization and the compliance management; and accelerated the cooperative integration of Toshiba Household Appliances Project.

Midea has become a company involved in global operations, and will strictly adhere to its global business strategies and improve its global layout from various aspects such as R&D, manufacturing and sales to enhance its ability in global operations. Midea's global businesses involve more than 200 countries and regions, and it has established 18 overseas production bases with more than 35,000 employees from 21 countries. In addition, its overseas businesses also involve 22 settlement currencies; Midea has successfully set up its global R&D Center respectively in the U.S.A., Japan, Italy, Germany, India, Singapore, Austria and Israel etc. In 2017, Midea initiated the "Green Space" Project in India, which will further enlarge the localized layout of air conditioners, refrigerators, washing machines and other household appliances in India. Midea has established 24 sales and operation agencies all over the world, covering the Northern America, the South America, the Europe, the Asia, the Africa and the Oceania in order to stimulate and strengthen its localized operations overseas. In 2017, the business revenue from Midea's overseas companies increased rapidly, and the exports of residential air conditioners, micro-wave ovens, refrigerators, dishwasher, water heaters, fans, washing machines and induction cookers continued keeping ahead of other domestic household appliances enterprises. Midea's brand awareness is promoted steadily and continuously.

Special measures are taken to strengthen the control of overseas risks; the governance, legal affairs and compliance system framework geared to overseas companies is also established; proceeding from the board operation, the license management, the internal control mechanism, the anti-monopoly policy, the anti-corruption policy, the export control and the product liability, various mechanisms will be promoted and implemented including the affiliate transactions, the internal loan, the transnational capital transfer and the protection of the shareholder's equity. By establishing the regional headquarters of Midea Group, corresponding internationalized corporate governance principles will be further implemented in line with the actual local conditions and applicable laws and regulations.

In 2017, emphasis was placed to speed up the restructuring of core businesses, value chain, business flow and other structural adjustments, continue implementing the Toshiba Household Appliances Global Operating Strategy, cooperate with Toshiba to finish the cross licensing between brand and technology, the arrangement of internal and external supply chain, the channel licensing and the integration of corporate management, and create corresponding environment to support the self-owned brand strategy of Midea Group. In 2017, Toshiba took effective measures to conduct and deepen the reform and pay special attention to the structural adjustment. Firstly, Toshiba completely cooperated with corresponding Midea Household Appliances Business Department to enhance the product layout of Toshiba Brand in the global market and accelerate the realization of cooperative effect throughout the value chain covering the brand, channel, innovative R&D, supply chain and quality manufacturing together with Midea Product & Business Department. In 2017, there were over 75 cooperative projects. Secondly, through introducing the international 632 business system, the global IT basic platform and the internal system process were further established and the operation efficiency was also improved. Thirdly, the strategy of "Further Expand the Japanese Market and Focus on Overseas Countries" was firmly implemented, and various measures were also taken to arrange the e-commerce business in order to make comprehensive preparations for turning losses into gains in 2018 from such aspects as market, product, system and mechanism. However, Toshiba realized an annual revenue of over RMB 15 billion in 2017. Although Toshiba did not make profit on in the year due to

various external factors (including the YEN Exchange Rate, the rise of raw material prices and the complicated global economic situation), its core household appliances business increased. Especially in the intensely competitive Japanese market, the shares of Toshiba Refrigerators, washing machines and air conditioners still rose steadily.

g. Seized the opportunity of global development for robotics and automation system business, and cooperatively promote the rapid growth of the business.

Concerted effort was made to promote the rapid growth of KUKA Robotics business. In 2017, the revenue of KUKA Robotics business achieved a year-on-year increase of 18%, reaching the highest level in history, and new orders were obtained from time to time as well. The company took effective measures to expand its businesses in China from various aspects such as the application of intelligent manufacturing, the customer resources sharing, the development of logistics and medical automation business, the collaboration of governmental resources and the support.

KUKA Robotics has always maintained its investment into R&D, and explored corresponding market expansion and layout. A transition will also be finished from the hardware advantages to the software, intelligent manufacturing data system, cloud platform and the overall solutions for the purpose of enhancing the upgrading of Industry 4.0. In terms of networking, the Cloud-based software platform KUKA Connect developed by KUKA can enable the customers to access to relevant robotic data at any place in the world, in which way, the production performance and efficiency can thus be improved; in light of Human and Robot Collaboration, KUKA Sensing System can narrow or even remove the security fence between operators and robots. In 2017, KUKA invested in the Cloud Technology and the Internet of Things, and strengthened the cooperative development with various partners. Visual Components merged by KUKA is specialized in the 3D simulation software solutions geared to the factory planning, and such simulation technology will effectively enhance the application ability based on the KUKA simulation ecosystem. Besides, KUKA also invested Device Insight GmbH (an Internet of Things company in Munich) which is a leading IoT company specialized in the IoT platform, the automation industry and the network products. Based on such investment, KUKA is expected to strengthen and broaden its professional

knowledge and domains related to the Internet of Things and improve its innovation ability in the field of Industry 4.0. Meanwhile, KUKA has also deepened the strategic partnership with Volkswagen Enterprise Research Company to jointly develop the creative robotics concept geared to vehicles in the future. The company has planned and built a production system applied to manufacture various battery modules and high-tension batteries that are suitable for the electric automobiles produced by leading manufacturers in Europe. In the field of service robots, KUKA and Volkswagen cooperated with each other to research the CarLa, the charging robot for electric automobiles.

Further efforts are made to integrate the Midea Robotics and automation business platform and the drive control business. The Robotics Platform of Midea is capable of working out corresponding design standards and customizing motion control solutions for the automation system suppliers, and contains a series of products including the hardware servo motor, the controller and the encoder etc. Through integrating corresponding drive control business and investing the development of ASR, AI and visual and sensing technology, Midea further expands the application of Robotics & automation system and such as Intelligent Manufacturing, Intelligent Logistics, Smart Home and Rehabilitation Therapy etc. Meanwhile, Midea has also cooperated with others to research and develop the intelligent logistics robotics system, and now 40 sets are put into production in commission, which has been continuously tested for more than 1,400 hours, and 21 patents for invention and 12 patents for utility models in total has been applied. As a result, the traditional work mode will be overturned and replaced by a brand-new mode, which will satisfy the demand for small batches & rich varieties, largely improve the order picking efficiency and the warehouse utilization rate, reduce the error rate and decrease the overall logistics costs.

The robotic platform team construction is accelerated. In 2017, Midea Automation Business Platform newly introduced a professional team consisting of 120 talents in charge of coordinating with various units to work out the medium and long-term automation planning, implementing the standardized management geared to the robotic and professional equipment, integrating internal and external resources, carrying out the key automation demonstration project, and gradually establishing Midea's ability and influences in

formulating the overall solutions in the field of 3C Household Appliances and Automation.

The product application of Midea Yaskawa Service Robotics Co., Ltd. is also accelerated. At present, several products have obtained corresponding ISO13485 Medical Equipment Authentication, and 5 new products have obtained CFDA Medical Equipment Authentication. In 2017, 3 of the 5 new rehabilitation exercise products were put into volume production.

h. Deepen the industrial layout for Smart Home Appliance and promote the implementation of Smart Home Appliance Strategy.

In 2017, Midea Smart Technology would continue and strengthen the implementation of the M-Smart Strategy, optimize the Cloud Platform, Meiju, Communication Module, Intelligent Security System and the post-sales service, and continuously improve the customer satisfaction. Meanwhile, special effort is also made to expand the overseas Internet of Things+ Business, improve the integration of Echo/Alexa ecology. The Smart Home Layout can provide strong support for Midea's Globalization Strategy.

The Company has always increased the investment into the R&D and market resources of intelligent household appliances, and continuously enhanced the market competitiveness of various intelligent household appliances. In March 2017, Midea Smart Technology launched the Internet of Things Security Wi-Fi Security Chip which was designed in conformity with the national financial security demand standards and reached the highest security level standard set by China Information Security Evaluation Center in the field of USBKEY. In May 2017, Midea Smart Technology passed corresponding security products testing conducted by PICC, and various intelligent products were insured by PICC. In fact, Midea is the first manufacturer in this industry to purchase corresponding product liability insurance for its products. In December 2017, Midea Smart Technology released Meiju APP 4.0 with the new and upgraded page and simplified operation procedures. Having an insight into various frequently-used functions, it is able to design corresponding intelligent services for the user according to the specific scenario. In 2017, Midea Smart Technology obtained 7 international industrial design awards (including IF, Red Dot, and IDEA etc.), and its patent for invention won the Excellence Award of The 19th Chinese Outstanding Patented Invention & Industrial Design.

The Company has also made great effort to propel the construction of M-Smart big platform ecosphere, developed the third-party IoT platform Meizhi by adhering to the concept of M-Smart Inside, promoted the cooperation with Hengda, Country Garden, Vanke and other real estate companies, and realized the combination of Smart Community with Smart Home. In the meantime, it's also necessary to completely open the M-Smart system to the public, and strengthen the external cooperation from such aspects as Cloud-to-Cloud Docking, the third-party mobile terminal control, the intelligent hardware access and the introduction of the third-party content resources. As a result, 105 partners have been introduced in total, and corresponding strategic partnerships are also established with China Mobile, Huawei, SGCC, COFCO, HONYAR, OnStar, Whaley, Ayla Networks, DOOYA and Hutlon etc.

Midea Smart Technology has taken the lead in establishing its systematical service capacity. In 2017, Midea Smart Technology launched a series of independently-developed new products and new technologies, including the intelligent gateway, intelligent door lock, the combustible gas detector, the smoke detector and the smart panel etc. for the purpose of creating a safe, convenient and cozy living environment for the users. As a matter of fact, it is not easy for Midea Smart Technology to become a provider that is able to offer the overall smart home solutions including chips, Cloud and Terminal.

i. Improved the corporate governance level and enhanced the long-term incentive schemes.

In 2017, Midea launched the first restricted share incentive scheme and the fourth stock option incentive scheme for its medium and top management and core business backbones as well as the third Midea Group "Partner" scheme for its core management personnel that play a significant role in the Company's overall business performance and medium and long-term development in order to encourage the management to take responsibility for the Company's long-term value and growth. The incentive schemes have helped to align the long-term interests of senior management and key personnel with that of all shareholders, and the corporate governance has been further improved.

2. Analysis of Main Business

2.1 Overview

Same with the contents presented in “1. Overview” of this section

✓ Yes No

See “1. Overview” of this section.

2.2 Revenues and Costs

2.2.1 Breakdown of operating revenues

Unit: RMB'000

	2017		2016		YoY Change (%)
	Amount	As a percentage of total operating revenues (%)	Amount	As a percentage of total operating revenues (%)	
Total	240,712,301	100%	159,044,041	100%	51.35%
By business segment					
Manufacturing	221,137,529	91.87%	145,266,238	91.34%	52.23%
By product category					
HVAC	95,352,449	39.61%	68,726,349	43.21%	38.74%
Consumer appliances	98,748,018	41.02%	76,539,889	48.12%	29.02%
Robotics and automation systems	27,037,062	11.23%	-	-	-
By geographical segment					

PRC	136,756,269	56.81%	94,943,776	59.70%	44.04%
Outside PRC	103,956,032	43.19%	64,100,265	40.30%	62.18%

Note: Consumer appliances in the table above primarily include refrigerators, laundry equipment, kitchen appliances and small domestic appliances.

2.2.2 Business segments, products or geographical segments contributing over 10% of the operating revenues or profits

√ Applicable N/A

Unit: RMB'000

	Operating Revenue	Operating cost	Gross profit margin	YoY change of operating revenue (%)	YoY change of operating cost (%)	YoY change of gross profit margin (%)
By business segment						
Manufacturing	221,137,529	162,510,418	26.51%	52.23%	57.40%	-2.42%
By product category						
HVAC	95,352,449	67,664,335	29.04%	38.74%	40.94%	-1.11%
Consumer appliances	98,748,018	71,722,720	27.37%	29.02%	29.85%	-0.46%
Robotics and automation systems	27,037,062	23,123,363	14.48%	-	-	-
By geographical segment						
PRC	136,756,269	97,432,060	28.75%	44.04%	44.48%	-0.22%
Outside PRC	103,956,032	83,028,492	20.13%	62.18%	72.34%	-4.71%

Under the circumstances that the statistical standards for the Company's main business data adjusted in the Reporting Period, the Company's main business data in the recent year

is calculated based on adjusted statistical standards at the end of the Reporting Period

Applicable N/A

2.2.3 Whether revenue from physical sales is higher than service revenue

Yes No

Business segment	Item	Unit	2017	2016	YoY Change (%)
Home appliances	Sales	In thousand units/sets	408,024.5	317,277.2	28.60%
	Output	Ditto	420,739.3	327,127.4	28.62%
	Inventory	Ditto	47,235.0	34,732.3	36.02%

Note: The aforementioned statistics about output, sales and inventory were calculated based on internal standards. Lighting products and robotics and automation systems are excluded.

Reason for any over 30% YoY movements in the data above

Applicable N/A

The 36.02% YoY increase in the inventory was mainly due to an increase in orders.

2.2.4 Execution of significant sales contracts in the Reporting Period

Applicable N/A

2.2.5 Breakdown of operating cost

By product category

Unit: RMB'000

Product category	Item	2017		2016		YoY Change (%)
		Amount	As a percentage of	Amount	As a percentage of	

			total operating cost (%)		total operating cost (%)	
Home appliances	Raw materials	119,259,564	85.56%	87,868,769	85.11%	35.72%
	Labor costs	8,502,610	6.10%	6,267,030	6.07%	35.67%
	Depreciation	2,495,028	1.79%	2,330,741	2.26%	7.05%
	Energy	2,090,806	1.50%	1,574,007	1.52%	32.83%

2.2.6 Changes in the scope of the consolidated financial statements for the Reporting Period

Yes No

For the main subsidiaries included in the consolidated financial statements of the current year, please refer to Note 5 and Note 6 to the Financial Statements herein. For the newly consolidated companies, see Note 5, 5.1 and 5.2, (a), and they primarily include: Guangdong Midea Electric Co., Ltd., Guangdong Midea Smart Robots Co., Ltd., Chongqing Midea Microcredit Co., Ltd., Guangdong Midea GiMAY Technology Co., Ltd., Hefei Midea Smart Technology Co., Ltd., Guangdong Midea Kafei Coffee Machine Manufacturing Co., Ltd., Midea Electric Netherlands (I) B.V., KUKA Aktiengesellschaft, SMC, Dongguan Kafei Electric Manufacturing Co., Ltd. and Fujitsu (Guangdong) Technology Service Co., Ltd. For the companies deconsolidated in the current year, see Note 5, 5.2, (b).

2.2.7 Major changes in the business, products or services in the Reporting Period

Applicable N/A

2.2.8 Main customers and suppliers

Major customers of the Company

Total sales to top five customers (RMB'000)	23,812,870
Total sales to top five customers as a percentage of	9.89%

the total sales for the year (%)	
Total sales to related parties among top five customers as a percentage of the total sales for the year (%)	0

Information on top five customers

No.	Customer	Sales revenue (RMB'000)	As a percentage of the total sales revenue (%)
1	Customer A	12,027,783	5.00%
2	Customer B	4,847,226	2.01%
3	Customer C	3,135,444	1.30%
4	Customer D	2,001,579	0.83%
5	Customer E	1,800,838	0.75%
Total	--	23,812,870	9.89%

Major suppliers of the Company

Total purchases from top five suppliers (RMB'000)	9,800,909
Total purchases from top five suppliers as a percentage of the total purchases for the year (%)	5.73%
Total purchases from related parties among top five suppliers as a percentage of the total purchases for the year (%)	0

Information on top five suppliers of the Company

No.	Supplier	Purchase (RMB'000)	As a percentage of the total purchases (%)
1	Supplier A	2,464,169	1.44%
2	Supplier B	2,106,841	1.23%
3	Supplier C	1,892,036	1.11%

4	Supplier D	1,747,344	1.02%
5	Supplier E	1,590,519	0.93%
Total	--	9,800,909	5.73%

2.3 Expense

Unit: RMB'000

	2017	2016	YoY Change (%)	Reason for any significant change
Selling and distribution expenses	26,738,673	17,678,451	51.25%	Sales increase and consolidation of KUKA and TLSC
General and Administrative expenses	14,780,236	9,620,777	53.63%	Sales increase and consolidation of KUKA and TLSC
Finance costs	815,949	-1,005,979	181.11%	exchange losses and loan interest increase

2.4 R&D investment

Applicable N/A

In the Reporting Period, Midea continued to build a “customer-oriented” operating system. It promoted technological innovation and product improvement through improving its global, open R&D system covering four links from prior study to product development. Also, a world-class R&D team has been set up and R&D investment has been increased to work on core technology, basic technology and future technology. In this way, Midea is able to develop advanced, quality products with unique selling points appealing to customers and create differential competitive edges. For more details about R&D investment and product competitiveness improvement, please refer to the relevant contents presented in “Core Competitiveness Analysis” under “Section III Business Profile” and “Overview” under

“Section IV Operating Performance Discussion and Analysis”.

Information about R&D input

	2017	2016	YoY Change (%)
Number of R&D personnel	10,520	8,741	20.35%
R&D personnel as a percentage in total employees	10.33%	9.07%	1.26%
R&D input (RMB'000)	8,500,000	6,045,800	40.59%
R&D input as a percentage in operating revenues	3.53%	3.80%	-0.27%
Capitalized R&D input (RMB Yuan)	-	-	-
Capitalized R&D input as a percentage in total R&D investment	-	-	-

Note: The data in the table above excludes those of TLSC and KUKA.

Reason for any significant YoY change in the percentage of the R&D investment in the operating revenues

Applicable N/A

Reason for any sharp variation in the percentage of the capitalized R&D investment and rationale

Applicable N/A

2.5 Cash flow

Unit: RMB'000

Item	2017	2016	YoY Change (%)
Subtotal of cash inflows from operating activities	207,315,612	162,658,812	27.45%
Subtotal of cash outflows due to operating activities	182,872,989	135,963,803	34.50%

Net cash flow from operating activities	24,442,623	26,695,009	-8.44%
Subtotal of cash inflows from investing activities	89,296,086	76,323,327	17.00%
Subtotal of cash outflows due to investing activities	124,035,694	96,104,411	29.06%
Net cash flow from investing activities	-34,739,608	-19,781,084	-75.62%
Subtotal of cash inflows from financing activities	63,838,091	35,236,372	81.17%
Subtotal of cash outflows due to financing activities	44,186,446	35,076,460	25.97%
Net cash flow from financing activities	19,651,645	159,912	12,189.04%
Net increase in cash and cash equivalents	9,317,923	7,326,413	27.18%

Explanation of why the data above varied significantly

Applicable N/A

a. Primarily driven by increase in net cash paid to acquire subsidiaries, net cash flow from investing activities decreased 75.62% from last year.

b. Primarily driven by increase in borrowings obtained, net cash flow from financing activities increased 12,189.04% from last year.

Explanation of main reasons leading to the material difference between net cash flow from operating activities during the Reporting Period and net profit for the year

Applicable N/A

3. Analysis of Non-Core Business

Applicable N/A

4. Assets and Liabilities

4.1 Material changes of asset items

Unit: RMB'000

	31 December 2017		31 December 2016		Change in percentage (%)	Explanation about any material change
	Amount	As a percentage of total assets (%)	Amount	As a percentage of total assets (%)		
Cash at bank and in hand	48,274,200	19.46%	27,169,118	15.93%	3.53%	
Accounts receivable	17,528,717	7.06%	13,454,511	7.89%	-0.83%	
Inventories	29,444,166	11.87%	15,626,897	9.16%	2.71%	
Investment properties	420,802	0.17%	494,122	0.29%	-0.12%	
Long-term equity investments	2,633,698	1.06%	2,211,732	1.30%	-0.24%	
Fixed assets	22,600,724	9.11%	21,056,791	12.34%	-3.23%	
Construction in progress	879,576	0.35%	580,729	0.34%	0.01%	
Short-term borrowings	2,584,102	1.04%	3,024,426	1.77%	-0.73%	

Long-term borrowings	32,986,325	13.30%	2,254,348	1.32%	11.98%	
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4.2 Assets and liabilities measured at fair value

√ Applicable □ N/A

Unit: RMB'000

Item	Opening balance	Profit or loss from change in fair value during the period	Cumulative fair value change charged to equity	Other	Purchased in the period	Sold in the period	Closing balance
Financial assets							
1. Financial assets with fair value changes included in profit or loss (excluding derivative financial assets)							
2. Derivative financial assets	424,163	-119,132	349,508	59,646			714,185
3. Financial assets available for sale	33,627,760	-	147,634	-10,128	26,517,841	38,069,681	22,213,426
Sub-total of financial assets	34,051,923	-119,132	497,142	49,518	26,517,841	38,069,681	22,927,611
Investment properties							

Productive living assets							
Others							
Sub-total of the above	34,051,923	-119,132	497,142	49,518	26,517,841	38,069,681	22,927,611
Financial liabilities	96,102	-94,087	-4,387	94,680			92,308

Whether there were any material changes on the measurement attributes of major assets of the Company during the Reporting Period

Yes No

4.3 Restricted asset rights as of the end of this Reporting Period

As of the end of this Reporting Period, there were no such circumstances where any main assets of the Company were sealed, distrained, frozen, impawned, pledged or limited in any other way.

5. Investment made

5.1 Total investment amount

Applicable N/A

Total investment amount of Reporting Period (RMB'000)	Total investment amount of last year (RMB'000)	YoY Change (%)
124,035,694	96,104,411	29.06%

5.2 Significant equity investment made in the Reporting Period

Applicable N/A

Unit: RMB'000

Investee	Main business scope of investee	Way of investment	Amount of investment	The Company's stake in investee	Source of investment capital	Join invest stor	Term of invest ment	Type of invest ment	Investment progress as of balance sheet date	Projected earnings	Return on investment in Reporting Period	Litigation involved	Disclosure date (if any)	Index to disclosed information (if any)
KUKA	Smart automation	Acquisition in cash	27,001,856	81.04 %	Borrowing	None	Long - lastin g	Smart auto mation	Completed	N/A	675,410	None	-	-
Total	--	--	27,001,856	--	--	--	--	--	--	-	675,410	--	--	--

5.3 Significant non-equity investments ongoing in the Reporting Period

Applicable N/A

5.4 Financial investments

5.4.1 Securities investments

Applicable N/A

No such cases in the Reporting Period.

5.4.2 Derivatives investments

Applicable N/A

Unit: RMB'0,000

Operating party	Relationship with the Company	Relationship of derivative transaction	Type of derivative	Initial investment amount	Starting date	Ending date	Opening investment amount	Purchased in Reporting Period	Sold in Reporting Period	Amount provided for impairment (if any)	Closing investment amount	Closing investment amount as a percentage of the Company's closing net assets	Actual gain/loss in Reporting Period
Futures company	No	No	Futures contracts	-11.5	01/01/2017	31/12/2017	-11.5	-	-	-	6,588.20	0.09%	10,096.90
Bank	No	No	Forward forex contracts	32,817.60	01/01/2017	31/12/2017	32,817.60	-	-	-	55,599.50	0.75%	107,061.00
Total				32,806.10	--	--	32,806.10	-	-	-	62,187.70	0.84%	117,157.90
Source of derivatives investment funds				All from the Company's own money									

Litigation involved (if applicable)	N/A
Disclosure date of the announcement about the board's consent for the derivative investment (if any)	31/03/2017
Disclosure date of the announcement about the general meeting's consent for the derivative investment (if any)	22/04/2017
Risk analysis of positions held in derivatives during the Reporting Period and explanation of control measures (Including but not limited to market risk, liquidity risk, credit risk, operational risk, legal risk, etc.)	<p>For the sake of eliminating the cost risk of the Company's bulk purchases of raw materials as a result of significant fluctuations in raw material prices, the Company not only carried out futures business for some of the materials, but also made use of bank financial instruments and promoted forex funds business, with the purpose of avoiding the risks of exchange and interest rate fluctuation, realizing the preservation and appreciation of forex assets, reducing forex liabilities, as well as achieving locked-in costs. The Company has performed sufficient evaluation and control against derivatives investment and position risks, details of which are described as follows:</p> <p>1. Legal risk: The Company's futures business and forex funds businesses shall be conducted in compliance with laws and regulations, with clearly covenanted responsibility and obligation relationship between the Company and the agencies.</p> <p>Control measures: The Company has designated relevant responsible departments to enhance learning of laws and regulations and market rules, conducted strict examination and verification of contracts, defined responsibility and obligation well,</p>

and strengthened compliance check, so as to ensure that the Company's derivatives investment and position operations meet the requirements of the laws and regulations and internal management system of the Company.

2. Operational risk: Imperfect internal process, staff, systems and external issues may cause the Company to suffer from loss during the course of its futures business and forex funds business.

Control measures: The Company has not only developed relevant management systems that clearly defined the assignment of responsibility and approval process for the futures business and forex funds business, but also established a comparatively well-developed monitoring mechanism, aiming to effectively reduce operational risk by strengthening risk control over the business, decision-making and trading processes.

3. Market risk: Uncertainties caused by changes in the prices of bulk commodity and exchange rate fluctuations in foreign exchange market could lead to greater market risk in the futures business and forex funds business. Meanwhile, inability to timely raise sufficient funds to establish and maintain hedging positions in futures operations, or the forex funds required for performance in forex funds operations being unable to be credited into account could also result in loss and default risks.

Control measures: The futures business and forex funds business of the Company shall always be conducted by adhering to prudent operation principles. For futures business, the futures transaction volume and application have been determined strictly according to the requirements of production & operations, and the stop-loss mechanism has been implemented. Besides, to determine the prepared margin amount which may be required to be supplemented, the futures risk measuring system has been established to measure and calculate the margin amount occupied, floating gains and losses, margin amount available and margin amount required for intended positions. As for forex funds business, a hierarchical management mechanism has been implemented, whereby the operating unit which has submitted application for funds business should conduct risk analysis on the conditions and environment affecting operating profit and loss, evaluate the possible greatest revenue and loss,

	and report the greatest acceptable margin ratio or total margin amount, so that the Company can update operating status of the funds business on a timely basis to ensure proper funds arrangement before the expiry dates.
Changes in market prices or fair value of derivative products during the Reporting Period, specific methods used and relevant assumption and parameter settings shall be disclosed for analysis of fair value of derivatives	<ol style="list-style-type: none"> 1. Gain from futures contracts during the Reporting Period was RMB100,969,000. 2. Gain from forward forex contracts during the Reporting Period was RMB1,070,610,000. 3. Public quotations in futures market or forward forex quotations announced by the Bank of China are used in the analysis of derivatives fair value.
Explanation of significant changes in accounting policies and specific financial accounting principles in respect of the Company's derivatives for the Reporting Period as compared to the previous Reporting Period	No change

Special opinions expressed by independent directors concerning the Company's derivatives investment and risk control	The Company's independent directors are of the view that the futures hedging business is an effective instrument for the Company to eliminate price volatility and implement risk prevention measures through enhanced internal control, thereby improving the operation and management of the Company; the Company's foreign exchange risk management capability can be further improved through the forex funds business, so as to maintain and increase the value of foreign exchange assets and the abovementioned investment in derivatives can help the Company to fully bring out its competitive advantages. Therefore, it is practicable for the Company to carry out derivatives investment business, and the risks are controllable.
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5.5 Use of funds raised

Applicable N/A

No such cases in the Reporting Period.

6. Sale of Major Assets and Equity Interests

6.1 Sale of major assets

Applicable N/A

No such cases in the Reporting Period.

6.2 Sale of major equity interests

Applicable N/A

7. Analysis of Major Subsidiaries

Main subsidiaries and joint stock companies with an over 10% influence on the Company's net profit

Company name	Company	Business	Registered	Total	Net	Operating	Operating profit	Net

	type	scope	capital	assets (in RMB million)	assets (in RMB million)	Revenue (in RMB million)	(in RMB million)	profit (in RMB million)
Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.	Subsidiary	Manufacturing of home appliances	USD72 million	10,658.76	2,908.31	15,562.24	1,961.87	1,717.38
Guangdong Midea Air-conditioning Equipment Co., Ltd.	Subsidiary	Manufacturing of air conditioners	RMB854 million	35,569.59	3,803.92	38,027.71	625.60	685.67
Foshan Shunde Midea Electric Appliance Manufacturing Co., Ltd.	Subsidiary	Manufacturing of home appliances	USD42 million	7,146.71	3,252.45	8,661.41	1,336.89	1,148.25
Wuhu Midea Kitchen & Bathroom Electric Appliances Manufacturing Co., Ltd.	Subsidiary	Manufacturing of water heaters	RMB60 million	5,883.87	771.54	6,895.77	681.61	608.60

Acquisition and disposal of subsidiaries during the Reporting Period

✓ Applicable □ N/A

For the main subsidiaries included in the consolidated financial statements of the current year, please refer to Note 5 and Note 6 to the Financial Statements herein. For the newly

consolidated subsidiaries, see Note 5, 5.1 and 5.2, (a), and they primarily include: Guangdong Midea Electric Co., Ltd., Guangdong Midea Smart Robots Co., Ltd., Chongqing Midea Microcredit Co., Ltd., Guangdong Midea GiMAY Technology Co., Ltd., Hefei Midea Smart Technology Co., Ltd., Guangdong Midea Kafei Coffee Machine Manufacturing Co., Ltd., Midea Electric Netherlands (I) B.V., KUKA Aktiengesellschaft, SMC, Dongguan Kafei Electric Manufacturing Co., Ltd. and Fujitsu (Guangdong) Technology Service Co., Ltd. For the newly deconsolidated subsidiaries, see Note 5, 5.2, (b).

8. Structured Bodies Controlled by the Company

Applicable N/A

9. Outlook for the Future Development of the Company

9.1 Development strategies of the Company

The Company will deepen its transformation towards a strategic vision of “becoming a world-leading technologies group in consumer appliances, HVAC systems, robotics and industrial automation systems, and smart supply chain (logistics)”. It will keep developing advanced products based on the customer’s needs by way of technological innovation, quality improvement and quality product programs. It will promote efficiency-driven growth by improving management, manufacturing and asset efficiency to create more cost efficiency. It will also promote global operations and try to lay a solid foundation in this regard through promoting its own branded products and strengthening law compliance. Additionally, it will strengthen its robotics and industrial automation operations to create new business and growth points. Meanwhile, it will push forward its Digitalization 2.0 program to improve operation and management through the entire value chain by way of digitalization, so as to construct its own industrial internet ecosystem.

9.2 Key operation points in 2018

a. It will focus on endogenous growth by further improving operation and management through the entire value chain. It will launch a new round of transformation and upgrading centered on the customer’s needs to rebuild its corporate structure, culture and value chain

so that it can create more value for the customer. It will optimize its inventory mix, reduce the cash-to-cash cycle and overheads, improve profitability, create more cost efficiency and leverage synergies among operations. Seizing opportunities arising from consumption upgrading, it will increase R&D investment to improve its product mix and functions to maintain differential and large scale competitive edges in a changed domestic market.

b. It will further promote digitalization to improve business and management flows. All the links must be digitalized and driven by software, and all business and core management flows must be accessible online around the clock. Through such digitalization through the entire value chain, it is laying a foundation for smart manufacturing and Industrial Internet.

c. It will effectively push forward global operations and improve management and control in this respect. It will strengthen coordination among its business units and improve the operating capability of overseas branch companies for better operating results and better performance through the entire value chain. It is pushing forward business integration and synergies regarding newly acquired subsidiaries in an effective manner. TLSC has returned to profit; and a trial operational model for overseas operations characterized by proper centralization and well-organized decentralization has been launched in the ASEAN area and India. In the meantime, it will continue to strengthen corporate governance and law compliance in overseas operations and lay a more solid foundation in this respect. It will also increase investment in infrastructure of overseas operations to improve their logistics and after-sales service systems by setting up customer service hotlines for overseas customers.

d. It will further reform marketing by promoting flattening and optimization to increase channel efficiency and improve user experience. It will promote better connectivity among products, money, information and logistics. It will promote direct distribution and also use central distribution to build a shared inventory system for all channels so as to increase inventory and capital turnover.

e. Seizing opportunities arising from the development of the industrial automation and smart manufacturing sector, it will continue to work on industrial robots, commercial robots, service robots and AI. It will try to develop more key industrial automation components, as well as

strengthen coordination and integration in its general industrial robots, warehousing automation and medical automation operations in China, so as to promote its fast expansion and growth in the domestic market.

9.3 Key capital expenditure plan in future

To adapt to changes in the industry environment, the Company will focus its 2018 investments on technological innovation, product quality improvement, robotics and industrial automation systems, digitalization, e-commerce channel expansion and new retail channels construction, global operation capability improvement and the smart home strategy. Meanwhile, the Company will strictly control investment in infrastructure and capacity expansion, as well as expenditures not associated with production. The money to be spent will primarily come from the Company's own money.

9.4 Main risks in future development

a. Risk of macro economy fluctuation

The market demand for the Company's consumer appliances and HVAC equipment, among other products, can be easily affected by the economic situation and macro control. If the global economy encounters a heavy hit, or the domestic economy consumer demand slows down in growth, the growth of the household appliance industry, to which the Company belongs, will slow down accordingly, and as a result, this may affect the product sales of Midea Group.

b. Risks in the fluctuation of production factors

The raw materials required by Midea Group to manufacture its consumer appliances and core components primarily include different grades of copper, steel, aluminum, and plastics. At present, the household appliance manufacturing sector belongs to a labor intensive industry. If the price of raw materials fluctuate largely, or there is a large fluctuation in the cost of production factors (labor, water, electricity, and land) caused by a change to the macroeconomic environment and policy change, or the cost reduction resulted from lean production and improved efficiency, as well as the sale prices of end products cannot offset the total effects of cost fluctuations, the Company's business will be influenced to some

degree.

c. Risk in global asset allocation and overseas market expansion

Internationalization and global operations is a long-term strategic goal of the Company. The Company has built joint-venture manufacturing bases in many countries around the world. Progress has been made day by day regarding the Company's overseas operations and new business expansion. However, its efforts in global resource integration may not be able to produce expected synergies; and in overseas market expansion, there are still unpredictable risks such as local political and economic situations, significant changes in law and regulation systems, and sharp increases in production costs.

d. Risk in product export and foreign exchange losses caused by exchange rate fluctuation

As Midea carries on with its overseas expansion plan, its export revenue has accounted for nearly 50% of the total revenues. Any sharp exchange rate fluctuation might not only bring negative effects on the export of the Company, but could also lead to exchange losses and increase its finance costs.

e. Market risks brought by trade barriers

With trade protectionism on the rise around the world, besides the tariff barriers, the non-tariff barriers among countries have become increasingly distinctive. These can mainly be seen on compulsory safety certificates, international standards and requirements, and product quality and management systems certification, energy-saving requirements, the call for increasingly strict environmental protection requirements, as well as with rigorous requirements for recycling household appliances waste. Trade protectionism and trade frictions caused by anti-dumping measures implemented by some countries and regions aggravate the burden in costs and expenses for household appliance enterprises, and have brought about new challenges to market expansion for enterprises.

10. Visits Paid to the Company for Purposes of Research, Communication, Interview, etc.

10.1 In the Reporting Period

√ Applicable □ N/A

Date of visit	Way of visit	Type of visitor	Index to main inquiry information
4~21 January 2017	One-on-one meeting	Institution	Log Sheet of Investor Relations Activities for 4~21 January 2017 disclosed on www.cninfo.com.cn
20 February 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 20 February 2017 disclosed on www.cninfo.com.cn
22~24 February 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 22~24 February 2017 disclosed on www.cninfo.com.cn
31 March 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 31 March 2017 disclosed on www.cninfo.com.cn
4 May 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 4 May 2017 disclosed on www.cninfo.com.cn
10~12 May 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 10~12 May 2017 disclosed on www.cninfo.com.cn
18 May 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 18 May 2017 disclosed on www.cninfo.com.cn
5 June 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 5 June 2017 disclosed on www.cninfo.com.cn
7~9 June 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 7~9 June 2017 disclosed on www.cninfo.com.cn

14~16 June 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 14~16 June 2017 disclosed on www.cninfo.com.cn
21~23 June 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 21~23 June 2017 disclosed on www.cninfo.com.cn
31 August~1 September 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 31 August~1 September 2017 disclosed on www.cninfo.com.cn
8 September 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 8 September 2017 disclosed on www.cninfo.com.cn
31 October~3 November 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 31 October~3 November 2017 disclosed on www.cninfo.com.cn
23~24 November 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 23~24 November 2017 disclosed on www.cninfo.com.cn
14~15 December 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 14~15 December 2017 disclosed on www.cninfo.com.cn
25~27 December 2017	Ditto	Ditto	Log Sheet of Investor Relations Activities for 25~27 December 2017 disclosed on www.cninfo.com.cn

Times of visit	185
Number of visiting institutions	1,880
Number of visiting individuals	95
Number of other visitors	0
Significant undisclosed information disclosed, revealed or leaked	No

Section V Significant Events

1. Profit Distribution and Converting Capital Reserves into Share Capital for Common Shareholders

Formulation, execution or adjustments of profit distribution policy, especially cash dividend policy, for common shareholders in the Reporting Period

Applicable N/A

Plans (or preliminary plans) for profit distribution and converting capital reserves into share capital for common shareholders for the past three years (including the Reporting Period)

For 2015, based on its total of 4,267,391,228 shares, the Company distributed a cash dividend of RMB12 (tax inclusive) and a share dividend of 5 additional shares (converted from capital reserves) per 10 shares to all shareholders. The book closure day was 5 May 2016 and the ex-right & ex-dividend day 6 May 2016.

For 2016, based on its total of 6,465,677,368 shares, the Company distributed a cash dividend of RMB10 (tax inclusive) per 10 shares to all shareholders. The book closure day was 9 May 2017 and the ex-dividend day 10 May 2017.

For 2017, based on its total of 6,584,022,574 shares, it is proposed that the Company should distribute a cash dividend of RMB12 (tax inclusive) per 10 shares to all shareholders. The proposal has been considered and approved by the 30th Meeting of the 2nd Board of the Company and will later be submitted to a general meeting of shareholders for further consideration.

Midea Group has attached great importance to returns to investors ever since its holistic listing in 2013. Its accumulated cash dividend payouts have reached RMB27 billion, with the cash dividend payout accounting for at least 40% of the net profit attributable to Midea Group shareholders every year. And the Company reviews its plans for returns to shareholders at least every three years to ensure a consistent dividend payout policy.

Cash dividend to common shareholders in the past three years (including the Reporting Period)

Unit: RMB

Year	Cash dividends (tax included)	Net profit attributable to common shareholders of the Company in the consolidated statement in the year	Ratio to net profit attributable to common shareholders in the consolidated statement in the year	Cash dividends in other forms	Ratio of cash dividends in other forms
2017	7,900,827,088.80	17,283,689,000.00	45.71%	0.00	0.00
2016	6,465,677,368.00	14,684,357,000.00	44.03%	0.00	0.00
2015	5,120,869,473.60	12,706,725,000.00	40.30%	0.00	0.00

The Company made a profit in the Reporting Period and the profit distributable to common shareholders of the Company (without subsidiaries) was positive, but it did not put forward a preliminary plan for cash dividend distribution to its common shareholders

Applicable N/A

2. Preliminary Plan for Profit Distribution and Converting Capital Reserves into Share Capital for the Reporting Period

Applicable N/A

Bonus shares for every 10 shares (share)	0
Dividend for every 10 shares (RMB) (tax	12

included)	
Additional shares converted from capital reserves for every 10 shares (share)	0
Total shares as the basis for the preliminary plan for profit distribution (share)	6,584,022,574
Total cash dividends (RMB) (tax inclusive)	7,900,827,088.80
Distributable profits (RMB)	16,613,224,000
Percentage of cash dividends in the total distributed profit (%)	100%
Cash dividend policy	
Other	
Details about the preliminary plan for profit distribution and converting capital reserves into share capital	
<p>As audited by PricewaterhouseCoopers China (LLP), the Company realized net profit of RMB10,777,631,000 for 2017. Pursuant to the relevant provisions under the Articles of Association, it provided 10% as statutory surplus reserves, namely RMB1,077,763,000. Plus undistributed profit at the beginning of the year of RMB13,379,033,000 and minus the profit distributed in the year of RMB6,465,677,000, the actual distributable profit would be RMB16,613,224,000.</p> <p>For 2017, based on its total of 6,584,022,574 shares, it is proposed that the Company should distribute a cash dividend of RMB12.00 (tax inclusive) per 10 shares to all shareholders, representing a total cash</p>	

dividend payment of RMB7,900,827,088.80. The remaining undistributed profit shall carry forward for future distribution.

The said plan shall be submitted to the Company's 2017 annual general meeting of shareholders for further consideration.

3. Performance of Undertakings

3.1 Undertakings of the Company's actual controller, shareholders, related parties and acquirer, as well as the Company and other commitment makers fulfilled in the Reporting Period or ongoing at the period-end

√ Applicable □ N/A

Undertaking	Undertaking giver	Type of undertaking	Details of undertaking	Undertaking date	Term	Particulars on the performance
Undertaking made in offering documents or shareholder agreement alternative documents	Controlling shareholder and actual controller	Maintenance of independence	1. Midea Holding and He Xiangjian have undertaken as follows: He Xiangjian, Midea Holding and their controlled enterprises will remain independent from Midea Group in respect of personnel, finance, assets, business and institutions, in accordance with relevant laws and regulations and regulatory documents. They will faithfully fulfill the above undertaking, and assume the corresponding legal liability. If they fail to fulfill their obligations and responsibilities conferred by the undertaking, they will bear the corresponding legal liabilities according to relevant laws, rules, regulations	28/03/2013	Long-standing	1. There has been no violation of this undertaking.

nts		and regulatory documents.				
	Control ling shareh older and actual control er	Avoiding competit ion within the industry	<p>2. In order to avoid possible competition within the industry between Midea Group and Midea Holding and its controlled enterprises as well as He Xiangjian, his immediate family and his controlled companies, Midea Holding and He Xiangjian have undertaken as follows:</p> <p>(1) None of the entities or individuals mentioned above is or will be engaged in the same or similar business as the existing main business of Midea Group and its controlled companies. They are not or will not be engaged or participate in such business that is competitive to the existing main business of Midea Group and its controlled companies by controlling other economic entities, institutions or economic organizations;</p> <p>(2) If Midea Group and its controlled companies expand their business on the basis of the existing ones to those where the above mentioned related entities or individuals are already performing such production and operations, as long as He Xiangjian is still the actual controller of Midea Group, and Midea Holding the controlling</p>	28/03/2013	Long- standing	<p>2. There has been no violation of this undertaking.</p>

		<p>shareholder, they will agree on solving the problem of competition within the industry arising therefrom within a reasonable period;</p> <p>(3) If Midea Group and its controlled companies expand their business scope on the basis of the existing ones to those where the above mentioned related subjects have not gone into production or operation, as long as He Xiangjian is still the actual controller of Midea Group, and Midea Holding the controlling shareholder, they would undertake as not to engage in competitive business to the new ones of Midea Group and its controlled companies;</p> <p>(4) In accordance with effective laws, regulations or other regulatory documents of People's Republic of China, as long as Midea Holding is identified as the controlling shareholder of Midea Group, and He Xiangjian the actual controller, they will not change or terminate this undertaking.</p> <p>(5) Midea Holding and He Xiangjian shall faithfully fulfill the above undertaking, and assume the corresponding legal responsibilities. If they fail to fulfill their obligations</p>			
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		and responsibilities conferred by the undertaking, they would bear the corresponding legal responsibilities according to relevant laws, rules, regulations and regulatory documents.			
Control ling shareh older and actual controll er	Regulati on of related transacti ons	<p>3. In order to regulate matters of related transactions that may occur in the future between Midea Group and Midea Holding and its controlled companies as well as He Xiangjian, his immediate family and his controlled companies, Midea Holding and He Xiangjian have undertaken as follows:</p> <p>(1) They will regulate any related transactions with Midea Group and its controlled companies using their utmost efforts to reduce them. For unavoidable related transactions with Midea Group and its controlled companies, including but not limited to commodity trading, providing services to each other or as agent, they will sign legal normative agreements with Midea Group, and go through approval procedures in accordance with related laws, regulations, rules, other regulatory documents, and relevant provisions of the Articles of Association of Midea</p>	28/03/2013	Long- standing	3. There has been no violation of this undertaking.

		<p>Group. They guarantee to offer fair prices for related transactions, and fulfill the information disclosure obligations in respect of the related transactions according to related laws, regulations, rules, other regulatory documents, and relevant provisions of the Articles of Association of Midea Group. They also guarantee not to illegally transfer the funds or profits from Midea Group, or damage the interests of its shareholders at their advantages during the related transactions.</p> <p>(2) They shall fulfill the obligation of withdrawing from voting that involves the above mentioned related transactions at the general meeting of Midea Group;</p> <p>(3) The related subject mentioned above shall not require Midea Group to offer more favorable conditions than those to any independent third party in any fair market transactions.</p> <p>(4) In accordance with effective laws, regulations or other regulatory documents of People's Republic of China, as long as Midea Holding is identified as the controlling shareholder of Midea Group, and He Xiangjian the actual</p>			
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		<p>controller, they shall not change or terminate this undertaking.</p> <p>(5) Midea Holding and He Xiangjian will faithfully fulfill the above undertaking and assume the corresponding legal liabilities. If they fail to fulfill their obligations and responsibilities conferred by the undertaking, they will bear the corresponding legal responsibilities according to relevant laws, rules, regulations and regulatory documents.</p>			
Controlling shareholder and actual controller	On Midea Trade Union Committee	<p>4. On 4 January 2001, the Midea Trade Union Committee signed the "Equity Transfer Contract" with five people, namely He Xiangjian, Chen Dajiang, Feng Jingmei, Chen Kangning and Liang Jieyin, where it transferred all its limited equity of Midea Group (22. 85%) respectively to those five people. According to the confirmation letter issued by members of the Midea Trade Union Committee at that time, the equity transfer price was determined after mutual discussion on the basis of their true opinions, therefore there was no dispute or potential dispute.</p> <p>On 28 June 2013, Foshan Shunde Beijiao General Union,</p>	28/03/2013	Long-standing	<p>4. So far, this shareholding transfer has not brought about any loss caused by any dispute or potential disputes. There has been no violation of this undertaking.</p>

	Group	<p>superior department of Midea Trade Union Committee, issued a confirmation letter to the fact that the Midea Trade Union Committee funded the establishment of Midea Group Co., Ltd. In addition the letter also confirmed that the council of Midea Trade Union Committee is entitled to dispose any property of the committee, and such property disposal does not need any agreement from all staff committee members.</p> <p>Midea Holding and He Xiangjian, respectively the controlling shareholder and actual controller of Midea Group Co., Ltd. have undertaken as follows: For any loss to Midea Group caused by any dispute or potential dispute arising from the matters of equity transfer mentioned above, they are willing to assume full liability for such loss.</p>			
Control ling shareh older and actual	Issues about Payment of the Staff Social	<p>5. Midea Holding and He Xiangjian have undertaken to be liable for (1) paying such expenses and related expenses on time based on the requirements of relevant state departments if Midea Group is required to be liable for the payment of staff social insurance, housing provident fund and the payment required by relevant state authorities</p>	28/03/2013	Long- standing	<p>5. So far, the payment of the staff social insurance and the housing provident fund has not brought about any controversy or potential disputes. There has been no violation of this undertaking.</p>

<p>controll er</p>	<p>Insuranc e and the Housing Providen t Fund involved in Midea Group's Overall Listing</p>	<p>prior to this merger, (2) paying corresponding compensation for all direct and indirect losses incurred by the Midea Group and its subsidiaries due to this merger, (3) indemnifying and holding harmless Midea Group and its subsidiaries in time from such expenses when Midea Group and its subsidiaries are required to pay them in advance.</p>			
<p>Control ling shareh older and actual controll er</p>	<p>Issues about asset alteratio n, asset flaw and house leasing of Midea</p>	<p>6. Undertakings on issues about asset alteration, asset flaw and house leasing of Midea Group and its subsidiaries Midea Holding and He Xiangjian have undertaken as follows: (1) Midea Holding will do its utmost to assist and urge Midea Group (including its subsidiaries) to complete renaming procedures of related assets, such as land, housing, trademarks, patents and stock rights, declared</p>	<p>28/03/2013</p>	<p>Long- standing</p>	<p>6. So far, the issues about asset alteration, asset flaw and house leasing of Midea Group and its subsidiaries have not brought about any controversy or potential disputes. There has been no violation of this undertaking. And Midea Holding shall honor this undertaking before its expiration.</p>

	<p>Group and its subsidiaries</p>	<p>in the related files of this merger. Midea Holding will be liable for all compensations of losses caused by issues about renaming procedures of related assets mentioned above to Midea Group.</p> <p>(2) Midea Holding shall do its utmost to assist Midea Group (including its subsidiaries) to apply for ownership certificates of land and housing or property declared in related files of this merger.</p> <p>(3) Midea Holding shall assist Midea Group (including its subsidiaries) to re-apply for corresponding construction procedures and apply for their ownership certificates for houses without complete procedures, as happened in the past, to apply for the ownership certificate. If the competent authorities requires Midea Group to dismantle buildings that cannot acquire the re-application for real estate registration procedures, Midea Holding shall do its utmost to provide assistance and be liable for any related expenses used in dismantling such buildings by Midea Group (including its subsidiaries).</p> <p>(4) Under any circumstances that Midea Group suffers</p>			
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		<p>from losses incurred from no longer using these properties or presently using the land or house above due to failing to obtain or collect in time the ownership certificates of the land or house above or any losses caused by any other reasons, Midea Holding shall compensate any loss for these reasons in time and in full. Midea Holding shall compensate the actual loss Midea Group suffers from any circumstances above resulting in penalties subjected to from competent authorities or through claims from any other third party.</p> <p>(5) Based on issues of defective house leasing declared in related files of this merger, Midea Holding shall provide sufficient compensations for all economic losses incurred by Midea Group (including its subsidiaries) where the leasehold relations above become invalid or other disputes occur, which are caused by rights claims from a third party or by means of an administrative authority exercising a right and therefore results in any economic losses due to eviction from rental houses, or any penalties subjected to by competent government departments or</p>			
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		<p>any recourse from related parties.</p> <p>(6) Based on the issues of defective land leasing declared in related files of this merger, when leasehold relations become invalid caused by defects of land leasing or when other disputes occur, resulting in any economic losses to Midea Group (including its subsidiaries) or through any penalties administered by competent government departments. Likewise if the lessor cannot compensate for losses caused by such defective leasing, Midea Holding shall compensate Midea Group for losses caused by such defective land leasing.</p> <p>Midea Holding has further undertaken that where a violation of guarantees and undertakings referred to previously occurs or such guarantees and undertakings are not consistent with the reality and Midea Group has suffered any loss therefrom, Midea Holding shall compensate in cash or make up for Midea Group's loss upon Midea Group's notice in writing within 30 days when the loss occurs and the loss amount is definite.</p>			
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Undertakings given in time of IPO or refinancing	Xiaomi Technology	Private issue	Xiaomi Technology has given an undertaking that it shall not transfer the shares that it had subscribed for in this private placement with Midea Group within 36 months from the completion date of this offering (26 June 2015, the listing date for this offering).	26/06/2015	36 months from the listing date of this private placement, i.e. to 26 June 2018	There has been no violation of this undertaking.
Whether the undertaking is fulfilled on time	Yes					
Specific reasons for failing to fulfill any undertak	N/A					

ing and plan for the next step	
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3.2 Where any earnings forecast was made for any of the Company's assets or projects and the Reporting Period is still within the forecast period, the Company shall explain whether the performance of the asset or project reaches the earnings forecast and why

Applicable N/A

4. Occupation of the Company's Capital by the Controlling Shareholder or Its Related Parties for Non-Operating Purposes

Applicable N/A

No such cases in the Reporting Period.

5. Explanation of the Board of Directors, the Supervisory Committee and Independent Directors (If Any) Regarding the "Non-standard Audit Opinion" for the Reporting Period

Applicable N/A

6. Reason for Changes in Accounting Policies, Accounting Estimates and Accounting Methods as Compared to the Financial Report for the Prior Year

Applicable N/A

No such cases in the Reporting Period.

7. Reason for Retrospective Restatement of Major Accounting Errors during the Reporting Period

Applicable N/A

No such cases in the Reporting Period.

8. Reason for Changes in Scope of the Consolidated Financial Statements as Compared to the Financial Report for the Prior Year

Applicable N/A

For the main subsidiaries included in the consolidated financial statements of the current year, please refer to Note 5 and Note 6 to the Financial Statements herein. For the newly consolidated subsidiaries, see Note 5, 5.1 and 5.2, (a), and they primarily include: Guangdong Midea Electric Co., Ltd., Guangdong Midea Smart Robots Co., Ltd., Chongqing Midea Microcredit Co., Ltd., Guangdong Midea GiMAY Technology Co., Ltd., Hefei Midea Smart Technology Co., Ltd., Guangdong Midea Kafei Coffee Machine Manufacturing Co., Ltd., Midea Electric Netherlands (I) B.V., KUKA Aktiengesellschaft, SMC, Dongguan Kafei Electric Manufacturing Co., Ltd. and Fujitsu (Guangdong) Technology Service Co., Ltd. For the newly deconsolidated subsidiaries, see Note 5, 5.2, (b).

9. Engagement and Disengagement of CPAs Firm

CPA firm at present

Name of the domestic CPA firm	PricewaterhouseCoopers China (LLP)
The Company's payment to the domestic CPA firm	RMB8.7 million
Consecutive years of the audit service provided by the domestic CPAs firm	Three years
Names of the certified public accountants from the domestic CPAs firm	Huang Meimei and Qiu Xiaoying
Consecutive years of the audit service provided by the certified public accountants from the domestic CPAs firm	Three years

Whether the CPAs firm was changed in the current period

Yes No

Engagement of any CPAs firm for internal control audit, financial advisor or sponsor

Applicable N/A

The Company appointed PricewaterhouseCoopers China as the internal control auditor for the current year. The total amount paid by the Company to PricewaterhouseCoopers China for its financial statement and internal control audit services for 2017 was RMB8.7 million.

During the Company's acquisition of KUKA in cash through tender offer via MECCA, one of the Company's wholly-owned foreign subsidiaries, CITIC Securities Co., Ltd. was hired as the independent financial advisor for the said transaction. The transaction has been concluded on 6 January 2017 and a financial advising fee of RMB6 million has been paid.

10. Possibility of Listing Suspension and Termination after Disclosure of this Annual Report

Applicable N/A

11. Bankruptcy and Reorganization

Applicable N/A

No such cases in the Reporting Period.

12. Material Litigation and Arbitration

Applicable N/A

No such cases in the Reporting Period.

13. Punishments and Rectifications

Applicable N/A

No such cases in the Reporting Period.

14. Credit Conditions of the Company as well as Its Controlling Shareholder and Actual Controller

Applicable N/A

15. Implementation of any Equity Incentive Scheme, Employee Stock Ownership Scheme or Other Incentive Measures for Employees

Applicable N/A

A. Overview of the First Stock Option Incentive Scheme

a. The Company convened the 20th Meeting of the 2nd Board of Directors on 29 March 2017, at which the *Proposal for the Adjustments to the Incentive Receivers and Their Exercisable Stock Options of the First Stock Option Incentive Scheme* was reviewed and approved. As such, it was agreed to adjust the incentive receivers and their exercisable stock options for the First Stock Option Incentive Scheme due to the departure, positional changes, low performance appraisals or other factors of some incentive receivers. Upon the adjustments, the number of incentive receivers decreased from 562 to 518, and the number of locked-up stock options granted to them was also reduced from 40,957,500 to 37,518,750.

The *Proposal for Matters Related to the Stock Option Exercise for the Third Exercise Period of the First Stock Option Incentive Scheme* was also considered and approved. Because the exercise conditions have grown mature for the third exercise period, a total of 514 incentive receivers who have been verified for the First Stock Option Incentive Scheme have been allowed to exercise 37,518,750 stock options in the third exercise period (ended 17 February 2019).

b. On 3 May 2017, the *Announcement on the 2016 Annual Profit Distribution* was disclosed by the Company, with a decision to distribute a cash dividend of RMB10.00 per 10 shares to all the shareholders based on the total of 6,465,677,368 shares of the Company. The book closure date was 9 May 2017 and the ex-dividend date was 10 May 2017.

The Company convened the 22nd Meeting of the 2nd Board of Directors on 12 May 2017, at

which the *Proposal for the Adjustments to the Exercise Price for the First Stock Option Incentive Scheme* was reviewed and approved. As the 2016 Annual Profit Distribution had been carried out, the exercise price for the First Stock Option Incentive Scheme was revised from RMB11.01 to RMB10.01 per share.

c. On 24 May 2017, the exercise conditions grew mature for the third exercise period of the First Stock Option Incentive Scheme. Upon examination by the Shenzhen Stock Exchange and the Shenzhen branch of China Securities Depository and Clearing Co., Ltd., the third exercise period of the First Stock Option Incentive Scheme started on 24 May 2017. In the Reporting Period, 28,395,770 stock options have been exercised.

B. Overview of the Second Stock Option Incentive Scheme

a. The Company convened the 22nd Meeting of the 2nd Board of Directors on 12 May 2017, at which the *Proposal for the Adjustments to the Exercise Price for the Second Stock Option Incentive Scheme* was reviewed and approved. As the 2016 Annual Profit Distribution had been carried out, the exercise price for the Second Stock Option Incentive Scheme was revised from RMB19.56 to RMB18.56 per share.

b. The Company convened the 23rd Meeting of the 2nd Board of Directors on 1 June 2017, at which the *Proposal for the Adjustments to the Incentive Receivers and Their Exercisable Stock Options of the Second Stock Option Incentive Scheme* was reviewed and approved. As such, it was agreed to adjust the incentive receivers and their exercisable stock options for the Second Stock Option Incentive Scheme due to the departure, positional changes, low performance appraisals or other factors of some incentive receivers. Upon the adjustments, the number of incentive receivers decreased from 639 to 583, and the number of locked-up stock options granted to them was also reduced from 72,810,000 to 66,195,000.

The *Proposal for Matters Related to the Stock Option Exercise for the Second Exercise Period of the Second Stock Option Incentive Scheme* was also considered and approved. Because the exercise conditions have grown mature for the second exercise period, a total of 577 incentive receivers who have been verified for the Second Stock Option Incentive Scheme have been allowed to exercise 32,940,000 stock options in the second exercise

period (ended 27 May 2019).

c. On 9 June 2017, the exercise conditions grew mature for the second exercise period of the Second Stock Option Incentive Scheme. Upon examination by the Shenzhen Stock Exchange and the Shenzhen branch of China Securities Depository and Clearing Co., Ltd., the second exercise period of the Second Stock Option Incentive Scheme started on 9 June 2017. In the Reporting Period, 28,342,341 stock options have been exercised.

C. Overview of the Third Stock Option Incentive Scheme

a. The Company convened the 22nd Meeting of the 2nd Board of Directors on 12 May 2017, at which the *Proposal for the Adjustments to the Exercise Price for the Third Stock Option Incentive Scheme* was reviewed and approved. As the 2016 Annual Profit Distribution had been carried out, the exercise price for the Third Stock Option Incentive Scheme was revised from RMB21.35 to RMB20.35 per share.

b. The Company convened the 24th Meeting of the 2nd Board of Directors on 29 June 2017, at which the *Proposal for the Adjustments to the Incentive Receivers and Their Exercisable Stock Options of the Third Stock Option Incentive Scheme* was reviewed and approved. As such, it was agreed to adjust the incentive receivers and their exercisable stock options for the Third Stock Option Incentive Scheme due to the departure, positional changes, low performance appraisals or other factors of some incentive receivers. Upon the adjustments, the number of incentive receivers decreased from 929 to 891, and the number of locked-up stock options granted to them was also reduced from 127,290,000 to 121,485,000.

The *Proposal for Matters Related to the Stock Option Exercise for the First Exercise Period of the Third Stock Option Incentive Scheme* was also considered and approved. Because the exercise conditions have grown mature for the first exercise period, a total of 887 incentive receivers who have been verified for the Third Stock Option Incentive Scheme have been allowed to exercise 40,395,000 stock options in the first exercise period (ended 27 June 2019).

c. On 6 July 2017, the exercise conditions grew mature for the first exercise period of the Third Stock Option Incentive Scheme. Upon examination by the Shenzhen Stock Exchange

and the Shenzhen branch of China Securities Depository and Clearing Co., Ltd., the first exercise period of the Third Stock Option Incentive Scheme started on 7 July 2017. In the Reporting Period, 22,609,862 stock options have been exercised.

D. Overview of the Fourth Stock Option Incentive Scheme

a. On 29 March 2017, the *Fourth Stock Option Incentive Scheme (Draft)* and its abstract were reviewed and approved at the 20th Meeting of the 2nd Board of Directors, and the incentive receiver list for the *Fourth Stock Option Incentive Scheme (Draft)* was examined at the 14th Meeting of the 2nd Supervisory Committee.

b. On 21 April 2017, the Company convened the 2016 Annual Meeting of Shareholders, at which the *Fourth Stock Option Incentive Scheme (Draft)* and its abstract, the *Implementation and Appraisal Measures for the Fourth Stock Option Incentive Scheme*, the *Proposal for Asking the Meeting of Shareholders to Authorize the Board to Handle Matters Related to the Fourth Stock Option Incentive Scheme* and other relevant proposals were reviewed and approved.

For this Incentive Scheme, the Company intended to grant 98,982,000 stock options to 1,476 incentive receivers with the exercise price being RMB33.72 per share.

c. In light of the authorization given at the 2016 Annual Meeting of Shareholders, the Company convened the 22nd Meeting of the 2nd Board of Directors on 12 May 2017, at which the *Proposal for the Adjustments to the Exercise Price, Incentive Receiver List and Number of Stock Options to Be Granted for the Fourth Stock Option Incentive Scheme*, the *Proposal for the Determination of the Grant Date for the Fourth Stock Option Incentive Scheme* and the *Proposal for the Grant-Related Matters for the Fourth Stock Option Incentive Scheme* were reviewed and approved. As such, the Company agreed to grant 98,274,000 stock options to 1,463 incentive receivers on 12 May 2017 with the exercise price being RMB32.72 per share. The incentive receiver list and the number of stock options to be granted were revised by the Company's Board of Directors because 13 incentive receivers were no longer eligible due to their departure or positional changes.

E. Overview of the First Employee Stock Ownership Scheme

According to the first and second Core Management and “Midea Group Partner” Stock Ownership Schemes (draft) (“Employee Stock Ownership Schemes” for short), the number of shares for every intended incentive receiver should be determined based on how well the performance objectives of the Company, its business divisions and operating units for the appraisal year are achieved and how much an intended incentive receiver contributes to that. The shares will be vested in an intended incentive receiver by three installments (40% for the first installment and 30% for the second and third respectively). The first 70% shares (the first and second installments combined) vested in an incentive receiver will be locked up when these shares are until the final 30% is put under the name of the incentive receiver, and the third installment will not be subject to lock-up (tradable as soon as they are put under the name of the incentive receiver).

Where an intended incentive receiver is no longer eligible during the period of such a stock ownership Scheme due to positional changes or departure, the administrative committee for the stock ownership plan will take back, with no compensation, those shares that have not yet vested in the incentive receiver.

Because two such partners (Yuan Liqun and Wu Wenxin) had left the Company before the second installment of the First Employee Stock Ownership Scheme could be vested in them, their unvested shares of 216,000 and the corresponding dividends (if any) have been taken back by the administrative committee for no compensation, and will be sold before the First Employee Stock Ownership Scheme expires. The earnings on the sale will belong to the Company.

A total of 774,900 shares (30% of the total shares to be vested for the First Employee Stock Ownership Scheme) have been vested as the second installment, of which 335,250 shares were vested in senior executives Fang Hongbo, Zhu Fengtao, Gu Yanmin and Wang Jinliang while the remaining 439,650 shares in other nine core management personnel.

F. Overview of the Second Employee Stock Ownership Scheme

a. The company performance requirement for the Second Employee Stock Ownership

Scheme is a weighted average ROE not lower than 20% for 2016. According to the *2016 Annual Auditor's Report for Midea Group Co., Ltd.* issued by PricewaterhouseCoopers China (LLP), this ROE requirement has been met at 26.88%.

b. A total of 3,874,590 of the Company's shares have been purchased for the Second Employee Stock Ownership Scheme. As per the *Second Employee Stock Ownership Scheme (Draft)*, the administrative committee has confirmed the number of shares to be granted to each intended incentive receiver, with the total shares to be granted being 3,248,790 shares (1,732,800 shares for senior executives Fang Hongbo, Gu Yanmin, Yin Bitong, Zhu Fengtao and Wang Jinliang and the remaining 1,515,990 shares for other eight core management personnel). The committee has also confirmed the first installment for this employee stock ownership Scheme (1,299,516 in total).

c. There were 625,800 shares left due to the departure of two Midea Group Partners (Yuan Liqun and Wu Wenxin) in the period of the Second Employee Stock Ownership Scheme. As per the *Second Employee Stock Ownership Scheme (Draft)*, these shares and their dividends (if any) have been taken back by the administrative committee for no compensation, and will be sold before the Second Employee Stock Ownership Scheme expires. The earnings on the sale will belong to the Company.

G. Overview of the Third Employee Stock Ownership Scheme

a. The *Proposal for the Third Core Management and "Midea Group Partner" Stock Ownership Plan (Draft) of Midea Group Co., Ltd. & Its Abstract* was considered and approved at the 20th Meeting of the 2nd Board of Directors on 29 March 2017. As resolved by a meeting of the intended incentive receivers of the Third Employee Stock Ownership Scheme, China International Capital Corporation Limited (CICC) was entrusted to conduct the "CICC Directional Asset Management Scheme for the Third Midea Group Partner Stock Ownership Scheme" with Midea Group shares purchased from the secondary market.

b. On 18 May 2017, CICC, the stock ownership Scheme administrator, purchased a total of 2,846,445 Midea Group shares at an average price of RMB34.77/share from the secondary market. The funds used for the share purchase were sourced from Midea Group's special

fund for the Third Employee Stock Ownership Scheme of RMB99 million. As such, the shares needed by the Third Employee Stock Ownership Scheme have been purchased, with a statutory lock-up period from 19 May 2017 to 18 May 2018.

H. Overview of the 2017 Restricted Share Incentive Scheme

a. On 29 March 2017, the *2017 Restricted Share Incentive Scheme (Draft)* and its abstract were reviewed and approved at the 20th Meeting of the 2nd Board of Directors, and the incentive receiver list for the *2017 Restricted Share Incentive Scheme (Draft)* was examined at the 14th Meeting of the 2nd Supervisory Committee.

b. On 21 April 2017, the Company convened the 2016 Annual Meeting of Shareholders, at which the *2017 Restricted Share Incentive Scheme (Draft)* and its abstract, the *Implementation and Appraisal Measures for the 2017 Restricted Share Incentive Scheme*, the *Proposal for Asking the Meeting of Shareholders to Authorize the Board to Handle Matters Related to the 2017 Restricted Share Incentive Scheme* and other relevant proposals were reviewed and approved.

For this restricted share incentive Scheme, the Company intended to issue, for the first phase, 24,240,000 restricted shares to 140 incentive receivers at the price of RMB16.86 per share, and issue another 5,550,000 restricted shares as reserve.

c. In light of the authorization given at the 2016 Annual Meeting of Shareholders, the Company convened the 22nd Meeting of the 2nd Board of Directors on 12 May 2017, at which the *Proposal for the Adjustments to the Grant Price, Incentive Receiver List and Number of Restricted Shares to Be Granted for the First Phase of the 2017 Restricted Share Incentive Scheme*, the *Proposal for the Determination of the Grant Date for the First Phase of the 2017 Restricted Share Incentive Scheme* and the *Proposal for the Grant-Related Matters for the First Phase of the 2017 Restricted Share Incentive Scheme* were reviewed and approved. As such, the Company agreed to grant 23,130,000 restricted shares to 133 incentive receivers on 12 May 2017 at the price of RMB15.86 per share. The incentive receiver list and the number of restricted shares to be granted were revised by the Company's Board of Directors because seven incentive receivers were no longer eligible

due to their departure or positional changes.

d. PricewaterhouseCoopers China (LLP) issued on 19 May 2017 the *Capital Verification Report* PwC China CV (2017) No. 542, verifying the increase in the Company's registered capital and the payment thereof as of 18 May 2017 due to the Company's issue of restricted shares of its A-stock to 133 incentive receivers in the first phase of its 2017 Restricted Share Incentive Scheme. As verified, as of 18 May 2017, the Company had received RMB366,841,800 from 133 incentive receivers for restricted share subscription, representing an increase of RMB23,130,000 in share capital and an increase of RMB343,711,800 in capital reserves.

e. As per the CSRC's *Measures for the Administration of Equity Incentives of Listed Companies*, and as confirmed by the Shenzhen Stock Exchange and China Securities Depository and Clearing Co., Ltd. (Shenzhen branch), the shares in the first phase of the Company's 2017 Restricted Share Incentive Scheme had been registered and were to go public on 16 June 2017.

f. In light of the authorization given at the 2016 Annual Meeting of Shareholders, the Company convened the 29th Meeting of the 2nd Board of Directors on 29 December 2017, at which the Proposal on Grant of 2017 Reserved Restricted Shares to Incentive Receivers was reviewed and approved. As such, the Company agreed to grant 5,475,000 reserved restricted shares to 55 incentive receivers on 29 December 2017 at the price of RMB27.99 per share. And the incentive receiver list was examined at the 21st Meeting of the 2nd Supervisory Committee.

g. The Company had intended to grant 5,475,000 reserved restricted shares to 55 incentive receivers. However, after the date of grant, one incentive receiver left the Company and the 90,000 reserved restricted shares that had been granted to this incentive receiver were cancelled. As such, the Company actually granted 5,385,000 reserved restricted shares to 54 incentive receivers. PricewaterhouseCoopers China (LLP) issued on 26 January 2018 the *Capital Verification Report* PwC China CV (2018) No. 0061, verifying the corresponding increase in the Company's registered capital and the payment thereof as of 24 January 2018. As verified, as of 24 January 2018, the Company had received RMB150,726,150 from 54

incentive receivers for reserved restricted share subscription, representing an increase of RMB5,385,000 in share capital and an increase of RMB145,341,150 in capital reserves.

h. As per the CSRC's *Measures for the Administration of Equity Incentives of Listed Companies*, and as confirmed by the Shenzhen Stock Exchange and China Securities Depository and Clearing Co., Ltd. (Shenzhen branch), the reserved shares in the Company's 2017 Restricted Share Incentive Scheme had been registered and were to go public on 7 February 2018.

16. Significant Related Transactions

16.1 Related transactions arising from routine operation

√ Applicable □ N/A

Related transaction party	Relation	Type of the transaction	Contents of the transaction	Pricing principle	Transaction price	Transaction amount (RMB'0,000)	Proportion in the total amounts of transaction of the same kind (%)	Approved transaction line (RMB'0,000)	Over approved line	Mode of settlement	Obtainable market price for the transaction of the same kind	Disclosure date	Index to the disclosed information
Inforenment Technology	Controlled by family member of	Procurement	Procurement of goods	Market price	-	115,540	0.68%	110,000	Yes	Payment after delivery	-	31/03/2017	www.cninfo.com.cn

Group Co., Ltd.	Company's actual controller												
Orinko Plastic Group	Controlled by family member of Company's actual controller	Procurement of goods	Procurement of goods	Market price	-	46,325	0.27%	40,000	Yes	Payment after delivery	-	31/03/2017	www.cninfo.com.cn
Total				--	--	161,865	--	150,000	--	--	--	--	--
Details of any sales return of a large amount				Zero									
Give the actual situation in the Reporting Period (if any) where a forecast had been made for the total amounts of routine related-party transactions by type to occur in the current period				In the year, the actual routine transaction amount between the Company and the related parties and its subsidiaries exceeded the total amount of routine related transactions estimated by the Company by type. But it did not reach an amount which requires re-consideration of the Board as per the Stock Listing Rules.									
Reason for any significant difference between the transaction price and the				N/A									

market reference price (if applicable)	
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16.2 Related transactions regarding purchase or sales of assets or equity interests

Applicable N/A

No such cases in the Reporting Period.

16.3 Related transitions arising from joint investments in external parties

Applicable N/A

No such cases in the Reporting Period.

16.4 Credits and liabilities with related parties

Applicable N/A

Whether there were any credits or liabilities with related parties for non-operating purposes

Yes No

No such cases in the Reporting Period.

16.5 Other significant related transactions

Applicable N/A

The Proposal for Related Transactions Regarding Making Deposits in and Obtaining Loans from Shunde Rural Commercial Bank in 2017 was reviewed and approved at the 26th Meeting of the 2nd Board of Directors held on 29 August 2017 and later at the 2017 First Extraordinary General Meeting of Shareholders held on 15 September 2017.

In 2017, the deposit balance of the Company in Shunde Rural Commercial Bank did not exceed RMB5 billion and neither did the credit balance provided by the bank to the Company exceed RMB5 billion.

Index to the announcement about the said related transactions disclosed

Title of announcement	Disclosure date	Disclosure website
Announcement on Related Transactions Regarding Making Deposits in and Obtaining Loans from Shunde Rural Commercial Bank in 2017	31/08/2017	www.cninfo.com.cn

17. Significant Contracts and Their Execution

17.1 Trusteeship, contracting and leasing

17.1.1 Trusteeship

Applicable N/A

No such cases in the Reporting Period.

17.1.2 Contracting

Applicable N/A

No such cases in the Reporting Period.

17.1.3 Leasing

Applicable N/A

No such cases in the Reporting Period.

17.2 Major Guarantees

Applicable N/A

17.2.1 Guarantees provided

Unit: RMB'0,000

Guarantees provided by the Company and its subsidiaries for external parties (excluding those for subsidiaries)								
Guaranteed party	Disclosure date of the guarantee line announcement	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
Misr Refrigeration And Air Conditioning Manufacturing CO.	2017-3-31	3,500	2017-1-1	0	Joint liability	One year	No	No
Concepcion Midea INC	2017-3-31	600	2017-1-1	0	Joint liability	One year	No	No
Total external guarantee line approved during the Reporting Period (A1)		4,100		Total actual external guarantee amount during the Reporting Period (A2)		0		
Total approved external guarantee line at the end of the Reporting Period (A3)		4,100		Total actual external guarantee balance at the end of the Reporting Period (A4)		0		
Guarantees provided by the Company for its subsidiaries								
Guaranteed party	Disclosure date of the	Line of guarantee	Actual occurrence date	Actual guarantee	Type of guarantee	Term of guarantee	Due or not	Guarantee for

	guarantee line announcement		(date of agreement signing)	amount		antee		a relat ed party or not
Midea Group Finance Co., Ltd.	2017-3-31	1,040,000	2017-1-1	0	Joint liability	One year	No	No
Guangdong Midea Refrigeration Equipment Co., Ltd.	2017-3-31	1,110,000	2017-2-9	56,925	Ditto	Ditto	Ditto	Ditto
Guangzhou Hualing Refrigeration Equipment Co., Ltd.	2017-3-31	150,000	2017-1-20	0	Ditto	Ditto	Ditto	Ditto
Foshan Midea Carrier Refrigeration Equipment Co., Ltd.	2017-3-31	9,500	-	0	Ditto	Ditto	Ditto	Ditto
Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.	2017-3-31	547,200	2017-1-10	44,587	Ditto	Ditto	Ditto	Ditto
Guangdong Witt Vacuum Electronics Manufacturing Co., Ltd.	2017-3-31	5,000	2017-1-1	3,993	Ditto	Ditto	Ditto	Ditto
Foshan Shunde Midea Washing Appliance Manufacturing Co., Ltd.	2017-3-31	146,200	2017-1-9	34,575	Ditto	Ditto	Ditto	Ditto
Guangdong Midea Heating & Ventilation Equipment Co., Ltd.	2017-3-31	214,400	2017-1-12	41,151	Ditto	Ditto	Ditto	Ditto
Midea Commercial Air Conditioning Equipment Co., Ltd., Guangdong Province	2017-3-31	55,000	2017-5-12	0	Ditto	Ditto	Ditto	Ditto
Guangdong Midea-SIIX	2017-3-31	13,200	2017-1-1	37	Ditto	Ditto	Ditto	Ditto

Electronics Co., Ltd.								
Guangdong Midea Consumer Electric Manufacturing Co., Ltd.	2017-3-31	27,500	2017-1-1	570	Ditto	Ditto	Ditto	Ditto
Foshan Shunde Midea Electric Appliance Manufacturing Co., Ltd.	2017-3-31	62,100	2017-1-15	12,933	Ditto	Ditto	Ditto	Ditto
Guangdong Midea Kitchen & Bathroom Appliances Manufacturing Co., Ltd.	2017-3-31	10,600	2017-3-27	5	Ditto	Ditto	Ditto	Ditto
Foshan Shunde Midea Drinking Manufacturing Co., Ltd.	2017-3-31	28,100	2017-1-1	3,740	Ditto	Ditto	Ditto	Ditto
Foshan Midea Clear Lake Water Purification Equipment Manufacturing Co., Ltd.	2017-3-31	6,000	-	0	Ditto	Ditto	Ditto	Ditto
Guangdong Midea Environment Appliances Manufacturing Co., Ltd.	2017-3-31	52,200	2017-3-24	5,050	Ditto	Ditto	Ditto	Ditto
Guangdong GMCC Refrigeration Equipment Co., Ltd.	2017-3-31	45,500	2017-3-21	9,999	Ditto	Ditto	Ditto	Ditto
Guangdong GMCC Precise Manufacture Co., Ltd.	2017-3-31	34,000	2017-1-1	3,395	Ditto	Ditto	Ditto	Ditto
Guangdong Welling Motor Co., Ltd.	2017-3-31	46,900	2017-1-1	106	Ditto	Ditto	Ditto	Ditto
Foshan Welling Washer Motor Manufacturing Co., Ltd.	2017-3-31	78,200	2017-1-20	3,527	Ditto	Ditto	Ditto	Ditto
Ningbo Midea Joint Materials Supply Co. Ltd.	2017-3-31	66,000	2017-1-1	0	Ditto	Ditto	Ditto	Ditto
Foshan Welling Material Co., Ltd.	2017-3-31	6,000	2017-1-1	0	Ditto	Ditto	Ditto	Ditto

Guangzhou Kaizhao Trading Co., Ltd.	2017-3-31	18,000	2017-1-1	0	Ditto	Ditto	Ditto	Ditto
Guangdong Midea Group Wuhu Refrigeration Equipment Co., Ltd.	2017-3-31	122,300	-	0	Ditto	Ditto	Ditto	Ditto
Wuhu GMCC Air Conditioning Equipment Co., Ltd.	2017-3-31	111,000	2017-1-12	3	Ditto	Ditto	Ditto	Ditto
Hefei Midea Refrigerator Co., Ltd.	2017-3-31	34,000	2017-1-6	2,000	Ditto	Ditto	Ditto	Ditto
Hubei Midea Refrigerator Co., Ltd.	2017-3-31	10,000	2017-3-24	95	Ditto	Ditto	Ditto	Ditto
Hefei Hualing Co., Ltd.	2017-3-31	52,000	2017-1-10	83	Ditto	Ditto	Ditto	Ditto
Guangzhou Midea Hualing Refrigerator Equipment Co., Ltd.	2017-3-31	20,000	2017-1-12	0	Ditto	Ditto	Ditto	Ditto
Hefei Midea Heating & Ventilation Equipment Co., Ltd.	2017-3-31	24,200	-	0	Ditto	Ditto	Ditto	Ditto
Hefei Midea-Bosch Air Conditioning Equipment Co., Ltd.	2017-3-31	5,000	-	0	Ditto	Ditto	Ditto	Ditto
Wuhu Midea Kitchen & Bathroom Electric Manufacturing Co., Ltd.	2017-3-31	44,000	2017-5-5	4,591	Ditto	Ditto	Ditto	Ditto
Wuhu Midea Kitchen Appliances Manufacturing Co., Ltd.	2017-3-31	4,000	-	0	Ditto	Ditto	Ditto	Ditto
Anhui GMCC Refrigeration Equipment Co., Ltd.	2017-3-31	10,000	2017-3-14	87	Ditto	Ditto	Ditto	Ditto
Anhui GMCC Precise Manufacture Co., Ltd.	2017-3-31	25,200	2017-1-12	7,720	Ditto	Ditto	Ditto	Ditto
Welling (Wuhu) Motor Manufacturing Co., Ltd.	2017-3-31	16,800	2017-5-18	2,702	Ditto	Ditto	Ditto	Ditto
Annto Logistics Technology Co.,	2017-3-31	32,000	2017-1-1	610	Ditto	Ditto	Ditto	Ditto

Ltd.								
Hefei Midea Washing Machine Co., Ltd.	2017-3-31	105,000	2017-2-21	28,350	Ditto	Ditto	Ditto	Ditto
Jiangsu Midea Cleaning Appliances Co., Ltd.	2017-3-31	22,000	2017-3-16	4,368	Ditto	Ditto	Ditto	Ditto
Jiangxi Midea Guiya Lighting Co., Ltd.	2017-3-31	7,700	-	0	Ditto	Ditto	Ditto	Ditto
Chongqing Midea General Refrigeration Equipment Co., Ltd.	2017-3-31	7,700	-	0	Ditto	Ditto	Ditto	Ditto
Zhejiang GMCC Compressor Co., Ltd.	2017-3-31	80,000	2017-3-28	0	Ditto	Ditto	Ditto	Ditto
Midea International Holdings Ltd.	2017-3-31	701,300	2017-1-1	197,212	Ditto	Ditto	Ditto	Ditto
Midea International Trading Co., Ltd	2017-3-31	83,350	2017-1-5	21,990	Ditto	Ditto	Ditto	Ditto
Midea Electric Investment (BVI) Limited	2017-3-31	80,780	-	0	Ditto	Ditto	Ditto	Ditto
Midea Refrigeration (Hong Kong) Ltd.	2017-3-31	3,500	-	0	Ditto	Ditto	Ditto	Ditto
Calpore Macao Commercial Offshore Ltd.	2017-3-31	22,500	-	0	Ditto	Ditto	Ditto	Ditto
Welling International Hong Kong Limited	2017-3-31	32,190	-	0	Ditto	Ditto	Ditto	Ditto
Midea Investment and Development Co., Ltd.	2017-3-31	700,000	2017-1-1	485,436	Ditto	Ditto	Ditto	Ditto
Main Power Electrical Factory Ltd	2017-3-31	48,500	2017-1-20	5,324	Ditto	Ditto	Ditto	Ditto
Midea Electric Trading (Singapore) Co. Pte. Ltd.	2017-3-31	439,000	2017-2-6	7,468	Ditto	Ditto	Ditto	Ditto

Toshiba Lifestyle Products & Services Corporation and its subsidiaries	2017-3-31	446,000	2017-1-1	56,544	Ditto	Ditto	Ditto	Ditto
Midea Consumer Electric (Vietnam) Co., Ltd.	2017-3-31	6,860	-	0	Ditto	Ditto	Ditto	Ditto
Springer Carrier Ltda.	2017-3-31	130,000	2017-3-1	70,717	Ditto	Ditto	Ditto	Ditto
Climazon Industrial Ltda.	2017-3-31				Ditto	Ditto	Ditto	Ditto
Carrier(Chile) S.A.	2017-3-31	3,900	2017-6-27	2,415	Ditto	Ditto	Ditto	Ditto
Midea Electrics Netherlands B.V.	2017-3-31	6,860	-	0	Ditto	Ditto	Ditto	Ditto
Midea America Corp.	2017-3-31	17,400	-	0	Ditto	Ditto	Ditto	Ditto
PT.MIDEA Planet Indonesia	2017-3-31	15,100	-	0	Ditto	Ditto	Ditto	Ditto
Midea Scott & English Electronics SDN BHD	2017-3-31	4,510	2017-1-17	2,132	Ditto	Ditto	Ditto	Ditto
Midea America (Canada) Corp.	2017-3-31	5,500	-	0	Ditto	Ditto	Ditto	Ditto
Midea México, S. DE R.L. DE C.V.	2017-3-31	13,810	-	0	Ditto	Ditto	Ditto	Ditto
Orient Household Appliances Ltd.	2017-3-31	10,290	-	0	Ditto	Ditto	Ditto	Ditto
Midea Electric Netherlands (I) B.V.	2017-3-31	3,000,000	2017-1-1	2,697,554	Ditto	Ditto	Ditto	Ditto
Midea India Private Limited	2017-3-31	6,900	-	0	Ditto	Ditto	Ditto	Ditto
Midea Electric Trading (Thailand) Limited	2017-3-31	6,900	2017-5-24	528	Ditto	Ditto	Ditto	Ditto
Total guarantee line for subsidiaries approved during the Reporting Period (B1)		10,289,650			Total actual guarantee amount for subsidiaries during the Reporting Period (B2)		6,330,614	

Total approved guarantee line for subsidiaries at the end of the Reporting Period (B3)		10,289,650	Total actual guarantee balance for subsidiaries at the end of the Reporting Period (B4)	3,818,523				
Guarantees between subsidiaries								
Guaranteed party	Disclosure date of the guarantee line announcement	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
No such cases								
Total guarantee amount (total of the above-mentioned three kinds of guarantees)								
Total guarantee line approved during the Reporting Period (A1+B1+C1)		10,293,750	Total actual guarantee amount during the Reporting Period (A2+B2+C2)		6,330,614			
Total approved guarantee line at the end of the Reporting Period (A3+B3+C3)		10,293,750	Total actual guarantee balance at the end of the Reporting Period (A4+B4+C4)		3,818,523			
Proportion of the total actual guarantee amount (A4+B4+C4) in net assets of the Company			51.79%					
Of which:								
Amount of guarantees provided for shareholders, the actual controller and their related parties (D)				0				

Amount of debt guarantees provided directly or indirectly for entities with a liability-to-asset ratio over 70% (E)	3,442,433
Portion of the total guarantee amount in excess of 50% of net assets (F)	0
Total amount of the three kinds of guarantees above (D+E+F)	3,442,433
Joint responsibilities possibly borne or already borne in the Reporting Period for undue guarantees (if any)	N/A
Provision of external guarantees in breach of the prescribed procedures (if any)	N/A

17.2.2 Illegal provision of guarantees for external parties

Applicable N/A

No such cases in the Reporting Period.

17.3 Entrusted cash management

17.3.1 Entrusted asset management

Applicable N/A

Overview of wealth management entrustment

Unit: RMB'0,000

Type	Source of capital	Amount	Undue amount	Unrecovered overdue amount
Bank's wealth	The Company's own	2,124,300	1,917,978	0

management products	money			
Asset management plans	The Company's own money	1,046,082	0	0
Trust wealth management	The Company's own money	696,790	288,374	0
Private equity funds	The Company's own money	370,000	0	0
Entrusted bonds	The Company's own money	50,000	3,120	0
Total		4,287,172	2,209,472	0

17.3.2 Entrusted loans

Applicable N/A

No such cases in the Reporting Period.

17.4 Other significant contracts

Applicable N/A

No such cases in the Reporting Period.

18. Social Responsibility (CSR)

18.1 Measures taken to fulfill CSR commitment

The Company has voluntarily disclosed its CSR work. Attaching great importance to protecting the legal rights and interests of its shareholders, employees, consumers and business partners, as well as the government, the community and other stakeholders, the

Company sticks to harmonious common growth with them, honors its commitments, abides by law and moral principles, and continue to contribute to the sustainable development of the society and the environment. For further information, see the Company's *Corporate Social Responsibility Report 2017* released on www.cninfo.com.cn.

18.2 Measures taken for targeted poverty alleviation

A. Summary of the work done for targeted poverty alleviation during the year

Midea Group has been making great efforts to help alleviate poverty in the Guangdong Province. As it grows bigger and stronger, it willingly takes on social responsibility and gives back to society. In 2017, Midea donated a total of RMB20.5 million, of which RMB10 million was given for targeted poverty alleviation to the Guangdong government's office for poverty alleviation and development, and another RMB10 million was given to the Beijiao Town Charity Federation for poverty alleviation and public welfare of the town. Additionally, it supported the Foshan Municipal Government to help reduce poverty in Liangshan in the Sichuan Province by donating 1,100 sets of small domestic appliances worth RMB0.5 million to the people there in July 2017. With the donation receiving institutions knowing exactly their responsibilities and how to use the donated money properly, all the donated money has been made good use of and produced positive effects in the society.

B. Targeted poverty alleviation plans for the coming future

To follow the spirit of the 19th National Congress of the Communist Party of China, President Xi Jinping's ideology of socialism with Chinese characteristics in a new era, and the decisions and plans made by the Guangdong provincial party committee and government for poverty alleviation, Midea Group will stay down to earth and seek actual results in its work done for the targeted poverty alleviation drive. It will accelerate such work and stick to the basic strategy of targeted poverty alleviation in this regard. And it will continue to work with the Guangdong government's office for poverty alleviation and development to get to know realities in the poor areas, draw up specific plans to help fight poverty and carry them

out effectively.

18.3 Environmental protection

Neither the Company nor any of its subsidiaries is declared a heavily polluting business by the environmental protection authorities.

19. Other Significant Events

Applicable N/A

The proposals for the tender offer to acquire shares of KUKA Aktiengesellschaft have been considered and approved at the 11th and 12th meetings of the Second Board as well as the Third Special Meeting of Shareholders in 2016. The Company intended to make a cash tender offer of 115 euro/share to acquire KUKA shares via its wholly-owned foreign subsidiary MECCA, with the funds needed sourced from syndicated loans and the Company's own funds.

The Company completed the transaction on 6 January 2017 after the fulfillment of all statutory decision-making and approval procedures prior to completion. KUKA AG's 32,233,536 shares have been transferred to MECCA and MECCA has paid the total transaction price of € 3,706,856,640.

20. Significant Events of Subsidiaries

Applicable N/A

Section VI Changes in Shares and Information about Shareholders

1. Changes in Shares

1.1 Changes in shares

Unit: share

	Before		Increase/decrease in Reporting Period (+/-)					After	
	Shares	Percentage (%)	New issue	Shares as dividend converted from retained earnings	Shares as dividend converted from capital reserves	Other	Subtotal	Shares	Percentage (%)
1. Restricted shares	279,045,260	4.32	23,130,000	0	0	-90,152,350	-67,022,350	212,022,910	3.23
1.1 Shares held by the state	0	0	0	0	0	0	0	0	0
1.2 Shares held by state-owned corporations	0	0	0	0	0	0	0	0	0

1.3 Shares held by other domestic investors	279,045,260	4.32	22,380,000	0	0	-90,152,350	-67,772,350	211,272,910	3.22
Among which: Shares held by domestic corporations	82,500,000	1.28	0	0	0	0	0	82,500,000	1.26
Shares held by domestic individuals	196,545,260	3.04	22,380,000	0	0	-90,152,350	-67,772,350	128,772,910	1.96
1.4 Shares held by foreign investors	0	0	750,000	0	0	0	750,000	750,000	0.01
Among which: Shares held by foreign corporations	0	0	0	0	0	0	0	0	0
Shares held by foreign individuals	0	0	750,000	0	0	0	750,000	750,000	0.01
2. Non-restricted shares	6,179,721,548	95.68	79,156,511	0	0	90,152,350	169,308,861	6,349,030,409	96.77
2.1 RMB common shares	6,179,721,548	95.68	79,156,511	0	0	90,152,350	169,308,861	6,349,030,409	96.77
2.2 Domestically listed shares for foreign investors	0	0	0	0	0	0	0	0	0
2.3 Overseas listed shares for foreign investors	0	0	0	0	0	0	0	0	0
2.4 Other	0	0	0	0	0	0	0	0	0

3. Total shares	6,458,766,808	100	102,286,511	0	0	0	102,286,511	6,561,053,319	100
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Reasons for the changes in shares

Applicable N/A

a. 23,130,000 restricted shares were granted to 133 employees for the first phase of the Company's 2017 Restricted Share Incentive Scheme, of which 750,000 were granted to foreign employees who work in China.

b. Director & Vice President Mr. Li Feide chose to exercise, on 24 May 2017, 375,000 share options, which had been granted to him as incentives, and 75% of these shares, equal to 281,250 shares, were locked up due to his senior management position.

c. Company Secretary Mr. Jiang Peng chose to exercise, in September 2017, 465,000 share options, which had been granted to him as incentives, and 75% of these shares, equal to 348,750 shares, were locked up due to his senior management position.

d. Ms. Yuan Liqun, a former director, vice president and the former CFO, left the Company on 15 July 2016, and all her holdings of 90,750,000 shares in the Company were unlocked after a lockup for six months from her departure.

e. Ms. Mai Yufen, a former employee supervisor, left the Company on 30 March 2017, and all her holdings of 2,300 shares in the Company were unlocked after a lockup for six months from her departure.

Approval of share changes

Applicable N/A

Transfer of share ownership

Applicable N/A

Effects of changes in shares on the basic EPS, diluted EPS, net assets per share attributable to common shareholders of the Company and other financial indexes over the last year and the last Reporting Period

Applicable N/A

Other contents that the Company considers necessary or is required by the securities regulatory authorities to disclose

Applicable N/A

1.2 Changes in restricted shares

Applicable N/A

Unit: share

Name of shareholder	Opening restricted shares	Unlocked in current period	Increased in current period	Closing restricted shares	Reason for change	Date of unlocking
Incentive receivers of 2017 Restricted Share Incentive Plan (first phase)	0	0	23,130,000	23,130,000	Lockup according to the Plan	12/05/2018
Jiang Peng	110,000	0	348,750	458,750	Lockup caused by senior executive's exercise of share options awarded	-
Li Feide	562,500	0	281,250	843,750	Lockup caused by senior executive's exercise of share options awarded	-
Yuan Liqun	90,750,000	90,750,000	0	0	Unlocking caused by expiration of a six-month lockup	15/01/2017

					from senior executive's departure	
Total	91,422,500	90,750,000	23,760,000	24,432,500	--	--

2. Issuance and Listing of Securities

2.1 Securities (excluding preference shares) issued in the Reporting Period

Applicable N/A

2.2 Changes in total shares of the Company and the shareholder structure, as well as the asset and liability structures

Applicable N/A

The total shares of the Company were 6,458,766,808 at the beginning of the Reporting Period. During the Reporting Period, 79,156,511 awarded stock options were exercised, and 23,130,000 restricted shares were granted in the first phase of the Company's 2017 Restricted Share Incentive Plan. As such, the total shares rose to 6,561,053,319 at the end of the Reporting Period.

2.3 Existing staff-held shares

Applicable N/A

3. Shareholders and Actual Controller

3.1 Total number of shareholders and their shareholdings

Unit: share

Total number of common	142,730	Total number of common shareholders	155,890	Total number of preference shareholders	0	Total number of preference shareholders	0
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shareholders at the end of the Reporting Period		at the prior month-end before the disclosure date of the annual report		with resumed voting rights at the period-end (if any)		with resumed voting rights at the prior month-end before the disclosure date of the annual report (if any)		5% or greater shareholders or top 10 shareholders	
								Name of shareholder	Nature of shareholder
Status	Shares								
Midea Holding Co., Ltd.	Domestic non-state-owned corporation	33.71	2,212,046,613	-32,328,387		2,212,046,613		Pledged	706,565,000
Hong Kong Exchanges and Clearing Limited	Foreign corporation	9.56	626,947,495	573,763,980		626,947,495			
China Securities Finance Co., Ltd.	State-owned corporation	3.39	222,677,655	42,637,775		222,677,655			

Fang Hongbo	Domestic individual	2.09	136,990,492	0	102,742,869	34,247,623		
Hillhouse Capital Management Limited—HCM China Fund	Foreign corporation	1.74	113,891,138	0		113,891,138		
Huang Jian	Domestic individual	1.34	87,980,000	-20,000		87,980,000	Pledged	22,999,900
Xiaomi Technology Co., Ltd.	Domestic non-state-owned corporation	1.26	82,500,000	0	82,500,000			
Central Huijin Asset Management Ltd.	State-owned corporation	1.20	78,474,900	0		78,474,900		
UBS AG	Foreign corporation	1.02	66,759,821	1,338,774		66,759,821		
Li Jianwei	Domestic individual	0.98	64,144,834	-9,832,213		64,144,834	Pledged	5,400,000
Strategic investors or general corporations becoming top-ten shareholders due to placing of new shares (if any)		N/A						
Related-parties or acting-in-concert		N/A						

parties among the shareholders above			
Top 10 non-restricted shareholders			
Name of shareholder	Number of non-restricted shares held at the period-end	Type of shares	
		Type	Shares
Midea Holding Co., Ltd.	2,212,046,613	RMB common stock	2,212,046,613
Hong Kong Exchanges and Clearing Limited	626,947,495	RMB common stock	626,947,495
China Securities Finance Co., Ltd.	222,677,655	RMB common stock	222,677,655
Hillhouse Capital Management Limited – HCM China Fund	113,891,138	RMB common stock	113,891,138
Huang Jian	87,980,000	RMB common stock	87,980,000
Central Huijin Asset Management Ltd.	78,474,900	RMB common stock	78,474,900
UBS AG	66,759,821	RMB common stock	66,759,821
Li Jianwei	64,144,834	RMB common stock	64,144,834
Yuan Liqun	62,405,900	RMB common stock	62,405,900
Fu Xuan	58,594,833	RMB common stock	58,594,833
Related-parties or acting-in-concert parties among the top ten non-restricted shareholders and between the top ten non-restricted shareholders and the top ten shareholders	N/A		
Explanation on the top 10 common shareholders participating in securities margin trading (if any)	N/A		

Note: Mr. He Xiangjian, Midea Group's actual controller, has declared on 25 July 2017 that he would donate

100,000,000 Midea Group shares he holds via Midea Holding to charity. Midea Holding is currently unable to transfer these shares to the charity trust it has set up because certain confirmations are needed regarding the execution of the regulations for share transfers to charitable trusts and taxes on these share transfers. Midea Holding will begin to deal with the formalities for the trust's registration and the said shares' transfer to the trust as soon as the problems are solved. Before that, these shares will remain with Midea Holding.

Did any of the top 10 common shareholders or the top 10 non-restricted common shareholders of the Company conduct any promissory repurchase during the Reporting Period

Yes No

No such cases in the Reporting Period.

3.2 Controlling shareholder

Name of controlling shareholder	Legal representative / company principal	Date of establishment	Credibility code	Main business scope
Midea Holding Co., Ltd.	He Xiangjian	2002-08-05	914406067429989733	Manufacture and commerce investment; domestic commerce and materials supply and marketing industry (excluding state-designated monopoly); CP software and hardware development; industrial product design; information technology consulting services, providing investment consultant and consulting services; installation, maintenance and after-sales service of electric appliances; real estate

				intermediary service and forwarding agent service.
Shareholdings of the controlling shareholder in other controlled or non-controlled listed companies at home or abroad during the Reporting Period	Apart from a direct control over the Company, Midea Holding does not directly control or have shares in other listed companies at home or abroad.			

Change of the controlling shareholder during the Reporting Period

Applicable N/A

No such cases in the Reporting Period.

3.3 Actual controller

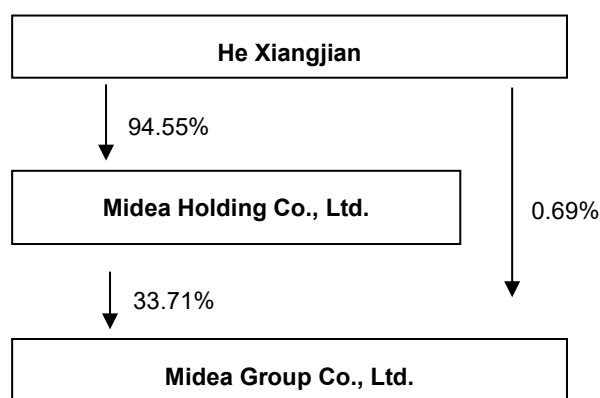
Name of the actual controller	Nationality	Right of residence in other countries or regions
He Xiangjian	The People's Republic of China	No
Main occupation and duty	Incumbent board chairman of Midea Holding	
Used-to-be-holding listed companies home and abroad in the last 10 years	Midea Group (000333.SZ), Welling Holding (00382.HK), Little Swan (A: 000418.SZ; B: 200418) and KUKA (KU2.DE)	

Change of the actual controller during the Reporting Period

Applicable N/A

No such cases in the Reporting Period.

Ownership and control relations between the actual controller and the Company



The actual controller controls the Company via trust or other ways of asset management

Applicable N/A

3.4 Other corporate shareholders with a shareholding percentage above 10%

Applicable N/A

3.5 Limits on the Company's shares held by its controlling shareholder, actual controller, reorganizer and other commitment subjects

Applicable N/A

Section VII Preference Shares

Applicable N/A

No such cases in the Reporting Period.

Section VIII Information about Directors, Supervisors, Senior Management and Employees

1. Changes in Shareholdings of Directors, Supervisors and Senior Management

Name	Office title	Incumbent / Former	Gender	Age	Starting date of tenure	Ending date of tenure	Shares held at the year-begin (share)	Shares increased at the Reporting Period (share)	Shares decreased at the Reporting Period (share)	Other increase/decrease (share)	Shares held at the period-end (share)
Fang Hongbo	Chairman of the Board and President	Incumbent	Male	51	2012-8-25	2018-9-18	136,990,492	0	0	0	136,990,492
He Jianfeng	Director	Incumbent	Male	51	2012-8-25	2018-9-18	0	0	0	0	0
Yin Bitong	Director and Vice President	Incumbent	Male	50	2016-12-16	2018-9-18	2,109,655	0	0	0	2,109,655
Zhu Fengtao	Director and Vice President	Incumbent	Male	50	2014-4-21	2018-9-18	1,020,400	0	0	0	1,020,400
Gu Yanmin	Director and Vice	Incumbent	Male	55	2014-4-21	2018-9-18	0	0	0	0	0

	President										
Li Feide	Director and Vice President	Incumbent	Male	41	2012-8-31	2018-9-18	750,000	0	0	585,000	1,335,000
Wu Shinong	Independent Director	Incumbent	Male	62	2013-3-4	2018-9-18	0	0	0	0	0
Rui Meng	Independent Director	Incumbent	Male	51	2015-9-18	2018-9-18	0	0	0	0	0
Guo Xuejin	Independent Director	Incumbent	Male	59	2013-3-4	2018-9-18	0	0	0	0	0
Li Wenjing	Independent Director	Incumbent	Male	39	2013-3-4	2018-9-18	0	0	0	0	0
Liu Min	Chairman of the Supervisory Committee	Incumbent	Female	41	2016-2-1	2018-9-18	0	0	0	0	0
Zhao Jun	Supervisor	Incumbent	Male	43	2014-4-21	2018-9-18	0	0	0	0	0
Liang Huiming	Employee Supervisor	Incumbent	Female	35	2017-3-30	2018-9-18	0	0	0	0	0

Wang Jinliang	Vice President	Incumbent	Male	51	2014- 8-18	2018- 9-18	0	0	0	0	0
Wang Jianguo	Vice President	Incumbent	Male	42	2017- 12-15	2018- 9-18	0	0	0	0	0
Hu Ziqiang	Vice President	Incumbent	Male	61	2014- 8-18	2018- 9-18	0	0	0	0	0
Xiang Weimin	Vice President	Incumbent	Male	52	2017- 7-20	2018- 9-18	0	0	0	0	0
Xiao Minggu ang	Director of Finance	Incumbent	Male	48	2016- 7-16	2018- 9-18	0	0	0	0	0
Jiang Peng	Company Secretary	Incumbent	Male	45	2013- 10-30	2018- 9-18	140,625	0	30,625	465,000	575,000
Wu Wenxin	Director and Vice President	Former	Male	54	2014- 4-21	2017- 1-6	0	0	0	0	0
Mai Yufen	Employee Supervisor	Former	Female	34	2016- 1-16	2017- 3-30	2,300	0	2,300	0	0
Hu Xiaoling	Director	Former	Female	48	2012- 8-25	2017- 8-29	0	0	0	0	0
Total	--	--	--	--	--	--	141,013,472	0	32,925	1,050,000	142,030,547

2. Changes in Directors, Supervisors and Senior Management

✓ Applicable □ N/A

Name	Office title	Type of change	Date	Reason
Wu Wenxin	Director, Vice President	Left	2017-01-06	Personal reason
Mai Yufen	Employee Supervisor	Left	2017-03-30	Personal reason
Liang Huiming	Employee Supervisor	Elected	2017-03-30	By-election
Yin Bitong	Director	Elected	2017-04-21	By-election
Zhu Fengtao	Director	Elected	2017-04-21	By-election
Hu Xiaoling	Director	Left	2017-08-29	Personal reason
Xiang Weimin	Vice President	Appointed	2017-07-20	Senior management appointment
Wang Jianguo	Vice President	Appointed	2017-12-15	Senior management appointment

3. Brief Biographies

Professional backgrounds, main work experience and current responsibilities in the Company of the incumbent directors, supervisors and senior management

Mr. Fang Hongbo, holder of a Master's degree, is the Chairman and President of the Company. He joined Midea in 1992 and previously served as the General Manager of the Midea Air-Conditioning Business Department, the President of Midea Refrigeration Electric Appliances Group, the Chairman and President of GD Midea Holding Co., Ltd. Mr. Fang Hongbo is also the Chairman of the Company's subsidiary, Wuxi Little Swan Co., Ltd, and a member of the Supervisory Committee of KUKA.

Mr. He Jianfeng, holder of a Bachelor's degree, is a Director of Midea Group. He is also the Chairman of the Board and President of Infore Investments Holding Group Co., Ltd.

Mr. Yin Bitong, a Master's graduate, joined Midea in 1999 and served as GM Assistant and Marketing Director of the Residential Air Conditioning Division as well as GM and Executive

Director of Wuxi Little Swan Co. Ltd. He is now an Executive Director and Vice President of Midea Group and GM of Midea Residential Air Conditioning Division.

Mr. Zhu Fengtao, holder of a Doctoral degree, joined Midea in 1993 and served as the President of Midea Microwave Appliance Manufacturing Co., Ltd. He is currently an Executive Director and Vice President of Midea Group and the General Manager of Midea Kitchen Appliances Division.

Mr. Gu Yanmin, holder of a Doctoral degree, joined Midea in 2000 and has functioned as the Head of Planning & Investment, Head of Overseas Strategy & Development, Vice President and Head of Overseas Business Development of Midea Air-Conditioning & Refrigeration Group, Head of Overseas Strategy of Midea Group. Currently he is an Executive Director, Vice President of the Company as well as the Chairman of the Supervisory Committee of KUKA.

Mr. Li Feide, holder of a Master's degree, joined Midea in 1999 and served as the Board Secretary, the Strategic Operation Head, the Operational Management Head, and the President's Assistant. He is now an Executive Director and Vice President of the Company, as well as a Vice General Manager of Annto Logistics Technology Co., Ltd.

Mr. Wu Shinong, holder of a Doctoral degree, is Professor and Tutor for doctoral students at the Management School of Xiamen University. He is also involved as an Independent Director of Midea Group, and a member of the National Natural Science Foundation of China

Mr. Rui Meng, holder of a Doctoral degree. He is now an independent director of the Company, a professor of finance and accounting at China Europe International Business School, a chaired professor of finance in Zhong Kun Group, a doctoral advisor, and concurrently the director of a doctoral program, the head of the CEIBS Shoushan Wealth Management Research Center, a member of the Risk Management Committee of the Shanghai Clearing House.

Mr. Guo Xuejin, a Master's degree graduate, is the director of Guangdong Kings Law Firm, a member of the Guangzhou 15th People's Congress, a member of Guangzhou Law Committee of the NPC, the arbitrator of Guangzhou Arbitrator Committee, an expert

consultant of Guangzhou Traffic Committee and is currently an independent director of Midea Group.

Mr. Li Wenjing, holder of a Doctoral degree, is the Director of the Accounting Department, professor and doctoral supervisor in the Accounting Department of the School of Management at Jinan University, and at present is an independent director of Midea Group. He also holds concurrent positions including being a member of the International Exchange Committee & a director of the Branch Society of Financial Costs under the Accounting Society of China, a director of Accounting Academy of Guangdong Province.

Ms. Liu Min, a Master's degree graduate, joined Midea in 1998. She used to be the General Manager of an overseas marketing company under Midea's Household Air-Conditioning Division and the Chief Operations Officer of Midea. She is now the Chairman of the Supervisory Committee, the Chief HR Officer of Midea as well as a member of KUKA's Supervisory Committee.

Mr. Zhao Jun, a Master's degree graduate, joined Midea in 2000 and has functioned as the Director and the CFO of GD Midea Holding Co., Ltd. He is now a Supervisor of the Company, Vice President and CFO in Midea Holding Co., Ltd.

Ms. Liang Huiming, holder of a Bachelor's degree, is the Employee Supervisor of Midea Group. Joining Midea in 2007, she used to serve as the Chief Business Administration Commissioner in Midea Group's Administration and Human Resources Department.

Mr. Wang Jinliang, holder of a Master's degree, joined Midea in 1995 and previously worked as the Vice President of China Marketing in the Company, and was GD Midea Holding's Vice President and Marketing Head. He is now a Vice President in the Company.

Mr. Wang Jianguo, a Master's degree holder, joined Midea in 1999. He was once the Director of the Supply Chain Management Department of Midea Group's Residential Air Conditioner Division, the Director of the Administration and Human Resources Department of Midea Group, and the General Manager of Midea Group's Refrigeration Division. Currently, he is a Vice President and the General Manager of Senior Brand of Midea Group.

Mr. Hu Ziqiang, holder of a Doctoral degree, joined Midea in 2012, and has formerly worked

for GE and Samsung and as a Vice GM in Wuxi Little Swan Co., Ltd. At present he is a Vice President and the Chief of the Central Research Institute of the Company

Mr. Xiang Weimin, holder of a Master's degree, joined Midea in 1991. He used to serve as the General Manager of Midea Group's Compressor Division and the General Manager of Midea Group's Component Division. Currently, he is a Vice President and the Product & Supply Chain Director of Midea Group.

Mr. Xiao Mingguang, a Master's degree graduate, joined Midea in 2000. He once served as a vice chief financial officer and the Chief Operational Officer of Midea Group, as well as the Chief Audit Supervision Officer and a director of GD Midea Holding Co., Ltd. Currently, he is the Director of Finance of Midea Group, in addition to being the Chairman of the Board of Midea Group Finance Co., Ltd. and a Director of Wuxi Little Swan Co., Ltd.

Mr. Jiang Peng, holder of a Master's degree, joined Midea in 2007 and used to be the Representative for Securities Affairs and Company Secretary for GD Midea Holding Co., Ltd. He is now the Company Secretary, the Investor Relations Director of Midea Group, as well as a Director in Wuxi Little Swan Co., Ltd.

Posts held in shareholding entities

Applicable N/A

Name	Shareholding entity	Position	Beginning date of office term	Ending date of office term	Allowance from the shareholding entity
Zhao Jun	Midea Holding Co., Ltd.	Vice President and CFO	2013-01-01	-	Yes
Note	N/A				

Posts held in other entities

Applicable N/A

Name	Other entity	Position	Beginning date of office term	Ending date of office term	Allowance from the entity
Fang Hongbo	Wuxi Little Swan Co., Ltd.	Chairman of the Board	2008-05	2018-08	No
	KUKA	Member of the Supervisory Committee	2017-03	2018-06	No
He Jianfeng	Infore Investments Holding Group Co., Ltd.	Chairman of the Board and President	1995	-	Yes
Gu Yanmin	KUKA	Chairman of the Supervisory Committee	2017-01	2018-06	No
Wu Shinong	Fuyao Glass Industry Group Holding Co., Ltd.	Director	2011-04	-	Yes
	Xiamen ITG Group Co., Ltd.	Independent Director	2014-06	2017-06	Yes
	Industrial Securities Co., Ltd.	Independent Director	2017-11	-	Yes
Rui Meng	COSCO SHIPPING Energy Transportation Co., Ltd.	Independent Director	2015-06	2018-06	Yes
	ShangHai Winner Networks Information Technology Co., Ltd.	Independent Director	2016-06	2019-06	Yes
	Shang Gong Group Co., Ltd.	Independent Director	2017-04	2020-04	Yes
Guo Xuejin	Donlinks International Investment Co., Ltd.	Independent Director	2014-04	2018-03	Yes

Li Wenjing	Guangzhou Devotion Thermal Technology Co., Ltd.	Independent Director	2013-12	2019-03	Yes
	By-Heath Co., Ltd.	Independent Director	2017-09		Yes
	Zhuhai Huajin Capital Co., Ltd.	Independent Director	2017-12		Yes
	Guangzhou Longse Technology Co., Ltd.	Independent Director	2015-11	-	Yes
Liu Min	KUKA	Member of the Supervisory Committee	2017-01	2018-06	No
Xiao Mingguan	Wuxi Little Swan Co., Ltd.	Director	2010-01	2018-08	No
Jiang Peng	Wuxi Little Swan Co., Ltd.	Director	2017-04	2018-08	No
Note	N/A				

Punishments imposed in the recent three years by the securities regulators on the incumbent directors, supervisors and senior management as well as those who left in the Reporting Period

Applicable N/A

4. Remuneration of Directors, Supervisors and Senior Executives

The following describes the decision-making procedures, grounds on which decisions are made and actual remuneration payment of directors, supervisors and senior executives.

The decision-making remuneration procedure for directors, supervisors and senior executives: The remuneration is proposed by the Board Compensation Committee and

approved by the Board. Decisions are made finally after the deliberation of shareholders' meeting.

The remuneration of directors, supervisors and senior executives consist of basic annual payments and performance-related annual payments according to the *Salary Management System for the Directors, Supervisors and Senior Executives* which has been approved by the Company. Basic payment is determined based on the responsibility, risk and pressure of directors, supervisors and senior executives. The basic annual payment remains stable. Performance-related annual payment is related to the completion rate of corporate profit, the assessment result of target responsibility system and the performance evaluation structure of their own department. The remuneration system for directors, supervisors and senior executives serves the Company's strategy, and shall be adjusted with the Company's operating conditions in order to meet the Company's development requirements. The basis for adjusting the remuneration of directors, supervisors and senior executives are as follows:

- a. Wage growth in the industry
- b. Inflation
- c. Corporate earnings
- d. Organizational structure adjustment
- e. Individual adjustment due to a change in position

Remuneration of directors, supervisors and senior executives during the Reporting Period

Unit: RMB'0,000

Name	Position	Gender	Age	Incumbent / Former	Total before-tax remuneration from the Company	Remuneration from related parties of the Company
Fang Hongbo	Chairman of the Board and President	Male	51	Incumbent	719	

He Jianfeng	Director	Male	51	Incumbent		Yes
Yin Bitong	Director and Vice President	Male	50	Incumbent	420	
Zhu Fengtao	Director and Vice President	Male	50	Incumbent	382	
Gu Yanmin	Director and Vice President	Male	55	Incumbent	291	
Li Feide	Director and Vice President	Male	41	Incumbent	196	
Wu Shinong	Independent Director	Male	62	Incumbent	15	
Rui Meng	Independent Director	Male	51	Incumbent	15	
Guo Xuejin	Independent Director	Male	59	Incumbent	15	
Li Wenjing	Independent Director	Male	39	Incumbent	15	
Liu Min	Chairman of the Supervisory Committee	Female	41	Incumbent	154	
Zhao Jun	Supervisor	Male	43	Incumbent		Yes
Liang Huiming	Employee Supervisor	Female	35	Incumbent	17	
Wang Jinliang	Vice President	Male	51	Incumbent	175	
Wang Jianguo	Vice President	Male	42	Incumbent	317	
Hu Ziqiang	Vice President	Male	61	Incumbent	429	
Xiang Weimin	Vice President	Male	52	Incumbent	324	
Xiao Mingguang	Director of Finance	Male	48	Incumbent	196	
Jiang Peng	Company Secretary	Male	45	Incumbent	179	
Wu Wenxin	Director and Vice President	Male	54	Former	249	

Mai Yufen	Employee Supervisor	Female	34	Former	25	
Hu Xiaoling	Director	Female	48	Former		No
Total	--	--	--	--	4,133	--

Share incentives for directors, supervisors and senior executives in the Reporting Period

√ Applicable □ N/A

Unit: share

Name	Office title	Exerciseable share options for the Reporting Period	Exercised share options in the Reporting Period	Exercise price for exercised share options in the Reporting Period (RMB / share)	Market price at the end of the Reporting Period (RMB / share)	Restricted shares held at the beginning of the Reporting Period	Unlocked shares in the Reporting Period	Restricted shares granted in the Reporting Period	Grant price of the restricted shares (RMB/share)	Restricted shares held at the end of the Reporting Period
Li Feide	Director and Vice President	375,000	375,000	10.01	55.43	0	0	210,000	15.86	210,000
Hu Ziqiang	Vice President	0	0	-	55.43	0	0	300,000	15.86	300,000
Xiao Mingguang	Director of Finance	105,000	0	-	55.43	0	0	150,000	27.99	150,000
Jiang Peng	Company Secretary	375,000	375,000	10.01	55.43	0	0	0	0	0
		90,000	90,000	18.56	55.43	0	0	0	0	0

Total	--	945,000	840,000	--	--	0	0	660,000	--	660,000
Note (if any)	375,000 stock options of the first term of Mr. Li Feide were unlocked during the Reporting Period, leaving no such stock options in lockup. Meanwhile, during the Reporting Period, 187,500 stock options of the first term of Mr. Jiang Peng were unlocked, leaving no such stock options in lockup; and for the second term, 90,000 stock options were unlocked, leaving another 90,000 still in lockup. And Mr. Xiao Mingguang was awarded 150,000 restricted shares during the Reporting Period, which were listed on 7 February 2018.									

5. Staff in the Company

5.1 Number, functions and educational backgrounds of the staff

Number of in-service staff of the Company	1,172
Number of in-service staff of main subsidiaries	100,654
Total number of in-service staff	101,826
Total number of staff with remuneration in the period	101,826
Number of retirees to whom the Company or its main subsidiaries need to pay retirement pension	1,660
Functions	
Function	Number of staff
Production	84,889
Sales	4,250
Technical/R&D	10,520
Financial	1,311
Administrative	856
Total	101,826
Educational backgrounds	

Educational background	Number of staff
Master and doctor	2,901
Bachelor	18,605
College, technical secondary school	44,990
Others	35,330
Total	101,826

Note: The data above have not yet included the global staff of majority-owned subsidiaries TLSC and KUKA, which are around 35,000.

5.2 Staff remuneration policy

Staff remuneration shall be paid on time according to the Salary Management System. The Company decides the regular salary of the employees according to the position's value and evaluation performances and decides the variable salary according to the Company's and employee's performance. The remuneration distribution shows more consideration for strategic talent and ensures the market competitiveness in the salary of core talent. The Company shall make dynamic adjustments to the staff remuneration policy according to regional differences, number of employees, staff turnover, environment changes in the industry and paying ability of the Company.

5.3 Staff trainings

The attendances at internal training sessions were 620,039 in the Reporting Period, of which 45,989 were management personnel, 252,361 technical and marketing personnel and 321,689 operational personnel. The trainings included:

- a. Building a pilot Leadership Development Program and a High-Potential Leaders Training system to facilitate talent management and training. 46 talent training programs were carried out and 2,627 highly skilled managerial staff were trained with 81,263 man-hours.
- b. Building a professionalism promotion system. 76 such programs were carried out and

18,767 staff were trained with 93,135 man-hours.

c. Meike, a mobile app developed by Midea for online training, has extended its trainings to all managerial personnel in Midea Group. An approximate total of 121,000 logins to this app for training was recorded throughout the year.

d. Facilitating organizational learning by developing 461 internal trainers. Their annual teaching time was 6,496 hours. And a total of 515 courses were designed in the year.

e. Continuous training for mid-level and senior managers. A total of 28 lectures on leadership skills for mid-level management were given to 825 attendances, representing 10,725 teaching man-hours. Meanwhile, 6 such lectures for reserve high potential talent were given to 200 attendances during 14 days, representing 4,796 teaching man-hours. And 4 such lectures for senior management were given to 119 attendances during 6 days, which consisted of 1,400 teaching man-hours.

f. Facilitating the training of key technical staff and working team leaders. The total training time was 160,834 hours.

5.4 Labor outsourcing

Applicable N/A

Section IX Corporate Governance

1. Basic Situation of Corporate Governance

The Company is constantly improving its corporate governance in strict accordance with the *Company Law*, the *Securities Law* and the relevant regulations of the China Securities Regulatory Commission. There are four special committees under the Board, namely the Strategy Committee, the Auditing Committee, the Nomination Committee as well as the Remuneration and Appraisal Committee. They were designed to provide consultation and advice to the Board and validate the professionalization and efficiency of discussions and decision-making. The Company has established clear rules of procedure for its shareholders' general meeting, board of directors, Supervisory Committee and special committees under the board, as well as the *Work Rules for Company Secretary*. It has also established a set of standard documents including *Information Disclosure Management System*, *Funds Raising Management System*, *Connected Transaction Management System*, *Wealth Management Entrustment Management System*, *Insider Registration System*, *External Guaranty Decision-making System*, *Foreign Investment Management System*, and *Management System for Finance Flow with Connected Parties*, *Internal Auditing System*. The shareholders' meeting, the Board, Supervisory Committee and operations management departments have clear authority and responsibility. Each performs its own functions and maintains its stability effectively. Their scientific decision-making and coordinated operations have laid a firm foundation for the sustained, healthy and steady development of the Company.

The Company has also launched core management team shareholding plans and equity incentive plans for core research, quality control, technical, production and management staff, which helps to develop a sound shareholding structure for the future growth of the Company.

In 2017, the Company won the following honors for its corporate governance:

“The Best Board of Directors” at “The Golden Round Table Awards 2017” presented by the *Directors & Boards* magazine; “China’s Top 10 Listed Companies in 2017” by CCTV; “2018 National Brand Plan Top Brand” by CCTV; “Golden Horse Award for Social Responsibility 2018” by *Securities Daily*; “Global Top 2,000 Listed Companies” by the *Forbes*; and “Global Top 500” by the *Fortune*.

Any incompliance with the regulatory documents issued by the CSRC governing the governance of listed companies

Yes No

No such cases in the Reporting Period.

2. Independency of businesses, personnel, assets, organizations, and finance which are separate from the controlling shareholder

The Company is totally autonomous with respect to business, personnel, assets, organizations, and finance from Midea Holding Co., Ltd., the controlling shareholder of the Company, therefore maintaining integrity and independency in both business and operations.

2.1 Business independence:

The Company has a complete industrial chain for its manufacturing business, a completely distinct purchase and sales system, and an independent and comprehensive business operation capability.

2.2 Personnel independence:

The Company is completely autonomous from the controlling shareholder regarding its personnel. The labor, personnel and remuneration management of the company are totally unrelated. All senior management members received remuneration from the Company except those that hold only a director’s position in the controlling shareholder.

2.3 Asset integrity:

The Company has its own independent production system as well as ancillary production systems and facilities. Intangible assets such as industrial rights, trademark ownership and

non-patent technology are held by the Company.

2.4 Organization independence:

The Company has set up an independent organizational structure which maintains its independent operation. The Company has the right to appoint or remove any personnel so there is no overlapping with the controlling shareholder.

2.5 Financial independence:

The Company's financial management is independent from the controlling shareholder. The Company has its own accounting department, accounting system, financial management system, and bank accounts and independently makes financial decisions and pays its own taxes according to relevant laws.

3. Horizontal Competition

Applicable N/A

4. Annual Meeting of Shareholders and Special Meetings of Shareholders Convened during the Reporting Period

4.1 Meetings of shareholders convened during the Reporting Period

Meeting	Type	Investor participation ratio	Convened date	Disclosure Date	Disclosure Index
2016 Annual Meeting of Shareholders	Annual meeting of shareholders	45.2524%	21/04/2017	22/04/2017	Announcement No. 2017-017, disclosed on www.cninfo.com.cn
2017 First Special Meeting of Shareholders	Special meeting of shareholders	49.0821%	15/09/2017	16/09/2017	Announcement No. 2017-053, disclosed on www.cninfo.com.cn

Shareholders					
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4.2 Special meetings of shareholders convened at the request of preference shareholders with resumed voting rights

Applicable N/A

5. Performance of Independent Directors during the Reporting Period

5.1 Attendance of independent directors in Board meetings and meetings of shareholders

Attendance of independent directors in Board meetings						
Independent director	Presence due in the Reporting Period (times)	Presence on site (times)	Presence by telecommunication (times)	Presence through a proxy (times)	Absence (times)	Absence for two consecutive times
Wu Shinong	10	1	9	0	0	No
Rui Meng	10	1	9	0	0	No
Guo Xuejin	10	1	9	0	0	No
Li Wenjing	10	1	9	0	0	No
Presence of independent directors in meetings of shareholders (times)	1					

5.2 Objections from independent directors on related issues of the Company

Were there any objections on related issues of the Company from independent directors

Yes No

No such cases in the Reporting Period.

5.3 Other details about the performance of duties by independent directors

Were there any suggestions from independent directors adopted by the Company

√ Yes No

Details about advice of independent directors accepted or not accepted by the Company

During the Reporting Period, independent directors strictly followed related rules, regulations and *the Articles of Association*. They focused on the Company operation, carried out their duties independently and imparted lots of professional advice on perfecting the Company's systems, daily operations and decisions. They provided fair advice during the Reporting Period and played an effective role in improving the Company supervisory systems and protecting the legal rights of the Company and the shareholders as a whole.

6. Performance of Duties by Special Committees under the Board during the Reporting Period

6.1 The Audit Committee under the Board convened four meetings in the Reporting Period, at which the following proposals were considered and approved: *The 2016 Final Account Report, The 2016 Annual Report & Its Abstract, The Report of the Audit Committee on Concluding and Appraising the 2016 Annual Audit Work, The Proposal for Appointing an Auditor for the 2017 Annual Result, The Proposal for Appointing an Auditor for the Internal Control in 2017, The Proposal for Writing off Asset Impairment Provisions, The Report on the First Quarter of 2017, The 2017 Semi-Annual Report and The Report on the Third Quarter of 2017.*

6.2 The Strategy Committee under the Board convened one meeting in the Reporting Period, at which *The Mid-Term Development Planning (2017-2019)* was considered and approved.

6.3 The Remuneration and Appraisal Committee under the Board convened one meeting in the Reporting Period, at which *The Proposal for the Payment of Remuneration to Senior Executives for 2016* was considered and approved.

6.4 The Nomination Committee under the Board convened three meetings in the Reporting

Period, at which the following proposals were considered and approved: *The Proposal for New Director* and *The Proposal for Vice President Appointment* (twice).

7. Performance of Duties by the Supervisory Committee

Were there any risks to the Company identified by the Supervisory Committee when performing its duties during the Reporting Period

Yes No

The Supervisory Committee of the Company had no objection to the matters of supervision during the Reporting Period.

8. Assessment and Incentive Mechanism for the Senior Management

The Company established an appraisal system on the basis of its target-oriented responsibility system and adopted an appraisal agreement for senior management members, which determines the appraisal criterion, appraisal method and measures taken based on the appraisal result. During the Reporting Period, the Company has carried out appraisals of senior management members on the basis of its target-oriented responsibility system and the appraisal result was reflected in the annual performance-based incentive rewards. Meanwhile, the Company promoted the unification of interests between managers and shareholders through high-level staff and core management teams' share holding schemes as well as multiple stock option or restricted share incentive schemes, laying a good foundation for the future growth of the Company.

9. Internal Control

9.1 Serious internal control defects found in the Reporting Period

Yes No

9.2 Self-evaluation report on internal control

Disclosure date of the internal control self-evaluation report		31 March 2018
Index to the disclosed internal control self-evaluation report		For details, please refer to the 2017 Self-Evaluation Report on Internal Control, which has been disclosed on www.cninfo.com.cn
Ratio of the total assets of the appraised entities to the consolidated total assets		70%
Ratio of the operating revenues of the appraised entities to the consolidated operating revenues		70%
Defect identification standards		
Type	Financial-report related	Non-financial-report related
Nature standard	For details, please refer to “(c) Basis for internal control evaluation and identification standards for internal control defects” under Section III of The 2017 Self-Evaluation Report on Internal Control disclosed on www.cninfo.com.cn dated 31 March 2018.	For details, please refer to “(c) Basis for internal control evaluation and identification standards for internal control defects” under Section III of The 2017 Self-Evaluation Report on Internal Control disclosed on www.cninfo.com.cn dated 31 March 2018.
Quantitative standard	For details, please refer to “(c) Basis for internal control evaluation and identification standards for internal control defects” under Section III of The 2017 Self-Evaluation Report on Internal Control disclosed on www.cninfo.com.cn dated 31 March 2018.	For details, please refer to “(c) Basis for internal control evaluation and identification standards for internal control defects” under Section III of The 2017 Self-Evaluation Report on Internal Control disclosed on www.cninfo.com.cn dated 31 March 2018.

Number of serious financial-report-related defects	0
Number of serious non-financial-report-related defects	0
Number of important financial-report-related defects	0
Number of important non-financial-report-related defects	0

10. Auditor's Report on Internal Control

√ Applicable □ N/A

Opinion paragraph in the auditor's report on internal control	
The internal control auditor holds the view that on 31 December 2017, Midea Group maintained an effective internal control of a financial report in all significant aspects based on the <i>General Specifications of Company Internal Control</i> and relevant specifications.	
Auditor's report on internal control disclosed or not	Disclosed on www.cninfo.com.cn
Date of disclosing the full text of the auditor's report on internal control	31 March 2018
Index to the disclosed full text of the auditor's report on internal control	For details, please refer to the 2017 Auditor's Report on Internal Control, which has been disclosed on www.cninfo.com.cn
Type of the auditor's opinion	Unmodified unqualified opinion
Serious non-financial-report-related defects	No

Whether any modified opinions are expressed by the accounting firm in its auditor's report on the Company's internal control

Yes No

Whether the auditor's report on the Company's internal control issued by the accounting firm is consistent with the self-evaluation report of the Board

Yes No

Section X Financial Report

1. Auditor's report

Type of auditor's opinion	Standard & unqualified
Signing date of auditor's report	29 March 2018
Name of auditor	PricewaterhouseCoopers China (LLP)
No. of auditor's report	PwC ZT Shen Zi (2018) No. 10017
Names of certified public accountants	Huang Meimei, Qiu Xiaoying

Auditor's Report

PwC ZT Shen Zi (2018) No. 10017
(Page 1 of 8)

To the shareholders of Midea Group Co., Ltd.,

Opinion

What we have audited

We have audited the accompanying financial statements of Midea Group Co., Ltd. (hereinafter "Midea Group"), which comprise:

- the consolidated and company balance sheets as at 31 December 2017;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Midea Group as at 31 December 2017, and their financial performance and cash flows for the year then ended in accordance with the requirements of the Accounting Standards for Business Enterprises ("CASs").

Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of Midea Group in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition of sales of home appliances
- Fair value assessment of the identifiable net assets relating to the acquisition and recognition of goodwill
- Impairment testing of goodwill

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Revenue recognition of sales of home appliances</p> <p>Refer to note 2(27) “Revenue” and note 4(33) “Operating income” to the consolidated financial statements.</p> <p>Revenue is recognised when it’s probable that the economic benefits associated with the transaction will flow to Midea Group, the related revenue can be reliably measured, and the specific criteria of revenue recognition have been met for each type of Midea Group’s activities. In 2017, operating revenue of Midea Group was RMB240,712,301,000, around 80% of which is from sales of home appliances.</p> <p>We focused on revenue recognition of sales of home appliances mainly due to Midea Group’s numerous customers and sales volume at home and abroad achieved by its varied distribution channels.</p>	<p>Regarding Midea Group’s revenue from sales of home appliances, we performed the procedures as follows:</p> <p>We interviewed management from operation and financial departments in terms of sales processes of all distribution channels to understand and evaluate the internal controls of processes relating to sale of home appliances designed by management and tested the operating effectiveness of key controls;</p> <p>We checked the sample sales contracts entered into by Midea Group and its customers from all distribution channels, and analysed and evaluated Midea Group’s accounting policies on the revenue recognition of sales of home appliances based on the interview with management, understanding of Midea Group’s business and our audit experience.</p> <p>Regarding the sales of home appliances through all distribution channels, we performed the procedures as follows:</p> <ul style="list-style-type: none"> • We performed risk assessment procedures, such as analysis of fluctuation in monthly sales of home appliances and analysis of fluctuation in gross profit margin, etc.; • We checked supporting documents relevant to sales of home appliances on sample basis, including sales contracts, sales orders, sales invoices, shipping orders, acknowledgement of goods receipts signed by customers, etc.; • We checked sales of home appliances recognised around the balance sheet date against acknowledgement of goods receipts signed by customers or billing agreements with customers or other supporting documents to evaluate if the revenue was recognised in appropriate period. <p>We concluded that the Midea Group’s revenue recognition of sales of home appliances complied with its applicable accounting policies based on the audit procedures performed.</p>

Key Audit Matters(cont'd)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Fair value assessment of the identifiable net assets relating to the acquisition and recognition of goodwill</p> <p>Refer to note 2(5) (b) and note 5(1) “Business combination involving enterprises not under common control” to the consolidated financial statements.</p> <p>As at 6 January 2017 (the “Acquisition Date”), Midea Group completed the acquisition of 81.04% equity interests of KUKA Aktiengesellschaft (hereinafter referred to as “KUKA”) at a cash consideration of RMB27,001,856,000. After that, Midea Group held approximately 94.55% equity interests of KUKA accounting for the 13.51% equity interests acquired in prior years. KUKA and its subsidiaries (hereinafter referred to as “KUKA Group”) was consolidated by Midea Group from the Acquisition Date, with identifiable net assets of RMB10,412,360,000 and goodwill (the difference between the consideration paid for the acquisition and the shares of the fair value of the identifiable net assets) of RMB20,698,212,000 recognised. The increase of fair value of the identifiable net assets of KUKA Group from its carrying amount mainly represents the recognition and valuation of intangible assets, such as trademark right, technology, customer relationship and order backlog.</p> <p>Critical judgements were involved in the fair value assessment of identifiable assets and liabilities, particularly in identifying and valuation of intangible assets, which have impact on the recognition of goodwill. External independent valuer was engaged by management to identify the intangible assets and perform valuation of the identifiable assets and liabilities.</p>	<p>Regarding the fair value assessment of identifiable net assets relating to the acquisition and recognition of goodwill, we performed the procedures as follows:</p> <ol style="list-style-type: none"> 1. We evaluated competency, professional quality and objectivity of the external valuer, obtained the valuation results from the external valuer and interviewed management and the external valuer; 2. We performed the following procedures with the assistance of our internal valuation specialists: <ol style="list-style-type: none"> 1) We evaluated the appropriateness of valuation methodologies as adopted by management; 2) We tested the accuracy of arithmetic applied in calculating goodwill and the fair value of the identifiable assets and liabilities; 3) We evaluated the completeness of the identifiable assets and liabilities by reference to the acquisition-related announcements from the open market, external analyst reports on KUKA Group and financial information of KUKA Group; 4) We read the business development plan prepared by the management to evaluate the synergies achieved by the Group in the acquisition and reassessed the overall reasonableness of goodwill recognised in the acquisition;

Key Audit Matters(cont'd)

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value assessment of the identifiable net assets relating to the acquisition and recognition of goodwill (cont'd)	
<p>We focused on critical estimates and judgement with regard to valuation of identifiable assets and liabilities, especially on the key assumptions used to identify and value the intangible assets, such as revenue growth rates, EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) margins, contributory asset charges, royalty rates, residual useful lives of intangible assets identified, discount rates, etc.</p>	<p>5) We evaluated the reasonableness of management's cash flows forecasts and weighted average cost of capital based on the interview with management and by reference to the historical operating data of KUKA Group, external analyst reports of the industrial development trend, and risk factors and market risk premium of comparable companies. We evaluated the appropriateness of key assumptions adopted in the fair value assessment of intangible assets based on the reasonableness of the above analysis, such as revenue growth rates, EBITDA margins, contributory asset charges, royalty rates, residual useful lives of intangible assets identified, discount rates, etc.</p> <p>We concluded that the audit evidence we have obtained could support methodologies and key assumptions adopted by management in the fair value assessment of identifiable net assets and recognition of goodwill based on the audit procedures performed.</p>

Key Audit Matters(cont'd)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p data-bbox="256 589 655 622">Impairment testing of goodwill</p> <p data-bbox="256 651 624 685">Refer to note 4(13) "Goodwill".</p> <p data-bbox="256 714 823 1357">As at 31 December 2017, the goodwill recorded in the consolidated balance sheet of Midea Group is RMB28,903,785,000, of which RMB22,202,569,000 and RMB2,695,355,000 arising from the acquisition of KUKA Group in 2017 and Toshiba Lifestyle Products & Services Corporation ("TLSC") in 2016, respectively. Management believed that it was not necessary to make impairment provision for the goodwill based on the impairment testing prepared in accordance with the accounting policies stated in note 2(20) to the consolidated financial statements. The impairment testing is performed by assessing the recoverable amount of the groups of assets containing the relevant goodwill, based on the present value of cash flows forecasts. Key assumptions adopted in the impairment testing of goodwill included expected revenue growth rates, EBITDA margins, perpetual annual growth rates, discount rates, etc. which involved critical accounting estimates and judgement.</p> <p data-bbox="256 1386 823 1570">We focused on the impairment testing goodwill of RMB 24,897,924,000 arising from acquisition of KUKA Group and TLSC because the amount was significant and the impairment testing of goodwill involved critical accounting estimates and judgement.</p>	<p data-bbox="842 651 1469 745">Regarding the impairment testing of goodwill arising from the acquisition of KUKA Group and TLSC, we performed the procedures as followings:</p> <ol data-bbox="842 775 1469 1800" style="list-style-type: none"> <li data-bbox="842 775 1469 1010">1. We understood and evaluated the internal controls relevant to the impairment testing of goodwill, and tested the operating effectiveness of key controls, including the internal controls of review and approval of key assumptions adopted and calculation of the recoverable amounts of the groups of assets containing the relevant goodwill; <li data-bbox="842 1039 1469 1245">2. We evaluated the appropriateness of methodologies of impairment testing of goodwill adopted by management with the assistance of our internal valuation specialists, and evaluated and recalculated the discount rates adopted in the test by comparing industry or market data; <li data-bbox="842 1274 1469 1357">3. We tested the accuracy of arithmetic applied in the calculating process of impairment testing of goodwill; <li data-bbox="842 1386 1469 1592">4. We revaluated the accuracy of historical estimates by comparing the actual financial performance of current year with the forecasts of prior years or at the acquisition date, so as to check whether there was any bias from management during the impairment testing of goodwill; <li data-bbox="842 1621 1469 1800">5. We evaluated the reasonableness of key assumptions adopted in the impairment testing of goodwill, such as expected revenue growth rates, EBITDA margins and perpetual annual growth rates, by interviewing with management and considering the market development. <p data-bbox="842 1830 1469 1962">We concluded that the audit evidence we have obtained could support the accounting estimates and judgement applied by management in the impairment testing of goodwill based on the audit procedures performed.</p>

Other Information

Management of Midea Group is responsible for the other information. The other information comprises all of the information included in 2017 annual report of Midea Group other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management of Midea Group is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing Midea Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Midea Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Midea Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Auditor's Responsibilities for the Audit of the Financial Statements(Cont'd)

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Midea Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Midea Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Midea Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Auditor’s Responsibilities for the Audit of the Financial Statements(Cont’d)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers Zhong Tian LLP	Signing CPA	Huang MeiMei (Engagement Partner)
Shanghai, the People’s Republic of China 29 March 2018	Signing CPA	Qiu XiaoYing

MIDEA GROUP CO., LTD.

**CONSOLIDATED AND COMPANY BALANCE SHEETS
AS AT 31 DECEMBER 2017**

(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

ASSETS	Note	31 December	31 December	31 December	31 December
		2017	2016	2017	2016
		Consolidated	Consolidated	Company	Company
Current assets					
Cash at bank and on hand	4(1)	48,274,200	27,169,118	29,349,926	17,135,480
Derivative financial assets		353,327	412,813	-	-
Notes receivable	4(2)	10,854,226	7,427,488	-	-
Accounts receivable	4(3)	17,528,717	13,454,511	-	-
Advances to suppliers	4(4)	1,672,248	1,587,366	23,877	8,252
Loans and advances	4(5)	12,178,953	10,273,397	-	-
Dividends receivable		-	-	897,040	285,916
Other receivables	4(3), 18(1)	2,657,568	1,140,133	8,403,564	12,644,592
Inventories	4(6)	29,444,166	15,626,897	-	-
Including: completed but unsettled	4(6)	4,023,467	-	-	-
Other current assets	4(7)	46,847,271	43,529,597	27,311,464	24,165,141
Total current assets		169,810,676	120,621,320	65,985,871	54,239,381
Non-current assets					
Available-for-sale financial assets	4(8)	1,831,051	5,187,732	56,868	28,931
Long-term receivables		362,248	33,868	-	-
Long-term equity investments	4(9), 18(2)	2,633,698	2,211,732	24,540,601	23,058,980
Investment properties		420,802	494,122	597,200	604,881
Fixed assets	4(10)	22,600,724	21,056,791	1,245,998	984,666
Construction in progress	4(11)	879,576	580,729	36,313	467,053
Intangible assets	4(12)	15,167,036	6,868,538	231,154	236,083
Goodwill	4(13)	28,903,785	5,730,995	-	-
Long-term prepaid expenses		859,106	625,971	121,452	46,090
Deferred income tax assets	4(14)	4,023,334	3,030,383	152,069	62,711
Other non-current assets		614,822	4,158,530	9,700	3,342,000
Total non-current assets		78,296,182	49,979,391	26,991,355	28,831,395
TOTAL ASSETS		248,106,858	170,600,711	92,977,226	83,070,776

MIDEA GROUP CO., LTD.

**CONSOLIDATED AND COMPANY BALANCE SHEETS (CONT'D)
AS AT 31 DECEMBER 2017**

(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 December 2017 Consolidated	31 December 2016 Consolidated	31 December 2017 Company	31 December 2016 Company
Current liabilities					
Short-term borrowings	4(17)	2,584,102	3,024,426	-	-
Customer deposits and deposits from banks and other financial institutions		108,926	36,708	-	-
Derivative financial liabilities		90,432	89,838	-	-
Notes payable	4(18)	25,207,785	18,484,939	-	-
Accounts payable	4(19)	35,144,777	25,356,960	-	-
Advances from customers	4(20)	17,409,063	10,252,375	-	-
Including: Settled but not completed	4(20)	1,670,855	-	-	-
Employee benefits payable	4(21)	5,247,500	3,154,387	427,806	199,842
Taxes payable	4(22)	3,544,154	2,364,446	45,179	103,848
Interest payable		94,801	21,343	146,513	76,776
Dividends payable		95,317	105,641	-	-
Other payables	4(23)	3,170,405	1,571,422	57,867,535	54,461,578
Current portion of non-current liabilities		136,605	158,545	-	-
Other current liabilities	4(24)	26,257,990	24,562,970	40,830	140,264
Total current liabilities		119,091,857	89,184,000	58,527,863	54,982,308
Non-current liabilities					
Long-term borrowings	4(25)	32,986,325	2,254,348	-	-
Debentures payable	4(26)	4,553,054	4,818,769	-	-
Long-term payable		248,036	366,881	-	-
Payables for specific projects		2,500	2,405	-	-
Provisions		330,736	325,217	-	-
Deferred revenue		536,443	502,316	-	-
Long-term Employee benefits payable	4(27)	2,465,854	1,449,954	-	-
Deferred income tax liabilities	4(14)	3,972,823	1,831,973	-	-
Other non-current liabilities		994,059	888,152	-	-
Total non-current liabilities		46,089,830	12,440,015	-	-
Total liabilities		165,181,687	101,624,015	58,527,863	54,982,308
Shareholders' equity					
Share capital	4(28)	6,561,053	6,458,767	6,561,053	6,458,767
Capital surplus	4(29)	15,911,504	13,596,569	7,726,237	5,455,268
Less: Treasury stock	4(28)	(366,842)	-	(366,842)	-
Other comprehensive income	4(30)	(244,692)	13,125	33,459	(9,069)
General reserve		366,947	148,602	-	-
Surplus reserve	4(31)	3,882,232	2,804,469	3,882,232	2,804,469
Undistributed profits	4(32)	47,627,235	38,105,391	16,613,224	13,379,033
Total equity attributable to shareholders of the parent company		73,737,437	61,126,923	34,449,363	28,088,468
Minority interests		9,187,734	7,849,773	-	-
Total shareholders' equity		82,925,171	68,976,696	34,449,363	28,088,468
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		248,106,858	170,600,711	92,977,226	83,070,776

The accompanying notes form an integral part of these financial statements.

Legal representative:
Fang Hongbo

Principal in charge of accounting function:
Xiao Mingguang

Head of accounting department:
Chen Lihong

MIDEA GROUP CO., LTD.

**CONSOLIDATED AND COMPANY INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

Item	Note	2017	2016	2017	2016
		Consolidated	Consolidated	Company	Company
1. Total revenue		241,918,896	159,841,701	1,565,670	1,193,744
Including: Operating revenue	4(33), 18(3)	240,712,301	159,044,041	1,565,670	1,193,744
Interest income	4(34)	1,206,582	789,414	-	-
Fee and commission income		13	8,246	-	-
Less: Cost of sales	4(33)	(180,460,552)	(115,615,437)	(38,819)	(38,713)
Interest expenses	4(34)	(250,925)	(439,607)	-	-
Fee and commission expenses		(2,717)	(2,839)	-	-
Taxes and surcharges	4(35)	(1,416,428)	(1,077,119)	(26,607)	(29,741)
Selling and distribution expenses	4(36)	(26,738,673)	(17,678,451)	-	-
General and administrative expenses	4(37)	(14,780,236)	(9,620,777)	(694,314)	(718,487)
Finance expenses-net value	4(38)	(815,949)	1,005,979	(328,000)	(740,586)
Asset impairment loss	4(39)	(269,112)	(380,812)	(50)	(475)
Add: Gains/(losses) on changes in fair value	4(40)	(25,045)	117,376	-	22,618
Investment income	4(41), 18(4)	1,830,221	1,285,961	10,214,403	9,853,358
Including: Share of profit of associates		310,016	165,904	209,908	247,016
Gains/(losses) on disposal of assets	4(42)	1,327,251	(111,874)	(95)	9,573
Other income	4(43)	1,311,123	-	9,996	-
2. Operating profit		21,627,854	17,324,101	10,702,184	9,551,291
Add: Non-operating income		467,204	1,758,220	1,961	46,494
Less: Non-operating expenses		(240,284)	(167,718)	(1,216)	(2,139)
3. Total profit		21,854,774	18,914,603	10,702,929	9,595,646
Less: Income tax expenses	4(44)	(3,243,584)	(3,052,691)	74,702	(16,183)
4. Net profit		18,611,190	15,861,912	10,777,631	9,579,463
Classified by continuity of operations					
Net profit from continuing operations		18,611,190	15,861,912	10,777,631	9,579,463
Net profit from discontinued operations		-	-	-	-
Classified by ownership of the equity					
Attributable to equity owners of the Company		17,283,689	14,684,357	10,777,631	9,579,463
Minority interests		1,327,501	1,177,555	-	-

MIDEA GROUP CO., LTD.

**CONSOLIDATED AND COMPANY INCOME STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

Item	Note	2017 Consolidated	2016 Consolidated	2017 Company	2016 Company
5. Other comprehensive income net of tax		(310,628)	1,188,215	42,528	(30,075)
Attributable to shareholders of the parent company		(257,817)	1,084,276	42,528	(30,075)
(1) Other comprehensive income items which will not be reclassified subsequently to profit or loss		(31,132)	82,223	-	-
1) Remeasurements of post-employment benefit obligations		(31,132)	82,223	-	-
2) Share of the other comprehensive income of the investee accounted for using equity method which will not be reclassified subsequently to profit and loss		-	-	-	-
(2) Other comprehensive income items which will be reclassified subsequently to profit or loss		(226,685)	1,002,053	42,528	(30,075)
1) Share of the other comprehensive income of the investee accounted for using equity method which will be		(36,017)	(73,811)	(24,431)	(30,075)
2) Changes in fair value of available-for-sale financial assets		(240,597)	231,672	66,959	-
3) Effective portion of cash flow hedging gains or losses		318,553	199,356	-	-
4) Translation of foreign currency financial statements		(268,624)	644,836	-	-
Attributable to minority shareholders		(52,811)	103,939	-	-
6. Total comprehensive income		18,300,562	17,050,127	10,820,159	9,549,388
Attributable to shareholders of the parent company		17,025,872	15,768,633	10,820,159	9,549,388
Attributable to minority shareholders		1,274,690	1,281,494	-	-
7. Earnings per share					
Basic earnings per share (RMB Yuan)	4(45)	2.66	2.29	N/A	N/A
Diluted earnings per share (RMB Yuan)	4(45)	2.63	2.28	N/A	N/A

The accompanying notes form an integral part of these financial statements.

Legal representative:
Fang Hongbo

Principal in charge of accounting function:
Xiao Mingguang

Head of accounting department:
Chen Lihong

MIDEA GROUP CO., LTD.

**CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

Item	Note	2017 Consolidated	2016 Consolidated	2017 Company	2016 Company
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		195,820,338	153,324,273	-	-
Net increase in customer deposits and deposits from banks and other financial institutions		72,218	-	-	-
Net decrease in deposits with central bank		-	286,915	-	-
Cash received from interest, fee and commission		1,175,477	783,936	-	-
Refund of taxes and surcharges		5,476,543	5,124,402	-	-
Cash received relating to other operating activities	4(46)(a)	4,771,036	3,139,286	9,432,057	11,327,292
Sub-total of cash inflows		207,315,612	162,658,812	9,432,057	11,327,292
Cash paid for goods and services		(116,508,042)	(89,440,654)	-	-
Net increase in loans and advances		(1,933,348)	(3,785,600)	-	-
Net decrease in customer deposits and deposits from banks and other financial institutions		-	(15,292)	-	-
Net increase in deposits with central bank		(1,158,040)	-	-	-
Cash paid for interest, fee and commission		(253,650)	(442,446)	-	-
Cash paid to and on behalf of employees		(22,740,541)	(11,652,740)	(117,436)	(28,966)
Payments of taxes and surcharges		(11,139,448)	(8,824,342)	(104,073)	(57,284)
Cash paid relating to other operating activities	4(46)(b)	(29,139,920)	(21,802,729)	(276,406)	(5,370,055)
Sub-total of cash outflows		(182,872,989)	(135,963,803)	(497,915)	(5,456,305)
Net cash flows from operating activities	4(46)(c)	24,442,623	26,695,009	8,934,142	5,870,987
2. Cash flows from investing activities					
Cash received from disposal of investments		85,127,382	73,905,220	49,824,940	37,846,031
Cash received from returns on investments		2,727,603	1,954,049	10,054,584	10,003,516
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,441,101	191,159	12,049	111
Net cash received from disposal of subsidiaries and other business units		-	272,899	-	-
Sub-total of cash inflows		89,296,086	76,323,327	59,891,573	47,849,658
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(3,218,402)	(2,323,430)	(246,073)	(297,767)
Cash paid to acquire investments		(94,967,122)	(90,880,725)	(45,264,526)	(44,445,211)
Net cash paid to acquire subsidiaries and other business units	4(46)(d)	(25,850,170)	(2,900,256)	-	-
Sub-total of cash outflows		(124,035,694)	(96,104,411)	(45,510,599)	(44,742,978)
Net cash flows from investing activities		(34,739,608)	(19,781,084)	14,380,974	3,106,680
3. Cash flows from financing activities					
Cash received from capital contributions		1,668,205	814,845	1,625,153	782,252
Including: Cash received from capital contributions by minority shareholders of subsidiaries		43,052	32,593	-	-
Cash received from borrowings		62,169,886	32,422,027	1,600,000	1,800,000
Cash received from issuing short-term financing bonds		-	1,999,500	-	1,999,500
Sub-total of cash inflows		63,838,091	35,236,372	3,225,153	4,581,752
Cash repayments of borrowings		(36,074,251)	(26,961,143)	(1,600,000)	(3,090,000)
Cash payments for short-term financing bonds		-	(1,999,500)	-	(1,999,500)
Cash payments for interest expenses and distribution of dividends or profits		(7,908,056)	(6,046,355)	(7,136,641)	(6,540,012)
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		(815,164)	(563,320)	-	-
Cash payments relating to other financing activities		(204,139)	(69,462)	-	-
Sub-total of cash outflows		(44,186,446)	(35,076,460)	(8,736,641)	(11,629,512)
Net cash flows from financing activities		19,651,645	159,912	(5,511,488)	(7,047,760)
4. Effect of foreign exchange rate changes on cash and cash equivalents					
		(36,737)	252,576	-	-
5. Net decrease in cash and cash equivalents					
Add: Cash and cash equivalents at beginning of year		9,317,923	7,326,413	17,803,628	1,929,907
		12,513,730	5,187,317	8,174,915	6,245,008
6. Cash and cash equivalents at end of year					
	4(46)(e)	21,831,653	12,513,730	25,978,543	8,174,915

The accompanying notes form an integral part of these financial statements.

Legal representative:
Fang Hongbo

Principal in charge of accounting function:
Xiao Mingguang

Head of accounting department:
Chen Lihong

MIDEA GROUP CO., LTD.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB'000 Yuan unless otherwise stated)

[English translation for reference only]

Item	Attributable to shareholders of the parent company							Minority shareholders	Shareholders' equity
	Share capital	Capital surplus	Less: Treasury stock (Note4(28)(b))	Other comprehensive income	General reserve	Surplus reserve	Undistributed profits	Equity	Total
Balance at 1 January 2016	4,266,839	14,511,190	-	(1,071,151)	118,624	1,846,523	29,529,827	6,829,770	56,031,622
Movements for the year ended 31 December 2016									
Total comprehensive income									
Net profit	-	-	-	-	-	-	14,684,357	1,177,555	15,861,912
Other comprehensive income net of tax	-	-	-	1,084,276	-	-	-	103,939	1,188,215
Total comprehensive income	-	-	-	1,084,276	-	-	14,684,357	1,281,494	17,050,127
Capital contribution and withdrawal by shareholders									
Capital contribution from shareholders	58,232	1,007,110	-	-	-	-	-	32,593	1,097,935
Business combinations	-	-	-	-	-	-	-	339,543	339,543
Share-based payment included in shareholders' equity	-	228,634	-	-	-	-	-	72,957	301,591
Profit distribution									
Appropriation to general reserve	-	-	-	-	29,978	-	(29,978)	-	-
Appropriation to surplus reserve	-	-	-	-	-	957,946	(957,946)	-	-
Profit distribution to shareholders	-	-	-	-	-	-	(5,120,869)	(550,321)	(5,671,190)
Capital addition from capital surplus	2,133,696	(2,133,696)	-	-	-	-	-	-	-
Others	-	(16,669)	-	-	-	-	-	(156,263)	(172,932)
Balance at 31 December 2016	6,458,767	13,596,569	-	13,125	148,602	2,804,469	38,105,391	7,849,773	68,976,696

MIDEA GROUP CO., LTD.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB'000 Yuan unless otherwise stated)

[English translation for reference only]

Item	Attributable to shareholders of the parent company							Minority shareholders	Shareholders' equity
	Share capital	Capital surplus	Less: Treasury stock (Note4(28)(b))	Other comprehensive income	General reserve	Surplus reserve	Undistributed profits	Equity	Total
Balance at 1 January 2017	6,458,767	13,596,569	-	13,125	148,602	2,804,469	38,105,391	7,849,773	68,976,696
Movements for the year ended 31 December 2017									
Total comprehensive income									
Net profit	-	-	-	-	-	-	17,283,689	1,327,501	18,611,190
Other comprehensive income net of tax	-	-	-	(257,817)	-	-	-	(52,811)	(310,628)
Total comprehensive income	-	-	-	(257,817)	-	-	17,283,689	1,274,690	18,300,562
Capital contribution and withdrawal by shareholders									
Capital contribution from shareholders	102,286	1,947,025	(366,842)	-	-	-	-	43,052	1,725,521
Business combinations	-	-	-	-	-	-	-	647,230	647,230
Share-based payment included in shareholders' equity	-	326,005	-	-	-	-	-	106,263	432,268
Profit distribution									
Appropriation to general reserve	-	-	-	-	218,345	-	(218,345)	-	-
Appropriation to surplus reserve	-	-	-	-	-	1,077,763	(1,077,763)	-	-
Profit distribution to shareholders	-	-	-	-	-	-	(6,465,677)	(733,274)	(7,198,951)
Capital addition from capital surplus	-	-	-	-	-	-	-	-	-
Others	-	41,905	-	-	-	-	(60)	-	41,845
Balance at 31 December 2017	6,561,053	15,911,504	(366,842)	(244,692)	366,947	3,882,232	47,627,235	9,187,734	82,925,171

The accompanying notes form an integral part of these financial statements.

Legal representative:
Fang Hongbo

Principal in charge of accounting function:
Xiao Mingguang

Head of accounting department:
Chen Lihong

MIDEA GROUP CO., LTD.

**COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB'000 Yuan unless otherwise stated)

[English translation for reference only]

Item	Note	Share capital	Capital surplus	Less: Treasury stock	Other comprehensive income	Surplus reserve	Undistributed profits	Total shareholders' equity
Balance at 1 January 2016		4,266,839	6,370,934	-	21,006	1,846,523	9,878,385	22,383,687
Movements for the year ended 31 December 2016								
Total comprehensive income								
Net profit		-	-	-	-	-	9,579,463	9,579,463
Other comprehensive income net of tax		-	-	-	(30,075)	-	-	(30,075)
Total comprehensive income		-	-	-	(30,075)	-	9,579,463	9,549,388
Capital contribution and withdrawal by shareholders								
Capital contribution from shareholders		58,232	1,007,110	-	-	-	-	1,065,342
Share-based payment included in shareholders' equity		-	210,663	-	-	-	-	210,663
Profit distribution								
Appropriation to surplus reserve		-	-	-	-	957,946	(957,946)	-
Profit distribution to shareholders		-	-	-	-	-	(5,120,869)	(5,120,869)
Capital addition from capital surplus		2,133,696	(2,133,696)	-	-	-	-	-
Others		-	257	-	-	-	-	257
Balance at 31 December 2016		6,458,767	5,455,268	-	(9,069)	2,804,469	13,379,033	28,088,468

MIDEA GROUP CO., LTD.

**COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017 (cont'd)**

(All amounts in RMB'000 Yuan unless otherwise stated)

[English translation for reference only]

Item	Note	Share capital	Capital surplus	Less: Treasury stock	Other comprehensive income	Surplus reserve	Undistributed profits	Total shareholders' equity
Balance at 1 January 2017		6,458,767	5,455,268	-	(9,069)	2,804,469	13,379,033	28,088,468
Movements for the year ended 31 December 2017								
Total comprehensive income								
Net profit		-	-	-	-	-	10,777,631	10,777,631
Other comprehensive income net of tax		-	-	-	42,528	-	-	42,528
Total comprehensive income		-	-	-	42,528	-	10,777,631	10,820,159
Capital contribution and withdrawal by shareholders								
Capital contribution from shareholders		102,286	1,947,025	(366,842)	-	-	-	1,682,469
Share-based payment included in shareholders' equity		-	284,329	-	-	-	-	284,329
Profit distribution								
Appropriation to surplus reserve		-	-	-	-	1,077,763	(1,077,763)	-
Profit distribution to shareholders		-	-	-	-	-	(6,465,677)	(6,465,677)
Capital addition from capital surplus		-	-	-	-	-	-	-
Others		-	39,615	-	-	-	-	39,615
Balance at 31 December 2017		6,561,053	7,726,237	(366,842)	33,459	3,882,232	16,613,224	34,449,363

The accompanying notes form an integral part of these financial statements.

Legal representative:
Fang Hongbo

Principal in charge of accounting function:
Xiao Mingguang

Head of accounting department:
Chen Lihong

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

1 General information

The operational activities of Midea Group Co. Ltd. (hereinafter referred to as the “Company”) and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacturing and sale of home appliances, design and implementation of scheme for robots and industrial automation system. Other operations include sale, wholesale and processing of raw materials of home appliances and financial business, which includes customer deposits, interbank lending, consumption credit, buyer’s credit and finance lease.

The Company was promoted and set up by the Council of Trade Unions of GD Midea Group Co. Ltd., and was registered in Market Safety Supervision Bureau of Shunde District, Foshan on 7 April 2000, with its headquarters located in Shunde District, Foshan. On 30 August 2012, the Company was transformed into a limited liability company. On 29 July 2013, the Company was approved to acquire additional interests in Guangdong Midea Electric Co., Ltd., a subsidiary listed on Shenzhen Stock Exchange. On 18 September 2013, the Company’s shares became listed on Shenzhen Stock Exchange through share issuance and share exchange.

As at 31 December 2017, the Company’s registered capital is RMB6,561,053,319 and the total number of shares in issue is 6,561,053,319, of which 212,022,910 shares are restricted tradable shares and 6,349,030,409 shares are unrestricted tradable shares.

The detailed information of major subsidiaries included in the consolidation scope in the current year is set out in Note 5 and 6. Entities newly included in the consolidation scope in the current year include Guangdong Midea Electric Co., Ltd., Guangdong Midea Intelligent Robotics Co., Ltd., Chongqing Midea Microfinance Loan Co., Ltd., Guangdong Midea Advanced Technologies Co., Ltd., Hefei Midea Advanced Technologies Co., Ltd., Guangdong Midea Kafei Coffee Machine Manufacturing Co., Ltd., Midea Electric Netherlands (I) B.V., KUKA Aktiengesellschaft (“KUKA”) and its subsidiaries (“KUKA Group”), Servotronic and its subsidiaries (“SMC”), Dongguan Alba Industries Co., Ltd., (“Dongguan Kafei”) and Fujitsu South China Technology Services Limited (“Fujitsu”). Please refer to Note 5(1) and 5(2)(a) for details. The detailed information of subsidiaries no longer included in the consolidation scope in the current year is set out in Note 5(2)(b).

These financial statements were authorised for issue by the Company’s Board of Directors on 29 March 2018.

2 Summary of significant accounting policies and accounting estimates

The Group determines specific accounting policies and accounting estimates based on the features of production and operation, mainly including the recognition method of provision for bad debts of accounts receivable (Note 2(10)), valuation method of inventory (Note 2(12)), depreciation of fixed assets and amortisation of intangible assets (Note (15) and (18)), and recognition time of revenue (Note 2(27)).

Critical judgements applied by the Group in determining significant accounting policies are set out in Note 2(33).

**NOTES TO THE FINANCIAL STATEMENTS
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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(1) Basis of preparation

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises - Basic Standard, and the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as "the Accounting Standards for Business Enterprises" or "CAS") and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Rules on Financial Reporting issued by the China Securities Regulatory Commission.

The financial statements are prepared on a going concern basis.

(2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the year ended 31 December 2017 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the consolidated and the Company as at 31 December 2017 and their financial performance, cash flows and other information for the year then ended.

(3) Accounting period

The Company's accounting year starts on 1 January and ends on 31 December.

(4) Functional currency

The functional currency of the Company is the Renminbi ("RMB"). The Company and its subsidiaries determine their functional currency based on the primary economic environment in which the business is operated, mainly including KUKA Group's functional currency-EUR and Toshiba lifestyle Products & Services Corporation ("TLSC")'s functional currency-JPY. The financial statements are presented in RMB.

(5) Business combinations

(a) Business combinations involving enterprises under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. If the absorbing party was bought by the ultimate controller from a third party in prior years, the value of its assets and liabilities (including goodwill generated due to the combination) are based on the carrying amount in the ultimate controller's consolidated financial statements. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (share premium). If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(5) Business combinations

(b) Business combinations involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition dates. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

For business combinations achieved by stages involving enterprises not under common control, previously-held equity in the acquiree is remeasured at its fair value at the acquisition dates, and the difference between its fair value and carrying amount is included in investment income for the current period in consolidated financial statements. Where the previously-held equity in the acquiree involves other comprehensive income under equity method and shareholders' equity changes other than those arising from the net profit or loss, other comprehensive income and profit distribution, the related other comprehensive income and other shareholders' equity changes are transferred into income for the current period to which the acquisition dates belongs, excluding those arising from changes in the investee's remeasurement of net liability or net asset related to the defined benefit plan. The excess of the sum of fair value of the previously-held equity and fair value of the consideration paid at the acquisition dates over share of fair value of identifiable net assets acquired from the subsidiary is recognised as goodwill.

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, comes under common control of the ultimate controlling party. The portion of the net profits realised before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition dates.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(6) Preparation of consolidated financial statements (Cont'd)

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity and the portion of a subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to Company are recognised as minority interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to shareholders of the parent company. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to shareholders of the parent and minority interests in accordance with the allocation proportion of the parent in the subsidiary.

Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to shareholders of the parent and minority interests in accordance with the allocation proportion of the parent in the subsidiary. If the accounting treatment of a transaction which considers the Group as an accounting entity is different from that considers the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

(7) Recognition criteria of cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Foreign currency translation

(a) Foreign currency transaction

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into functional currency using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

**NOTES TO THE FINANCIAL STATEMENTS
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(All amounts in RMB'000 Yuan unless otherwise stated)
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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(8) Foreign currency translation (Cont'd)

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented in other comprehensive income. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(9) Financial instruments

(a) Financial assets

(i) Classification of financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for the purpose of selling in the short term and Derivative financial instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including cash at bank and on hand, deposits with central bank, deposits with banks and other financial institutions, loans and advances, interest receivable, dividends receivable, accounts receivable and structural deposits with banks.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories at initial recognition. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months after the balance sheet date.

(ii) Derivative financial instruments

The derivative financial instruments held or issued by the Group are mainly used in controlling risk exposures. Derivative financial instruments are initially recognised at fair value on the day when derivatives transaction contract was signed, and subsequently measured at fair value. The derivative financial instruments are recorded as assets when they have a positive fair value and as liabilities when they have a negative fair value.

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(All amounts in RMB'000 Yuan unless otherwise stated)
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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(9) Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(ii) Derivative financial instruments (Cont'd)

The recognition of changes in fair value of derivative financial instruments depends on whether such derivative financial instruments are designated as hedging instruments and meet requirements for hedging instruments, and depends on the nature of hedged items in this case. For derivative financial instruments that are not designated as hedging instruments and fail to meet requirements on hedging instruments, including those held for the purpose of providing hedging against specific risks in interest rate and foreign exchange but not conforming with requirements of hedge accounting, the changes in fair value are recorded in gains or losses arising from changes in fair value in the consolidated income statement.

At the inception of the transaction, the Group officially designates the hedging relations between hedging instruments and hedged items and documents the hedging relations, risk management objectives and hedging strategies. The Group also makes written assessment of the effectiveness of hedging instruments in offsetting changes in the fair value or cash flow of hedged items. These criteria should be met before hedging accounting is determined as applicable to such hedges.

Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect the profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income in current year and accumulated in equity in the "other comprehensive income". The ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in equity are reclassified to the profit or loss in the same periods when the hedged item affects the profit or loss.

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the profit or loss when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the profit or loss.

(iii) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initially recognised amounts.

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(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

2 Summary of significant accounting policies and accounting estimates (Cont'd)

(9) Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(iii) Recognition and measurement (Cont'd)

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortised cost using the effective interest method.

Gains or losses arising from change in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in profit or loss for the current period.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

(iv) Impairment of financial assets

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

Objective evidence indicating impairment of financial assets refers to the matter that actually occurs after the initial recognition of financial assets, it will affect estimated future cash flows of financial assets, and its impact can be reliably measured.

Objective evidence indicating impairment of available-for-sale investments in equity instruments includes a significant or prolonged decline in the fair value of an investment in an equity instrument. The Group reviews available-for-sale investments in equity instruments on an individual basis at the balance sheet date. If the fair value of an equity instrument investment at the balance sheet date is lower than 50% (inclusive) of its initial cost for more than 12 months (inclusive), it indicates that the impairment has occurred. If the fair value at the balance sheet date is lower than 20% (inclusive) but no more than 50%, the Group considers other relevant factors, such as price fluctuation rate, to determine whether an impairment of equity instrument investment occurs. The Group calculates the initial investment cost of available-for-sale equity instruments by using weighted average method.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

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(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

2 Summary of significant accounting policies and accounting estimates (Cont'd)

(9) Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(iv) Impairment of financial assets (Cont'd)

If an impairment loss on available-for-sale financial assets measured at fair value incurs, the cumulative losses arising from the decline in fair value that had been recognised directly in shareholders' equity are transferred out from equity and into impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised directly in equity.

If an impairment loss on an available-for-sale financial asset measured at cost incurs, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The previously recognised impairment loss will not be reversed in subsequent periods.

Please refer to Note 2(10) for accounting policies related to impairment of receivables.

(v) Derecognition of financial assets

A financial asset is derecognised when any of the below criteria is met: (1) the contractual rights to receive the cash flows from the financial asset expire; (2) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (3) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in equity, is recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into two categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The Group's financial liabilities include derivative financial liabilities, accounts payable, notes payable, borrowings, customer deposits and deposits from banks and other financial institutions, financial assets sold under repurchase agreements and interest payable.

Payables comprise accounts payable, other payables and other current liabilities, and are recognised at fair value at initial recognition. Payables are subsequently measured at amortised cost using the effective interest method.

Borrowings and debentures payable are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(9) Financial instruments (Cont'd)

(b) Financial liabilities (Cont'd)

Other financial liabilities with maturities no more than one year are classified as current liabilities. Other financial liabilities with maturities over one year but are due within one year (inclusive) since the balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability (or a part of a financial liability) is derecognised when all or part of the obligation is extinguished. The difference between the carrying amount of the financial liability or the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

(c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. In valuation, the Group uses a valuation technique that is applicable in the current situation and supported by adequate available data and other information, selects inputs with the same characteristics as those of assets or liabilities considered in relevant trade of assets or liabilities by market participants, and maximises the use of relevant observable inputs. The Group uses unobservable inputs when relevant observable inputs are not available or feasible.

(10) Receivables

Receivables comprise accounts receivable, other receivables and notes receivable. Accounts receivable arising from sales of goods or rendering of services are initially recognised at fair value of the contractual payments from the buyers or service recipients.

(a) Receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts

Receivables with amounts that are individually significant are subject to separate assessment for impairment. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for impairment of that receivable is made.

The judgement standard for individually significant amount is an individual amount exceeding RMB5,000,000 for accounts receivable and RMB500,000 for other receivables.

The Group makes provision for bad debts for those individually significant amounts based on the amount by which the present value of the future cash flows expected to be derived from the receivable is below its carrying amount.

MIDEA GROUP CO., LTD.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(10) Provision for bad debts of receivables (Cont'd)

- (b) Accounts receivable and other receivables that are subject to provision for bad debts on the grouping basis

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

The Group assesses the recovery risk of receivables based on the characteristics of different regions. No provision for bad debts of notes receivables was made because the notes receivable are all bank-acceptance bills with low credit risk.

The Company's subsidiaries in Mainland China classify the credit risk groupings by taking the ageing of receivables as the risk characteristics and determine different provision ratios based on business features.

	Within 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years
Heating Ventilating & Air Conditioning ("HVAC")	0%, 5%	5%	10%	30%	50%	100%
Consumer appliances	0%, 5%	5%	10%	30%	50%	100%
Robots and automatic system	5%	5%	10%	30%	50%	100%
Others	0%, 5%	5%	10%	30%	50%	100%

The Company's subsidiaries in Japan classify the credit risk groupings by taking the overdue of receivables as the risk characteristics and make bad debts provision based on the average percentage of bad debts during last three years by using percentage-of-balance method. For the receivables that are overdue, they make bad debts provision on an individual basis.

The Company's subsidiaries in Hong Kong, Macau, Singapore and Italy make bad debts provision for receivables on an individual basis.

The Company's subsidiaries in Brazil make no bad debts provision for receivables with the ageing within 1 year and adopt 100% provision ratio for those with the ageing over 1 year.

The Company's subsidiaries in Germany classify the credit risk groupings by taking the expiring date of receivables as the risk characteristics.

The Company's subsidiaries in Israel classify the credit risk groupings by taking the ageing of receivables as the risk characteristics.

- (c) Accounts receivable and other receivables with amounts that are not individually significant but subject to separate assessment for provision for bad debts

The reason for making separate assessment for provision for bad debts is that there exists objective evidence that the Group will not be able to collect the amount under the original terms of the receivable.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(10) Provision for bad debts of receivables (Cont'd)

- (c) Accounts receivable and other receivables with amounts that are not individually significant but subject to separate assessment for provision for bad debts (Cont'd)

The provision for bad debts is determined based on the amount by which the present value of the future cash flows expected to be derived from the receivable is below its carrying amount.

- (d) When the Group transfers the accounts receivable to the financial institutions without recourse, the difference between the proceeds received from the transaction and their carrying amounts and the related taxes is recognised in profit or loss for the current period.

(11) Provision for bad debts of loans and advances

The provision for bad debts of loans and advances is provided by five-tier loan classification of ending balances of loans and advances as follows:

The Five-class Classification	Provision ratio
Pass Risk Assets	1.5%
Special mention Risk Assets	3.0%
Substandard Risk Assets	30.0%
Doubtful Risk Assets	60.0%
Loss Risk Assets	100.0%

(12) Inventories

- (a) Classification of inventories

Inventories, including raw materials, consigned processing materials, low value consumables, work in progress, completed but unsettled products and finished goods, etc., are measured at the lower of cost and net realisable value.

The amount of completed but unsettled works is determined on the basis of individual contract at the cost of contract incurred plus profits thereof and less losses recognised and amount settled. It is recognised as assets when the balance is positive and recognised as liabilities when the balance is negative.

- (b) Costing of inventories

Other than completed but unsettled products, cost is determined using the first-in first-out method when issued. The cost of goods of finished goods and work in progress comprises raw materials, direct labour and systematically allocated production overhead based on the normal production capacity.

- (c) Basis for determining net realisable values of inventories and method for making provision for decline in the value of inventories

Inventories are initially measured at cost. The cost of inventories comprises purchase cost, processing cost and other expenditures to bring the inventories to current site and condition.

On the balance sheet date, inventories are measured at the lower of cost and net realisable value.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(12) Inventories (Cont'd)

- (c) Basis for determining net realisable values of inventories and method for making provision for decline in the value of inventories (Cont'd)

Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

Provision for decline in the value of inventories is determined at the excess amount of the cost as calculated based on the classification of inventories over their net realisable value, and are recognised in profit or loss for the current period.

- (d) Inventory system

The Group adopts the perpetual inventory system.

- (e) Amortisation methods of low value consumables and packaging materials

Low value consumables are expensed in full when issued and recognised in cost of related assets or in profit or loss for the current period.

(13) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in its associates and joint venture.

Subsidiaries are the investees over which the Company is able to exercise control. A joint venture is a joint arrangement which is structured through a separate vehicle over which the Group has joint control together with other parties and only has rights to the net assets of the arrangement based on legal forms, contractual terms and other facts and circumstances. Associates are the investees that the Group has significant influence on their financial and operating policies.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements. Investments in a joint venture and associates are accounted for using the equity method.

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(All amounts in RMB'000 Yuan unless otherwise stated)
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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(13) Long-term equity investments (Cont'd)

(a) Determination of investment cost

For long-term equity investments acquired through a business combination: for long-term equity investments acquired through a business combination involving enterprises under common control, the investment cost shall be the absorbing party's share of the carrying amount of equity of the party being absorbed in the consolidated financial statements of the ultimate controller at the combination date; for long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

For business combinations achieved by stages involving enterprises not under common control, the initial investment cost accounted for using the cost method is the sum of carrying amount of previously-held equity investment and additional investment cost. For previously-held equity accounted for using the equity method, the accounting treatment of related other comprehensive income from disposal of the equity is carried out on a same basis with the investee's direct disposal of related assets or liabilities. Shareholders' equity, which is recognised due to changes in investee's shareholders' equity other than those arising from the net profit or loss, other comprehensive income and profit distribution, is accordingly transferred into profit or loss in the period in which the investment is disposed.

For investment in previously-held equity accounted for using the recognition and measurement standards of financial instruments, the initial investment cost accounted for using the cost method is the sum of carrying amount of previously-held equity investment and additional investment cost.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

(b) Subsequent measurement and recognition of related profit and loss

For long-term equity investments accounted for using the cost method, they are measured at the initial investment costs, and cash dividends or profit distribution declared by the investees are recognised as investment income in profit or loss.

For long-term equity investments accounted for using the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the acquisition dates, the long-term equity investment is measured at the initial investment cost; where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the acquisition dates, the difference is included in profit or loss and the cost of the long-term equity investment is adjusted upwards accordingly.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(13) Long-term equity investments (Cont'd)

(b) Subsequent measurement and recognition of related profit and loss (Cont'd)

For long-term equity investments accounted for using the equity method, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. The changes in the shareholders' equity of the investee other than those arising from the net profit or loss, other comprehensive income and profit distribution, are recognised in the Group's equity and the carrying amounts of the long-term equity investment are adjusted accordingly. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based on which the investment gains or losses are recognised. For the loss on the intra-group transaction amongst the Group and its investees attributable to asset impairment, any unrealised loss is not eliminated.

(c) Basis for determining existence of control, jointly control or significant influence over investees

Control is the power to govern an investee and obtain variable returns from participating the investee's activities, and the ability to utilise the power of an investee to affect its returns.

Joint control is the contractually agreed sharing of control over an arrangement, and relevant economic activity can be arranged upon the unanimous approval of the Group and other participants sharing of control rights.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

(d) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries, joint venture and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(20)).

(14) Investment properties

Investment properties, including land use rights that have already been leased out, buildings that are held for the purpose of leasing and buildings that are being constructed or developed for future use for leasing, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are incurred.

The Group adopts the cost model for subsequent measurement of investment properties. Buildings and land use rights are depreciated or amortised to their estimated net residual values over their estimated useful lives. The estimated useful lives, the estimated net residual values that are expressed as a percentage of cost and the annual depreciation (amortisation) rates of investment properties are as follows:

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(14) Investment properties (Cont'd)

	Estimated useful lives	Estimated net residual value	Annual depreciation (amortisation) rates
Buildings	20 to 40 years	5%	2.38% to 4.75%
Land use rights	40 to 50 years	-	2% to 2.5%

When an investment property is transferred to owner-occupied properties, it is reclassified as fixed asset or intangible asset at the date of the transfer. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as investment properties at its carrying amount at the date of the transfer. At the time of transfer, the property is recognised based on the carrying amount before transfer.

The investment properties' estimated useful lives, the estimated net residual values and the depreciation (amortisation) methods applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after deducting its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(15) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, land with permanent ownership, machinery and equipment, motor vehicles, computers and electronic equipment and office equipment.

Fixed assets are recognised when it is probable that the related economic benefits will flow to the Group and the costs can be reliably measured. The initial cost of purchased fixed assets include purchase price, related taxes and expenditures that are attributable to the assets incurred before the assets are ready for their intended use. The initial cost of self-constructed fixed assets is determined based on Note 2(16).

Subsequent expenditures incurred for fixed assets are included in the cost of fixed assets when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

(15) Fixed assets

(b) Depreciation methods of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of the Group's fixed assets are as follows:

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(15) Fixed assets (Cont'd)

(b) Depreciation methods of fixed assets (Cont'd)

Classes	Estimated useful lives	Estimated net residual value	Annual depreciation rates
Buildings	15 to 60 years	0% to 10%	6.7% to 1.5%
Machinery and equipment	2 to 18 years	0% to 10%	50% to 5.0%
Motor vehicles	2 to 20 years	0% to 10%	50% to 4.5%
Electronic equipment and other equipment	2 to 20 years	0% to 10%	50% to 4.5%
Land	Permanent	Not applicable	Not applicable

The estimated useful lives and the estimated net residual values of the Group's fixed assets and the depreciation methods applied to the assets are reviewed, and adjusted as appropriate at each year-end.

(c) Basis for identification of fixed assets held under finance leases and related measurement

A lease that in substance transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. The leased asset is recognised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognised finance charge.

Fixed assets held under a finance lease is depreciated on a basis consistent with the depreciation policy adopted for fixed assets that are self-owned. When a leased asset can be reasonably determined that its ownership will be transferred at the end of the lease term, it is depreciated over the period of expected use; otherwise, the leased asset is depreciated over the shorter period of the lease term and the period of expected use.

(d) The carrying amount of a fixed asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(20)).

(e) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(16) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(20)).

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(17) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which the estimated future cash flows during the period of expected duration of the borrowings or applicable shorter period are discounted to the initial amount of the borrowings.

(18) Intangible assets

Intangible assets include land use rights, patents and non-patent technologies, trademark rights, trademark use rights, licensing rights and others, and are measured at cost.

(a) Land use rights

Land use rights are amortised on the straight-line basis over their approved use period of 40 to 50 years. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

(b) Patents and non-patent technologies

Patents are amortised on a straight-line basis over the statutory period of validity, the period as stipulated by contracts or the beneficial period.

(c) Trademark rights

The trademark rights is measured at cost when acquired and is amortized over the estimated useful life of 30 years. The cost of trademark rights obtained in the business combinations involving enterprises not under common control is measured at fair value.

(d) Trademark use rights

The trademark use rights is measured at cost when acquired. The cost of trademark use rights obtained in the business combinations involving enterprises not under common control is measured at fair value, and is amortized over the estimated useful life of 40 years.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(18) Intangible assets (Cont'd)

(e) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

(f) Research and development ("R&D")

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

Expenditure on the planned investigation, evaluation and selection for the R&D of production processes or products is expenditure on the research phase, which is recognised in profit or loss in the period in which it is incurred. Expenditure on design and test for the final application of the R&D of production processes or products before mass production is expenditure on the development phase, which is capitalised only if all of the following conditions are satisfied:

- The R&D of production processes or products has been fully justified by technical team;
- The budget on the R&D of production processes or products has been approved by the management;
- It's been proved by previous market research analysis that the products produced by the production processes have marketing capabilities;
- There are sufficient technical and financial resources to support the R&D of production processes or products and subsequent mass production; and
- Expenditure attributable to the R&D of production processes or products can be reliably measured.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use.

(g) Impairment of intangible assets

The carrying amount of intangible assets is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(20)).

(19) Long-term deferred expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets held under operating leases, and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(20) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, investment properties measured using the cost model and long-term equity investments in subsidiaries, a joint venture and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. Intangible assets not ready for their intended use and land with permanent ownership are tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill that is separately presented in the financial statements is tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(21) Employee benefits

Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

(a) Short-term employee benefits

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, and short-term paid absences. The employee benefit liabilities are recognised in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Non-monetary benefits are measured at their fair value.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(21) Employee benefits (Cont'd)

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's defined contribution plans mainly include basic pensions and unemployment insurance, while the defined benefit plans are that TLSC and KUKA, the Group's subsidiaries, provides supplemental retirement benefits beyond the national regulatory insurance system.

Basic pensions

Employees of the Group participate in the defined basic pension insurance plan set up and administered by local labour and social protection authorities. Basic pensions are provided for monthly according to stipulated bases and proportions to local labour and social security institutions. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

Supplemental retirement benefits

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of national debt that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The charges related to the supplemental retirement benefits (including current service costs, past-service costs and gains or losses on settlement) and net interest costs are recognised in the statement of profit or loss or included in the cost of an asset, and the changes of remeasurements in net liabilities or net assets arising from the benefit plan are charged or credited to equity in other comprehensive.

(c) Termination benefits

The Group provides compensation for terminating the employment relationship with employees before the end of the employment contracts or as an offer to encourage employees to accept voluntary redundancy before the end of the employment contracts. The Group recognises a liability arising from compensation for termination of the employment relationship with employees, with a corresponding charge to profit or loss at the earlier of the following dates: 1) when the Group cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; 2) when the Group recognises costs or expenses related to the restructuring that involves the payment of termination benefits.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(21) Employee benefits (Cont'd)

(c) Termination benefits (Cont'd)

Early retirement benefits

The Group offers early retirement benefits to those employees who accept early retirement arrangements. The early retirement benefits refer to the salaries and social security contributions to be paid to and for the employees who accept voluntary retirement before the normal retirement date prescribed by the State, as approved by the management. The Group pays early retirement benefits to those early retired employees from the early retirement date until normal retirement date. The Group accounts for the early retirement benefits in accordance with the treatment of termination benefits, in which the salaries and social security contributions to be paid to and for the early retired employees from the off-duty date to the normal retirement date are recognised as liabilities with a corresponding charge to the profit or loss for the current period. The differences arising from the changes in the respective actuarial assumptions of the early retirement benefits and the adjustments of benefit standards are recognised in profit or loss in the period in which they occur.

The termination benefits expected to be paid within one year since the balance sheet date are classified as current liabilities.

(22) Financial assets sold under repurchase agreements

Assets sold under agreements to repurchase at a specific future date are not derecognised from the balance sheet. The corresponding proceeds are recognised on the balance sheet under "Repurchase agreements". The difference between the sale price and the repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest method.

(23) General reserve

General reserve is the reserve appropriated from undistributed profits to cover part of unidentified potential losses, on the basis of the estimated potential risk value of risk assets assessed by the standardised approach, which is deducted from recognised provision for impairment losses on loans. Risk assets include loans and advances, available-for-sale financial assets, long-term equity investments, deposits with banks and other financial institutions and other receivables of subsidiary engaged in financial business.

(24) Dividend distribution

Cash dividend is recognised as a liability for the period in which the dividend is approved by the shareholders' meeting.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(25) Provisions

Provisions for product warranties, onerous contracts etc. are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Provisions to be paid within one year since balance sheet date shall be categorised as current liability.

(26) Share-based payment

(a) Type of share-based payment

Share-based payment is a transaction in which the entity acquires services from employees as consideration for equity instruments of the entity or by incurring liabilities for amounts based on the equity instruments. Equity instruments include equity instruments of the Company, its parent company or other accounting entities of the Group. Share-based payments are divided into equity-settled and cash-settled payments. The Group's share-based payments are equity-settled payments.

Equity-settled share-based payment

The Group's share option plan is the equity-settled share-based payment in exchange of employees' services and is measured at the fair value of the equity instruments at grant date. The equity instruments are exercisable after services in vesting period are completed or specified performance conditions are met. In the vesting period, the services obtained in current period are included in relevant cost and expenses at the fair value of the equity instruments at grant date based on the best estimate of the number of exercisable equity instruments, and capital surplus is increased accordingly. If the subsequent information indicates the number of exercisable equity instruments differs from the previous estimate, an adjustment is made and, on the exercise date, the estimate is revised to equal the number of actual vested equity instruments. On the exercise date, the recognised amount calculated based on the number of exercised equity instruments is transferred into share capital.

The Group's restricted share plan is the equity-settled share-based payment in exchange of employees' services and is measured at the fair value of the equity instruments at grant date. The equity instruments are tradable after services in vesting period are completed or specified performance conditions are met. In the vesting period, the services obtained in current period are included in relevant cost and expenses at the fair value of the equity instruments at grant date based on the best estimate of the number of tradable equity instruments, and capital surplus is increased accordingly. If the subsequent information indicates the number of tradable equity instruments differs from the previous estimate, an adjustment is made and, on the deesterilization date, the estimate is revised to equal the number of actual vested equity instruments.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(26) Share-based payment (Cont'd)

(b) Determination of the fair value of equity instruments

The Group determines the fair value of share options using option pricing model, which is Black - Scholes option pricing model.

The Group determine the fair value of restricted shares based on the market value of restricted shares on the grant date and the price that incentive objects pay, taking into account the effects of relevant clause of the Group's restricted shares plan.

(c) Basis for determining best estimate of tradable or exercisable equity instruments

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. On the exercise or deactivation date, the final number of estimated exercisable or tradable equity instruments is consistent with the number of exercised or tradable equity instruments.

(d) Accounting treatment related to the exercise of share-based payment plans

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium). At the same time, capital surplus recognised in the vesting period are carried forward to share premium.

On the grant day of restricted shares, the Group debit bank deposit and increase equity and capital reserves (equity premium) when receiving subscription paid by the employees. In the meanwhile, recognize the debt for repurchase obligation (deem as acquisition of treasury stock), debit treasury stock and credit other payables-repurchase obligations of restricted share based on the number of restricted stocks issued and related repurchase price.

On the deactivation day of restricted shares, the Group transfer capital reserves that was confirmed during vesting period based on the deactivation condition.

(27) Revenue

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of discounts, rebates and returns.

Revenue is recognised when the economic benefits associated with the transaction will flow to the Group, the related revenue can be reliably measured, and the specific revenue recognition criteria have been met for each type of the Group's activities as described below:

(a) Sales of goods

The Group are principally engaged in the manufacturing and sales of home appliances (mainly HVAC and Consumer appliances), robots and automation systems (mainly Robots and automatic system).

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(27) Revenue (Cont'd)

(a) Sales of goods (Cont'd)

Revenue from domestic sales of home appliances is recognised when 1) the goods are delivered to buyers by the Group pursuant to contracts; 2) the amount of revenue is confirmed; 3) payments for goods are collected or receipts are acquired; and 4) the related economic benefits will flow to the Group; and the related costs can be measured reliably. Upon confirming the acceptance, the buyer has the right to sell the products at its discretion and takes the risks of any price fluctuations and obsolescence and loss of the products.

Revenue from overseas sales of home appliances is recognised when 1) the goods have left the port and obtain the bill of lading pursuant to contracts; 2) the amount of revenue is confirmed; 3) payments for goods are collected or obtain related receipts; and 4) the related economic benefits will flow to the Group and the related costs can be measured reliably.

For robots and automation systems, revenue is recognised when 1) the goods are delivered to buyers by the Group pursuant to contracts; 2) the amount of revenue is confirmed; 3) payments for goods are collected or receipts are acquired; and 4) the related economic benefits will flow to the Group; and the related costs can be measured reliably.

(b) Rendering of services

Revenue from transportation service, storage service, distribution service and installation service as provided by the Group is recognised when the services are completed.

Revenue from providing automation system business and intelligent logistics integration solution is recognized according to the percentage of completion.

(c) The construction contract

Where the outcome of a construction contract can be estimated reliably, revenue and costs thereof are recognised using the "percentage-of-completion" method as at the balance sheet date, the stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

The outcome of a construction contract can be estimated reliably when all of the following conditions are concurrently met: (1) The total contract revenue can be measured reliably; (2) It is highly probable that the economic benefits associated with the contract will flow to the enterprise; (3) The contract costs incurred thus far can be clearly identified and measured reliably; (4) Both the stage of completion and the costs necessary to complete the contract can be reliably measured.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs can be recovered actually. Contract costs are recognised as expenses in the period in which they are incurred. Otherwise, contract costs are recognised as expenses immediately, not as contract revenue. If the unexpected factors no longer exist which make construction contract unable to be estimated reliably, revenue and costs are recognised using the percentage-of-completion method.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(27) Revenue (Cont'd)

(c) The construction contract (Cont'd)

As at the balance sheet date, the actual total contract revenue multiply the percentage of completion less the total contract revenue recognised in previous accounting periods should be recognised as the revenue for the current period. Similarly, the total contract costs multiply the percentage of completion incurred less the total contract costs recognised in previous accounting periods should be recognised as the expenses for the current period.

(d) Interest income

Interest income from financial instruments is calculated by effective interest method and recognised in profit or loss for the current period. Interest income comprises premiums or discounts, or the amortisation based on effective rates of other difference between the initial carrying amount and the due amount of interest-earning assets.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and the interest income or expense based on effective rates. Actual interest rate is the rate at which the estimated future cash flows during the period of expected duration of the financial instruments or applicable shorter period are discounted to the current carrying amount of the financial instruments. When calculating the effective interest rate, the Group estimates cash flows by considering all contractual terms of the financial instrument (e.g. early repayment options, similar options, etc.), but without considering future credit losses. The calculation includes all fees and interest paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income from impaired financial assets is calculated at the interest rate that is used for discounting estimated future cash flow when measuring the impairment loss.

(e) Dividend income

Dividend income is recognised when the right to receive dividend payment is established.

(f) Rental income

Rental income from investment prosperities is recognised in the income statement on a straight-line basis over the lease period.

(g) Fee and commission income

Fee and commission income is recognised in profit or loss for the current period when the service is provided. The Group defers the initial charge income or commitment fee income arising from the forming or acquisition of financial assets as the adjustment to effective interest rate. If the loans are not lent when the loan commitment period is expired, related charges are recognised as fee and commission income.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(28) Government grants

Government grants are transfers of monetary or non-monetary assets from the government to the Group at nil consideration, including refund of taxes and financial subsidies, etc.

A government grant is recognised when the conditions attached to it can be complied with and the government grant can be received. For a government grant in the form of transfer of monetary assets, the grant is measured at the amount received or receivable. For a government grant in the form of transfer of non-monetary assets, it is measured at fair value; if the fair value is not reliably determinable, the grant is measured at nominal amount.

Government grants related to assets are grants that are acquired by an enterprise and used for acquisition, construction or forming long-term assets in other ways. Government grants related to income are government grants other than government grants related to assets.

Government grants related to assets could be offset the carrying amount of related assets, or recognised as deferred income, and reasonably and systematically amortised to profit or loss over the useful life of the related asset. For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the Group in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss or offset the related cost over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred by the Group, the grant is recognised immediately in profit or loss or offset the related cost for the current period. The same kind of government grants are presented with the same method, that is, those related to ordinary activities are recorded into operating profit while other in non-operating income and expenses.

Loans to the Group at political preferential rate are recorded at the actual amount received, and the related loan expenses are calculated based on the principal and the political preferential rate. Finance discounts directly received offset related loans expenses.

(29) Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and deferred income tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred income tax asset is recognised for the tax losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred income tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred income tax asset or deferred income tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or tax loss). At the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred income tax assets are only recognised for deductible temporary differences, tax losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, tax losses and tax credits can be utilised.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(29) Deferred income tax assets and deferred income tax liabilities (Cont'd)

Deferred income tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and a joint venture, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and a joint venture will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred income tax assets are recognised.

Deferred income tax assets and liabilities are offset when:

- The deferred income taxes are related to the same tax payer within the Group and the same taxation authority; and,
- That tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

(30) Leases

(a) Operating lease

Rental expenses for assets held under operating leases are recognised as the cost of relevant assets or expenses on a straight-line basis over the lease period. Contingent rentals are recognised as profit and loss for the current period when incurred.

Fixed assets leased out under operating leases, other than investment prosperities (Note 2(14)), are depreciated in accordance with the depreciation policy stated in Note 2(15)(b) and provided for impairment loss in accordance with the policy stated in Note 2(20). Rental income from operating leases is recognised as revenue on a straight-line basis over the lease period. Initial direct costs in large amount arising from assets leased out under operating leases are capitalised when incurred and recognised as profit and loss for the current period over the lease period on a same basis with revenue recognition; initial direct costs in small amount are directly recognised as profit and loss for the current period. Contingent rentals are recognised as profit and loss for the current period when incurred.

(b) Finance lease

The leased asset is recognised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognised finance charge and is amortised using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognised finance charge.

(31) Held for sale and discontinued operations

A non-current asset or a disposal group is classified as held for sale when all of the following conditions are satisfied: (1) the non-current asset or the disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such non-current asset or disposal group; (2) the Group has entered a legally enforceable sales agreement with other party and obtained relevant approval, and the sales transaction is expected to be completed within one year.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(31) Held for sale and discontinued operations (Cont'd)

Non-current assets (excluding financial assets, investment properties measured at fair value and deferred tax assets) that are stated at the lower of carrying amount and net realisable value. Any excess of the carrying amount over the net realisable value is recognised as impairment loss.

Assets and liabilities of a non-current asset or disposal group which is classified as held for sale are classified as current assets and current liabilities, which are separately presented in the balance sheet.

A discontinued operation is a component which has been disposed or classified as held for sale of the group's business and the operations and financial reporting of the discontinued operation can be clearly distinguished from the rest of the group and can meet one of the following criteria: (1) This component of the business represents a separate major line of business or geographic area of operations; (2) This component of the business is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; (3) This component of the business is a subsidiary acquired exclusively with a view to resale.

The net profit from discontinued operations in the income statement includes operating profit or loss and disposal gains or losses of discontinued operations.

(32) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenue and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

(33) Critical accounting estimates and judgements

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

Critical accounting estimates and key assumptions

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(33) Critical accounting estimates and judgements (Cont'd)

- (i) The fair value assessment of identifiable net assets and recognition of goodwill related to the acquisition

For business combinations not under common control (Note 5(1)(a)), the combination cost and the identifiable net assets acquired in the combination should be measured at fair value at the acquisition date. The Group shall allocate the cost of combination to the identifiable assets and liabilities measured at fair value at the acquisition date. The excess of the cost of combination over share of fair value of identifiable net assets acquired from the acquiree is recognised as goodwill.

The Group needs to make critical judgements in identifying the identifiable assets and liabilities, especially in identifying intangible assets and assessing their fair value, which affect the recognition of goodwill. The key assumptions adopted in assessing fair value of intangible assets include revenue growth, tax rates, EBITDA margins, contributory asset charges, royalty rates, remaining useful lives of intangible assets and discount rate, etc.

- (ii) Goodwill impairment provision

The Group conducts impairment testing on goodwill every year. The recoverable amount of the asset group and the combination of asset group that contain the apportioned goodwill is determined by the higher value between the use value and the net value that is calculated by the fair value less the disposal costs. Accounting estimate is required for the calculation of the recoverable amount. The impairment testing is performed by assessing the recoverable amount of the groups of assets containing the relevant goodwill, based on the present value of cash flows forecasts. Key assumptions adopted in the impairment testing of goodwill included expected revenue growth rates, EBITDA margins, perpetual annual growth rates, discount rates, etc. which involved critical accounting estimates and judgement.

- (iii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgement is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

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2 Summary of significant accounting policies and accounting estimates (Cont'd)

(34) Significant changes in accounting policies

In 2017, the Ministry of Finance released the 'Accounting Standard for Business Enterprises No. 42—Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations', revised 'Accounting Standard for Business Enterprises No. 16—Government Grants' and the 'Circular on Amendment to Formats of Financial Statements of General Industry' and its interpretation (Cai Kuai [2017] 30). The financial statements are prepared in accordance with the above standards and circular, and impacts are as follows:

The nature and the reasons of the changes in accounting policies	The line items affected	The amounts of 2016 affected
The Group recorded the VAT return obtained in 2017 in other income. The comparatives of 2016 were not restated.	Not applicable	Not applicable
The government grants related to income, obtained in 2017 by the Group, were recorded as a deduction of related costs, expenses or losses (Note 7(29)). The comparatives of 2016 were not restated.	Not applicable	Not applicable
The Group recorded the gains or losses on disposals of fixed assets and intangible assets, occurred in 2017, in gains on disposals of assets. The comparatives of 2016 were restated accordingly.	Gains on disposals of assets Non-operating income Non-operating expenses	Decrease 111,874,000 Decrease 60,789,000 Decrease 172,663,000

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3 Taxation

(1) Main tax category and rate

Category	Tax base	Tax rate
Corporate income tax (a)	Levied based on taxable income	5%, 14%, 15%, 16.5%, 17%, 25%, 19%, 20-31.5%, 32%, 34% or 35%
Value-added tax (VAT) (b)	Taxable value-added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period)	5%、6%、11%、17% or 19%
City maintenance and construction tax	The amount of VAT paid	5% or 7%
Educational surcharge	The amount of VAT paid	3% or 5%
Local education surcharge	The amount of VAT paid	2%
Property tax	Price-based property is subject to a 1.2% tax rate after a 30% cut in the original price of property. Rental-based is subject to 12% tax rate for the rental income.	1.2% or 12%

(a) Notes to the corporate income tax rate of the principal tax payers with different tax rates

(a-1) The following subsidiaries of the Company are subject to a corporate income tax rate of 15% in 2017 as they qualified as high-tech enterprises and obtained the High-tech Enterprise Certificate.

Name of tax payer	No. of the Certificate of the High-tech Enterprise	Dates of issuance	Effective period
Jiangsu Midea Cleaning Appliance Company Limited	GR201732001675	11 November 2017	3 years
Guangdong Midea Environmental Electric Appliance Manufacturing Co., Ltd.	GR201644002286	30 November 2017	3 years
Jiangxi Midea Guiya lighting Co., Ltd.	GR201736000187	23 August 2017	3 years
Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.	GR201544000202	30 September 2015	3 years
Guangdong Witt Vacuum Electronics Manufacturing Co., Ltd.	GR201744000489	9 November 2017	3 years
Foshan Shunde Midea Washing Appliance Manufacturing Co., Ltd.	GR201744002837	9 November 2017	3 years
Foshan Shunde Midea Electric Appliance Manufacturing Co., Ltd.	GR201544001470	10 October 2015	3 years
Foshan Shunde century Tongchuang Technology Co., Ltd.	GR201644000331	30 November 2016	3 years
Foshan Shunde Midea Electric Technology Co., Ltd.	GR201644000358	30 November 2017	3 years

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3 Taxation (Cont'd)

(1) Main tax category and rate (Cont'd)

(a) Notes to the corporate income tax rate of the principal tax payers with different tax rates (Cont'd)

(a-1) The following subsidiaries of the Company are subject to a corporate income tax rate of 15% in 2017 as they qualified as high-tech enterprises and obtained the High-tech Enterprise Certificate. (Cont'd)

Name of tax payer	No. of the Certificate of the High-tech Enterprise	Dates of issuance	Effective period
Guangdong Midea Heating & Ventilation Equipment Co., Ltd.	GF201544000292	20 October 2015	3 years
Hefei Midea Heating & Ventilation Equipment Co., Ltd.	GR201734000207	21 October 2016	3 years
Anhui GMCC Precision Manufacturing Co., Ltd.	GR201534000785	15 October 2015	3 years
Guangzhou Midea Hualing Refrigerator Co., Ltd.	GR201744002925	30 November 2016	3 years
Guangdong Welling Motor Manufacturing Co., Ltd.	GR201744002062	9 November 2017	3 years
Foshan Welling Washer Motor Manufacturing Co., Ltd.	GR201744001025	9 November 2017	3 years
Huaian Weiling Motor Manufacturing Co., Ltd.	GR201632004278	3 November 2016	3 years
Ander zhilian technology co. LTD.	GR201534000356	19 June 2015	3 years
Wuxi Little Swan Company Limited.	GR201532000606	6 July 2015	3 years
Wuxi Filin Electronics Co., Ltd.	GR201532000917	6 July 2015	3 years
Wuxi Little Swan General Appliance Co., Ltd.	GR201532000557	6 July 2015	3 years
Guangdong Midea Refrigeration Equipment Co., Ltd.	GR201744000337	9 November 2017	3 years
Handan Midea Refrigeration Equipment Co., Ltd.	GR201713000957	27 October 2017	3 years
Midea Wuhan Refrigeration Equipments Co., Ltd.	GR201742002075	30 November 2017	3 years
Guangzhou Hualing Refrigeration Equipment Co., Ltd.	GR201744010610	11 December 2017	3 years
Wuhu Meizhi Air-Conditioning Equipment Co., Ltd.	GR201734001246	7 November 2017	3 years
Chongqing Midea General Refrigeration Equipment Co., Ltd.	GR201751100113	28 December 2017	3 years
Guangdong GMCC Refrigeration Equipment Co., Ltd.	GR201744000895	9 November 2017	3 years
Hubei Midea Refrigerator Co., Ltd.	GR201742001255	28 November 2017	3 years
Guangdong Midea Life Electric Appliance Manufacturing Co., Ltd.	GR201744006141	11 December 2017	3 years
Anhui GMCC Refrigeration Equipment Co., Ltd.	GR201634000994	5 December 2016	3 years

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3 Taxation (Cont'd)

(1) Main tax category and rate (Cont'd)

- (a) Notes to the corporate income tax rate of the principal tax payers with different tax rates (Cont'd)
- (a-2) The application for corporate income tax preferential treatment of Chongqing Midea Refrigeration Equipment Co., Ltd., the Company's subsidiary, was approved by the State Administration of Taxation of Chongqing Economical and Technological Development Zone on 3 June 2014. The subsidiary is subject to corporate income tax at the rate of 15% in 2017.
- (a-3) The Company's subsidiaries in Mainland China other than those mentioned in (a-1) and (a-2) are subject to corporate income tax at the rate of 25%.
- (a-4) In August 2008, Midea Electric Appliance (Singapore) Co., Ltd., the Company's subsidiary, was awarded with the Certificate of Honor for Development and Expansion (NO.587) by the Singapore Economic Development Board, which approves that qualified income exceeding a certain amount is subject to corporate income tax at the rate of 5% while the unqualified income is subject to the corporate income tax at the rate of 17%. Midea Electric Appliance (Singapore) Co., Ltd. and Little Swan International (Singapore) Co., Ltd., the Company's subsidiary, is subject to corporate income tax at the rate of 17%.
- (a-5) The Company's subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5%. Such subsidiaries include Midea International Trade Co., Ltd., Midea International Co., Ltd., Midea Appliance Investment (Hong Kong) Ltd., Gold Emperor Enterprises Ltd., Charring Holding Ltd., Century Carrier Household Air-conditioning Co., Ltd., Midea Refrigeration (Hong Kong) Ltd., Welling Holding Limited (Hong Kong), Welling International Hong Kong Ltd. (HK), and Midea Investment (Asia) Co., Ltd..
- (a-6) The Company's subsidiaries in BVI and Cayman Islands are exempted from corporate income tax. Such subsidiaries include Mecca International (BVI) Limited, Titoni Investments Development Ltd., Midea Holdings (BVI) Ltd., Midea Electric Investment (BVI) Limited, Welling Holding (BVI) Ltd., Midea Holding (Cayman Islands) Ltd. and Midea Investment Development Ltd..
- (a-7) Springer Carrier Ltd., the Company's subsidiaries in Brazil, is subject to Brazil corporate income tax at the rate of 34%.
- (a-8) TLSC and its subsidiaries, the Company's subsidiaries in Japan, is subject to Japan corporate income tax at the rate of 30.81%.
- (a-9) Clivet S.P.A and Clivet España S.A.U. ("Clivet"), the Company's subsidiaries in Italy, is subject to Italy corporate income tax at the rate between 20% and 31.4%.
- (a-10) KUKA, the Company's subsidiaries in Germany, is subject to Germany corporate income tax at the rate of 32%.
- (a-11) SMC, the Company's subsidiaries in Israel, is subject to Israel corporate income tax at the rate of 24%.

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3 Taxation (Cont'd)

(1) Main tax category and rate (Cont'd)

(b) Notes to the value-added tax rate of the principal tax payers with different tax rates

(b-1) According to The Programme for Comprehensively Implementing Transformation from business tax to value-added tax (NO.36 of 2017) and related regulations published by Ministry of Treasury and National Taxation Bureau, since 1 May 2017, revenue from rental service, real estate management service, financial service, consulting service and logistics service of the Company and its subsidiaries are subject to value-added tax, while these service are subject to business tax at the rate of 5% before 1 May 2017.

(b-2) Sales of goods and provision of repairs and replacement service from part of subsidiaries of the Company are subject to value-added tax at the rate of 17%.

(b-3) Rental service on real estate and distribution service provided by the Company and part of its subsidiaries are subject to value-added tax at the rate of 11%.

(b-4) Financial service, consulting service and storage service provided by the Company and part of its subsidiaries are subject to value-added tax at the rate of 6%.

(b-5) Rental revenue of Hefei Midea Refrigerator Co., Ltd., which is a subsidiary of the Company, is subject to easy levy of value-added tax at the rate of 5%.

4 Notes to the consolidated financial statements

(1) Cash at bank and on hand

	31 December 2017	31 December 2016
Cash on hand	4,589	2,315
Cash at bank (a)	21,954,206	16,151,724
Other cash balances (b)	267,259	1,042,031
Required reserves in the central bank(c)	1,835,051	677,011
Excess reserves in the central bank	305,963	58,172
Deposits in other banks(d)	23,907,132	9,237,865
	<u>48,274,200</u>	<u>27,169,118</u>

Including: Cash abroad (including Hong Kong, Macau, Singapore, Japan, Italy and Brazil, Germany etc.)	10,685,588	4,234,153
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(a) As at 31 December 2017, cash at bank includes fixed deposits with the term of over three months, amounting to RMB3,540,237,000(31 December 2016: RMB9,136,346,000).

(b) Other cash balances mainly include security deposits, bank acceptance note and letter of credit.

(c) Statutory reserves in the Central Bank represents the statutory reserve deposited in People's Bank of China by the financial enterprise in accordance with relevant regulations, which are calculated at 7% and 5% for eligible RMB deposits and foreign currency deposits, respectively, and are not available for use in the Group's daily operations.

(d) As at 31 December 2017, deposits with banks and other financial institutions include time deposits with the term of over three months, amounting to RMB20,800,000,000(31 December 2016: RMB3,800,000,000).

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4 Notes to the consolidated financial statements

(1) Cash at bank and on hand (Cont'd)

- (e) Reserves in the Central Bank and deposits with banks and other financial institutions are listed below the item of cash at bank and on hand. Comparative data of prior year are adjusted as well.

(2) Notes receivable

	31 December 2017	31 December 2016
Bank acceptance notes	<u>10,854,226</u>	<u>7,427,488</u>

- (a) As at 31 December 2017, the Group's notes receivable that are not mature but have been endorsed to other parties, or that have been discounted are as follows:

	Derecognised	Recognised
Bank acceptance notes	<u>28,725,219</u>	<u>-</u>

(3) Receivables

- (a) Accounts receivable

	31 December 2017	31 December 2016
Accounts receivable	18,410,114	14,198,320
Less: Provision for bad debts	<u>(881,397)</u>	<u>(743,809)</u>
	<u>17,528,717</u>	<u>13,454,511</u>

The ageing of other receivables is analysed as follows:

	31 December 2017	31 December 2016
Within 1 year	17,932,715	13,603,125
1 to 2 years	266,896	462,845
2 to 3 years	103,978	66,756
3 to 5 years	64,300	45,212
Over 5 years	<u>42,225</u>	<u>20,382</u>
	<u>18,410,114</u>	<u>14,198,320</u>

As at 31 December 2017, the Group has no overdue accounts receivable with significant amount.

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4 Notes to the consolidated financial statements (Cont'd)

(3) Receivables (Cont'd)

(a) Accounts receivable (Cont'd)

Accounts receivable are analysed by categories as follows:

Categories	Ending balance				Opening balance			
	Book balance Amount	% of total balance	Provision for bad debts Amount	Ratio	Book balance Amount	% of total balance	Provision for bad debts Amount	Ratio
With amounts that are individually significant and that the related provision for bad debts is provided on the individual basis	32,448	0.18%	6,960	21.45%	35,363	0.25%	9,108	25.76%
That the related provision for bad debts is provided on the age grouping basis	18,079,721	98.20%	867,797	4.80%	13,931,404	98.12%	729,848	5.24%
With amounts that are not individually significant but that the related provision for bad debts is provided on the individual basis	297,945	1.62%	6,640	2.23%	231,553	1.63%	4,853	2.10%
Total	18,410,114	100.00%	881,397	4.79%	14,198,320	100.00%	743,809	5.24%

Accounts receivable that the related provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

Ageing	Ending balance			Opening balance		
	Ending balance Amount	Provision for bad debts Amount	Ratio	Ending balance Amount	Provision for bad debts Amount	Ratio
Within 1 year	17,693,549	673,853	3.81%	13,353,944	431,907	3.23%
1 to 2 years	191,494	59,250	30.94%	445,165	198,277	44.54%
2 to 3 years	101,994	61,313	60.11%	66,701	40,686	61.00%
3 to 5 years	57,889	38,586	66.66%	45,212	38,596	85.37%
Over 5 years	34,795	34,795	100.00%	20,382	20,382	100.00%
Total	18,079,721	867,797	4.80%	13,931,404	729,848	5.24%

The provision for bad debts reversed in the current year is RMB160,811,000.

As at 31 December 2017, the top 5 accounts receivable assembled by debtors are analysed as follows:

	Amount	Provision for bad debts	% of total balance
Total balance of top 5 accounts receivable	1,784,606	89,230	10%

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4 Notes to the consolidated financial statements (Cont'd)

(3) Receivables (Cont'd)

(b) Other receivables

	31 December 2017	31 December 2016
Other receivables	2,706,912	1,168,005
Less: Provision for bad debts	<u>(49,344)</u>	<u>(27,872)</u>
	<u>2,657,568</u>	<u>1,140,133</u>

Other receivables mainly include current accounts, petty cash to staff and deposits.

The ageing of other receivables is analysed as follows:

	31 December 2017	31 December 2016
Within 1 year	2,596,908	1,106,995
1 to 2 years	64,118	49,445
2 to 3 years	35,284	7,263
3 to 5 years	6,907	4,302
Over 5 years	3,695	-
	<u>2,706,912</u>	<u>1,168,005</u>

Other receivables are analysed by categories as follows:

	Ending balance				Opening balance			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	Ratio	Amount	% of total balance	Amount	Ratio
With amounts that are individually significant and that the related provision for bad debts is provided on the individual basis	64,760	2.39%	-	-	49,922	4.27%	-	-
That the related provision for bad debts is provided on the age grouping basis	2,642,152	97.61%	49,344	1.87%	1,112,996	95.29%	26,781	2.41%
With amounts that are not individually significant but that the related provision for bad debts is provided on the individual basis	-	-	-	-	5,087	0.44%	1,091	21.45%
Total	<u>2,706,912</u>	<u>100.00%</u>	<u>49,344</u>	<u>1.82%</u>	<u>1,168,005</u>	<u>100.00%</u>	<u>27,872</u>	<u>2.39%</u>

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4 Notes to the consolidated financial statements (Cont'd)

(3) Receivables (Cont'd)

(b) Other receivables (Cont'd)

As at 31 December 2017, other receivables with amounts that are individually significant and that the related provision for bad debts is provided on the individual basis are analysed as follows:

Name of the Company	Ending balance	Provision for bad debts	Percentages	Reason
China Securities Depository and Clearing Corporation Limited Shenzhen Branch	64,760	-	0%	Receivables related to share options without bad debt risks

The provision for bad debts reversed in the current year is RMB3,505,000.

Other receivables as written off by the Group in the current year are arising from transactions with third parties and there's no written-off other receivables with amounts that are individually significant.

As at 31 December 2017, the top 5 other receivables assembled by debtors are analysed as follows:

	Amount	Provision for bad debts	% of total balance
Total balance of top 5 other receivables	<u>122,050</u>	<u>2,865</u>	<u>5%</u>

As at 31 December 2017, the Group' has no significant government grants recognised at amounts receivable.

(4) Advances to suppliers

	31 December 2017	31 December 2016
Advances paid for raw materials and others	<u>1,672,248</u>	<u>1,587,366</u>

(a) The ageing of advances to suppliers is analysed below:

	31 December 2017		31 December 2016	
	Amount	% of total	Amount	% of total
Within 1 year	1,620,207	96s.88%	1,492,532	94.02%
1 to 2 years	36,689	2.19%	73,736	4.65%
2 to 3 years	5,662	0.34%	14,907	0.94%
Over 3 years	<u>9,690</u>	<u>0.58%</u>	<u>6,191</u>	<u>0.39%</u>
	<u>1,672,248</u>	<u>100.00%</u>	<u>1,587,366</u>	<u>100.00%</u>

As at 31 December 2017, advances to suppliers over 1 year with a carrying amount of RMB52,041,000 (31 December 2016: RMB94,834,000) are mainly unsettled advances paid for raw materials.

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4 Notes to the consolidated financial statements (Cont'd)

(4) Advances to suppliers (Cont'd)

As at 31 December 2017, the top five balances of advances to suppliers assembled by debtors are summarised as follows:

	Amount	% of total balance
Total balance of top 5 advances to suppliers	<u>625,655</u>	<u>37%</u>

(5) Loans and advances

(a) Financial enterprises' loans and advances analysed to individual and corporation are as follows:

	31 December 2017	31 December 2016
Loans and advances to individuals	567,998	417,793
Loans and advances to corporations	11,778,609	9,995,466
Including: Loans	2,599,038	2,652,425
Discounted bills	9,179,571	7,343,041
	12,346,607	10,413,259
Less: Loan impairment provision	<u>(167,654)</u>	<u>(139,862)</u>
	<u>12,178,953</u>	<u>10,273,397</u>

(b) Financial enterprises' loans and advances analysed by type of collateral held or other credit enhancements are as follows:

	31 December 2017	31 December 2016
Unsecured loans	389,057	230,097
Guaranteed loans	256,112	524,537
Secured loans by monetary assets	<u>11,701,438</u>	<u>9,658,625</u>
	12,346,607	10,413,259
Less: Loan impairment provision (Note 4(15))	<u>(167,654)</u>	<u>(139,862)</u>
	<u>12,178,953</u>	<u>10,273,397</u>

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4 Notes to the consolidated financial statements (Cont'd)

(6) Inventories

(a) Inventories are classified as follows:

Item	31 December 2017			31 December 2016		
	Book balance	Provision for declines in value of inventories	Carrying amount	Book balance	Provision for declines in value of inventories	Carrying amount
Finished goods	17,625,714	(160,843)	17,464,871	11,943,779	(191,147)	11,752,632
Raw materials	5,680,125	(46,139)	5,633,986	2,851,998	(11,237)	2,840,761
Work in progress	2,040,630	-	2,040,630	792,664	-	792,664
Consigned processing materials	221,842	-	221,842	235,633	-	235,633
Low value consumables	59,370	-	59,370	5,207	-	5,207
Completed but unsettled(Note(d))	4,023,467	-	4,023,467	-	-	-
Total	29,651,148	(206,982)	29,444,166	15,829,281	(202,384)	15,626,897

(b) Provision for decline in the value of inventories is analysed as follows:

	31 December 2016	Increase in current year Provision	Decrease in current year Reversal or	Differences on translation of foreign currency financial statements currency	31 December 2017
Finished goods	191,147	355,794	(390,100)	4,002	160,843
Raw materials	11,237	121,759	(87,188)	331	46,139
Work in progress	-	-	-	-	-
Consigned processing materials	-	-	-	-	-
	<u>202,384</u>	<u>477,553</u>	<u>(477,288)</u>	<u>4,333</u>	<u>206,982</u>

(c) Provision for decline in the value of inventories are as follows:

	Specific determination basis of net realisable value	Reason for the write-off of provision for decline in the value of inventories in current year
Finished goods	Stated at the lower of cost and	Sales
Raw materials	Stated at the lower of cost and	Requisition for production

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4 Notes to the consolidated financial statements (Cont'd)

(6) Inventories (Cont'd)

(d) Contract construction

	31 December 2017
Cost occurred and gross profit recognised	25,869,455
Less: Accumulated billed amount	<u>(23,516,843)</u>
Total	<u>2,352,612</u>
Balance at 31 December 2017:	
Completed but unsettled products	4,023,467
Less: Provision for decline in the value of completed but unsettled	-
Net book value of completed but unsettled products	4,023,467
Settled but not completed (Note 4(20))	<u>(1,670,855)</u>
Total	<u>2,352,612</u>

(7) Other current assets

	31 December 2017	31 December 2016
Wealth management products (a)	22,094,715	26,267,067
Structural deposits and swap deposits	19,252,086	14,442,697
Deductible input VAT	2,988,800	1,876,967
Prepaid expenses	639,409	467,916
Others	<u>1,872,261</u>	<u>474,950</u>
	<u>46,847,271</u>	<u>43,529,597</u>

(a) As at 31 December 2017, wealth management products with floating earnings due within one year are presented as other current assets, mainly including principal non-guaranteed products (Note 16(1)).

(b) The Company didn't purchase wealth management product and assets management plan due more than one year which are presented as other non-current assets (31 December 2016: RMB3,842,000,000).

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4 Notes to the consolidated financial statements (Cont'd)

(8) Available-for-sale financial assets

	31 December 2017	31 December 2016
Measured at fair value		
- Available-for-sale equity instruments (a)	118,711	3,518,693
Measured at cost		
- Available-for-sale equity instruments (b)	1,712,340	1,669,039
	<u>1,831,051</u>	<u>5,187,732</u>

(a) As at 31 December 2017, the available-for-sale financial assets measured at fair value are mainly the investments in listed company - Jiangsu Bank.

(b) The available-for-sale financial assets measured at cost mainly include the unlisted equity investments held by the Group, which do not have a quoted market price in an active market and whose fair value cannot be reliably measured as the range of fair value reasonable estimates is large and probabilities for determining these estimates cannot be reasonably determined. The Group has no plan to dispose these investments.

(9) Long-term equity investments

Long-term equity investments are classified as follows:

	31 December 2017	31 December 2016
Investment in associates (a)	2,633,698	2,211,732
Less: Provision for impairment of long-term equity investments	-	-
	<u>2,633,698</u>	<u>2,211,732</u>

(a) The Group's Investment in associates are mainly investments in Foshan Shunde Rural Commercial Bank Co., Ltd., Misr Refrigeration And Air Conditioning Manufacturing Co., and Hefei Royalstar Motor Co., Ltd. and other companies.

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4 Notes to the consolidated financial statements (Cont'd)

(10) Fixed assets

	Buildings	Land	Machinery and equipment	Motor vehicles	Electronic equipment and other equipment	Total
Cost						
31 December 2016	15,215,937	840,333	16,670,395	807,794	2,676,768	36,211,227
Increase in current year						
Purchase	135,780	-	1,467,596	24,116	615,088	2,242,580
Transfers from construction in progress	458,978	-	87,861	584	91,245	638,668
Increase in business combinations	941,721	255,604	443,012	978	455,697	2,097,012
Transfer from investment prosperities	49,114	-	-	-	-	49,114
Decrease in current year						
Disposal and retirement	(81,252)	(20,313)	(786,079)	(56,722)	(241,362)	(1,185,728)
Differences on translation of foreign currency financial statements	39,879	14,903	10,186	2,529	37,947	105,444
31 December 2017	16,760,157	1,090,527	17,892,971	779,279	3,635,383	40,158,317

Accumulated depreciation						
31 December 2016	4,854,232	-	7,894,549	364,405	2,022,483	15,135,669
Increase in current year						
Depreciation charged	929,131	-	1,693,328	118,915	589,857	3,331,231
Others	14,747	-	-	-	-	14,747
Decrease in current year						
Disposal and retirement	(71,058)	-	(659,074)	(49,398)	(189,700)	(969,230)
Differences on translation of foreign currency financial statements	7,227	-	4,184	593	6,910	18,914
31 December 2017	5,734,279	-	8,932,987	434,515	2,429,550	17,531,331

Provision for impairment loss						
31 December 2016	3,918	-	14,706	36	107	18,767
Increase in current year						
Provision	-	-	8,325	337	275	8,937
Decrease in current year						
Disposal and retirement	-	-	(1,318)	(159)	(123)	(1,600)
Differences on translation of foreign currency financial statements	7	-	133	4	14	158
31 December 2017	3,925	-	21,846	218	273	26,262

Carrying amount						
31 December 2017	11,021,953	1,090,527	8,938,138	344,546	1,205,560	22,600,724
31 December 2016	10,357,787	840,333	8,761,140	443,353	654,178	21,056,791

- (a) In 2017, the depreciation of fixed assets amounted to RMB3,331,231,000 (2016: RMB2,898,537,000) and was included in income statement.
- (b) As at 31 December 2017, the Company is still in the course of obtaining the ownership certificate for the fixed asset with a carrying amount of RMB549,431,000.

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4 Notes to the consolidated financial statements (Cont'd)

(11) Construction in progress

(a) Movement of significant projects of construction in progress

	31 December 2016		Transfer to fixed assets in current year	Other decreases	31 December 2017		Accumulativ e amount of capitalised borrowing costs	Including: borrowing costs capitalised in current year	Capitalisation rate of borrowing costs in current year	Source of funds
	Opening balance	Increase in current year			Ending balance					
Meizhi Compressor Project	4,060	1,811	(4,251)	-	1,620	-	-	-	Internal resource	
Compressor (Anhui) Project	1,949	3,049	(2,085)	-	2,913	-	-	-	Internal resource	
Guangdong Welling construction in progress	28,129	1,789	(17,101)	-	12,817	-	-	-	Internal resource	
Innovation project	434,173	28,728	(426,588)	-	36,313	-	-	-	Internal resource	
Other projects	112,418	951,945	(188,643)	(49,807)	825,913	-	-	-	Internal resource	
	<u>580,729</u>	<u>987,322</u>	<u>(638,668)</u>	<u>(49,807)</u>	<u>879,576</u>	<u>-</u>	<u>-</u>	<u>-</u>		

As at 31 December 2017, there's no provision for impairment of construction in progress with the ending balance consistent with the carrying amount; and the cost of construction in progress matches the budget amount. The projects are carried out on schedule.

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4 Notes to the consolidated financial statements (Cont'd)

(12) Intangible assets

	Land use rights	Parents and Non-patent technologies	Trademark rights	Trademark use rights	Others (Note (c))	Total
Cost						
31 December 2016	3,814,516	398,059	556,022	2,561,623	397,238	7,727,458
Increase in current year						
Purchase	8,748	75,387	-	-	313,144	397,279
Increase in business combinations	55,104	1,496,874	4,151,605	-	4,717,044	10,420,627
Others	-	-	-	-	49,807	49,807
Decrease in current year						
Disposal	(15,228)	(3,820)	(624)	-	(44,876)	(64,548)
Differences on translation of foreign currency financial statements	(691)	73,458	241,964	(128,081)	220,955	407,605
31 December 2017	3,862,449	2,039,958	4,948,967	2,433,542	5,653,312	18,938,228
Accumulated amortisation						
31 December 2016	638,786	139,308	2,123	36,518	36,120	852,855
Increase in current year						
Amortisation charged	115,240	281,510	35,697	63,864	2,447,634	2,943,945
Decrease in current year						
Disposal	(1,853)	(1,480)	(10)	-	(41,890)	(45,233)
Differences on translation of foreign currency financial statements	(144)	(1,078)	2,389	(422)	6,829	7,574
31 December 2017	752,029	418,260	40,199	99,960	2,448,693	3,759,141
Provision for impairment loss						
31 December 2016	-	6,065	-	-	-	6,065
Increase in current year						
Amortisation charged	-	4,542	-	-	1,324	5,866
Decrease in current year						
Disposal	-	-	-	-	-	-
Differences on translation of foreign currency financial statements	-	131	-	-	(11)	120
31 December 2017	-	10,738	-	-	1,313	12,051
Carrying amount						
31 December 2017	3,110,420	1,610,960	4,908,768	2,333,582	3,203,306	15,167,036
31 December 2016	3,175,730	252,686	553,899	2,525,105	361,118	6,868,538

- (a) In 2017, the amortisation of intangible assets amounted to RMB2,943,945,000 (2016: RMB207,654,000), and is included in income statement.
- (b) As at 31 December 2017, there was no land use rights without certificates (31 December 2016: there was no land use rights without certificates).
- (c) As at 31 December 2017, intangible assets - others are mainly increased customer relationships and order backlog due to the combination.

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4 Notes to the consolidated financial statements (Cont'd)

(13) Goodwill

The goodwill allocated to the asset groups is summarised by operating segments as follows:

	31 December		Differences on translation of foreign currency financial statements	31 December 2017
	2016	Increase in current year (Note(a))		
Wuxi Little Swan Company Limited	1,361,306	-	-	1,361,306
Clivet Co., Ltd.	498,724	-	-	498,724
Carrier S.A. Co., Ltd.	614,728	-	(45,235)	569,493
TLSC	2,697,290	75,190	(77,125)	2,695,355
KUKA Group	-	20,698,212	1,504,357	22,202,569
Others	558,947	1,005,715	11,676	1,576,338
	<u>5,730,995</u>	<u>21,779,117</u>	<u>1,393,673</u>	<u>28,903,785</u>

- (a) Increase of goodwill in the current year arose from the stock purchase of KUKA Group and other companies (Note 5(1)), and the consideration sharing arrangement to the purchase of TLSC in 2016.
- (b) Impairment

On 31 December 2017, the Group carried out tests for impairment of goodwill. The recoverable amount of asset groups including goodwill is calculated using the discounted estimated future cash flows determined according to the five-year budget approved by management. The future cash flows beyond the five-year period are calculated based on the estimated perpetual annual growth rates. The perpetual annual growth rates applied by management are consistent with the industry estimates, and do not exceed the long-term average growth rates of each product. Management determines EBITDA margins based on past experience and forecast on future market development. The discount rates used by management are the pre-tax interest rates that are able to reflect the risks specific to the related asset groups. The management analysed the recoverable amount of each asset group based on such estimates and believed that no provision for impairment of goodwill was required.

Key assumptions adopted by KUKA and TLSC and other asset groups used for value-in-use calculations are as follows:

	31 December 2017
Perpetual annual growth rates	1%-3%
Discount rate	8.2%-15.5%

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4 Notes to the consolidated financial statements (Cont'd)

(14) Deferred income tax assets and deferred income tax liabilities

(a) Deferred income tax assets without taking into consideration the offsetting of balances

	31 December 2017		31 December 2016	
	Deductible	Deferred income	Deductible	Deferred income
Deductible losses	1,482,569	442,219	763,015	223,187
Provision for asset impairments	1,121,334	249,163	1,099,118	224,302
Employee benefits payable	1,294,431	291,511	344,391	69,092
Other current liabilities	15,398,407	3,279,340	12,548,142	2,210,590
Others	3,544,103	894,981	1,423,137	303,212
	<u>22,840,844</u>	<u>5,157,214</u>	<u>16,177,803</u>	<u>3,030,383</u>
Including:				
Expected to be reversed within one year (inclusive)		4,442,885		2,810,571
Expected to be reversed after one year		714,329		219,812
		<u>5,157,214</u>		<u>3,030,383</u>

(b) Deferred income tax liabilities without taking into consideration the offsetting of balances

	31 December 2017		31 December 2016	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Changes in fair value Business combinations not under common control	482,092	46,086	7,587	1,071
Others	12,152,077	3,595,258	5,514,103	1,708,006
	4,723,128	1,465,359	423,030	122,896
	<u>17,357,297</u>	<u>5,106,703</u>	<u>5,944,720</u>	<u>1,831,973</u>
Including:				
Expected to be reversed within one year (inclusive)		1,001,770		217,645
Expected to be reversed after one year		4,104,933		1,614,328
		<u>5,106,703</u>		<u>1,831,973</u>

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4 Notes to the consolidated financial statements (Cont'd)

(14) Deferred income tax assets and deferred income tax liabilities (Cont'd)

(c) Net value of deferred income tax assets and deferred income tax liabilities taking into consideration the offsetting of balances are as follows:

	31 December 2017	31 December 2016
	Offset balance	Offset balance
Deferred income tax assets	4,023,334	3,030,383
deferred income tax liabilities	3,972,823	1,831,973

(15) Details of provision for asset impairments

	31 December 2016	Increase in current year	Decrease in current year		Differences on translation of foreign currency financial statements	31 December 2017
			Reversal	Write-off		
Provision for bad debts	911,543	374,700	(164,316)	(22,505)	(1,027)	1,098,395
Including: Provision for bad debts of accounts receivable	743,809	315,515	(160,811)	(22,455)	5,339	881,397
Loan impairment provision	139,862	27,792	-	-	-	167,654
Provision for bad debts of other receivables	27,872	31,393	(3,505)	(50)	(6,366)	49,344
Provision for decline in the value of inventories	202,384	477,553	(435,742)	(41,546)	4,333	206,982
Provision for impairment of available-for-sale financial assets	100	2,114	-	-	40	2,254
Provision for impairment of fixed assets	18,767	8,937	-	(1,600)	158	26,262
Provision for impairment of intangible assets	6,065	5,866	-	-	120	12,051
Provision for impairment of investment properties	12,576	-	-	-	-	12,576
	<u>1,151,435</u>	<u>869,170</u>	<u>(600,058)</u>	<u>(65,651)</u>	<u>3,624</u>	<u>1,358,520</u>

(16) Assets with ownership or use right restricted

As at 31 December 2017, details of assets with restricted ownership are as follows:

	31 December 2017	31 December 2016
Cash at bank and on hand		
Including: Bank deposit and Other cash and cash equivalents	3,807,496	10,178,377
Deposits with the Central Bank	1,835,051	677,011
Deposits with other banks	20,800,000	3,800,000
	<u>26,442,547</u>	<u>14,655,388</u>

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4 Notes to the consolidated financial statements (Cont'd)**(17) Short-term borrowings**

	31 December 2017	31 December 2016
Unsecured borrowings	2,028,265	2,498,727
Guaranteed borrowings (a)	555,837	525,699
	<u>2,584,102</u>	<u>3,024,426</u>

(a) As at 31 December 2017, RMB33,436,000 (31 December 2016: RMB27,415,000) of bank guaranteed borrowings, is guaranteed by subsidiaries of the Company. RMB522,401,000 (31 December 2016: RMB498,284,000) of bank guaranteed borrowings, is guaranteed by the Company.

(b) As at 31 December 2017, the annual interest rate range of short-term borrowings is 0.81% to 11% (31 December 2016: 1.77% to 9.38%).

(18) Notes payable

	31 December 2017	31 December 2016
Bank acceptance notes	<u>25,207,785</u>	<u>18,484,939</u>

(19) Accounts payable

	31 December 2017	31 December 2016
Accounts payable for materials	31,009,375	21,453,740
Others	4,135,402	3,903,220
	<u>35,144,777</u>	<u>25,356,960</u>

(a) As at 31 December 2017, accounts payable with ageing over 1 year with a carrying amount of RMB978,692,000 (31 December 2016: RMB849,693,000) are mainly unsettled accounts payable for materials.

(20) Advances from customers

	31 December 2017	31 December 2016
Advances on sales	15,738,208	10,252,375
Settled but not completed	1,670,855	-
	<u>17,409,063</u>	<u>10,252,375</u>

(a) As at 31 December 2017, accounts payable with ageing over 1 year with a carrying amount of RMB202,302,000 (31 December 2016: RMB165,010,000) are mainly unsettled advances on sales.

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4 Notes to the consolidated financial statements (Cont'd)

(21) Employee benefits payable

	31 December 2017	31 December 2016
Short-term employee benefits (a)	5,063,266	3,064,520
Others	184,234	89,867
	<u>5,247,500</u>	<u>3,154,387</u>

(a) Short-term employee benefits

	31 December 2016	Increase in current year	Decrease in current year	31 December 2017
Wages and salaries, bonus, allowances and subsidies	2,720,179	20,887,374	(18,985,106)	4,622,447
Staff welfare	258,258	1,291,887	(1,285,871)	264,274
Social security contributions	17,741	1,688,583	(1,599,311)	107,013
Including: Medical insurance	15,866	1,628,851	(1,540,916)	103,801
Work injury insurance	1,637	33,497	(32,856)	2,278
Maternity insurance	238	26,235	(25,539)	934
Housing funds	21,317	361,233	(360,421)	22,129
Labour union funds and employee education funds	20,030	92,491	(93,700)	18,821
Other short-term employee benefits	26,995	82,872	(81,285)	28,582
	<u>3,064,520</u>	<u>24,404,440</u>	<u>(22,405,694)</u>	<u>5,063,266</u>

(22) Taxes payable

	31 December 2017	31 December 2016
Corporate income tax payable	2,277,595	1,656,482
VAT payable	664,196	348,991
Others	602,363	358,973
	<u>3,544,154</u>	<u>2,364,446</u>

(23) Other payables

- (a) Other payables are mainly deposit and security deposit payable, reimbursed logistics expense, manufacturing equipment expense and refund for energy-saving and beneficial to people.
- (b) As at 31 December 2017, accounts payable with ageing over 1 year with a carrying amount of RMB405,709,000 (31 December 2016: RMB484,749,000) are mainly deposit and security deposit payable, which are unsettled for related projects that are uncompleted.

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4 Notes to the consolidated financial statements (Cont'd)

(24) Other current liabilities

	31 December 2017	31 December 2016
Accrued sales rebate	17,240,015	16,201,044
Accrued installation and	4,171,520	4,164,399
Accrued sales promotion expenses	1,288,509	985,665
Accrued transportation expenses	596,877	576,821
Others	2,961,069	2,635,041
	<u>26,257,990</u>	<u>24,562,970</u>

(25) Long-term borrowings

	31 December 2017	31 December 2016
Mortgage borrowings(a)	28,922,008	-
Guaranteed borrowings	2,114,423	2,251,703
Unsecured borrowings	1,949,894	2,645
	<u>32,986,325</u>	<u>2,254,348</u>

- (a) As at 31 December 2017, mortgage borrowings of RMB 28,922,008,000 is pledged by 81.04% equity of KUKA, which is acquired by the subsidiary of the Company (31 December 2016: 0). Interest is paid on a semi-annual basis and the principal should be repaid in August 2022.
- (b) As at 31 December 2017, the annual interest rate range of the long-term borrowings is 0.4% to 6% (31 December 2016: 0.4% to 5.5%).

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4 Notes to the consolidated financial statements (Cont'd)

(26) Debentures payable

Name of the debentures	31 December 2016	Issued in current year	Issuance costs	Interest accrued on par value	Amortization of discount and premium	Exchange gains or loss and Differences on translation of foreign currency financial statements	Repaid in current year	31 December 2017
USD Guaranteed Medium Term Note	4,818,769	-	-	108,631	14,098	(279,813)	-	4,553,054

The Group issued corporate debenture with total amount of USD700,000,000 and duration of 3 years on 3 June 2016. Interest of the debenture is paid on a semi-annual basis and calculated by the simple interest method. The face value of the debenture is RMB4,605,510,000 and the fixed coupon interest rate is 2.375% annually. The debenture is guaranteed by the Company.

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4 Notes to the consolidated financial statements (Cont'd)

(27) Long-term Employee Benefits Payable

	31 December 2017	31 December 2016
Supplemental retirement Benefit (a)	2,330,599	1,418,921
Others	135,255	31,033
	<u>2,465,854</u>	<u>1,449,954</u>

(a) Supplemental retirement Benefit

As at 31 December 2017, the supplemental retirement benefit obligation of the Group is calculated using the estimated accumulated welfare unit method, and has been reviewed by the external independent actuary firm.

(i) Defined-benefit liabilities of the Group:

	31 December 2017	31 December 2016
Defined-benefit obligation	3,963,809	1,716,280
Less: Fair value of planned assets	<u>(1,633,210)</u>	<u>(297,359)</u>
Defined-benefit liabilities	<u>2,330,599</u>	<u>1,418,921</u>

(ii) The movement in the defined benefit liability is as follows:

	Present value of Defined-benefit liabilities	Fair value of planned assets	Net liabilities (net assets) of Defined-benefit plan
1 January 2017	1,716,280	(297,359)	1,418,921
Changes due to combination	2,199,554	(1,310,109)	889,445
The charges recorded in the statement of profit or loss			
-Current service cost	127,427	-	127,427
-Past service cost	(28,088)	-	(28,088)
-Net interest	41,626	(19,508)	22,118
Remeasurements:			
-Actuarial gain	78,868	-	78,868
-Return on plan assets, excluding amounts included in interest income	-	(63,551)	(63,551)
Others			
-Employer contributions	-	(92,119)	(92,119)
-Benefit payments	(139,088)	120,228	(18,860)
Differences on translation of foreign currency financial statements	(32,770)	29,208	(3,562)
31 December 2017	<u>3,963,809</u>	<u>(1,633,210)</u>	<u>2,330,599</u>

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4 Notes to the consolidated financial statements (Cont'd)

(27) Long-term Employee Benefits Payable (Cont'd)

- (a) Supplemental retirement Benefit (Cont'd)
- (iii) The significant actuarial assumptions were as follows:

	31 December 2017	
	TLSC	KUKA
Discount rate	0.061-1.21%	0.6%-7.6%
Inflation rate	1.03%	Not applicable
Expected return on assets	Not applicable	1.55%-7.6%
Salary growth rate	1.5%-7.9%	0.5%-5.0%
Pension growth rate	0.0%-6.9%	0.0-3.7%

(28) Share capital

	31 December 2016					31 December 2017
	Exercise of share options		Current year movement			
			Restricted shares	Desterilization	Subtotal	
RMB-denominated ordinary shares -		(Note (a))	(Note (b))			
RMB-denominated ordinary shares subject to trading restriction	279,045	-	23,130	(90,152)	(67,022)	212,023
RMB-denominated ordinary shares not subject to trading restriction	6,179,722	79,156	-	90,152	169,308	6,349,030
	<u>6,458,767</u>	<u>79,156</u>	<u>23,130</u>	<u>-</u>	<u>102,286</u>	<u>6,561,053</u>

	31 December 2015					31 December 2016
	Share capital from capital surplus		Current year movement			
			Exercise of share options	Desterilization	Subtotal	
RMB-denominated ordinary shares -						
RMB-denominated ordinary shares subject to trading restriction	2,026,343	1,013,172	-	(2,760,470)	(1,747,298)	279,045
RMB-denominated ordinary shares not subject to trading restriction	2,240,496	1,120,524	58,232	2,760,470	3,939,226	6,179,722
	<u>4,266,839</u>	<u>2,133,696</u>	<u>58,232</u>	<u>-</u>	<u>2,191,928</u>	<u>6,458,767</u>

- (a) Pursuant to the first share option incentive plan as approved at the first extraordinary general meeting dated 17 February 2014 (the "First Options Incentive Programme"), in 2017, the total number of shares exercised by the granted employees is 28,395,000 with increase in share capital of RMB28,395,000 and increase in capital surplus (share premium) of RMB357,200,000 (among which RMB98,549,000 is transferred from capital surplus (share option incentive plan) to capital surplus (share premium)). The weighted average price of share options exercised in current period is RMB24.48 as calculated based on the price of exercise date.

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4 Notes to the consolidated financial statements (Cont'd)

(28) Share capital (Cont'd)

Pursuant to the second share option incentive plan as approved at the first extraordinary general meeting dated 25 May 2015 (the "Second Options Incentive Programme"), in 2017, the total number of shares exercised by the granted employees is 28,483,000, with increase in share capital of RMB28,483,000 and increase in capital surplus (share premium) of RMB693,668,000 (among which RMB189,403,000 is transferred from capital surplus (share-based payment incentive plan) to capital surplus (share premium)). The weighted average price of share options exercised in current period is RMB29.16 as calculated based on the price of exercise date.

Pursuant to the third share option incentive plan as approved at the 12th meeting of the board of directors dated 25 May 2016 (the "Third Options Incentive Programme"), in 2017, the total number of shares exercised by the granted employees is 22,278,000, with increase in share capital of RMB22,278,000 and increase in capital surplus (share premium) of RMB552,445,000 (among which RMB121,369,000 is transferred from capital surplus (share option incentive plan) to capital surplus (share premium)). The weighted average price of share options exercised in current period is RMB35.81 as calculated based on the price of exercise date.

- (b) Pursuant to the restricted share incentive plan as approved at 2016 annual general meeting on 21 April 2017 (the "2017 Restricted Share Plan"), in 2017, the total number of shares exercised by the granted employees is 23,130,000 with subscription of RMB366,842,000, of which RMB23,130,000 was recognised as share capital, and RMB343,712,000 was recognised as capital surplus (share premium). The restricted shares have not reached desterilization condition in 2017. The Company regards it as treasury stock and recognize related debt for repurchase obligations.

(29) Capital reserve

	31 December 2016	Increase in current year	Decrease in current year	31 December 2017
Share premium (a)	9,961,450	1,947,025	-	11,908,475
Share-based payment incentive plan (b)	617,238	735,326	(409,321)	943,243
Others	3,017,881	41,905	-	3,059,786
	<u>13,596,569</u>	<u>2,724,256</u>	<u>(409,321)</u>	<u>15,911,504</u>
	31 December 2015	Increase in current year	Decrease in current year	31 December 2016
Share premium	11,088,036	1,007,110	(2,133,696)	9,961,450
Share-based payment incentive plan	388,604	473,958	(245,324)	617,238
Others	3,034,550	-	(16,669)	3,017,881
	<u>14,511,190</u>	<u>1,481,068</u>	<u>(2,395,689)</u>	<u>13,596,569</u>

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4 Notes to the consolidated financial statements (Cont'd)

(29) Capital reserve (Cont'd)

- (a) The increase in share premium arose from the exercise of share options with the amount of RMB1,603,313,000, (among which RMB409,321,000 was transferred from capital surplus (Share-based payment incentive plan)(Note 4(28)(a)), and restricted shares subscription with amount of RMB343,712,000(Note 4(28)(b)).
- (b) Share-based payment incentive plan included share option incentive plan and restricted share plan. The increase of share-based payment incentive plan arose from expenses attributable to shareholders' equity of the Company in the share option incentive plan and restricted share plan with the amount of RMB735,326,000, while the decrease arose from the transfer of RMB409,321,000 to share premium due to exercise of share option (Notes 4(28)(a)).

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4 Notes to the consolidated financial statements (Cont'd)

(31) Surplus reserve

	31 December 2016	Increase in current year	31 December 2017
Statutory surplus	<u>2,804,469</u>	<u>1,077,763</u>	<u>3,882,232</u>
	31 December 2015	Increase in current year	31 December 2016
Statutory surplus	<u>1,846,523</u>	<u>957,946</u>	<u>2,804,469</u>

In accordance with the Company Law of the People's Republic of China and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. According to a resolution at the Board of Directors, the Company appropriated 10% of net profit, amounting to approximately RMB1,077,763,000 in 2017 (2016: 10% of net profit, amounting to approximately RMB957,946,000) to the statutory surplus reserve.

(32) Undistributed profits

	2017	2016
Undistributed profits at the beginning of the year	38,105,391	29,529,827
Add: Net profit attributable to the parent company for current year	17,283,689	14,684,357
Less: Ordinary share dividends payable (a)	(6,465,677)	(5,120,869)
Appropriation to general reserve (b)	(218,345)	(29,978)
Others	(60)	-
Appropriation to statutory surplus reserve (Note 4(31))	<u>(1,077,763)</u>	<u>(957,946)</u>
Undistributed profits at end of year	<u>47,627,235</u>	<u>38,105,391</u>

(a) Ordinary share dividends distributed in current year

In accordance with the resolution at the Board of Shareholders' meeting dated on 21 April 2017, based on the existing total equity of RMB6,465,677,000, the Company distributed a cash dividend to the shareholders at RMB10.00 (tax-inclusive) per ten shares, amounting to RMB6,465,677,000 calculated by 6,465,677,368 issued shares (2016: RMB1.00 per share, amounting to RMB5,120,869,000). The remaining undistributed profit will be carried forward in subsequent years.

(b) General reserve

According to the Administrative Measures for the Provisioning of Financial Enterprises issued by the Ministry of Finance (MOF), an provision for general risk amounting to RMB218,345,000 was made in 2017 (2016: RMB29,978,000) at 1.5% of the balance of financial enterprise risk assets net of recognised loan impairment provision.

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4 Notes to the consolidated financial statements (Cont'd)

(33) Operating revenue and cost of sales

	2017	2016
Revenue from main operations	223,489,906	147,173,984
Revenue from other operations	<u>17,222,395</u>	<u>11,870,057</u>
	<u>240,712,301</u>	<u>159,044,041</u>

	2017	2016
Cost of sales from main operations	164,794,821	105,091,458
Cost of sales from other operations	<u>15,665,731</u>	<u>10,523,979</u>
	<u>180,460,552</u>	<u>115,615,437</u>

(a) Revenue and cost of sales from main operations

	<u>2017</u>		<u>2016</u>	
	Revenue	Cost of sales	Revenue	Cost of sales
HVAC	95,352,449	67,664,335	68,726,349	48,010,165
Consumer appliances	98,748,018	71,722,720	76,539,889	55,236,671
Robots and automatic system	27,037,062	23,123,363	-	-
Others	<u>2,352,377</u>	<u>2,284,403</u>	<u>1,907,746</u>	<u>1,844,622</u>
	<u>223,489,906</u>	<u>164,794,821</u>	<u>147,173,984</u>	<u>105,091,458</u>

In 2017, cost of sales is mainly material costs and labour costs, which accounts for over 80% of total cost of sales from main operations (2016: over 80%).

(b) Revenue and cost of sales from other operations

	<u>2017</u>		<u>2016</u>	
	Revenue	Cost of sales	Revenue	Cost of
Revenue from sales of materials	15,446,559	15,065,383	10,601,700	10,130,655
Others	<u>1,775,836</u>	<u>600,348</u>	<u>1,268,357</u>	<u>393,324</u>
	<u>17,222,395</u>	<u>15,665,731</u>	<u>11,870,057</u>	<u>10,523,979</u>

In 2017, cost of sales from other operations is mainly material costs, which accounts for over 80% of total cost of sales from other operations (2016: over 80%).

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4 Notes to the consolidated financial statements (Cont'd)

(34) Interest income/(expenses)

Interest income and expenses arising from financial business of the Group are presented as follows:

	2017	2016
Interest income from loans and advances	788,262	734,109
Including: Interest income from loans and advances to corporations and individuals	301,819	367,454
Interest income from note discounting	486,443	366,655
Interest income from deposits with banks, other financial institutions and central bank	418,320	55,305
Interest income	1,206,582	789,414
Interest expenses	(250,925)	(439,607)
	955,657	349,807

(35) Business taxes and surcharges

	2017	2016
City maintenance and construction tax	588,019	470,582
Educational surcharge	427,182	342,740
Others	401,227	263,797
	1,416,428	1,077,119

(36) Selling and distribution expenses

	2017	2016
Selling and distribution expenses	26,738,673	17,678,451

In 2017, selling and distribution expenses are mainly maintenance and installation expenses, advertisement and promotion fee, transportation and storage fee, employee benefits and rental expenses, which account for over 80% of total selling and distribution expenses (2016: over 80%).

(37) General and administrative expenses

	2017	2016
General and administrative expenses	14,780,236	9,620,777

In 2017, general and administrative expenses are mainly employee benefits, R&D expenditures, expenses of depreciation and amortisation, technical maintenance expenses and administrative office expenses, which account for over 80% of total general and administrative expenses (2016: over 80%).

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4 Notes to the consolidated financial statements (Cont'd)

(38) Finance (expenses)/income

The Group's Finance (expenses)/income, other than those arising from financial business (Note 4(34)), are presented as follows:

	2017	2016
Interest expenses	967,208	370,940
Less: Interest income	(1,143,837)	(1,005,495)
Exchange gains or losses	863,185	(557,689)
Others	129,393	186,265
	<u>815,949</u>	<u>(1,005,979)</u>

(39) Asset impairment loss

	2017	2016
loss of bad debts (Note 4(3))	182,592	140,950
Loss on decline in the value of inventories (Note 4(6))	41,811	108,235
Impairment loss on fixed assets (Note 4(10))	8,937	4,654
Impairment loss on intangible assets (Note 4(12))	5,866	6,065
Impairment loss on available-for-sale financial assets	2,114	-
Loss of impairment of loans (Note 4(5))	27,792	120,908
	<u>269,112</u>	<u>380,812</u>

(40) Losses/(gains) on changes in fair value

	2017	2016
Financial instruments at fair value through profit or loss - derivative financial instruments	<u>(25,045)</u>	<u>117,376</u>

(41) Investment income

	2017	2016
Investment income from wealth management products	977,648	1,270,941
Investment (loss)/income from disposal of financial assets at fair value through profit or loss	102,530	(142,784)
Income from long-term equity investment under equity method	310,016	165,904
Others	440,027	(8,100)
	<u>1,830,221</u>	<u>1,285,961</u>

There is no restriction on recovery of investment income.

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4 Notes to the consolidated financial statements (Cont'd)

(42) Gains on disposals of assets

	2017	2016
Gains on disposal of non-current assets	1,472,191	60,789
Losses on disposal of non-current assets	<u>(144,940)</u>	<u>(172,663)</u>
	<u>1,327,251</u>	<u>(111,874)</u>

(43) Other income

	2017	2016	
Specific grant	1,283,160	-	Relevant to profit
Specific grant	<u>27,963</u>	-	Relevant to assets
	<u>1,311,123</u>	-	

(44) Income tax expenses

	2017	2016
Current income tax calculated based on tax law and related regulations	5,077,050	3,811,731
Deferred income tax	<u>(1,833,466)</u>	<u>(759,040)</u>
	<u>3,243,584</u>	<u>3,052,691</u>

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	2017	2016
Total profit	<u>21,854,774</u>	<u>18,914,603</u>
Income tax calculated at tax rate of 25%	5,463,694	4,728,651
Effect of different tax rates applicable to subsidiaries	(1,448,532)	(1,575,087)
Effect of income tax annual filing for prior periods	(119,749)	(35,060)
Income not subject to tax	(208,481)	(173,717)
Costs, expenses and losses not deductible for tax purposes	200,729	234,535
Temporary differences for which no deferred income tax asset was recognised in prior years	(31,620)	(190,827)
Others	<u>(612,457)</u>	<u>64,196</u>
Income tax expenses	<u>3,243,584</u>	<u>3,052,691</u>

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4 Notes to the consolidated financial statements (Cont'd)

(45) Calculation of basic and diluted earnings per share

(a) Basic earnings per share

Basic earnings per share are calculated by dividing consolidated net profit attributable to ordinary shareholders of the parent company by the weighted average number of outstanding ordinary shares:

	Unit	2017	2016
Consolidated net profit attributable to ordinary shareholders of the parent company	RMB'000	17,283,689	14,684,357
Weighted average number of outstanding ordinary shares	Thousand shares	6,492,259	6,423,317
Basic earnings per share	RMB per share	<u>2.66</u>	<u>2.29</u>
Including:			
—Basic earnings per share from continuing operations		2.66	2.29
—Basic earnings per share from discontinued operations		-	-

(b) Basic earnings per share (Cont'd)

Diluted earnings per share are calculated by dividing consolidated net profit attributable to ordinary shareholders of the parent company by the diluted weighted average number of outstanding ordinary shares:

	Currency unit	2017	2016
Consolidated net profit attributable to ordinary shareholders of the parent company	RMB'000	17,283,689	14,684,357
Weighted average number of outstanding ordinary shares	Thousand shares	6,492,259	6,423,317
Weighted average number of ordinary shares increased due to share options	Thousand shares	73,658	21,439
Weighted average number of diluted outstanding ordinary shares	Thousand shares	<u>6,565,917</u>	<u>6,444,756</u>
Diluted earnings per share	RMB per share	<u>2.63</u>	<u>2.28</u>

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4 Notes to the consolidated financial statements (Cont'd)

(46) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities

	2017	2016
Other income	1,224,953	-
Other operating income	1,666,452	1,096,030
Non-operating income	497,376	1,745,403
Financial interest income	252,002	234,516
Others	1,130,253	63,337
	<u>4,771,036</u>	<u>3,139,286</u>

(b) Cash paid relating to other operating activities

	2017	2016
Selling and distribution expenses (excluding employee benefits and taxes and surcharges)	21,351,785	14,375,156
General and administrative expenses (excluding employee benefits and taxes and surcharges)	7,204,414	4,413,704
Others	583,721	3,013,869
	<u>29,139,920</u>	<u>21,802,729</u>

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4 Notes to the consolidated financial statements (Cont'd)

(46) Notes to the consolidated cash flow statement (Cont'd)

(c) Supplementary information to the consolidated cash flow statement

Reconciliation of net profit to cash flow from operating activities is as follows:

	2017	2016
Net profit	18,611,190	15,861,912
Add: Provision for assets impairment	269,112	380,812
Depreciation and amortisation	6,695,877	3,578,000
Net (profit)/loss on disposal of non-current assets	(1,327,251)	111,874
Gains on changes in fair value	25,045	(117,376)
Finance income	32,845	(648,949)
Investment income	(1,830,221)	(1,285,961)
Share options expenses	841,566	546,914
Increase deferred income tax assets	(635,894)	(760,228)
Increase in deferred income tax liabilities	(1,055,005)	(61,501)
Increase in inventories	(7,730,304)	(3,741,683)
Increase in operating receivables	(10,314,517)	(841,862)
Increase in operating payables	<u>20,860,180</u>	<u>13,673,057</u>
Net cash flows from operating activities	<u>24,442,623</u>	<u>26,695,009</u>
Movement in cash and cash equivalents		
Cash and cash equivalents at end of year	21,831,653	12,513,730
Less: Cash and cash equivalents at beginning of year	<u>(12,513,730)</u>	<u>(5,187,317)</u>
Net decrease in cash and cash equivalents	<u>9,317,923</u>	<u>7,326,413</u>

(d) Acquisition of subsidiaries

	2017
Cash and cash equivalents paid in current year for business combinations occurred in current year	28,579,683
Including: KUKA Group	<u>27,001,856</u>
Other acquired companies	<u>1,577,827</u>
Less: Cash and cash equivalents held by the subsidiaries at the acquisition dates	(2,729,513)
Including: KUKA Group	<u>(2,653,544)</u>
Other acquired companies	<u>(75,969)</u>
Net cash payment for acquisition of subsidiary	<u>25,850,170</u>

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4 Notes to the consolidated financial statements (Cont'd)

(46) Notes to the consolidated cash flow statement (Cont'd)

(d) Acquisition of subsidiaries (Cont'd)

Net assets of the subsidiaries acquired

	As at the acquisition dates in 2017	As at the acquisition dates in 2016
Current assets	12,823,815	5,741,514
Non-current assets	13,767,216	6,524,130
Current liabilities	(9,322,960)	(4,430,467)
Non-current liabilities	(6,026,374)	(5,656,951)
Less: Minority interests	2,248	(221,651)
	<u>11,243,945</u>	<u>1,956,575</u>

(e) Composition of cash and cash equivalents

	31 December 2017	31 December 2016
Cash on hand	4,589	2,315
Cash at bank that can be readily drawn on demand	18,413,969	7,015,378
Deposit with central bank that can be readily drawn on demand	305,963	58,172
Deposits with banks and other financial institutions that can be readily drawn on demand	3,107,132	5,437,865
Cash and cash equivalents at end of year	<u>21,831,653</u>	<u>12,513,730</u>

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4 Notes to the consolidated financial statements (Cont'd)

(47) Monetary items denominated in foreign currencies

	31 December 2017		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on			
USD	1,601,324	6.5342	10,463,372
JPY	2,292,090	0.0579	132,712
HKD	167,138	0.8359	139,711
EUR	181,609	7.8023	1,416,970
BRL	173,113	1.9755	341,985
VND	329,843,333	0.0003	98,953
Other currencies	N/A	N/A	789,665
Subtotal			<u>13,383,368</u>
Accounts receivable			
USD	969,755	6.5342	6,336,575
JPY	26,231,623	0.0579	1,518,811
HKD	52,543	0.8359	43,921
EUR	283,715	7.8023	2,213,627
BRL	480,808	1.9755	949,836
VND	1,441,706,667	0.0003	432,512
Other currencies	N/A	N/A	1,452,927
Subtotal			<u>12,948,209</u>
Other receivables			
USD	48,777	6.5342	318,717
JPY	2,234,111	0.0579	129,355
HKD	723	0.8359	604
EUR	50,804	7.8023	396,390
BRL	44,134	1.9755	87,187
Other currencies	N/A	N/A	208,022
Subtotal			<u>1,140,275</u>
Total			<u>27,471,852</u>

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4 Notes to the consolidated financial statements (Cont'd)

(47) Monetary items denominated in foreign currencies (Cont'd)

	31 December 2017		
	Foreign currency balance	Exchange rate	RMB balance
Short-term			
USD	258,328	6.5342	1,687,965
HKD	59,554	0.8359	49,781
EUR	30,233	7.8023	235,885
BRL	135,206	1.9755	267,100
Other currencies	N/A	N/A	343,371
Subtotal			2,584,102
Accounts payable			
USD	350,735	6.5342	2,291,771
JPY	18,175,112	0.0579	1,052,339
HKD	53,468	0.8359	44,694
EUR	259,337	7.8023	2,023,424
BRL	208,088	1.9755	411,078
Other currencies	N/A	N/A	1,013,751
Subtotal	N/A	N/A	6,837,057
Other payables			
USD	54,810	6.5342	358,138
JPY	8,281,744	0.0579	479,513
HKD	96,625	0.8359	80,769
EUR	33,701	7.8023	262,945
Other currencies	N/A	N/A	51,418
Subtotal			1,232,783
Long-term			
EUR	4,227,267	7.8023	32,982,403
BRL	933	1.9755	1,843
Other currencies	N/A	N/A	2,079
Subtotal			32,986,325
Debentures			
USD	696,804	6.5342	4,553,054
Total			48,193,321

Monetary items denominated in foreign currencies present significant foreign currencies except RMB.

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4 Notes to the consolidated financial statements (Cont'd)

(47) Monetary items denominated in foreign currencies (Cont'd)

	31 December 2016		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand			
USD	1,723,130	6.9370	11,953,353
JPY	14,192,651	0.0596	845,882
HKD	92,921	0.8945	83,118
EUR	133,422	7.3068	974,887
VND	191,400,000	0.0003	57,420
Other currencies	N/A	N/A	324,572
Subtotal			<u>14,239,232</u>
Accounts receivable			
USD	825,815	6.9370	5,728,679
JPY	17,178,725	0.0596	1,023,852
HKD	22,988	0.8945	20,563
EUR	92,007	7.3068	672,277
VND	1,103,126,667	0.0003	330,938
Other currencies	N/A	N/A	996,425
Subtotal			<u>8,772,734</u>
Other receivables			
USD	8,594	6.9370	59,617
JPY	1,644,379	0.0596	98,005
HKD	97,452	0.8945	87,171
EUR	10,544	7.3068	77,043
BRL	42,504	2.1324	90,636
Other currencies	N/A	N/A	78,974
Subtotal			<u>491,446</u>
Total			<u>23,503,412</u>

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4 Notes to the consolidated financial statements (Cont'd)

(47) Monetary items denominated in foreign currencies (Cont'd)

	31 December 2016		
	Foreign currency balance	Exchange rate	RMB balance
Short-term borrowings			
USD	76,497	6.9370	530,660
BRL	228,773	2.1324	487,836
Other currencies	N/A	N/A	119,976
Subtotal			<u>1,138,472</u>
Accounts payable			
USD	184,444	6.9370	1,279,488
JPY	18,234,245	0.0596	1,086,761
HKD	2,932	0.8945	2,623
EUR	22,909	7.3068	167,391
BRL	122,421	2.1324	261,051
Other currencies	N/A	N/A	803,947
Subtotal			<u>3,601,261</u>
Other payables			
USD	17,275	6.9370	119,837
JPY	5,795,805	0.0596	345,430
HKD	104,876	0.8945	93,812
EUR	1,438	7.3068	10,507
Other currencies	N/A	N/A	69,267
Subtotal			<u>638,853</u>
Long-term borrowings			
HKD	80,001	0.8945	71,561
EUR	271,000	7.3068	1,980,143
BRL	1,138	2.1324	2,427
Other currencies	N/A	N/A	218
Subtotal			<u>2,054,349</u>
Bonds payable			
USD	694,647	6.9370	4,818,769
Total			<u>12,251,703</u>

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5 Changes in consolidation scope

(1) Business combinations involving enterprises not under common control

- (a) Business combinations involving enterprises not under common control incurred in current year.

As at 6 January 2017 (the "Acquisition Date"), Midea Group completed the acquisition of 81.04% equity interests of KUKA at a cash consideration of RMB27,001,856,000. After that, Midea Group held approximately 94.55% equity interests of KUKA accounting for the 13.51% equity interests acquired in prior years. KUKA Group was consolidated by the Group from the acquisition date on which control was transferred to the Group. KUKA Group is mainly engaged in robot and automatic system business.

Except for the acquisition above, the group acquired Servotronix and its subsidiaries ("SMC"), Dongguan Alba Industries co. Ltd. ("Dongguan Kafei") and Fujitsu South China Technology Services Limited ("Fujitsu"), Easy Conveyors B.V., Talyst Systems LLC, Device Insight GmbH, Visual Components Oy in 2017, with total consideration of RMB1,744,430,000. Such acquisitions do not have significant impact on the financial statement of the Group.

- (b) Details of costs of combination and good will are as follows:

	KUKA	Other Acquired Companies	Total
Costs of combination -			
Cash consideration	27,001,856	1,457,473	28,459,329
Fair value of 13.51% equity previously held at acquisition date	3,540,726	N/A	3,540,726
Future payment of consideration	N/A	286,957	286,957
Total costs of combination	30,542,582	1,744,430	32,287,012
Less: Share of fair value of the identifiable net assets obtained	(9,844,370)	(738,715)	(10,583,085)
Goodwill	<u>20,698,212</u>	<u>1,005,715</u>	<u>21,703,927</u>

The Group mainly uses valuation techniques such as market approach, income approach and cost approach to determine the fair value of non-cash assets transferred and liabilities incurred.

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5 Changes in consolidation scope (Cont'd)

(1) Business combinations involving enterprises not under common control

(c) Assets and liabilities of important acquire(KUKA) at acquisition dates are as follows:

	Fair value at acquisition dates	Carrying amount at acquisition dates	Carrying amount at 31 December 2016
Current assets	12,468,388	12,468,388	12,468,388
Non-current assets	12,925,644	6,119,034	6,119,034
Current liabilities	(9,092,126)	(9,092,126)	(9,092,126)
Non-current liabilities	(5,891,794)	(3,355,987)	(3,355,987)
Less: minority interest	2,248	2,248	2,248
Acquired net asset	<u>10,412,360</u>	<u>6,141,557</u>	<u>6,141,557</u>

The appreciation of evaluation mainly represents intangible asset, including trademark right, technology, customer relationship and order backlog. External independent valuer was engaged by management to identify the intangible assets and perform valuation of the identifiable assets and liabilities. The valuation method and critical assumptions applied to the major assets are as follows:

The fair value of land was estimated by applying the market value approach. To evaluate the fair value of the assets, it compares the transaction price and desired selling price of similar assets in the active market and adjusts the actual difference between the evaluated assets and similar assets.

The fair value of building and machine was estimated by applying cost approach, which considers the current replacement cost of fixed assets after deduction of the loss value. The current replacement cost is calculated at full price multiplied by the newness rate.

The fair value of trademarks and technologies was estimated by applying Relief-from-Royalty method, which considers present value of royalty fees discounted at a proper rate that are saved annually by using the relevant assets during the remaining useful life of trademarks and technologies.

The fair value of customer relationship and order backlog was estimated by applying Multi Period Excess Earnings Method, which considers present value of the excess returns after the annual tax economic benefit deducted in accordance with the customer relationship or order backlog in the future, and discounted at a proper rate.

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5 Changes in consolidation scope (Cont'd)

(1) Business combinations involving enterprises not under common control

(d) Financial data from purchase date to 31 December 2017 are as follows:

	KUKA
Operating income	<u>26,722,910</u>
Cashflow	
-Net cash flows from operating activities	693,536
-Net cash flows from investing activities	(1,704,285)
-Net cash flows from financing activities	<u>(65,141)</u>
	<u>(1,075,890)</u>

5 Changes in consolidation scope (Cont'd)

(2) Changes in consolidation scope due to other reasons

(a) Increase of consolidation scope

In January 2017, the Company invested RMB50,000,000 by cash in the establishment of Guangdong Midea Advanced Technologies Co., Ltd., a fully-owned subsidiary.

In February 2017, the Company subscribed contributions of RMB150,000,000 by cash in the establishment of Guangdong Midea Intelligent Robotics Co., Ltd., a fully-owned subsidiary.

In February 2017, Hefei Hualing Co., Ltd. (subsidiary of the Company) invested RMB42,500,000 by cash in the establishment of Hefei Midea Advanced Technologies Co., Ltd., a fully-owned subsidiary.

In March 2017, the Company invested RMB1,000,000 by cash in the establishment of Guangdong Midea Electric Co., Ltd., a fully-owned subsidiary.

In March 2017, Guangdong Midea Electric Co., Ltd. (subsidiary of the Company) established Midea Electric Netherlands (I) B.V, a fully-owned subsidiary.

In April 2017, Midea Electric Trading (Singapore) Co. Pte. Ltd. (subsidiary of the Company) established Midea Home Appliances Australia Pty Ltd., a fully-owned subsidiary.

In May 2017, Guangdong Midea Life Electric Appliance Manufacturing Co., Ltd. (subsidiary of the Company) established the subsidiary Guangdong Midea Kafei Coffee Machine Manufacturing Co., Ltd. jointly with ALBA Investment Limited, with shareholding of 70% and 30%, respectively.

In June 2017, Midea Electrics Netherlands B.V. (subsidiary of the Company), established Midea Austria GmbH, a fully-owned subsidiary.

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5 Changes in consolidation scope (Cont'd)

(2) Changes in consolidation scope due to other reasons (Cont'd)

(a) Increase of consolidation scope

In June 2017, Midea Electrics Netherlands B.V. (subsidiary of the Company), established Midea Emerging Technology Co., Ltd., a fully-owned subsidiary.

In June 2017, Shunde Home Appliance Industrial Co., Ltd. (subsidiary of the Company) invested of RMB300,000,000 by cash in the establishment of Chongqing Midea Microfinance Loan Co., Ltd..

In June 2017, Midea Electric Appliance (Singapore) Co., Ltd. (subsidiary of the Company), established Midea India Private Limited.

In July 2017, Midea Innovation Investment Co., Ltd. (subsidiary of the Company), established Shenzhen Shuzhi Scene Positioning Technology Co., Ltd..

In October 2017, Guangdong Midea Heating & Ventilation Equipment Co., Ltd. (subsidiary of the Company), invested RMB60,000,000 by cash in the establishment of Hefei Midea Hicks electronics Co., Ltd., a subsidiary.

In November 2017, the Company invested RMB47,500,000 in the establishment of Guangdong Midea environmental technology Co., Ltd..

In December 2017, Guangdong Midea Electric Co., Ltd. (subsidiary of the Company), established Midea Electric Netherlands (II) B.V., a fully-owned subsidiary.

In December 2017, the Company established Foshan Midea Zhihui Real Estate Development Co., Ltd., a fully-owned subsidiary.

In December 2017, Guangdong Midea Microwave Electric Manufacturing Co., Ltd. (subsidiary of the Company), established Guangdong Deyijie electric appliance Co., Ltd..

(b) Decrease of consolidation scope

Decrease of consolidation scope mainly includes deregistration of subsidiaries. Details are as follows:

Name of entity	Disposal method of the equity	Disposal time-point of the equity
Wuhu BaiNian Technology Development Co., Ltd.	Deregistration	February 2017
Midea France S.A.R.L.	Deregistration	June 2017
Calpore Macao Commercial Offshore Limited	Deregistration	December 2017
Harbin Ande logistics Co. Ltd.	Deregistration	December 2017

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6 Interests in other entities

(1) Interests in subsidiaries

(a) Information of significant subsidiaries

Name of Subsidiaries	Major business location	Place of registration	Nature of business	Shareholding (%)		Acquisition method
				Direct	Indirect	
Guangdong Midea Refrigeration Equipment Co., Ltd.	Foshan, China	Foshan, China	Manufacture and sale of air conditioner	73%	7%	Business combinations involving enterprises not under common control
Guangdong Midea Wuhu Refrigeration Equipment Co., Ltd.	Wuhu, China	Wuhu, China	Manufacture and sale of air conditioner	73%	7%	Business combinations involving enterprises not under common control
Midea Wuhan Refrigeration Equipments Co., Ltd.	Wuhan, China	Wuhan, China	Manufacture of air conditioner	73%	7%	Establishment
Wuhu Meizhi Air-Conditioning Equipment Co., Ltd.	Wuhu, China	Wuhu, China	Manufacture of air conditioner	88%	12%	Establishment
Guangzhou Hualing Refrigeration Equipment Co., Ltd.	Guangzhou, China	Guangzhou, China	Manufacture of air conditioner	90%	10%	Business combinations involving enterprises not under common control
Guangdong Midea Heating & Ventilation Equipment Co., Ltd.	Foshan, China	Foshan, China	Manufacture of air conditioner	90%	10%	Establishment
Guangdong GMCC Refrigeration Equipment Co., Ltd.	Foshan, China	Foshan, China	Manufacture of air compressor	60%	-	Business combinations involving enterprises not under common control
Zhejiang GMCC Compressor Co., Ltd.	Ningbo, China	Ningbo, China	Manufacture of air conditioner	100%	-	Establishment
Hefei Midea Refrigerator Co., Ltd.	Hefei, China	Hefei, China	Manufacture of refrigerator	75%	25%	Business combinations involving enterprises not under common control
Ningbo Midea United Material Supply Co., Ltd.	Ningbo, China	Ningbo, China	Manufacture of air conditioner	100%	-	Business combinations involving enterprises under common control
Guangdong midea kitchen appliance manufacturing Co., Ltd.	Foshan, China	Foshan, China	Manufacture of small appliances	-	100%	Establishment
Foshan Shunde midea electric appliance manufacturing Co., Ltd.	Foshan, China	Foshan, China	Manufacture of small appliances	-	100%	Establishment
Wuxi Little Swan Company Limited.	Wuxi, China	Wuxi, China	Manufacture of washing machine	38%	15%	Business combinations involving enterprises not under common control
Wuhu Welling Motor Sales Co., Ltd.	Wuhu, China	Wuhu, China	Sale of motors	-	100%	Establishment
Midea Electric Appliance (Singapore) Co., Ltd.	Singapore	Singapore	Export trading	-	100%	Establishment

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6 Interests in other entities (Cont'd)

(1) Interests in subsidiaries (Cont'd)

(a) Information of significant subsidiaries (Cont'd)

Name of Subsidiaries	Major business location	Place of registration	Nature of business	Shareholding (%)		Acquisition method
				Direct	Indirect	
Midea Group Finance Co., Ltd.	Foshan, China	Foshan, China	Financial industry	95%	5%	Establishment
Midea Petty Loan Co., Ltd.	Wuhu, China	Wuhu, China	Petty loan	-	100%	Business combinations involving enterprises not under common control
Shenzhen Qianhai Midea Assets Management Co., Ltd.	Shenzhen, China	Shenzhen, China	Asset management	-	100%	Establishment
Mecca International (BVI) Limited	British Virgin islands	British Virgin islands	Holding Investment	-	100%	Establishment
Midea International Holding Co., Ltd.	Hongkong	Hongkong	Holding Investment	100%	-	Establishment
Midea Investment & Development Corporation	British Virgin island	British Virgin island	Holding Investment	-	100%	Establishment
Midea Electric Netherlands (I) B.V.	Netherlands	Netherlands	Holding Investment	-	100%	Establishment
Springer Carrier Ltda.	Brazil	Brazil	Sale of appliances	-	49%	Business combinations involving enterprises not under common control
Toshiba Consumer Marketing Corporation	Japan	Japan	Manufacture of appliances	-	100%	Business combinations involving enterprises not under common control
TLSC	Japan	Japan	Manufacture of appliances	-	100%	Business combinations involving enterprises not under common control
KUKA	Germany	Germany	Manufacture and sale of robot	-	94.55%	Business combinations involving enterprises not under common control

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6 Interests in other entities (Cont'd)

(1) Interests in subsidiaries (Cont'd)

(b) Subsidiaries that have significant minority interests

Name of Subsidiaries	Shareholding of minority shareholders	Total profit or loss attributable to minority shareholders for the year ended 31 December 2017	Dividends distributed to minority interests for the year ended 31 December 2017	Minority interests as at 31 December 2017
Wuxi Little Swan Company Limited	47%	712,247	224,501	3,226,929

(2) Information of enterprise group

The major financial information of the subsidiaries that have significant minority interests is listed below:

	31 December 2017						31 December 2016					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Wuxi Little Swan Company Limited	19,564,974	1,773,447	21,338,421	13,103,359	16,764	13,120,123	17,327,867	1,558,120	18,885,987	11,906,121	20,771	11,926,892

	2017				2016			
	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Wuxi Little Swan Company Limited	21,384,699	1,708,420	1,669,074	2,015,754	16,334,915	1,342,775	1,383,992	3,896,073

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6 Interests in other entities (Cont'd)

(3) Interests in associates and a joint venture

The impact of the Group's associates on the Group is not significant. Summarised information is as follows:

	2017	2016
Aggregated carrying amount of investments	<u>2,633,698</u>	<u>2,211,732</u>
Aggregate of the following items calculated in proportion to shareholding		
Net profit (i)	310,016	165,904
Other comprehensive income (i)	<u>(36,017)</u>	<u>(73,811)</u>
Total comprehensive income	<u>273,999</u>	<u>92,093</u>

(i) The net profit and other comprehensive income have taken into account the impacts of both the fair value of the identifiable assets and liabilities upon the acquisition of investment and accounting policies unifying.

7 Segment information

The reportable segments of the Group are the business units that provide different products or service, or operate in different areas. Different businesses or areas require different technologies and marketing strategies, the Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance.

In 2016 and early of 2017, the Group finished a series of overseas merges, such as TLSC and KUKA Group, and carried out integration on the existing business and newly acquired business. On the basis of new management mode, the segment reporting was adjusted accordingly, and the comparative figures were presented in the same way accordingly too. The Group identified four reportable segments as follows:

- Heating & ventilation, as well as air-conditioner
- Consumer appliances
- Robots and automatic system
- Others

Inter-segment transfer prices are measured by reference to selling prices to third parties.

The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

Operating expenses include cost of sales, interest expenses, fee and commission expenses, taxes and surcharges, selling and distribution expenses, general and administrative expenses, financial expenses and asset impairment losses.

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8 Segment reporting

(a) Information on the profit or loss, assets and liabilities of reported segment

Segment information as at and for the year ended 31 December 2017 is as follows:

	Heating & ventilation, as well as air-conditioner	Consumer appliances	Robots and automatic system	Other segments and unallocated	Elimination	Total
Revenue from external customers	107,940,343	102,986,131	27,150,059	3,842,363	-	241,918,896
Inter-segment revenue	1,869,629	416,770	31,254	5,340,194	(7,657,847)	-
Operating expenses	(101,012,749)	(94,204,422)	(28,891,893)	(8,204,099)	7,578,571	(224,734,592)
Segment profit	8,797,223	9,198,479	(1,710,580)	978,458	(79,276)	17,184,304
Other profit or loss						4,670,470
Total profit						21,854,774
Total assets	94,875,871	93,312,430	27,285,063	82,745,760	(50,112,266)	248,106,858
Total liabilities	63,251,582	67,792,173	17,308,941	89,409,279	(72,580,288)	165,181,687
Long-term equity investments in associates	289,324	73,785	125,213	2,145,376	-	2,633,698
Investment income from associates	59,498	1,730	(17,649)	266,437	-	310,016
Increase in non-current assets (excluding available-for-sale financial assets, long-term equity investments and deferred income tax assets)	1,376,838	1,852,293	13,551,833	224,150	-	17,005,114
Asset impairment losses/(reversal)	106,267	2,690	33,293	33,940	92,922	269,112
Depreciation and amortisation expenses	1,580,020	1,859,972	2,832,389	423,496	-	6,695,877

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8 Segment reporting (Cont'd)

(a) Information on the profit or loss, assets and liabilities of reported segment (Cont'd)

Segment information as at and for the year ended 31 December 2016 is as follows:

	Heating & ventilation, as well as air-conditioner	Consumer appliances	Robots and automatic system	Other segments and unallocated	Elimination	Total
Revenue from external customers	76,659,831	80,425,707	-	2,756,163	-	159,841,701
Inter-segment revenue	661,401	189,413	-	4,364,030	(5,214,844)	-
Operating expenses	(70,217,834)	(71,971,037)	-	(6,737,538)	5,117,346	(143,809,063)
Segment profit	7,103,398	8,644,083	-	382,655	(97,498)	16,032,638
Other profit or loss			-			2,881,965
Total profit			-			18,914,603
Total assets	80,023,060	92,300,133	-	70,422,846	(72,145,328)	170,600,711
Total liabilities	53,237,744	65,926,093	-	58,354,393	(75,894,215)	101,624,015
Long-term equity investments in associates	163,145	70,567	-	1,978,020	-	2,211,732
Investment income from associates	(136,721)	(2,068)	-	304,693	-	165,904
Increase in non-current assets (excluding available-for-sale financial assets, long-term equity investments and deferred income tax assets)	2,352,250	6,784,253	-	1,188,620	-	10,325,123
Asset impairment losses/(reversal)	162,468	115,953	-	43,750	58,641	380,812
Depreciation and amortisation expenses	1,621,338	1,637,746	-	318,916	-	3,578,000

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8 Segment reporting (Cont'd)**(b) Geographical area information**

The Group's revenue from external customers domestically and in foreign countries or geographical areas, and the total non-current assets other than available-for-sale financial assets, long-term equity investments, goodwill and deferred income tax assets located domestically and in foreign countries or geographical areas (including Germany, Hong Kong, Macau, Singapore, Japan, Italy and Brazil, etc.) are as follows:

Revenue from external customers	2017	2016
Domestic	137,962,864	95,741,436
Other countries/geographical	103,956,032	64,100,265
	<u>241,918,896</u>	<u>159,841,701</u>
Total non-current assets	31 December 2017	31 December 2016
Domestic	22,684,099	26,982,944
Other countries/geographical	18,181,111	6,835,605
	<u>40,865,210</u>	<u>33,818,549</u>

9 Related parties and significant related party transactions**(1) Information of the parent company****(a) General information of the parent company**

Name of the parent company	Relationship	Place of registration	Nature of business
Midea Holding Co., Ltd.	Controlling shareholder	Shunde District, Foshan	Commercial

The Company's ultimate controlling person is Mr. He Xiangjian.

(b) Registered capital and changes in registered capital of the parent company

	31 December 2017 and 31 December 2016
Midea Holding Co., Ltd.	<u>330,000</u>

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9 Related parties and significant related party transactions (Cont'd)

(1) Information of the parent company (Cont'd)

- (c) The percentages of shareholding and voting rights in the Company held by the parent company

	31 December 2017			31 December 2016		
	Shareholding (%)		Voting rights (%)	Shareholding (%)		Voting rights (%)
	Direct	Indirect		Direct	Indirect	
Midea Holding Co., Ltd.	33.71%	-	33.71%	34.75%	-	34.75%

(2) Information of the Company's subsidiaries

Please refer to Note 6(1) for the information of the Company's main subsidiaries

(3) Information of other related parties

Name of other related parties	Relationship
Guangzhou Wellkey Electrician Material Co., Ltd.	Under common control of the direct relatives of the Company's ultimate controlling shareholders
Anhui Wellkey Electrician Material Co., Ltd.	Under common control of the direct relatives of the Company's ultimate controlling shareholders
Guangdong Infore Electronics Co., Ltd.	Under common control of the direct relatives of the Company's ultimate controlling shareholders
Hefei Orinko Plastics Group.	Under common control of the direct relatives of the Company's ultimate controlling shareholders
Foshan Micro Midea Filter MFG Co., Ltd.	Associates of the Company
Foshan Shunde Rural Commercial Bank Co., Ltd.	Associates of the Company

(4) Information of related party transactions

The following related party transactions are conducted in accordance with normal commercial terms or relevant agreements.

- (a) Purchase of goods:

Related party	Content of related party transaction	Pricing policies of related party	2017	2016
Guangzhou Wellkey Electrician Material Co., Ltd.	Purchase of goods	Agreed price	864,886	586,391
Foshan Micro Midea Filter MFG Co., Ltd.	Purchase of goods	Agreed price	198,499	175,112
Anhui Wellkey Electrician Material Co., Ltd.	Purchase of goods	Agreed price	290,512	272,476
Orinko Plastics Group.	Purchase of goods	Agreed price	463,245	240,082
Guangdong Infore Electronics Co., Ltd.	Purchase of goods	Agreed price	1,538	1,592
			<u>1,818,680</u>	<u>1,275,653</u>

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9 Related parties and significant related party transactions (Cont'd)

(4) Information of related party transactions (Cont'd)

(b) Investment income

	Content	2017	2016
Foshan Shunde Rural Commercial Bank Co., Ltd.	Wealth management product	<u>36,067</u>	<u>20,841</u>

(c) Remuneration of key management

	31 December 2017	31 December 2016
Remuneration of key management	<u>41,330</u>	<u>35,130</u>

(5) Receivables from and payables to related parties

Receivables from related parties:

Items	Related party	31 December 2017	31 December 2016
Cash at bank and on hand	Foshan Shunde Rural Commercial Bank Co., Ltd.	<u>459,297</u>	<u>1,201,929</u>

Payables to related parties:

Items	Related party	31 December 2017	31 December 2016
Accounts payable	Guangzhou Welkey Electrician Material Co., Ltd.	195,860	43,132
	Foshan Micro Midea Filter MFG Co., Ltd.	27,554	15,985
	Huitong New Material Co., Ltd.	16,152	12,269
	Anhui Welkey Electrician Material Co., Ltd.	<u>73,897</u>	<u>55,962</u>
		<u>313,463</u>	<u>127,348</u>

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10 Share-based payment

(1) Share option incentive scheme

- (a) Pursuant to the forth share option incentive plan (the “Forth Share Option Incentive Plan”) approved at the general meeting dated 21 April 2017, the Company granted 98,274 share options with exercise price of RMB32.72 to 1463 employees. Under the circumstance that the Company meets expected performance, 1/3 of the total share options granted will become effective after 1 year, 2 years and 3 years respectively since 12 May 2017.

Determination method for fair value of share options at the grant date

Exercise price of options:	RMB32.72
Effective period of options:	4 years
Current price of underlying shares:	RMB35.75
Estimated fluctuation rate of share price:	38.13%
Estimated dividend rate:	4.40%
Risk-free interest rate within effective period of options:	2.83%

The fair value of the Forth Share Option Incentive Plan calculated pursuant to the above parameters is RMB835,743,000.

- (b) Movements of share options during the year

	2017 (share options in thousands)	2016 (share options in thousands)
Share options issued at beginning of year	250,797	203,595
Share options granted during the current year	98,274	127,290
Share options exercised during the current year	(79,156)	(58,508)
Share options lapsed during the current year	(16,374)	(21,580)
Share options issued at end of year	<u>253,541</u>	<u>250,797</u>

As at 31 December 2017, the maturity date of the First Option Incentive Plan is on 17 February 2019. The residual contractual maturity date of the Second Share Option Incentive Plan is on 27 May 2020. The residual contractual maturity date of the Third Share Option Incentive Plan is on 28 June 2021. The residual contractual maturity date of the Forth Share Option Incentive Plan is on 12 May 2021.

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10 Share-based payment (Cont'd)

(1) Share option incentive scheme (Cont'd)

- (c) Impact of share-based payment transactions on financial position and financial performance.

The total share option expenses recognised in 2017 were RMB677,565,000 (2016: RMB546,914,000). As at 31 December 2017, the balance relating to the option incentive plan and provided for in capital surplus was RMB800,424,000 (31 December 2016: RMB617,238,000).

(2) Restricted share plan

- (a) Pursuant to the restricted share incentive plan (the "2017 Restricted Share Plan") approved by 2016 general meeting on 21 April 2017, the Company granted 23,130,000 restricted shares to 133 employees with exercise price of RMB15.86 and fair value of RMB19.89 per share at the grant date. Under the circumstance that the Company meets expected performance, 1/3 of the total restricted share granted will become tradable after 1 year, 2 years and 3 years respectively since 12 May 2017.

Pursuant to the restricted share incentive plan (the "2017 Restricted Share Plan") approved by twenty-ninth meeting of the second session of the board meeting on 29 December 2017. The Company granted 5,475,000 restricted shares to 55 employees with exercise price of RMB27.99 and fair value of RMB27.44 per share at the grant date. Under the circumstance that the Company meets expected performance, 1/3 of the total restricted share granted will become tradable after 1 year, 2 years and 3 years respectively since 29 December 2017.

- (b) Movement of restricted shares in 2017

	2017 (movement in thousands)
Restricted shares at the beginning of the year	-
Restricted shares granted this year	28,605
Restricted shares deauthorized this year	-
Restricted shares lose efficiency this year	-
Restricted shares at the end of the year	<u>28,605</u>

- (c) Influence of restricted share plan on the financial situation and operation results of the Company

In 2017, total expenses confirmed due to restricted share plan is RMB164,001,000. As at 31 December 2017, the balance in share capital in relation to this plan is RMB142,819,000 (31 December 2016: 0).

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11 Contingencies

The amount in tax disputes involving Brazilian subsidiary with 51% interests held by the Company is about BRL672 million (equivalent to RMB1,328 million) (some cases have lasted for more than 10 years and the above amount includes the principal and interest). As at 31 December 2017, relevant cases are still at court. Original shareholders of Brazilian subsidiary have agreed to compensate the Company according to verdict results of the above tax disputes. The maximum compensation amount is about BRL157 million (equivalent to RMB310 million). With reference to judgements of third-party attorneys, management believes that the probability of losing lawsuits and making compensation is small, and expects no significant risk of debt default, therefore, no provisions are made and appropriate disclosures are made in the financial statements.

12 Commitments

(1) Capital commitments

Capital expenditures contracted for by the Group at the balance sheet date but are not yet necessary to be recognised on the balance sheet are as follows:

	31 December 2017	31 December 2016
Buildings, machinery and equipment	<u>735,928</u>	<u>1,372,700</u>

(2) Operating lease commitments

The Group has no significant operating lease commitments at the balance sheet date.

13 Subsequent events

(1) Significant non-adjusting events

According to the project documentation on 11 January 2018, Welling Holding Limited and Midea international holdings inc. had arranged the plan that Midea international holdings inc. would privatize Welling Holding Limited and repeal the listing status of Welling Holding Limited according to the No. 673 of Companies Ordinance. The plan will come into effect on 15 February 2018, and listed shares of Welling Holding Limited at SEHK have been repealed officially at 9 a.m. on 20 February 2018.

(2) Profit distribution

On 29 March 2018, on the basis of the 6,584,022,574 shares of the Company, the Board of Directors proposed a distribution of cash dividends of approximately RMB7,900,827,089 at RMB1.2 per share (including tax). The distribution of cash dividends proposed subsequent to the balance sheet date is not recognised as liabilities at the balance sheet date.

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14 Finance lease

The future lease payments of fixed assets held under finance leases are as follows:

	31 December 2017
Within one year	135,972
Over one year	<u>250,493</u>
	<u>386,465</u>

As at 31 December 2017, the unrecognised financing charge amounts to RMB10,459,000.

15 Financial risk

The Group is exposed to various financial risks in the ordinary course of business, mainly including:

- Foreign exchange risk
- Interest rate risk
- Credit risk
- Liquidity risk

The following mainly relates to the above risk exposures and relevant causes, objectives, policies and process of risk management and method of risk measurement, etc..

The objective of the Group's risk management is to seek balance between risk and income, minimising the adverse impact of financial risks on the Group's financial performance. Pursuant to the risk management objective, the Group has made risk management policies to identify and analyse the risks it is exposed to and set appropriate risk resistant level and design relevant internal control procedures to monitor the Group's risk level. The Group reviews regularly these risk management policies and relevant internal control systems to adapt to changes in market condition or its operating activities.

(1) Market risk

(a) Foreign currency risk

The Group mainly operates in Mainland China, Europe, America, Asia and Africa for the manufacturing, sales, investments and financing activities. Any foreign currency denominated monetary assets and liabilities other than in RMB would subject the Group to foreign exchange exposure.

The Group's finance department at its headquarters has a professional team to manage foreign exchange risk, with approach of the natural hedge for settling currencies, signing forward foreign exchange hedging contracts and controll the scale of foreign currency assets and liabilities, to minimize foreign exchange risk, and to reduce the impact of exchange rate fluctuations on business performance.

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15 Financial risk (Cont'd)

(1) Market risk (Cont'd)

(b) Interest rate risk

The Group's interest rate risk arises from interest bearing borrowings including long-term borrowings and debentures payable. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2017, the Group does not have long-term interest bearing borrowings at floating rates (31 December 2016: RMB71,560,000) (Note 4(25)).

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk.

(2) Credit risk

Credit risk is managed on the grouping basis. Credit risk mainly arise from cash at bank, deposits with central bank, deposits with banks and other financial institutions, notes receivable, accounts receivable, interest receivable, loans and advances, other receivables and other structural deposits in current assets.

The Group expects that there is no significant credit risk associated with cash at bank, deposits with central bank and deposits with banks and other financial institutions since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on notes receivable, accounts receivable, interest receivable, loans and advances, other receivables and other structural deposits in current assets. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

(3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements. On the balance sheet date, the sum amount of cash and cash equivalents, paper assets, deposit of capital discounted, financial funds recorded in other current assets as well as available-for-sale financial assets and other monetary assets was RMB 109,654,798,000.

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15 Financial risk (Cont'd)

(3) Liquidity risk (Cont'd)

The financial liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash follows:

	31 December 2017				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Short-term borrowings (including interest)	2,602,067	-	-	-	2,602,067
Notes payable	25,207,785	-	-	-	25,207,785
Accounts payable	35,144,777	-	-	-	35,144,777
Interest payable	94,801	-	-	-	94,801
Dividends payable	95,317	-	-	-	95,317
Other payables	3,170,405	-	-	-	3,170,405
Customer deposits and deposits from banks and other financial institutions	108,926	-	-	-	108,926
Derivative financial liabilities	90,432	-	-	-	90,432
Other current liabilities	9,017,975	-	-	-	9,017,975
Debentures payables (including interest)	108,631	4,682,571	-	-	4,791,202
Long-term borrowings (including interest)	306,723	2,415,508	31,643,935	2,087	34,368,253
Other non-current liabilities	-	189,404	138,643	666,012	994,059
	<u>75,947,839</u>	<u>7,287,483</u>	<u>31,782,578</u>	<u>668,099</u>	<u>115,685,999</u>
	31 December 2016				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Short-term borrowings (including interest)	3,104,224	-	-	-	3,104,224
Notes payable	18,484,939	-	-	-	18,484,939
Accounts payable	25,356,960	-	-	-	25,356,960
Interest payable	21,343	-	-	-	21,343
Dividends payable	105,641	-	-	-	105,641
Other payables	1,571,422	-	-	-	1,571,422
Customer deposits and deposits from banks and other financial institutions	36,708	-	-	-	36,708
Derivative financial liabilities	89,838	-	-	-	89,838
Other current liabilities	8,342,926	-	-	-	8,342,926
Debentures payables (including interest)	115,328	115,328	4,913,564	-	5,144,220
Long-term borrowings (including interest)	60,648	55,613	2,187,389	584	2,304,234
Other non-current liabilities	-	-	222,140	666,012	888,152
	<u>57,289,977</u>	<u>170,941</u>	<u>7,323,093</u>	<u>666,596</u>	<u>65,450,607</u>

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16 Fair value estimates

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

(1) Assets and liabilities measured at fair value on a recurring basis

As at 31 December 2017, the assets and liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss -				
Derivative financial assets	-	353,327	-	353,327
Other current assets – hedging instrument	-	360,858	-	360,858
Available-for-sale financial assets -				
Other current assets – wealth management products	-	-	22,094,715	22,094,715
Available-for-sale financial assets	38,460	-	80,251	118,711
Total assets	38,460	714,185	22,174,966	22,927,611
Financial liabilities at fair value through profit or loss -				
Derivative financial liabilities	-	90,432	-	90,432
Other current liabilities – Hedging instrument	-	1,877	-	1,877
Total liabilities	-	92,309	-	92,309

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16 Fair value estimates (Cont'd)

(1) Assets and liabilities measured at fair value on a recurring basis (Cont'd)

As at 31 December 2016, the assets and liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss -				
Derivative financial assets	-	412,813	-	412,813
Other current assets – hedging instrument	-	11,350	-	11,350
Available-for-sale financial assets -				
Other current assets – wealth management products	-	-	26,267,067	26,267,067
Other non-current assets - wealth management products and asset management plans			3,842,000	3,842,000
Available-for-sale financial assets	3,518,693	-	-	3,518,693
Total assets	3,518,693	424,163	30,109,067	34,051,923
Financial liabilities at fair value through profit or loss -				
Derivative financial liabilities	-	89,838	-	89,838
Other current liabilities – Hedging instrument	-	6,264	-	6,264
Total liabilities	-	96,102	-	96,102

The Group takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. There was no significant transfer of fair value measurement level of the above financial instruments.

The fair value of financial instruments traded in an active market is determined at the quoted market price; and the fair value of those not traded in an active market is determined by the Group using valuation technique. The valuation models used mainly primarily comprise discounted cash flow model and market comparable corporate model. Inputs of valuation technique mainly comprise risk-free interest rate, estimated interest rate and estimated annual yield.

There was no change in the valuation technique for the fair value of the Group's financial instruments in current year.

The changes in Level 3 financial assets are analysed below:

	Available-for-sale financial assets -Available-for-sale equity instruments
1 January 2017	30,109,067
Increase	26,513,177
Decrease	(35,571,427)
Total gains of current period	
Investment income recognised in the income statement	975,534
Gains recognised in other comprehensive income	148,615
31 December 2017	22,174,966

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16 Fair value estimates (Cont'd)

(1) Assets and liabilities measured at fair value on a recurring basis (Cont'd)

	Available-for-sale financial assets -Available-for-sale equity instruments
1 January 2016	18,136,831
Increase	36,358,900
Decrease	(25,706,072)
Total gains of current period	
Investment income recognised in the income statement	1,270,941
Gains recognised in other comprehensive income	48,467
31 December 2016	<u>30,109,067</u>

Information about the Level 3 fair value measurement is as follows:

	Fair value at 31 December 2017	Valuation technique	Inputs			
			Name	Range	Relationship with fair value	Observable/ unobservable
Available-for-sale financial assets -						
Available-for-sale financial assets	80,251	Discounted cash flows	Estimated annual yield	2.2%~7.2%	Positive	Unobservable
Other current assets	<u>22,094,715</u>	Discounted cash flows	Estimated annual yield	2.2%~7.2%	Positive	Unobservable
Total	<u>22,174,966</u>					

Assets and liabilities subject to level 2 fair value measurement are mainly forward exchange contracts and are evaluated by income approach.

(2) Assets and liabilities not measured at fair value but disclosed

The Group's financial assets and financial liabilities measured at amortised cost mainly include: cash at bank and on hand, deposits with central bank, deposits with banks and other financial institutions, notes receivable, accounts receivable, loans and advances, other receivables, other current assets (excluding those mentioned in Note 16(1)), accounts payable, notes payable, short-term borrowings, long-term borrowings, customer deposits and deposits from banks and other financial institutions, financial assets sold under repurchase agreements, interest payable and other current liabilities, etc..

Carrying amounts of the Group's financial assets and financial liabilities as at 31 December 2017 and 31 December 2016 approximated their fair value.

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17 Capital management

The Group's capital management policies aim to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce debts.

The Group is not subject to external mandatory capital requirements, and monitors capital structure on the basis of gearing ratio (total assets total liabilities).

As at 31 December 2017 and 31 December 2016, the Group's gearing ratio is as follows:

	31 December 2017	31 December 2016
Total liabilities	165,181,687	101,624,015
Total assets	248,106,858	170,600,711
Gearing ratio	<u>66.58%</u>	<u>59.57%</u>

18 Notes to the parent company's financial statements

(1) Other receivables

	31 December 2017	31 December 2016
Current accounts	8,316,708	12,584,623
Other	<u>87,645</u>	<u>60,707</u>
	8,404,353	12,645,330
Less: Provision for bad debts	<u>(789)</u>	<u>(738)</u>
	<u>8,403,564</u>	<u>12,644,592</u>

(a) Other receivables are analysed by ageing as follows:

	31 December 2017	31 December 2016
Within 1 year (inclusive)	5,150,753	6,088,475
1 to 2 years (inclusive)	<u>3,253,600</u>	<u>6,556,855</u>
	8,404,353	12,645,330
Less: Provision for bad debts	<u>(789)</u>	<u>(738)</u>
	<u>8,403,564</u>	<u>12,644,592</u>

(b) Other receivables are analysed by categories as follows:

	31 December 2017				31 December 2016			
	Carrying amount		Provision for bad debts		Carrying amount		Provision for bad debts	
	Amount	% of total balance	Amount	Ratio	Amount	% of total balance	Amount	Ratio
Provision for bad debts provided on the individual basis	8,392,449	99.86%	-	-	12,633,325	99.91%	-	-
Provision for bad debts provided on the grouping basis	<u>11,904</u>	<u>0.14%</u>	<u>789</u>	<u>6.63%</u>	<u>12,005</u>	<u>0.09%</u>	<u>738</u>	<u>6.15%</u>
	<u>8,404,353</u>	<u>100.00%</u>	<u>789</u>	<u>0.01%</u>	<u>12,645,330</u>	<u>100.00%</u>	<u>738</u>	<u>0.01%</u>

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18 Notes to the parent company's financial statements (Cont'd)

(1) Other receivables (Cont'd)

(c) Other receivables that the related provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

	31 December 2017			31 December 2016		
	Carrying amount	Provision for bad debts		Carrying amount	Provision for bad debts	
	Amount	Amount	Ratio	Amount	Amount	Ratio
Within 1 year	8,020	401	5.00%	9,245	462	5.00%
1 to 2 years	3,884	388	10.00%	2,760	276	10.00%
	<u>11,904</u>	<u>789</u>	<u>6.63%</u>	<u>12,005</u>	<u>738</u>	<u>6.15%</u>

(d) As at 31 December 2017, other receivables from the top five debtors are analysed as below:

	Nature	Balance	Ageing	% of total other receivables	Provision for bad debts
Foshan Shunde Home Appliance Industrial Co., Ltd.	Current accounts	4,530,000	Within 1 year	54%	-
Midea International Holding Co., Ltd.	Current	3,248,660	1-2 years	39%	-
Shenzhen Qianhai Midea Assets Management Co., Ltd.	Current accounts	320,000	Within 1 year	4%	-
Guangdong Midea Refrigeration Equipment Co., Ltd.	Current accounts	131,168	Within 1 year	2%	-
China Securities Depository and Clearing Corporation Limited Shenzhen Branch	Current accounts	64,760	Within 1 year	-	-
		<u>8,294,588</u>		<u>99%</u>	<u>-</u>

(2) Long-term equity investments

Long-term equity investments are classified as below:

	31 December 2017	31 December 2016
Subsidiaries (a)	23,099,672	21,716,662
Associates (b)	<u>1,440,929</u>	<u>1,342,318</u>
	24,540,601	23,058,980
Less: Provision for impairment	-	-
	<u>24,540,601</u>	<u>23,058,980</u>

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

18 Notes to the parent company's financial statements (Cont'd)

(2) Long-term equity investments (Cont'd)

(a) Subsidiaries

	31 December 2016	Movements for the current year					31 December 2017	Provision for impairment	Cash dividends declared in current year
		Additional investment	Movements due to share option	Reduced investment	Provision for impairment	Others			
Wuxi Little Swan Company Limited	2,699,321	-	54,919	-	-	-	2,754,240	-	179,211
Midea Group Finance Co., Ltd.	1,431,886	-	10,593	-	-	-	1,442,479	-	312,545
Hefei Midea Heating & Ventilation Equipment Co., Ltd.	1,052,268	-	6,619	-	-	-	1,058,887	-	872,573
Hubei Midea Refrigerator Co., Ltd.	835,994	-	3,755	-	-	-	839,749	-	218,934
Anhui GMCC Precision Manufacturing Co., Ltd.	808,032	-	9,234	-	-	-	817,266	-	336,128
Foshan Shunde Home Appliance Industrial Co., Ltd.	2,449,000	500,000	-	-	-	-	2,949,000	-	-
Wuhu Meizhi Air-Conditioning Equipment Co., Ltd.	736,448	-	9,393	-	-	-	745,841	-	1,182,501
Guangdong Midea Refrigeration Equipment Co., Ltd.	955,245	-	225,418	-	-	-	1,180,664	-	446,123
Ander Zhilian technology Co., Ltd.	474,391	-	4,637	-	-	-	479,028	-	168,513
Guangdong Midea Commercial Air Conditioning Equipment Co., Ltd.	569,430	-	-	-	-	-	569,430	-	22,162
Ningbo Midea United Material Supply Co., Ltd.	484,506	-	2,232	-	-	-	486,738	-	486,961
Guangzhou Hualing Refrigeration Equipment Co., Ltd.	496,014	-	7,748	-	-	-	503,762	-	133,550
Guangzhou Midea Hualing Refrigerator Co., Ltd.	423,948	-	2,290	-	-	-	426,238	-	90,069
Hefei Midea Refrigerator Co., Ltd.	453,337	-	30,975	-	-	-	484,312	-	-
Guangdong Midea Wuhu Refrigeration Equipment Co., Ltd.	350,092	-	1,949	-	-	-	352,041	-	88,740
Anhui GMCC Refrigeration Equipment Co., Ltd.	316,871	-	5,201	-	-	-	322,072	-	-
Guangdong Midea Heating & Ventilation Equipment Co., Ltd.	344,730	-	58,099	-	-	-	402,829	-	736,698
Midea Electric Investment (BVI) Limited	236,543	-	-	-	-	-	236,543	-	-
Midea International Holding Co., Ltd.	176,974	-	-	-	-	-	176,974	-	-

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

18 Notes to the parent company's financial statements (Cont'd)

(2) Long-term equity investments (Cont'd)

(a) Subsidiaries (Cont'd)

	31 December 2016	Movements for the current year					31 December 2017	Provision for impairment	Cash dividends declared in current year
		Additional investment	Movements due to share option	Reduced investment	Provision for impairment	Others			
Guangzhou Hualing Refrigeration Equipment Co., Ltd.	136,745	-	-	-	-	-	136,745	-	-
Foshan Midea Carrier Refrigeration Equipment Co., Ltd.	128,733	-	4,074	-	-	-	132,807	-	113,373
Hefei Midea Material Supplies Co., Ltd.	117,000	-	-	-	-	-	117,000	-	58
Midea Group E-commerce Co., Ltd.	115,984	-	15,372	-	-	-	131,356	-	-
Guangdong GMCC Refrigeration Equipment Co., Ltd.	135,332	-	29,308	-	-	-	164,640	-	73,057
Hefei Hualing Co., Ltd.	107,996	-	18,290	-	-	-	126,286	-	212,513
Midea Wuhan Refrigeration Equipments Co., Ltd.	79,331	-	9,944	-	-	-	89,275	-	189,989
Foshan City Midea Material Supplies Co., Ltd.	54,000	-	-	-	-	-	54,000	-	5,204
Zhejiang GMCC Compressor Co., Ltd.	52,820	-	3,482	-	-	-	56,302	-	380,457
Chongqing Midea Refrigeration Equipment Co., Ltd.	59,614	-	6,114	-	-	-	65,728	-	93,914
Wuhu Little Swan Refrigeration Equipment Co., Ltd.	47,500	-	-	-	-	-	47,500	-	-
Guangdong GMCC Precision Manufacturing Co., Ltd.	38,438	-	276	-	-	-	38,714	-	34,928
Foshan City Midea Air-conditioners Industrial Investment Co., Ltd.	36,062	-	-	-	-	-	36,062	-	-
Chongqing Midea General Refrigeration Equipment Co., Ltd.	40,588	-	6,518	-	-	-	47,106	-	-
Ningbo Meimei Jiayuan Electric Service Co., Ltd.	-	-	-	-	-	-	-	-	-
Foshan City Shunde District Midea Electronic Technology Co., Ltd.	16,303	-	3,224	-	-	-	19,527	-	55,336
Midea Holdings (BVI) Ltd.	82	-	-	-	-	-	82	-	-
Handan Midea Refrigeration Equipment Co., Ltd.	131,079	-	6,107	-	-	-	137,186	-	167,541
Midea network information service (shenzhen) Co., Ltd.	100,213	-	106	(100,319)	-	-	-	-	41

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

18 Notes to the parent company's financial statements (Cont'd)

(2) Long-term equity investments (Cont'd)

(a) Subsidiaries (Cont'd)

	31 December 2016	Movements for the current year					31 December 2017	Provision for impairme	Cash dividends declared in current year
		Additional investment	Movements due to share	Reduced investment	Provision for impairment	Others			
Midea Innovation Investment Co., Ltd.	35,000	-	-	-	-	-	35,000	-	-
Guangdong Midea Microwave Electric Manufacturing Co., Ltd.	1,880,041	-	-	-	-	-	1,880,041	-	921,936
Wuhu Midea Kitchen Appliances Manufacturing Co., Ltd.	20,000	-	1,706	-	-	-	21,706	-	5,098
Jiangsu Midea Cleaning Appliance Company Limited	96,900	-	6,514	-	-	-	103,414	-	104,829
Guangdong Witt Vacuum Electronics Manufacturing Co., Ltd.	196,427	-	1,720	-	-	-	198,147	-	104,603
Guangdong Midea Life Electric Appliance Manufacturing Co., Ltd.	1,003,673	-	30,747	-	-	-	1,034,420	-	-
Wuhu Midea Electric Appliance Manufacturing Co., Ltd.	56,223	-	-	-	-	-	56,223	-	89,832
Foshan Shunde Water machine manufacturing Co., Ltd.	36,658	-	6,807	-	-	-	43,465	-	-
Foshan Midea Qinghu purification equipment Co., Ltd.	59,386	-	6,266	-	-	-	65,652	-	12,000
Wuhan Midea electric appliance manufacturing Co., Ltd.	80,000	-	-	-	-	-	80,000	-	-
Guangdong Midea Environmental Electric Appliance Manufacturing Co., Ltd.	307,689	-	34,544	-	-	-	342,233	-	222,846
Foshan Shunde Midea Washing Appliance Manufacturing Co., Ltd.	414,887	-	12,485	-	-	-	427,372	-	297,734
Guangdong Midea Kitchen & Bathroom Electric Manufacturing	80,664	-	7,596	-	-	-	88,260	-	34,295
Wuhu Midea Kitchen & Bathroom Electric Manufacturing	79,319	-	24,324	-	-	-	103,643	-	611,481
Jiangxi Midea Guiya lighting Co., Ltd.	164,830	-	5,634	-	-	-	170,464	-	-
Guangdong Midea Household Appliances Import and Export Trade Co., Ltd.	53,207	-	-	-	-	-	53,207	-	-
JV MIDEA-HORIZONT Co., Ltd.	41,357	-	-	-	-	-	41,357	-	853

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
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(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

18 Notes to the parent company's financial statements (Cont'd)

(2) Long-term equity investments (Cont'd)

(a) Subsidiaries (Cont'd)

	Movements for the current year						31 December 2017	Provision for impairment	Cash dividends declared in current year
	31 December 2016	Additional investment	Movements due to share option	Reduced investment	Provision for impairment	Others			
Guangdong MIDEA-YASKAWA Service Robotics Ltd.	12,020	12,020	-	-	-	-	24,040	-	-
Foshan Shunde District Midea Petty Loan Co., Ltd.	68,344	-	1,422	-	-	-	69,766	-	-
Midea Petty Loan Co., Ltd.	55,173	-	208	-	-	-	55,381	-	-
Midea Robotics Industry Development Co., Ltd.	7,000	-	-	-	-	-	7,000	-	-
Wuhu Midea Household Consultation Service Co., Ltd.	101,542	-	106	-	-	-	101,648	-	-
Hefei Midea Washing Machine Co., Ltd.	78,042	-	6,853	-	-	-	84,895	-	-
Chinese Refrigerator Industry Co., Ltd.	2,430	-	-	-	-	-	2,430	-	16,241
Guangdong Midea Advanced Technologies Co., Ltd.	10,000	40,000	-	-	-	-	50,000	-	-
Foshan Shunde Meiyong Enterprise Management Services Co., Ltd.	13,000	-	-	-	-	-	13,000	-	-
Midea Smart Home Technology Co., Ltd.	20,000	-	-	-	-	-	20,000	-	-
Midea Finance Holding (Shenzhen) Co., Ltd.	50,000	-	-	-	-	-	50,000	-	-
Guangdong Midea Electric Co., Ltd.	-	1,000	-	-	-	-	1,000	-	-
Guangdong Midea Intelligent Robotics Co., Ltd.	-	150,000	-	-	-	-	150,000	-	-
Guangdong Midea Advanced Technologies Co., Ltd.	-	50,000	-	-	-	-	50,000	-	-
Guangdong Midea environmental technology Co., Ltd.	-	47,500	-	-	-	-	47,500	-	-
Total	21,716,662	800,520	682,809	(100,319)	-	-	23,099,672	-	9,022,867

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

18 Notes to the parent company's financial statements (Cont'd)

(2) Long-term equity investments (Cont'd)

(b) Associates

Investments in associates are mainly the investments in Foshan Shunde Rural Commercial bank Co., Ltd., Misr Refrigeration And Air Conditioning Manufacturing Co. and Hefei Royalstar Motor Co., Ltd. and other companies.

(3) Revenue

Revenue mainly comprises other operating income including the brand royalty income, rental income and management fee income, etc. obtained by the parent company from the subsidiaries.

(4) Investment income

	2017	2016
Income from long-term equity investment under cost method	9,022,867	8,586,229
Investment income from wealth management products purchased from financial institutions	980,845	1,031,257
Income from long-term equity investment under equity method	209,908	247,016
Losses on disposal of long-term equity investment	783	(11,144)
	<u>10,214,403</u>	<u>9,853,358</u>

There is no significant restriction on repatriation of the Company's investment income.

MIDEA GROUP CO., LTD.**SUPPLEMENTARY INFORMATION**

(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

1 Details of non-recurring profit or loss

	2017	2016
Profit or loss on disposal of non-current assets	1,363,041	(134,258)
Government grants recognised in profit or loss for the current period	1,332,301	1,330,065
Profit or loss on entrusted investments or assets under entrusted management	-	-
Enterprise restructuring expenses including staff resettlement expenses and integration expenses	-	-
Income arising from investment cost of enterprises' acquisition of subsidiaries, associates and joint venture which is less than the share of the fair value of the investee's identifiable net assets at the time of acquisition of investment (negative goodwill)	-	-
Gains or losses on changes in fair value of financial assets and liabilities held for trading and investment income arising from disposal of financial assets and liabilities held for trading and available-for-sale financial assets other than effective hedging businesses relevant to normal course of business of the company	77,484	(25,408)
Reversal of impairment provision for receivables individually assessed for impairment	-	-
Others	<u>(238,243)</u>	<u>246,361</u>
	2,534,583	1,416,760
Less: Income tax effect	(702,139)	(272,925)
Minority interests effect (after tax)	<u>(162,858)</u>	<u>47,656</u>
	<u>1,669,586</u>	<u>1,191,491</u>

Basis of preparation of details of non-recurring profit or loss:

Pursuant to the requirements of the "Explanatory Announcement for Information Disclosure of Companies Offering Securities to the Public No.1 - Non-recurring Profit or Loss (2008)" issued by China Securities Regulatory Commission ("CSRC"), non-recurring profit or loss refers to profit or loss arising from transactions and events that are not directly related to the Company's normal course of business and that are related to the Company's normal course of business but have impact on the right judgement of the Company's operation performance and profitability of users of the financial statements due to special nature and occasional occurrence.

MIDEA GROUP CO., LTD.**SUPPLEMENTARY INFORMATION**

(All amounts in RMB'000 Yuan unless otherwise stated)

[English translation for reference only]

2 Return on net asset and earnings per share

The Group's return on net asset and earnings per share calculated pursuant to the "Compilation Rules for Information Disclosure of Companies Offering Securities to the Public No.9 - Calculation and Disclosure of Return on Net Asset and Earnings per Share (revised in 2010)" issued by CSRC and relevant requirements of accounting standards are as follows:

	Weighted average Return on net asset (%)		Earnings per share (RMB/share)			
	2017	2016	Basic earnings per share		Diluted earnings per share	
			2017	2016	2017	2016
Net profit attributable to shareholders of the parent company	25.88%	26.88%	2.66	2.29	2.63	2.28
Net profit attributable to shareholders of the parent company net of non-recurring profit or loss	<u>23.38%</u>	<u>24.70%</u>	<u>2.41</u>	<u>2.1</u>	<u>2.38</u>	<u>2.09</u>

Section XI Documents Available for Reference

1. The original of *The 2017 Annual Report of Midea Group Co., Ltd.* signed by the legal representative;
2. The financial statements signed and stamped by the legal representative, the Chief Financial Officer and the accounting supervisor;
3. The original of the auditor's report with the seal of the accounting firm, and signed and stamped by CPAs;
4. The originals of all company documents and announcements that are disclosed to the public via newspaper designated for information disclosure during the Reporting Period; and
5. The electronic version of *The 2017 Annual Report* that is released on <http://www.cninfo.com.cn>.

Midea Group Co., Ltd.

Legal Representative: Fang Hongbo

31 March 2018