

Midea Group Co., Ltd.

Semi-Annual Report 2018



August 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 report.

The Company plans not to distribute cash dividends or bonus shares or convert capital reserves into share capital for the first half of 2018.

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, accurate and complete.

The financial statements in this report are unaudited by a CPAs firm.

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.

Contents

| | |
|---|------------|
| SECTION I IMPORTANT STATEMENTS, CONTENTS AND DEFINITIONS | 1 |
| SECTION II COMPANY PROFILE AND KEY FINANCIAL RESULTS | 4 |
| SECTION III BUSINESS PROFILE | 8 |
| SECTION IV PERFORMANCE DISCUSSION AND ANALYSIS | 13 |
| SECTION V SIGNIFICANT EVENTS..... | 38 |
| SECTION VI CHANGES IN SHARES AND INFORMATION ABOUT SHAREHOLDERS | 64 |
| SECTION VII PREFERENCE SHARES | 70 |
| SECTION VIII INFORMATION ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT..... | 71 |
| SECTION IX CORPORATE BONDS..... | 72 |
| SECTION X FINANCIAL REPORT | 73 |
| SECTION XI DOCUMENTS AVAILABLE FOR REFERENCE | 163 |

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 |
| Reporting Period | 1 January 2018 to 30 June 2018 |

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 | | |

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. Other Information

3.1 Ways to Contact the Company

Changes to the registered address, office address and their zip codes, website address and email address of the Company in the Reporting Period:

Applicable N/A

No such changes in the Reporting Period. The said information can be found in the 2017 Annual Report.

3.2 Information Disclosure and Place Where the Semi-Annual Report Is Kept

Changes to the media for information disclosure and the place where materials carrying disclosed information such as this Report were kept in the Reporting Period:

Applicable N/A

The newspapers designated by the Company for information disclosure, the website designated by the CSRC for disclosing this Report and the place where materials carrying disclosed information such as this Report were kept did not change in the Reporting Period. The said information can be found in the 2017 Annual Report.

3.3 Other Information

Changes to other information in the Reporting Period:

Applicable N/A

4. Key Accounting Data and Financial Indicators

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

Yes No

| | H1 2018 | H1 2017 | Change (%) |
|---|--------------|------------------|------------|
| Operating revenues (RMB'000) | 142,623,837 | 124,450,065 | 14.60% |
| Net profits attributable to shareholders of the Company (RMB'000) | 12,936,846 | 10,811,322 | 19.66% |
| Net profits attributable to shareholders of the Company before non-recurring gains and losses (RMB'000) | 12,500,253 | 9,891,766 | 26.37% |
| Net cash flow from operating activities (RMB'000) | 7,613,688 | 13,895,932 | -45.21% |
| Basic earnings per share (RMB/share) | 1.97 | 1.67 | 17.96% |
| Diluted earnings per share (RMB/share) | 1.94 | 1.66 | 16.87% |
| Weighted average ROE (%) | 16.43% | 16.46% | -0.03% |
| | 30 June 2018 | 31 December 2017 | Change (%) |
| Total assets (RMB'000) | 250,997,801 | 248,106,858 | 1.17% |
| Net assets attributable to shareholders of the Company (RMB'000) | 79,301,793 | 73,737,437 | 7.55% |

Note: The decline in net cash flow from operating activities was primarily driven by the Company's move in 2018 to invigorate capital and put it to more efficient use through more financing support for the upstream and downstream links of the Company's industrial chain. This move has promoted common development of the industrial chain and generated income for the Company.

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) | 6,603,643,690 |
| Fully diluted earnings per share based on the latest share capital above (RMB/share) | 1.96 |

Note: The Company's total share capital on 30 August 2018 was 6,642,976,396 shares. Minus the repurchased 39,332,706 shares up to that day, the number was 6,603,643,690 shares.

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

5.1 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.

5.2 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.

5.3 Reasons for the differences

Applicable N/A

6. Non-recurring Profits and Losses

RMB'000

| Item | H1 2018 | Note |
|--|---------|------|
| Profit or loss from disposal of non-current assets | 266,895 | |

| | | |
|---|-----------|----|
| 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 | -521,715 | |
| Other | 1,065,178 | |
| Less: Corporate income tax | 253,535 | |
| Minority interests (after tax) | 120,230 | |
| Total | 436,593 | -- |

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

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 Guangdong Midea Smart Robots Co., Ltd.; and integrated smart supply chain solutions with Annto Logistics Technology Co., Ltd. as the service platform.

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 over 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 15 overseas manufacturing bases, over 35,000 overseas employees, 24 operating agencies, covering more than 200 countries and regions with 22 settlement currencies. Additionally, it is the majority shareholder of KUKA, a Germany-based world-leading company in robotics and automation, with a stake of approximately 95%.

Midea ranks No. 323 on the *2018 Fortune Global 500* list, a big step forward compared to No. 450 in 2017, and ranks No. 32 on the *2018 Fortune China 500* list, the highest-ranking among home appliance industry in the country. On the *Forbes 2018 Global 2000* list, Midea ranks No. 245, outrunning a significant number of 90 compared to last year. In addition, Midea ranks No. 26 on the *2018 BrandZ™ Top 100 Most Valuable Chinese Brands* list, topping the domestic home appliance brands with its brand value up 40%. Also, Midea takes the lead among domestic home appliance

makers by ranking No. 244 and No. 41 respectively on the *Top 500 Most Valuable Brands* list and the *Top 100 Most Valuable Tech Brands* list released by Brand Finance, a British brand assessment institution. Meanwhile, on the second “China Brand Day”, Midea is among the *Most Popular Chinese Brands* list announced by *People’s Daily*.

2. Significant Changes in the Main Assets

2.1 Significant changes in the main assets

| Main assets | Reasons for any significant change |
|--------------------------|---|
| Construction in progress | Up 77.61% YoY, primarily driven by the new construction in progress of KUKA |

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 manufacturing technologies 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, customer 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 500. 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 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 improving and cost reducing that its overseas competitors are unable to achieve. 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 15 overseas manufacturing bases and dozens of overseas operating agencies. 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. In this way, the global competitiveness of Midea is increasing 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. Currently, the Company has already covered the markets at all tiers. 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 RMB25 billion in the first half of 2018, up 33% year-on-year. Market share of the Company exceeds 20% and the ratio is growing steadily, in addition to maintaining the highest sales on China's mainstream e-commerce platforms such as JD.com, Tmall and Suning.com in various home appliance categories.

Annto Logistics Technology Co., Ltd. (Annto), a subsidiary of Midea, concentrates on its core business of "nationwide direct distribution". Supported by its self-developed information technology system and nationwide distribution network, Annto is able to provide fully visualized direct distribution services covering every corner of the country. It is committed to becoming the customer's most trustworthy logistics partner. Annto has established an efficient nationwide warehouses and direct distribution network with its warehouse network as the basis, which covers 118 logistics centers nationwide and is able to offer fast delivery including 24 hours for delivery in the same city around the country and 48 hours for city-to-city (or town-to-town) delivery.

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, driven by 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 and 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, all with rich industrial and professional experience, deep understanding of the home appliance industry throughout both China and the world, and accurate understanding of the industry's functioning environment and corporate operations management. The Company's advantages in such 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.

At present, the Company has launched five stock option incentive schemes, two restricted share incentive schemes and five "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

1.1 Industry Overview

A. Home Appliance Industry

According to the data published by the Ministry of Industry and Information Technology (MIIT), in the first half of this year, the main business revenue in the household appliances industry was RMB742.25 billion, and the accumulated growth year on year was 13.1%; the gross profit was RMB52.29 billion, and the accumulated growth year on year was 15.9%.

According to the *Semi-Annual Report of 2018 China's Household Electrical Appliance Industry* published by the China Household Electric Appliance Research Institute (CHEARI) and the National Household Electrical Appliance Industry Information Center together, in the first half of this year, the differentiation in the domestic market of household appliances was quite apparent. The market performances of different categories were imbalanced, products including air-conditioners, refrigerators, and washing machines basically maintained a steady growth, but with a decline in growth rate, and the overall performance of kitchen appliances was not good enough.

In the first half of 2018, the retail sales in the air-conditioning market was 38.63 million units, generating RMB132.1 billion, and the growth year on year was 15.8% and 18.9% respectively. Among those, the online market stood out, and the volume and revenue growth of retail sales year on year was 44.9% and 54.8% respectively. Regarding to product performances, the proportion of high-end products which are smart, comfortable, and energy-efficient increased, the commercial air-conditioners and fresh air products grew rapidly; and additional functions including self-cleaning, formaldehyde and PM2.5 removal have been gradually accepted by consumers. Consumer demand has developed from rigid demand of temperature control to health-friendly functions, clients has developed from all-age groups to target groups including children, pregnant women and the elderly, and thus health awareness has become a substantial driving force for industry growth.

In the first half of 2018, the retail sales in the laundry appliance market was 19.6 million units, generating RMB34.9 billion, and the growth year on year was 4% and 11.8% respectively. Analyzing from the type

of products, the volume and revenue growth of retail sales of top-loading washing machines was 0.6% and 2.8% year on year respectively. Meanwhile, the volume and revenue growth of retail sales of front-loading washing machines was 13.5% and 18.3% year on year respectively. There was an evident upgrading trend in the laundry appliance industry. Front-loading products, high-capacity products, health products and smart products have already become the main trend of market development. In the first 6 months, the share of the retail sales volume of front-loading products reached nearly 50%, in which the washer-dryer combo machine was 15.8%, pushing front-loading washer production forward.

In the first half of 2018, the retail sales in the refrigerator market was 16.58 million units, generating RMB46.5 billion, and the growth year on year was -1.3% and 8.3% respectively. Product upgrade happens more frequently in the refrigerator market. In the first six months, the online sales of side-by-side refrigerators exceeded three-door products, becoming the best-seller in this market, and the share of retail sales was 29.7%. Under the background of great upgrade in consumption, the refrigerator manufacturers are laying more emphasis on fresh-keeping technique, transforming the smart-only refrigerator market to a high-end, high-quality, and high-level smart market.

The first half of 2018 witnessed the first negative growth of the kitchen appliances industry. According to the omnichannel summarization of data from All View Cloud (AVC), the retail sales in this period was RMB31.1 billion, decreasing 1.6% compared to the same period of last year. Analyzing from the development cycle of this industry, after experiencing several-decades growth in popularity at a medium and high speed, it is slowly developing towards “popularity plus replacement”. During this time, market competition became fiercer, and the industry was entering into a more rapid reshuffle period. Analyzing from the distribution channel, the online market remained growing. The monitoring data from AVC shows, the share of retail sales in the online market increased 16.1% compared to the same period of last year. Although markets and channels at all levels of the offline retail sales terminals were declining at different extents, driven by the policy, channels including engineering and house decoration were increasing at different extents, and online retail, engineering, and internet-based house decoration channels all showed variable degrees of increase.

In 2017, the share of online sales of major appliances reached 30.4% in all channels. In the first half of 2018, the online sales of home appliances reached RMB140.9 billion, increasing 32.8% year on year. The online market maintained a high-speed growth, playing an important role in the steady market growth in the first six months. Meanwhile, along with the exploration and development of new retail and the O2O

model, offline experience is increasingly important. More interactive, scenario-based marketing are seen, and companies are paying more attention to improving user loyalty and experience. In this whole new market, chain business giants in this industry are actively exploring online and offline collaboration, and building smart retail models. Through integrating advantageous resources both online and offline, giants are seeking to break the bottleneck of the downturn in market demand.

B. Robotics Industry

Based on the prediction of the International Federation of Robotics (IFR), the global demand for robotics and automation will further increase. In the world, the average annual growth rate between 2018 and 2020 is expected to be at least 15%. In 2017, the scale of the global robotics industry was over 25 billion US dollars, growing 20.3%, and it is expected to reach 30 billion US dollars in 2018. At present, China's robotics market is entering into a high-speed development period. The market scale in 2017 was about 6.28 billion US dollars, and the average growth rate between 2012 and 2017 was 28%. Among those, industrial robots were the largest application market in the world for five consecutive years, service robots have a huge potential in demand, and specialized robots have obviously expanded its application scenarios. The domestication of core components is growing rapidly, innovative companies are emerging in great numbers, and several techniques can already be transformed into industrialized products, which are showing significant advantages in certain fields. According to the report from GGII, in the first half of 2018, the industrial robot output reached 73,738 units, rising 31.02% from a year ago with the sales volume up 23%. Influenced by intelligent warehousing and the upgrade of workshop logistics systems, the sales volume growth rate of SCARA and AGV exceeded 40%. In 2018, two guidelines issued by MIT, the *Guidelines for the Construction of National Intelligent Manufacturing Standard System* and the *Implementation Guide for Construction and Promotion of Industrial Internet Platform*, have further specified the development direction of the industrial Internet and intelligent manufacturing.

1.2 Analysis of the Company's Main Business

In the first half of 2018, guided by the three core strategies of "Leading Products, Operational Efficiency and Global Operations" in a complicated political and economic environment at home and abroad, Midea focused on improving products, promoting lean management and high-performance operations in the value chain, continuously optimizing its product mix according to the consumption upgrade trends, and constructing sustainable competitiveness for the future through internal growth. As a result, the business objectives set for H1 2018 were successfully fulfilled, with higher profitability, further improving indicators

such as self-owned capital and channel inventories, better product quality and reputation, as well as strengthened competitiveness in various product categories and global operation synergies. For H1 2018, Midea achieved, on a consolidated basis, total revenue of RMB143.7 billion, up 15.02% YoY; and net profits attributable to Midea Group shareholders of RMB12.9 billion, up 19.66% year-on-year.

In H1 2018, the Company carried out the following tasks:

A. Focused on users, developed innovative products and steadily improved product competitive advantages

Being user-oriented as always, Midea kept strengthening product competitiveness by increasing R&D investment, enhancing innovation in R&D, and placing importance on product quality and design improvement. In product design, Midea won a total of 33 international design awards during H1 2018, including 9 Red Dot Awards (Germany), 4 IDEA Awards (the U.S.), and 20 iF Awards (Germany).

—**Residential Air Conditioners:** Midea New Refrigerant R290 Split Air Conditioner Series, with technical advantages including the extremely low GWP refrigerant, high energy efficiency, low noise and severe material safety control, is certified by Der Blaue Engel, with Midea becoming the first A/C maker around the world to obtain this certification. Midea's innovative Air Space Station is the first home "Micro-Climate" regulator product in the world, achieving integrated regulation of "temperature, humidity, wind, cleanness and freshness". With a 10.1-inch TFT full-colour screen clearly showing indoor air quality in detail, this product can help the user easily control the indoor air and environment. It has won the 2018 AWE Golden Award. Midea Whisperwind Series adopts the most advanced Angel Eye technology to achieve real-time monitoring of the human body, and features "responsiveness to body temperatures, three wind distribution directions and even coolness without feeling the wind", and "various wind models", protecting the user from being awakened by coldness and ensuring a sweet dream.

—**Commercial Air Conditioners:** As a leading HVAC provider worldwide, Midea Commercial Air Conditioners is a leader in R&D strength, product technology and market performance. In recent years, Midea Commercial Air Conditioners are increasingly being seen in iconic international key programmes. In terms of large complexes, Midea has successively provided integrated product solutions for Dalma Mall, the largest shopping mall in Abu Dhabi; Casa Shopping Mall, the largest home decoration and building material market in Latin America; Grand Comfort, the largest home decoration and building material market in Central Asia; and Vientiane Shopping Center, the landmark shopping center in Laos.

In terms of venues for international sports events, Midea won the bids for the commercial A/C projects for the 2018 FIFA World Cup Russia venues, the 2017 Africa Cup venues, the 2017 Tianjin China National Games Village, and the Asian Games venues, etc. As for international airports, Midea becomes the commercial A/C supplier for Terminal 2 of Guangzhou Baiyun International Airport, Terminal 3 of Beijing Capital International Airport, Singapore Changi Airport, Mauritius Sir Seewoosagur Ramgoolam International Airport, Milan Malpensa Airport, Maputo International Airport, and Soekarno-Hatta International Airport. Concerning “the Belt and Road”, Midea successively won the bids for the commercial A/C projects for the Zetas Thermal Power Station, one of the biggest thermal power stations in Turkey; Top Glove, the world’s largest rubber gloves manufacturer in Malaysia; the Vinhtan Coal Power Plant, the largest China-invested power plant in Vietnam; a cement plant in Angola; a power station in Bali of Indonesia; and a semiconductor factory in Manila of the Philippines, proving that Midea has become a representative of Chinese global brand builders. According to the data from ChinaIOL.com, Midea Commercial Air Conditioners have topped the domestic market for five years in a row with a market share of nearly 20%. Appearing in more and more iconic international key programmes, Midea Commercial Air Conditioners have won increasing recognition from consumers both at home and abroad, becoming an icon for “Made in China”.

As a leading brand in China’s air-source heat pump industry, Midea is leading the technological upgrading in the industry again in 2018. The four major air-source products, including residential water heating products, residential heating products, commercial water heating products and commercial heating products, have all been upgraded into variable frequency products, with the fully variable frequency technology applied to their power units. This marks Midea entering the fully variable frequency era and being the first one industrywide to do so.

——**Laundry Appliances**: Little Swan under Midea has launched an ironing-free clothes dryer, which is of trans-era significance. To solve the pain points of the industry and consumers, this product is the first to provide a 15-minute ironing-free steaming function, and a 20-minute fast drying function. This healthy clothes-drying experience featuring “instant drying” has further strengthened the top position of Little Swan in the clothes-drying market. Little Swan has also introduced the Water Magic Cube Washing Machine, which is also of trans-era significance. This product is the first to adopt the “black technology” of cold wash, which can effectively solve the problems caused by traditional hot wash, such as fading colour and deformation, providing unprecedented top-quality experience of color and shape protection,

as well as time and power saving. This product has passed the Germany VDE certification, which is considered the Nobel Prize in the electrical appliance sector, representing an icon in innovation in the laundry industry. The basic technology research and application of Midea Top-Loading Washing Machines, as well as the innovation and application of the intelligent sensing technology in washing machines have respectively won the second and third prizes of National Scientific and Technological Progress Awards, with more than 100 domestic and foreign patents applied for these core technologies.

——**Refrigerators:** Midea's whole new "Microchip-Enabled Whole-Week Freshness" flagship product, which is the first of its kind worldwide and equipped with two smart fresh-keeping technologies of intelligent humidity-control and PST intelligent sterilization, as well as technologies including the L-shaped large freezing space, the firstly initiated and new side-by-side magic separated storage design, the i-wake soft lights, and the PST intelligent sterilizing breathing lights, has been certified by SGS, the world's leading inspection, verification, testing and certification institution. Midea's brand-new AI Refrigerator with a pioneering "3+1" model including 5M remote voice recognition, worldwide leading millisecond-level image recognition, worldwide pioneering 21.5-inch hidden touch screen, and big data supporting users' control and refrigerator's operation, has materialized an intelligent machine, intelligent interaction, intelligent scenarios, intelligent ecology and intelligent service, which has opened up a new era of AI refrigerators. At the 2018 China Refrigerator Industry Summit Forum held by cheaa.com under the guidance of the China Household Electrical Appliance Association and the Department of Information Resource Development of the State Information Center, owing to its excellence in product development, Midea was entitled as "2017-2018 Leading Intelligent Refrigerator Brand of China's Refrigerator Industry". Besides, another two refrigerators of Midea won the title of "2017-2018 Leading Intelligent Fresh-Keeping Refrigerator of China's Refrigerator Industry" and "2018 Consumers' Online Top-Choice Intelligent Odor-Free and Fresh-Keeping Refrigerator of China's Refrigerator Industry" respectively.

——**Small Household Appliances:** Thanks to continuous technological innovations, Midea's small household appliances have won various authoritative awards at home and abroad for consecutive years, manifesting the international first-class product competitiveness of Midea. As a leading brand in China's rice cooker industry, Midea's rice cookers, which won two 2018 AWE Awards respectively in innovation and product, possess several leading technologies in the industry. With the multi-section IH technology, the pressure and smart control technologies, and the inner tank technology, rice are perfectly cooked. Midea's innovative FUN Smart Oven has a built-in HD camera with the image recognition algorithm

adopted that can automatically recognize 60 kinds of different food materials under 8 major categories, as well as with a 5-inch HD TFT touch screen and a 1080P HD camera that can be controlled through an App on the mobile phone and help post real-time videos and open up an oven-based social circle. Midea Variable Frequency Microwave Oven adopts the multi-level pulse-by-pulse and current limiting technology, the low power control technology, and the smart turn-on protection technology to increase the heating speed and sustain the nutritional ingredients. This product also has intelligent diagnosis and systematic health management capacity. Midea Radiator adopts double-side heating through black crystals to elevate the temperature faster, and its function of avoiding water-splashing in all directions can provide a more comfortable bathing environment. Besides, it has a double-side clothes-drying shelf attached, satisfying the user's needs anytime. Midea's innovative Air Purifier adopts a centrifugal fan with double gravitational forces to increase the pressure and let the air in. By adding a two-fold integrated strainer plus a five-layer specialized strainer, multiple air pollutants including formaldehyde, smog and second-hand smoke can be effectively purified, achieving double air purification effects. Midea Built-in Dishwasher is the only product in this field with an AWE Award. With the global pioneering hot-air drying technology carrying nine patents, this product dries the dish effectively while removing the steam and mould to keep the dish clean and fresh for 72 hours. Midea Installation-Free Dishwasher not only has a pioneering function of sterilizing under 75 degrees Celsius and a voice broadcast system, but also has specific washing procedures for baby's products like baby bottles and toys, in order to protect baby's health. The Variable Power Storage Electric Water Heater in the Beverly "Future" Series launched by Midea's Water Heater Division, by disrupting the principle of heating and heat storage and release, has made a new breakthrough in the structure and shape of water heaters. Its size is reduced by 55% and the wall hanging burden is reduced by 30kg, so it is suitable for more places. This product has won the AWE Innovation Award. Toshiba Wireless Cleaner, equipped with a high power motor with a maximum gyration rate of 0.12 million times per minute and a "high-capacity lithium battery" with the maximum running time of 60 minutes, has won the "2017 IAUD Award" and the "iF Product Design Award".

B. Continued to invest in R&D to build a global R&D platform and a responsive and innovative R&D system

Midea continued to invest in R&D, made innovations with respect to mechanism, developed more advanced products through both premium quality and differentiated technologies, built a value chain

system featuring driving growth with product development based on the CDOC approach, and developed standard work flows to launch best-selling products to the market. In addition, it continued to improve its global R&D centre network by deepening its technological research and localized development and strengthening in-depth cooperation with top R&D institutions at home and abroad, aiming to build a global innovation ecosystem.

In the first half of 2018, the Company arranged the certification of a dozen of its technological achievements, including “the Research and Commercialization of the Low-Noise Key Technology of Horizontal Dust-Cup Cleaners”, “the Research and Application of the Energy-Efficient Technology for the Midea Building Management System (M-BMS)”, “the Scenario-Based Dry-Burning Protection Technology and Gas-Leakage Alarm Technology”, “the Research and Application of the Efficient and Even Burning Technology”, “the Research and Commercialization of the Low Harmful-Gas Emission Technology for Gas Water Heaters”, “the Key Technology for R290 (Propane) Indoor Air Conditioners and Its Application”, “the Research and Application of the Strong Heating Capacity and the High-Level Comfort Key Technology for Air Heaters”, and “the Research and Application of the Indoor Micro-Climate Multidimensional Regulation Key Technology”. Upon review by academicians, professors, researchers, the chairman of CHEAA, the dean of CHEAR, and senior engineers with the rank of a professor, all these technologies have been certified as “Internationally Advanced”. Midea Rice Cooker won the Chinese Patent Golden Award. 12 patents including “the Water Heater and Its Blow-down System and the Blow-down Control Method” won the Excellent Chinese Patent Awards. The Reliability System of Midea Kitchen Appliances and the Application of Such a System in Refrigerator Development won the first prize of the China Association for Quality (CAQ). The Research and Commercialization of the Key Technology for Highly-Intelligent Indicator-Based Indoor Air Conditioners won the first prize of the China Light Industry Association (CLIA).

Up to July 2018, Midea Group had applied for around 83,000 patents domestically, of which about 40,000 have been granted.

C. Deepened the channel transformation, improved the channel efficiency and promoted the steady growth of the e-commerce business.

Midea continued to develop and expand its six major sales channels including flagship stores, Suning, Gome, Regional Chains (TOP Clients), micro-region chains (VIP Clients) and township exclusive shops.

In the meantime, special effort was made to cooperate with various house fittings chain platforms. So far, Midea has built six Whole House Appliances Experience Halls. Together with the Whole House Design Software Platform and the whole house appliances marketability, Midea is able to provide scenario-based appliance packages and one-stop solutions.

Midea resolutely promoted transformation at the retail end by strengthening digitalization in domestic sales, including fast order reception, quick policy implementation, automatic inventory management and a shared inventory system for all channels, so as to share the resources with clients in capital, inventory, logistics, staff, information, etc. and to further enhance its digital retail competency. Midea also flattened the channel hierarchy by promoting direct connection to chains and the TOP Clients. Meanwhile, it put in place a ceiling system for inventories of all channels as part of its destocking efforts, and achieved a systematic control over inventories for better channel efficiency. Also, Midea strengthened synergy in domestic sales, including enhancing shopping guide synergy at shop terminals through synergetic sales promotion, shopping guide ordering, shop sessions, etc., as well as frequent united promotion activities in diversified forms to strengthen full-category synergy. Proactive effort was also made to explore new retail models for all channels. Midea connected its user data with those of Alibaba and Tencent to achieve mutually-promoted online and offline operations and better empower the offline shops.

Importance was placed on the core business of integrated warehousing and distribution services. Supported by a self-developed information technology system and a distribution network across the country, Midea realized fully visualized direct distribution to every corner of the country for various scenarios. It also deepened its unified warehousing and distribution strategy by cutting unnecessary links to speed up all-channel distribution and capital turnover to build a supply chain logistics system featuring "Shared Warehouses, Unified Dispatch, Quick Response and Fast Distribution". According to customer needs, services were further improved and customer satisfaction was enhanced by providing differentiated region- and time-specific products, improving the quality of the integrated delivery and installment services, and optimizing customer experience in specific key operational links. So far, Annto has established a logistics network, which covers 118 logistics centers nationwide and can offer fast delivery which can be finished in 24 hours for delivery in the same city and in 48 hours for city-to-city (or town-to-town) delivery across the country.

In terms of online channels, Midea continued to focus on products and users. Relying on the advantage of its full-category products, it built an Internet-based big data platform and launched strategic cooperation

programmes with platforms such as JD.com and Tmall to continuously explore digital precision marketing models, improve the user operation system, better tap customer value and needs, and develop more competitive products for the online market. Meanwhile, a membership programme was launched to build a unified member pool to link online and offline data and realize unified identities, interests and assets for all users, which resulted in better online shopping experience. In addition, Midea continued to improve its online product mix to gradually improve profitability while maintaining effective growth in size. As a result, Midea's online sales exceeded RMB25 billion in the first half of 2018, up 33% year-on-year. It boasts over 20% of the domestic home appliance market and the ratio is growing steadily, in addition to maintaining the highest sales on China's mainstream e-commerce platforms such as JD.com, Tmall and Suning.com in various home appliance categories.

D. Stepped up the industrial internet and digitalization 2.0 programmes to thoroughly improve operational efficiency of the entire value chain

Midea stepped up its industrial internet and digitalization 2.0 programmes. Guided by C2M (Customization), Midea drove end-to-end linking in business by means of software systems for full connection through the entire value chain. All links (R&D, the supply chain, manufacturing, logistics, finance and customer service) were driven by orders and data to realize flexible delivery. Midea gave play to its digital operation capability.

Based on consumers' real needs, 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 digitalization 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, improving efficiency by over 40%.

With the C2M system, the customers can directly customize their products on the selection and matching platform, which means that Midea has entered into the age of customization. Under the digitalization planning, a whole new Internet-based CCS system was built to strengthen the integrated manufacturer coordination system, further improve customer experience and coordination efficiency, optimize the

construction of the channel hierarchy, and support linking management of the purchase- sell-stock systems for various channel levels. As part of the domestic marketing reform, the Midea Cloud Sales System was constructed to provide shopping-mall-like, mobile platform experience for customers and improve the overall order placing and information transmission efficiency of distributors. Meanwhile, coordinated efforts were made to flatten the channel hierarchy, including overall digital management through the purchase-sell-stock process in Midea's 2,200 flagship stores across the country, a business order model featuring direct supply from a business division to the stores, and digital application at the shopping guide level at the retail end with clear and transparent information.

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 stocking 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 omnichannel data monitoring system shall be established to focus on the product sales structure, the price system and the market layout, with a KPI-based monitoring indicator system, visualizing all data ranging from the order placement to the after-sales service, as well as integrating customer data for all-round customer assessment; 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.

E. Steadily promoted Midea's globalized business layout and accelerated the cooperative integration of Toshiba Project.

Midea further promoted its global business layout to solidify its global basis and competency. It formulated a global supply cooperative mechanism, strengthened localized operations overseas, and promoted product globalization. Midea established 15 overseas manufacturing bases with over 35,000 employees, which has helped strengthen localized operations overseas and optimize the proportion of localized supply chain. In addition, it has 24 sales offices in North America, South America, Europe, Asia, Africa and Oceania, with business covering more than 200 countries and regions. Meanwhile, guided by the market and focusing on users, it has also established 20 global R&D centres in 9 countries, including the U.S., Italy, Germany, India and Singapore, to work on future products and technologies with foresight.

Distribution channels have been continuously expanded, and steady growth is seen in the overseas business under Midea Group's brands. For H1 2018, revenue under Midea Group's brands recorded two-digit growth from a year ago. Overseas headquarters have kicked off trial operation, the ASEAN and Indian operations are now able to run on an independent basis, and integration in the R&D-production-selling system for regional markets has been strengthened for better convergence effects. Midea also accelerated overseas e-commerce expansion by exploring various e-commerce platforms and models overseas for new potential growth points. By exploring a product manager mechanism for its overseas branches, Midea strengthened its localized, user-focused product management, market research and product development. Unified rules were applied to these overseas branches to enhance control and promote consistency and cooperativity in Midea's business language and system.

Midea continued to promote synergies and integration in the Toshiba project. In order for better product and brand competitiveness, upfront investments were continued to be put into R&D to set up an innovation centre for Japanese users; the cost competitiveness was strengthened by procurement cost reduction, cost reduction through technologies, as well as by optimizing the organization and mechanism of the supply chain system; and the branding centre would help formulate a unified global positioning and marketing strategies for the Toshiba brand with clear brand characteristics and a consumer profile, and make the Toshiba project part of the Midea family's industrial design. In terms of the reform of the marketing and distribution systems, the Toshiba project's Japan business continued to work on the traditional existing channels such as variety stores and Toshiba flagship stores while proactively expanding new channels including TV shopping, online shopping and houseware centres; its overseas businesses completed the integration with Midea's local platforms and proactively expanded its product lineup for the overseas markets; and with the ASEAN, China, India and North America markets as the priorities, its China business cooperated with Midea's business divisions in the online operations to set up Toshiba full-category exhibition halls or Midea-Toshiba halls at the first- and second-tier cities, and also cooperated with Midea in online operations to achieve steady month-on-month growth in sales, mostly through the Tmall e-commerce platform. As for value chain cooperation, the Toshiba project's manufacturing and procurement systems were fully docked with Midea's business divisions to integrate production capacity and strengthen lean production for better production efficiency with significantly lower costs. The Toshiba project also continued to optimize its organization and work flows by leveraging Midea's digital platform to promote compliance and transparency in all the work flows for better operational efficiency. As a result, despite the unfavorable factors such as the rising raw material prices and the exchange rate fluctuations, the Toshiba managed to maintain effective improvements in revenue growth and cash flows in the first half of 2018 by means of optimizing the product mix, expanding new product categories and distribution channels, rigidly controlling non-operating expenses, etc.

F. Promoted innovation in robotic product development and accelerated integration and expansion of the robotics business for the China market

The integration of KUKA's robotics business in China was accelerated. Three joint ventures were incorporated by Midea and KUKA (each holding a 50% stake in the joint venture) to undertake the combined KUKA's general industrial business in China and Swisslog's (a subsidiary of KUKA) business in China, which provides advanced automatic solutions for hospitals, warehouses and distribution centres.

This joint ventures will further expand three major businesses (industrial robots, medical care and automatic warehousing) in the China market to satisfy China's great demand in smart manufacturing, smart medical care, smart logistics, new retail, etc. Through developing products and solutions which are most needed by Chinese customers, this automation business division is expected to see fast growth. Meanwhile, a new manufacturing base will be built in the Shunde Technology Park in the Guangdong Province to develop new products, jointly develop feasible "Industry 4.0" business models with various partners, and invest in the key Human and Robot Collaboration (HRC) and mobile robot technologies, so as to solidify KUKA's leading position in technology. This new manufacturing base is expected to reach an annual production capacity of 75,000 robots by 2024. Together with the existing production capacity, the China operations will be able to produce a total of around 100,000 robots annually by that year.

KUKA's business continued to expand with a flood of orders, including an order of tens of millions of euros to provide industrial robots for GAC NE (a subsidiary of GAC Group) in China, an order to expand the automatic warehouses and production capacity of Spritzer, the producer of Malaysia's best-selling natural spring water, and a continual order to provide flexible manufacturing solutions for a high-end car manufacturer of Germany.

KUKA continued to make innovations in robotic product development and application. It is the first robotic manufacturer in the world to introduce sensitive light-duty robots into the production plant. At Hannover Messe 2018, KUKA exhibited its LBR IISY Sensitive Robot and HRC product packages, making it the first manufacturer with a product range covering cooperative robots, mobile robots and industrial heavy-duty robots. In terms of consumer robots, KUKA LBR IISY Cobot Consumer Robot with the "I-Do" mobile modular system concept allows personalized compilation and configuration, KUKA KR QUANTEC Series and KR FORTEC Series can handle missions in relation to car body manufacturing in a more effective way. In addition, KUKA further improved its warehouse automation solution, CarryPick, and developed the new KMP600 AGV. With a fully integrated system with better performance and reliability, the new CarryPick solution can effectively reduce downtime and provide global service network support for better satisfaction of customer needs. The Cloud-based platform KUKA Connect developed by KUKA can enable the customers to access to relevant robotic data for analysis and utilization. KUKA won quite many honours, including the "Innovation and Entrepreneurship in Robotics and Automation (IERA) Award" granted by the world's two major robotics institutions for its LBR Medical Care Robot, the World Excellence Award granted by Ford Motor for its HRC application, and a third GM Annual Best Supplier

Award.

Integration and expansion of Midea's robotics and automation business were continued to be promoted, faster breakthroughs were made in terms of key components, and localization and domestication of the R&D, manufacturing and marketing of key components such as the servo motor, the actuator and the motion control have been gradually materialized. Meanwhile, the effort spent on industrial automation integrated application continued to produce remarkable results. Concerted efforts were made to help Midea's over 30 appliance plants in China to launch an industrial automation programme. This is aimed to boost Midea's smart manufacturing competency and increase the robot use ratio from 150 robots per 10 thousand workers to an advanced level of 625 robots per 10 thousand workers.

G. Deepened the long-term incentive system and protected the interests of shareholders

In 2018, Midea continues to encourage its core management to take responsibility for the Company's long-term value and growth by further enhancing its long-term incentive schemes. In the year, Midea has launched the Fifth Stock Option Incentive Scheme, the Second Restricted Share Incentive Scheme, the Fourth Global Partner Stock Ownership Scheme and the First Business Partner Stock Ownership Scheme, which have helped, in a more effective manner, to align the long-term interests of senior management and key personnel with that of all shareholders.

Midea Group protects its shareholders' interests by ensuring a consistent dividend policy. It shares its growth with shareholders by having paid out cash dividends of RMB27.1 billion since its holistic listing, including a final dividend of RMB7.9 billion for 2017. Meanwhile, in response to the recent internal and external complexities and great market value fluctuations, Midea Group has launched the biggest-ever repo plan in the history of China's A-stock market. This repo plan, with a limit of RMB4 billion, is aimed to maintain a stable market capitalization and protect shareholders' interests. Up to the end of August 2018, a total of approximately RMB1.8 billion has been used for the share repurchase, indicating Midea Group's great effort in fulfilling its repo commitment.

Midea's main work plans for H2 2018 are summarized as follows:

A. Implementing the three core strategies to increase R&D investments, accelerate product innovation and efficiency improvement, strengthen the capabilities of developing innovative and leading products adopting the CDOC approach and the customer-oriented thinking, and provide competitive products and services for customers in a highly efficient way;

B. Continuing to enhance the basic systems to set up a unified business language and rules, strengthen

“One Midea, One System, One Standard”, give play to the synergies, reinforce the result-oriented process control and improve efficiency;

C. Promoting transformation in the domestic marketing to improve user-oriented domestic retail marketing, enhance product synergies, promote destocking, a flat channel hierarchy and better channel efficiency with the retail end as the focus, stabilize the channel structure and interests, and promote scenario- and experience-based, interactive new marketing ways for better recognition of the Midea brand among users;

D. Strengthening the building of Midea as a digitalized enterprise by continuing to improve the digital operational methods and systems to link every link of Midea’s value chain and improve efficiency, value creation and the fulfillment of operating objectives; and

E. Continuing to improve profitability of the Toshiba business and promote localized operations of the China-based joint venture incorporated by Midea and KUKA to offer competitive products and services as soon as possible.

2. Analysis of Main Business

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

Yes No

See “1. Overview” of this section.

YoY changes in key financial data:

Unit: RMB'000

| | H1 2018 | H1 2017 | YoY Change (%) | Main reasons for change |
|---|-------------|-------------|----------------|--|
| Operating revenues | 142,623,837 | 124,450,065 | 14.60% | |
| Operating costs | 103,881,438 | 93,051,081 | 11.64% | |
| Selling expenses | 16,892,503 | 12,404,770 | 36.18% | Increased sales |
| Administrative expenses | 7,234,520 | 6,832,958 | 5.88% | |
| Finance costs | -984,113 | 346,614 | -383.92% | Changes in exchange gains and losses |
| Corporate income tax | 2,614,882 | 2,059,053 | 26.99% | |
| Net cash flow from operating activities | 7,613,688 | 13,895,932 | -45.21% | More financing support for the industrial chain |
| Net cash flow from investing activities | -8,943,677 | -26,751,897 | -66.57% | Acquisition of subsidiary KUKA in the same period of last year |
| Net cash flow from financing | -10,166,609 | 20,990,804 | -148.43% | Decreased borrowings |

| | | | | |
|---|-------------|-----------|----------|--|
| activities | | | | |
| Net increase in cash and cash equivalents | -11,404,259 | 8,272,701 | -237.85% | Decreased net cash from operating and financing activities |

Major changes to the profit structure or sources of the Company in the Reporting Period:

Applicable Inapplicable

No such cases in the Reporting Period.

Breakdown of Midea's main business:

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 | 131,655,381 | 94,040,008 | 28.57% | 14.03% | 11.02% | 1.94% |
| By product category | | | | | | |
| HVAC | 63,873,960 | 44,548,938 | 30.25% | 27.69% | 25.81% | 1.04% |
| Consumer appliances | 55,279,120 | 40,043,342 | 27.56% | 6.66% | 6.25% | 0.28% |
| Robotics and automation systems | 12,502,301 | 9,447,728 | 24.43% | -8.11% | -18.59% | 9.73% |
| By geographical segment | | | | | | |
| PRC | 74,844,521 | 49,582,864 | 33.75% | 22.55% | 19.56% | 1.66% |
| Outside PRC | 58,233,192 | 45,802,611 | 21.35% | 4.99% | 3.47% | 1.16% |

Note: Consumer appliances primarily include refrigerators, washing machines, kitchen appliances and certain small home appliances.

3. Analysis of Non-Core Business

Applicable N/A

4. Assets and Liabilities

4.1 Material changes of asset items

Unit: RMB'000

| | 30 June 2018 | | 31 December 2017 | | Change in percentage (%) | Explanation about any material change |
|--|--------------|--------------------|------------------|--------------------|--------------------------|---------------------------------------|
| | Amount | As a percentage of | Amount | As a percentage of | | |
| | | | | | | |

| | | total assets (%) | | total assets (%) | | |
|------------------------------|------------|---------------------|------------|---------------------|--------|--|
| Cash at bank and in hand | 45,087,756 | 17.96% | 48,274,200 | 19.46% | -1.50% | |
| Accounts receivable | 20,537,867 | 8.18% | 17,528,717 | 7.06% | 1.12% | |
| Inventories | 23,723,338 | 9.45% | 29,444,166 | 11.87% | -2.42% | |
| Investment properties | 411,198 | 0.16% | 420,802 | 0.17% | -0.01% | |
| Long-term equity investments | 2,753,940 | 1.10% | 2,633,698 | 1.06% | 0.04% | |
| Fixed assets | 22,256,928 | 8.87% | 22,600,724 | 9.11% | -0.24% | |
| Construction in progress | 1,562,256 | 0.62% | 879,576 | 0.35% | 0.27% | |
| Short-term borrowings | 1,261,033 | 0.50% | 2,584,102 | 1.04% | -0.54% | |
| Long-term borrowings | 30,276,189 | 12.06% | 32,986,325 | 13.30% | -1.24% | |

4.2 Assets and liabilities measured at fair value

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 | 714,185 | -20,801 | -350,397 | -15,986 | - | - | 327,001 |
| 3. Financial assets available for sale | 22,213,426 | - | 168,582 | - | 8,873,379 | 18,516,741 | 12,738,646 |
| Sub-total of financial assets | 22,927,611 | -20,801 | -181,815 | -15,986 | 8,873,379 | 18,516,741 | 13,065,647 |
| Investment properties | | | | | | | |

| | | | | | | | |
|--------------------------|------------|---------|----------|---------|-----------|------------|------------|
| Productive living assets | | | | | | | |
| Others | | | | | | | |
| Sub-total of the above | 22,927,611 | -20,801 | -181,815 | -15,986 | 8,873,379 | 18,516,741 | 13,065,647 |
| Financial liabilities | 92,308 | 593,127 | 386,436 | -5,146 | - | - | 1,066,725 |

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

| Total investment amount of the Reporting Period (RMB'000) | Total investment amount of the same period of last year (RMB'000) | YoY Change (%) |
|---|---|----------------|
| 41,811,802 | 69,512,207 | -39.85% |

Note: The change resulted from the Company's acquisition of subsidiary KUKA in the same period of last year.

5.2 Significant equity investment made in the Reporting Period

Applicable N/A

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

Unit: RMB'0,000

| Operating party | Relations with the Company | Related 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 | 6,588.2 | 01/01/2018 | 31/12/2018 | 6,588.2 | - | - | - | -895.3 | -0.01% | -17,725.4 |
| Bank | No | No | Forward forex contracts | 55,599.5 | 01/01/2018 | 31/12/2018 | 55,599.5 | - | - | - | -73,077.1 | -0.92% | -62,171.6 |
| Total | | | | 62,187.7 | -- | -- | 62,187.7 | | | | -73,972.4 | -0.93% | -79,897.0 |
| 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) | | | | 31/03/2018 | | | | | | | | | |
| Disclosure date of the announcement | | | | 24/04/2018 | | | | | | | | | |

| | |
|---|--|
| <p>about the general meeting's consent for the derivative investment (if any)</p> | |
| <p>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> | <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, 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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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</p> |

| | |
|--|---|
| | 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. Loss from futures contracts during the Reporting Period was RMB-177,254,000. 2. Loss from forward forex contracts during the Reporting Period was RMB-621,716,000. 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 | N/A |
| 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. |

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 type | Business scope | Registered capital | Total assets (in RMB million) | Net assets (in RMB million) | Operating revenue (in RMB million) | Operating profit (in RMB million) | Net profit (in RMB million) |
|---|--------------|-----------------------------------|--------------------|-------------------------------|-----------------------------|------------------------------------|-----------------------------------|-----------------------------|
| Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd. | Subsidiary | Manufacturing of home appliances | USD72 million | 10,448.25 | 2,150.74 | 7,287.40 | 865.81 | 743.68 |
| Guangdong Midea Air-conditioning Equipment Co., Ltd. | Subsidiary | Manufacturing of air conditioners | RMB854 million | 44,530.24 | 4,419.64 | 26,270.83 | 611.69 | 550.31 |
| Foshan Shunde Midea Electric Appliance Manufacturing Co., Ltd. | Subsidiary | Manufacturing of home appliances | USD42 million | 7,907.20 | 3,953.76 | 5,093.67 | 801.19 | 681.57 |
| Wuhu Midea Kitchen & Bathroom Electric Appliances Manufacturing Co., Ltd. | Subsidiary | Manufacturing of water heaters | RMB60 million | 5,755.63 | 732.44 | 4,707.51 | 733.25 | 558.91 |

Acquisition and disposal of subsidiaries during the Reporting Period

The newly consolidated subsidiaries for the Reporting Period include Guangdong Midea Industrial Technology Co., Ltd., Midea Home Appliances UK Ltd. and Shanghai Chemours Electrical Appliances Co., Ltd. And the newly deconsolidated subsidiaries are Wuhan Midea Consumer Electric Manufacturing Co., Ltd. (dissolved) and Connyun GmbH (disposed). For further information, see Note 5 in "Section X Financial Report".

8. Structured Bodies Controlled by the Company

Applicable N/A

9. Forecast of Business Performance from January to September in 2018

Warning about an estimated major change in the aggregate net profit from the beginning of the year to the end of the next reporting period compared with the same period in the previous year and explanation for the change:

Applicable N/A

10. Risks Facing by the Company and Countermeasures

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. This may aggravate the burden in costs and expenses for household appliance enterprises, and has brought about new challenges to market expansion for enterprises.

In face of the complicated and changeable environment and risks at home and abroad, Midea will strictly follow the *Company Law*, the *Securities Law*, the CSRC regulations and other applicable rules, keep improving its governance structure for better compliance, and reinforce its internal control system so as to effectively prevent and control various risks and ensure its sustained, steady and healthy development.

Section V Significant Events

1. Annual and Extraordinary General Meetings of Shareholders Convened during Reporting Period

1.1 General Meetings of Shareholders Convened during Reporting Period

| Meeting | Type | Investor participation ratio | Convened date | Disclosure date | Index to disclosed information |
|---|--------|------------------------------|---------------|-----------------|--|
| 2017 Annual General Meeting of Shareholders | Annual | 48.22% | 23/04/2018 | 24/04/2018 | Announcement No. 2018-016 on Resolutions of 2017 Annual General Meeting of Shareholders, disclosed on www.cninfo.com.cn |

1.2 Extraordinary General Meetings of Shareholders Convened at Request of Preference Shareholders with Resumed Voting Rights

Applicable N/A

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

Applicable N/A

The Company plans not to distribute cash dividends or bonus shares or convert capital reserves into share capital for the first half of 2018.

3. 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 overdue at the period-end

| Undertaking | Undertaking giver | Type of undertaking | Details of undertaking | Undertaking date | Term | Particulars on the performance |
|--|-------------------|---------------------|--|------------------|---|--------------------------------------|
| 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 | 26/06/2015 | 36 months from the listing date of this private placement, i.e. to 26 June 2018 | Fulfilled, without violations |

| | | | | | | |
|--|-----|--|--|--|--|--|
| | | | Group within 36 months from the completion date of this offering (26 June 2015, the listing date for this offering). | | | |
| Whether the undertaking is fulfilled on time | Yes | | | | | |
| Specific reasons for failing to fulfill any undertaking and plan for the next step | N/A | | | | | |

4. Engagement and Disengagement of CPAs Firm

Have the H1 2018 financial statements been audited by a CPAs firm?

Yes No

The H1 2018 financial statements are unaudited by a CPAs firm.

5. Explanation of the Board of Directors and the Supervisory Committee Regarding the "Non-standard Audit Opinion" for the Reporting Period

Applicable N/A

6. Explanation of the Board of Directors Regarding the "Non-standard Audit Opinion" for Last Year

Applicable N/A

7. Bankruptcy and Reorganization

Applicable N/A

No such cases in the Reporting Period.

8. Litigation

Material litigation and arbitration:

Applicable N/A

No such cases in the Reporting Period.

Other legal matters:

Applicable N/A

9. Punishments and Rectifications

Applicable N/A

No such cases in the Reporting Period.

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

Applicable N/A

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

A. Overview of the First Stock Option Incentive Scheme

a. On 26 April 2018, the *Announcement on the 2017 Annual Profit Distribution* was disclosed by the Company, with a decision to distribute a cash dividend of RMB12.00 per 10 shares to all the shareholders based on the total of 6,584,022,574 shares of the Company. The book closure date was 3 May 2018 and the ex-dividend date was 4 May 2018.

b. The Company convened the 33rd Meeting of the 2nd Board of Directors on 7 May 2018, at which the *Proposal for the Adjustments to the Exercise Price for the First Stock Option Incentive Scheme* was reviewed and approved. As the 2017 Annual Profit Distribution had been carried out, the exercise price for the First Stock Option Incentive Scheme was revised from RMB10.01 to RMB8.81 per share.

B. Overview of the Second Stock Option Incentive Scheme

a. The Company convened the 33rd Meeting of the 2nd Board of Directors on 7 May 2018, at which the *Proposal for the Adjustments to the Exercise Price for the Second Stock Option Incentive Scheme* was reviewed and approved. As the 2017 Annual Profit Distribution had been carried out, the exercise price for the Second Stock Option Incentive Scheme was revised from RMB18.56 to RMB17.36 per share.

b. The Company convened the 35th Meeting of the 2nd Board of Directors on 4 June 2018, 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 583 to 554, and the number of locked-up stock options granted to them was also reduced from 33,255,000 to 31,470,000.

The *Proposal for Matters Related to the Stock Option Exercise for the Third Exercise Period of the Second Stock Option Incentive Scheme* was also considered and approved. Because the exercise conditions have grown mature for the third exercise period, a total of 550 incentive receivers who have been verified for the Second Stock Option Incentive Scheme have been allowed to exercise 31,470,000 stock options in the third exercise period (ended 27 May 2020).

C. Overview of the Third Stock Option Incentive Scheme

a. The Company convened the 33rd Meeting of the 2nd Board of Directors on 7 May 2018, at which the *Proposal for the Adjustments to the Exercise Price for the Third Stock Option Incentive Scheme* was reviewed and approved. As the 2017 Annual Profit Distribution had been carried out, the exercise price for the Third Stock Option Incentive Scheme was revised from RMB20.35 to RMB19.15 per share.

b. The Company convened the 36th Meeting of the 2nd Board of Directors on 3 July 2018, 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 891 to 850, and the number of locked-up stock options granted to them was also reduced from 81,090,000 to 76,149,557.

The *Proposal for Matters Related to the Stock Option Exercise for the Second Exercise Period of the Third Stock Option Incentive Scheme* was also considered and approved. Because the exercise conditions have grown mature for the second exercise period, a total of 840 incentive receivers who have been verified for the Third Stock Option Incentive Scheme have been allowed to exercise 38,079,557 stock options in the second exercise period (ended 27 June 2020).

D. Overview of the Fourth Stock Option Incentive Scheme

a. The Company convened the 33rd Meeting of the 2nd Board of Directors on 7 May 2018, at which the *Proposal for the Adjustments to the Exercise Price for the Fourth Stock Option Incentive Scheme* was

reviewed and approved. As the 2017 Annual Profit Distribution had been carried out, the exercise price for the Fourth Stock Option Incentive Scheme was revised from RMB32.72 to RMB31.52 per share.

b. The Company convened the 34th Meeting of the 2nd Board of Directors on 21 May 2018, at which the *Proposal for the Adjustments to the Incentive Receivers and Their Exercisable Stock Options of the Fourth 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 Fourth Stock Option Incentive Scheme due to the departure, positional changes, low individual or business division performance appraisals or other factors of some incentive receivers. Upon the adjustments, the number of incentive receivers decreased from 1,463 to 1,354, and the number of locked-up stock options granted to them was also reduced from 98,274,000 to 90,185,800.

The *Proposal for Matters Related to the Stock Option Exercise for the First Exercise Period of the Fourth Stock Option Incentive Scheme* was also considered and approved. Because the exercise conditions have grown mature for the first exercise period, a total of 1,339 incentive receivers who have been verified for the Fourth Stock Option Incentive Scheme have been allowed to exercise 29,509,800 stock options in the first exercise period (ended 11 May 2019).

E. Overview of the Fifth Stock Option Incentive Scheme

a. On 29 March 2018, the *Fifth Stock Option Incentive Scheme (Draft) of Midea Group Co., Ltd* (hereinafter referred to as the “Fifth Stock Option Incentive Scheme (Draft)”) and its abstract were reviewed and approved at the 30th Meeting of the 2nd Board of Directors, and the incentive receiver list for the *Fifth Stock Option Incentive Scheme (Draft)* was examined at the 22nd Meeting of the 2nd Supervisory Committee.

b. On 23 April 2018, the Company convened the 2017 Annual General Meeting of Shareholders, at which the *Proposal on the Fifth Stock Option Incentive Scheme (Draft) and Its Abstract*, the *Proposal on the Implementation and Appraisal Measures for the Fifth Stock Option Incentive Scheme*, the *Proposal for Asking the Meeting of Shareholders to Authorize the Board to Handle Matters Related to the Fifth Stock Option Incentive Scheme* and other relevant proposals were reviewed and approved.

For this Incentive Scheme, the Company intended to grant 62,080,000 stock options, including 55,080,000 stock options (88.72% of the total grant) to 1,341 incentive receivers for the first phase with the exercise price being RMB57.54 per share, and 7,000,000 reserved stock options (11.28% of the total

grant).

c. In light of the authorization given at the 2017 Annual General Meeting of Shareholders, the Company convened the 33rd Meeting of the 2nd Board of Directors on 7 May 2018, at which the *Proposal for the Adjustments to the Exercise Price for the First Phase, Incentive Receiver List and Number of Stock Options to Be Granted for the Fifth Stock Option Incentive Scheme*, the *Proposal for the Determination of the Grant Date for the First Phase of the Fifth Stock Option Incentive Scheme* and the *Proposal for the First-Grant-Related Matters for the Fifth Stock Option Incentive Scheme* were reviewed and approved. As such, the Company agreed to grant 54,520,000 stock options to 1,330 incentive receivers on 7 May 2018 for the first phase with the exercise price revised from RMB57.54 per share to RMB56.34 per share.

F. Overview of the First Partner Stock Ownership Scheme

a. The Company disclosed the *Reminder of the Advanced Completion of the Vesting under the First Partner Stock Ownership Scheme* on 28 April 2018. As such, the final 30% installment of shares under the First Partner Stock Ownership Scheme had been vested, marking the completion of this scheme. A total of 1,796,850 shares had been vested in the Company's incumbent senior management (Fang Hongbo, Yin Bitong, Zhu Fengtao, Gu Yanmin, Wang Jinliang, Wang Jianguo and Xiang Weimin), 906,000 shares had been vested in other incentive receivers, and the remaining unvested 240,150 shares and the corresponding dividends (if any) had been taken back by the administrative committee of this scheme for no compensation, and sold at a proper timing before this scheme expired. The earnings on the sale belonged to the Company.

G. Overview of the Second Partner Stock Ownership Scheme

a. The Company disclosed the *Announcement on the Vesting of the Second Installment under the Second Partner Stock Ownership Scheme* on 28 April 2018. As such, the second 30% installment of shares under the Second Partner Stock Ownership Scheme was vested. A total of 615,459 shares were vested in the Company's incumbent senior management (Fang Hongbo, Yin Bitong, Zhu Fengtao, Gu Yanmin, Wang Jinliang, Wang Jianguo and Xiang Weimin), and 332,091 shares were vested in other incentive receivers.

H. Overview of the Third Partner Stock Ownership Scheme

a. The Company's performance requirement for the Third Partner Stock Ownership Scheme is a weighted average ROE not lower than 20% for 2017. According to the *2017 Annual Auditor's Report for Midea Group Co., Ltd.* issued by PricewaterhouseCoopers China (LLP), this ROE requirement has been met at

25.88%.

b. After the Company's performance requirement for this scheme had been met, the shares for each partner were determined according to how well the performance objectives of the Company, its business divisions and operating units for 2017 had been achieved and how much a partner had contributed to that. And then the shares would be vested in the partners in three installments with a 12-month interval.

c. A total of 2,846,445 of the Company's shares have been purchased for this scheme. As per the relevant rules, the administrative committee of this scheme has confirmed the number of shares to be granted to each partner, with the total shares to be granted being 2,774,565 shares (1,926,385 shares for senior management Fang Hongbo, Yin Bitong, Zhu Fengtao, Gu Yanmin, Wang Jinliang, Wang Jianguo, Xiang Weimin and Xiao Mingguang, and the remaining 848,180 shares for other seven core management personnel). The committee has also confirmed the first 40% installment (1,109,826 shares in total) for this scheme. The remaining 71,880 shares and the corresponding dividends (if any) will be taken back by the administrative committee for no compensation, and will be sold before this scheme expires. The earnings on the sale will belong to the Company.

I. Overview of the Fourth Global Partner Stock Ownership Scheme

a. The Fourth Core Management and Global Partner Stock Ownership Scheme was approved at the 30th Meeting of the 2nd Board of Directors on 29 March 2018 and the 2017 Annual General Meeting of Shareholders on 23 April 2018. As resolved by a meeting of the partners of the Fourth Global Partner Stock Ownership Scheme, China International Capital Corporation Limited (CICC) was entrusted to conduct the "CICC Directional Asset Management Scheme for Midea Group's Fourth Global Partner Stock Ownership Scheme" with Midea Group shares purchased from the secondary market.

b. From 14 to 15 May 2018, CICC, the scheme administrator, purchased a total of 3,318,540 Midea Group shares at an average price of RMB54.98/share from the secondary market. The funds used for the share purchase were sourced from Midea Group's special fund for this scheme of RMB182.50 million. As such, the shares needed by this scheme have been purchased, with a lock-up period from 16 May 2018 to 15 May 2019.

J. Overview of the First Business Partner Stock Ownership Scheme

a. The First Core Management and Business Partner Stock Ownership Scheme was approved at the 30th Meeting of the 2nd Board of Directors on 29 March 2018 and the 2017 Annual General Meeting of

Shareholders on 23 April 2018. As resolved by a meeting of the partners of the First Business Partner Stock Ownership Scheme, China International Capital Corporation Limited (CICC) was entrusted to conduct the “CICC Directional Asset Management Scheme for Midea Group’s First Business Partner Stock Ownership Scheme” with Midea Group shares purchased from the secondary market.

b. From 14 to 15 May 2018, CICC, the scheme administrator, purchased a total of 1,779,300 Midea Group shares at an average price of RMB54.98/share from the secondary market. The funds used for the share purchase were sourced from Midea Group’s special fund for this scheme and part of the senior management’s performance bonuses of an aggregate amount of RMB97.85 million. As such, the shares needed by this scheme have been purchased, with a lock-up period from 16 May 2018 to 15 May 2019.

K. Overview of the 2017 Restricted Share Incentive Scheme

a. In light of the authorization given at the 2016 Annual General 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.

b. 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.

c. 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.

d. The *Proposal on the Cancellation of the Remaining Reserved Restricted Shares for 2017* was approved at the 30th Meeting of the 2nd Board of Directors on 29 March 2018. The Company decided to cancel the remaining 75,000 such shares as there were no other personnel that met the conditions for the restricted share incentives within the effective period.

e. The *Proposal on the Repurchase and Retirement of Certain Incentive Shares under the 2017 Restricted Share Incentive Scheme* was approved at the 34th Meeting of the 2nd Board of Directors on 21 May 2018. As such, it was agreed to repurchase and retire 1,701,834 restricted shares that had been granted to 31 personnel but were still in lockup, for the reason of their departure, violation of company rules, business unit's 2017 performance appraisal result being "just so-so", positional change or other factors.

Also, the *Proposal on the Satisfaction of the Conditions for the First Unlocking Period for the First Phase of the 2017 Restricted Share Incentive Scheme* was approved at the aforesaid meeting. A total of 131 personnel were eligible for this unlocking, with 7,198,166 restricted shares unlocked and allowed for public trading, accounting for 0.11% of the Company's existing total shares.

f. Up to 29 June 2018, the Company had returned an aggregate amount of RMB28,810,587.24 in cash to the incentive receivers, representing a decrease of RMB1,701,834.00 in share capital and a decrease of RMB27,108,753.24 in capital reserves. This matter was verified by GP Certified Public Accountants, which issued the *Capital Verification Report* GP CV [2018] No. G18026510012.

The Company submitted the application to China Securities Depository and Clearing Co., Ltd. (Shenzhen branch) for the retirement of the 1,701,834 restricted shares that had been granted but were still in lockup. On 30 July 2018, as confirmed by the said institution, the retirement of the said restricted shares had been completed.

L. Overview of the 2018 Restricted Share Incentive Scheme

a. On 29 March 2018, the *2018 Restricted Share Incentive Scheme (Draft) of Midea Group Co., Ltd.* (hereinafter referred to as the "*2018 Restricted Share Incentive Scheme (Draft)*") and its abstract were reviewed and approved at the 30th Meeting of the 2nd Board of Directors, and the incentive receiver list for the *2018 Restricted Share Incentive Scheme (Draft)* was examined at the 22nd Meeting of the 2nd Supervisory Committee.

b. On 23 April 2018, the Company convened the 2017 Annual General Meeting of Shareholders, at which

the *Proposal on the 2018 Restricted Share Incentive Scheme (Draft) and Its Abstract*, the *Proposal on the Implementation and Appraisal Measures for the 2018 Restricted Share Incentive Scheme*, the *Proposal for Asking the Meeting of Shareholders to Authorize the Board to Handle Matters Related to the 2018 Restricted Share Incentive Scheme* and other relevant proposals were reviewed and approved. For this scheme, the Company intended to grant 25,010,000 restricted shares, including 22,210,000 restricted shares (88.80% of the total grant) to 344 incentive receivers for the first phase with the price being RMB28.77/share, and 2,800,000 reserved restricted shares (11.20% of the total grant).

c. In light of the authorization given at the 2017 Annual General Meeting of Shareholders, the Company convened the 33rd Meeting of the 2nd Board of Directors on 7 May 2018, 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 2018 Restricted Share Incentive Scheme*, the *Proposal for the Determination of the Grant Date for the First Phase of the 2018 Restricted Share Incentive Scheme* and the *Proposal for the Grant-Related Matters for the First Phase of the 2018 Restricted Share Incentive Scheme* were reviewed and approved. As such, the Company agreed to grant 22,150,000 restricted shares to 343 incentive receivers on 7 May 2018 for the first phase of the said scheme with the price revised from RMB28.77 per share to RMB27.57 per share.

d. For the first phase of this scheme, the Company intended to grant 22,150,000 restricted shares to 343 incentive receivers, but after the grant date, 24 of them decided to waive their subscription right to a total of 1,580,000 restricted shares. Therefore, the Company actually granted 20,570,000 restricted shares to 319 incentive receivers. GP Certified Public Accountants (LLP) issued the *Capital Verification Report* GP CV [2018] No. G18027340015 on 8 June 2018, verifying the increase in the Company's registered capital and the payment thereof as of 6 June 2018 due to the Company's issue of restricted shares of its A-stock to 319 incentive receivers in the first phase of its 2018 Restricted Share Incentive Scheme. As verified, as of 6 June 2018, the Company had received RMB567,114,900.00 from 319 incentive receivers for restricted share subscription, representing an increase of RMB20,570,000.00 in share capital and an increase of RMB546,544,900.00 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 2018 Restricted Share Incentive Scheme had been registered and were to go public on 21 June 2018.

12. Significant Related Transactions

12.1 Related transactions arising from routine operation

| 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 Group Co., Ltd. | Controlled by family member of Company's actual controller | Procurement | Procurement of goods | Market price | - | 61,486.90 | 0.68% | 155,000 | No | Payment after delivery | - | 31/03/2018 | www.cninfo.com.cn |
| Orinko Plastics Group | Controlled by family member of Company's actual controller | Procurement | Procurement of goods | Market price | - | 17,057.80 | 0.19% | 45,000 | No | Payment after delivery | - | 31/03/2018 | www.cninfo.com.cn |
| Total | | | | -- | -- | 78,544.70 | -- | 200,000 | -- | -- | -- | -- | -- |
| 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 | | | | The line for routine related transactions between the Company and the related parties and their subsidiaries did not exceed the total amount of routine related | | | | | | | | | |

| | |
|--|--|
| total amounts of routine related-party transactions by type to occur in the current period | transactions estimated by the Company by type. |
| Reason for any significant difference between the transaction price and the market reference price (if applicable) | N/A |

12.2 Related transactions regarding purchase or sales of assets or equity interests

Applicable N/A

No such cases in the Reporting Period.

12.3 Related transitions arising from joint investments in external parties

| Joint investor | Relationship with the Company | Investee | Core business of investee | Registered capital of investee | Total assets of investee (RMB'0,000) | Net assets of investee (RMB'0,000) | Net profit of investee (RMB'0,000) |
|---|---|---|--|--------------------------------|--------------------------------------|------------------------------------|------------------------------------|
| Guangdong Meizhi Investment Management Co., Ltd. | Controlled by Li Feide, a director of the Company | Midea Capital (Guangdong) Investment Management Co., Ltd. | Equity investment and management, asset management | RMB20 million | 1,000 | 1,000 | 0 |
| Progress of any major ongoing construction of the investee (if any) | N/A | | | | | | |

12.4 Credits and liabilities with related parties

Applicable N/A

No such cases in the Reporting Period.

12.5 Other significant related transactions

The *Proposal for Related Transactions Regarding Making Deposits in and Obtaining Loans from Shunde Rural Commercial Bank in 2018* was reviewed and approved at the 30th Meeting of the 2nd Board of

Directors held on 29 March 2018 and later at the 2017 Annual General Meeting of Shareholders held on 23 April 2018.

In 2018, the deposit balance of the Company in Shunde Rural Commercial Bank shall not exceed RMB5 billion and neither shall 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 2018 | 31/03/2018 | www.cninfo.com.cn |

13. 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.

14. Significant Contracts and Their Execution

14.1 Trusteeship, contracting and leasing

14.1.1 Trusteeship

Applicable N/A

No such cases in the Reporting Period.

14.1.2 Contracting

Applicable N/A

No such cases in the Reporting Period.

14.1.3 Leasing

Applicable N/A

No such cases in the Reporting Period.

14.2 Major Guarantees

14.2.1 Guarantees provided

Unit: RMB'0,000

| Guarantees provided by the Company 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. | 2018-3-31 | 1,100 | - | 0 | Joint liability | One year | No | No |
| Total external guarantee line approved during the Reporting Period (A1) | | | 1,100 | Total actual external guarantee amount during the Reporting Period (A2) | | | | 0 |
| Total approved external guarantee line at the end of the Reporting Period (A3) | | | 1,100 | 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 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 |
| Midea Group Finance Co., Ltd. | 2018-3-31 | 838,000 | 2018-2-28 | 0 | Joint liability | One year | No | No |
| Guangdong Midea Refrigeration Equipment Co., Ltd. | 2018-3-31 | 1,188,600 | 2018-1-11 | 7,784 | Ditto | Ditto | Ditto | Ditto |
| Guangzhou Hualing Refrigeration Equipment Co., Ltd. | 2018-3-31 | 119,600 | 2018-2-9 | 33 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd. | 2018-3-31 | 396,000 | 2018-1-8 | 37,501 | Ditto | Ditto | Ditto | Ditto |
| Foshan Shunde Midea Washing Appliance Manufacturing Co., Ltd. | 2018-3-31 | 207,000 | 2018-1-12 | 25,618 | Ditto | Ditto | Ditto | Ditto |

| | | | | | | | | |
|--|-----------|---------|-----------|--------|-------|-------|-------|-------|
| Guangdong Witt Vacuum Electronics Manufacturing Co., Ltd. | 2018-3-31 | 18,000 | 2018-1-12 | 34 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea Precision Mold Technology Co., Ltd. | 2018-3-31 | 11,400 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Guangdong AEG Electrical Appliances Co., Ltd. | 2018-3-31 | 36,000 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea Heating & Ventilation Equipment Co., Ltd. | 2018-3-31 | 133,200 | 2018-1-2 | 14,833 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea-SIIX Electronics Co., Ltd. | 2018-3-31 | 15,120 | 2018-1-8 | 74 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea Consumer Electric Manufacturing Co., Ltd. | 2018-3-31 | 5,000 | 2018-1-16 | 830 | Ditto | Ditto | Ditto | Ditto |
| Foshan Shunde Midea Electric Appliance Manufacturing Co., Ltd. | 2018-3-31 | 10,000 | 2018-1-10 | 277 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea Kitchen & Bathroom Appliances Manufacturing Co., Ltd. | 2018-3-31 | 3,000 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Foshan Shunde Midea Drinking Manufacturing Co., Ltd. | 2018-3-31 | 45,600 | 2018-1-9 | 2,450 | Ditto | Ditto | Ditto | Ditto |
| Foshan Midea Clear Lake Water Purification Equipment Manufacturing Co., Ltd. | 2018-3-31 | 3,600 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea Environment Appliances Manufacturing Co., Ltd. | 2018-3-31 | 35,200 | 2018-4-27 | 0 | Ditto | Ditto | Ditto | Ditto |
| Guangdong GMCC Refrigeration Equipment Co., Ltd. | 2018-3-31 | 14,000 | 2018-1-9 | 3,155 | Ditto | Ditto | Ditto | Ditto |
| Guangdong GMCC Precise Manufacture Co., Ltd. | 2018-3-31 | 9,000 | 2018-3-13 | 716 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Welling Motor Co., Ltd. | 2018-3-31 | 11,600 | 2018-1-9 | 847 | Ditto | Ditto | Ditto | Ditto |
| Foshan Welling Washer Motor Manufacturing Co., Ltd. | 2018-3-31 | 36,200 | 2018-1-2 | 905 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea Environment Technology Co., Ltd. | 2018-3-31 | 4,800 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Ningbo Midea Joint Materials Supply Co. Ltd. | 2018-3-31 | 44,880 | 2018-1-9 | 10,800 | Ditto | Ditto | Ditto | Ditto |
| Foshan Welling Material Co., Ltd. | 2018-3-31 | 3,000 | 2018-1-26 | 2,250 | Ditto | Ditto | Ditto | Ditto |
| Guangzhou Kaizhao Trading Co., Ltd. | 2018-3-31 | 720 | 2018-1-12 | 1,367 | Ditto | Ditto | Ditto | Ditto |

| | | | | | | | | |
|--|-----------|---------|-----------|-------|-------|-------|-------|-------|
| Guangdong Midea Smart Robots Co., Ltd. | 2018-3-31 | 2,400 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Midea Group Electronics Commerce Co., Ltd. | 2018-3-31 | 6,000 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Annto Logistics Technology Co., Ltd. | 2018-3-31 | 4,000 | 2018-3-9 | 320 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea Group Wuhu Refrigeration Equipment Co., Ltd. | 2018-3-31 | 172,000 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Wuhu GMCC Air Conditioning Equipment Co., Ltd. | 2018-3-31 | 11,000 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Wuhu Midea Kitchen Appliances Manufacturing Co., Ltd. | 2018-3-31 | 14,600 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Hefei Hualing Co., Ltd. | 2018-3-31 | 6,000 | 2018-4-13 | 66 | Ditto | Ditto | Ditto | Ditto |
| Hubei Midea Refrigerator Co., Ltd. | 2018-3-31 | 48,000 | 2018-2-5 | 0 | Ditto | Ditto | Ditto | Ditto |
| Hefei Midea Refrigerator Co., Ltd. | 2018-3-31 | 88,660 | 2018-4-10 | 2,000 | Ditto | Ditto | Ditto | Ditto |
| Guangzhou Midea Hualing Refrigerator Equipment Co., Ltd. | 2018-3-31 | 40,000 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Hefei Midea Heating & Ventilation Equipment Co., Ltd. | 2018-3-31 | 9,000 | 2018-1-1 | 1,542 | Ditto | Ditto | Ditto | Ditto |
| Hefei Midea & SIIX Electronics Co., Ltd. | 2018-3-31 | 10,500 | 2018-1-1 | 1,159 | Ditto | Ditto | Ditto | Ditto |
| Hefei Midea-Bosch Air Conditioning Equipment Co., Ltd. | 2018-3-31 | 1,000 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Wuhu Midea Kitchen & Bathroom Electric Manufacturing Co., Ltd. | 2018-3-31 | 38,400 | 2018-1-12 | 1,890 | Ditto | Ditto | Ditto | Ditto |
| Anhui GMCC Refrigeration Equipment Co., Ltd. | 2018-3-31 | 3,000 | 2018-2-27 | 0 | Ditto | Ditto | Ditto | Ditto |
| Anhui GMCC Precise Manufacture Co., Ltd. | 2018-3-31 | 3,600 | 2018-3-1 | 71 | Ditto | Ditto | Ditto | Ditto |
| Welling (Wuhu) Motor Manufacturing Co., Ltd. | 2018-3-31 | 2,400 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Hefei Midea Washing Machine Co., Ltd. | 2018-3-31 | 127,000 | 2018-1-18 | 633 | Ditto | Ditto | Ditto | Ditto |
| Jiangsu Midea Cleaning Appliances Co., Ltd. | 2018-3-31 | 33,500 | 2018-1-10 | 546 | Ditto | Ditto | Ditto | Ditto |

| | | | | | | | | |
|--|-----------|---------|-----------|---------|-------|-------|-------|-------|
| Chongqing Midea General Refrigeration Equipment Co., Ltd. | 2018-3-31 | 4,000 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Jiangxi Midea Guiya Lighting Co., Ltd. | 2018-3-31 | 19,700 | 2018-6-8 | 230 | Ditto | Ditto | Ditto | Ditto |
| Changzhou Welling Motor Co., Ltd. | 2018-3-31 | 2,400 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Huai'an Welling Motor Co., Ltd. | 2018-3-31 | 2,000 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Zhejiang GMCC Compressor Co., Ltd. | 2018-3-31 | 180,000 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Midea International Holdings Ltd. | 2018-3-31 | 667,844 | 2018-1-1 | 211,504 | Ditto | Ditto | Ditto | Ditto |
| Midea International Trading Co., Ltd | 2018-3-31 | 83,350 | 2018-1-1 | 38,569 | Ditto | Ditto | Ditto | Ditto |
| Midea Investment and Development Co., Ltd. | 2018-3-31 | 700,000 | 2018-1-1 | 457,516 | Ditto | Ditto | Ditto | Ditto |
| Main Power Electrical Factory Ltd | 2018-3-31 | 34,806 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Midea Electric Investment (BVI) Limited | 2018-3-31 | 80,780 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Midea Refrigeration (Hong Kong) Ltd. | 2018-3-31 | 3,500 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Welling International Hong Kong Limited | 2018-3-31 | 32,100 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Midea Electric Trading (Singapore) Co. Pte. Ltd. | 2018-3-31 | 538,400 | 2018-1-5 | 60,551 | Ditto | Ditto | Ditto | Ditto |
| Toshiba Lifestyle Products & Services Corporation and its subsidiaries | 2018-3-31 | 419,760 | 2018-1-15 | 14,618 | Ditto | Ditto | Ditto | Ditto |
| Midea Consumer Electric (Vietnam) Co., Ltd. | 2018-3-31 | 13,000 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Springer Carrier Ltda. | 2018-3-31 | 126,100 | 2018-1-4 | 40,116 | Ditto | Ditto | Ditto | Ditto |
| Climazon Industrial Ltda. | 2018-3-31 | | | | Ditto | Ditto | Ditto | Ditto |
| Midea India private limited | 2018-3-31 | 6,900 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Carrier(Chile) S.A. | 2018-3-31 | 3,500 | 2018-1-30 | 4,184 | Ditto | Ditto | Ditto | Ditto |

| | | | | | | | | | |
|--|--|-------------------|--|---|-------------------|-------------------|------------|--------------------------------------|--|
| Midea Middle East | 2018-3-31 | 10,300 | - | 0 | Ditto | Ditto | Ditto | Ditto | |
| Midea America (Canada) Corp. | 2018-3-31 | 5,500 | - | 0 | Ditto | Ditto | Ditto | Ditto | |
| Midea Austria GmbH | 2018-3-31 | 3,400 | - | 0 | Ditto | Ditto | Ditto | Ditto | |
| Midea Electric Trading (Thailand) Limited | 2018-3-31 | 10,300 | 2018-2-15 | 600 | Ditto | Ditto | Ditto | Ditto | |
| Midea America Corp. | 2018-3-31 | 18,200 | - | 0 | Ditto | Ditto | Ditto | Ditto | |
| PT. Midea Planet Indonesia | 2018-3-31 | 15,100 | - | 0 | Ditto | Ditto | Ditto | Ditto | |
| Midea Europe GmbH | 2018-3-31 | 6,900 | - | 0 | Ditto | Ditto | Ditto | Ditto | |
| Midea México, S. De R.L. De C.V. | 2018-3-31 | 13,800 | - | 0 | Ditto | Ditto | Ditto | Ditto | |
| Midea Electric Netherlands (I) B.V. | 2018-3-31 | 2,960,000 | 2018-1-1 | 2,893,044 | Ditto | Ditto | Ditto | Ditto | |
| Total guarantee line for subsidiaries approved during the Reporting Period (B1) | | 9,772,220 | | Total actual guarantee amount for subsidiaries during the Reporting Period (B2) | | | 4,294,447 | | |
| Total approved guarantee line for subsidiaries at the end of the Reporting Period (B3) | | 9,772,220 | | Total actual guarantee balance for subsidiaries at the end of the Reporting Period (B4) | | | 3,838,633 | | |
| 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) | | 9,773,320 | | Total actual guarantee amount during the Reporting Period | | | 4,294,447 | | |

| | | | |
|---|-----------|--|-----------|
| | | (A2+B2+C2) | |
| Total approved guarantee line at the end of the Reporting Period (A3+B3+C3) | 9,773,320 | Total actual guarantee balance at the end of the Reporting Period (A4+B4+C4) | 3,838,633 |
| Proportion of the total actual guarantee amount (A4+B4+C4) in net assets of the Company | | | 48.41% |
| 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) | | | 3,460,921 |
| 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) | | | 3,460,921 |
| Joint responsibilities possibly borne for undue guarantees (if any) | | | N/A |
| Provision of external guarantees in breach of the prescribed procedures (if any) | | | N/A |

14.2.2 Illegal provision of guarantees for external parties

Applicable N/A

No such cases in the Reporting Period.

14.3 Other significant contracts

Applicable N/A

No such cases in the Reporting Period.

15. Social Responsibility (CSR)

15.1 Major environmental issues

| Name of the Company or subsidiary | Major pollutants | Discharge method | Number of discharge outlets | Distribution of discharge outlets | Concentration of the discharge | Pollutant discharge standards | Total discharge (kg) | Approved total discharge (kg) | Excess discharge |
|-----------------------------------|------------------|----------------------------------|-----------------------------|---|--------------------------------|---|----------------------|-------------------------------|------------------|
| Guangdong Midea Kitchen | COD | Discharge after being treated by | 1 | The eastern side of wastewater treatment in | 110 mg/L | The emission limit of water pollutants in | 12,129 | 47,520 | No |

| | | | | | | | | | |
|---|---|--|---|--|-------------------------|---|--------|--------|----|
| Appliances Manufacturing Co., Ltd | | wastewater treatment system and reaching the standard | | Malong base | | Guangdong DB-44/26-2001 | | | |
| | Ammonia nitrogen | Discharge after being treated by wastewater treatment system and reaching the standard | | | 15 mg/L | | 263 | 6,480 | No |
| | Soot | High altitude discharge | 6 | 2 outlets at the western side of A1 plant, 4 outlets at the western side of A2 plant | 200 mg/m ³ | The emission limit of air pollutants from industrial furnace GB-9078-1996 | 4,525 | 40,480 | No |
| | Sulfur dioxide | High altitude discharge | | | 22 mg/m ³ | | 1,771 | 10,210 | No |
| | Nitrogen oxide | High altitude discharge | | | 98.2mg/m ³ | | 17,058 | 19,510 | No |
| Anhui GMCC Precise Manufacturing Co., Ltd | COD | Discharge after being treated by wastewater treatment system and reaching the standard | 1 | At the southern side of No.6 shift building at the northern side of plant | 49 mg/L | 《comprehensive wastewater discharge standard》(GB8978-1996) chart 4 third-level standard | 16,170 | 33,000 | No |
| | Ammonia nitrogen | | | | 5.07 mg/L | | 1,673 | 3,300 | No |
| | BOD | | | | 16.1 mg/L | | 5,313 | 16,500 | No |
| | SS | | | | 9 mg/L | | 2,970 | 16,500 | No |
| | Petroleum products | | | | 3.28 mg/L | | 1,082 | 6,600 | No |
| | Particles | Collected by gas trap hood+21m high exhaust cylinder | 9 | 1-8# discharge outlet for the welding waste gas | 28.23 mg/m ³ | 120 (comprehensive emission standard of air pollutants GB16297-1996 chart 2 second-level) | 16,596 | 36,000 | No |
| | 9#-10# discharge outlet for the welding waste gas | 31.2mg/m ³ | | | | | | | |
| | Stator + rotor heat-treating furnace | 13.5mg/m ³ | | 200 (emission standard of air pollutants for | 3,317 | No | | | |

| | | | | | | | | |
|----------------|---|---|--|------------------------|---|-------|--------|----|
| | | | 2#discharge outlet | | industrial kiln and furnace GB9078-1996 chart 2 second-level) | | | |
| | | | 2#stator heat-treating furnace 3#discharge outlet | 39.9mg/m ³ | | | | |
| | | | Stator + rotor heat-treating furnace 1#discharge outlet | 192 mg/m ³ | | | | |
| | | | The head of discharge outlet of 3#stator furnace | 30.4 mg/m ³ | | | | |
| | | | The head of discharge outlet of 2# stator furnace and 4#rotor furnace | 30.2 mg/m ³ | | | | |
| | | | The tail of 3# and 4# stator furnace and the general discharge outlet of four melting aluminum furnace | 79.5mg/m ³ | | | | |
| | | | The discharge outlet for the waste gas of melting aluminum furnace | 29.1mg/m ³ | | | | |
| | | | | | | | | |
| Sulfur dioxide | Collected by gas trap hood +21m high exhaust cylinder | 7 | Stator + rotor heat-treating furnace 2#discharge outlet | 68 mg/m ³ | 850 (comprehensive emission standard of air pollutants for industrial furnace GB9078-1996 chart 2 second-level) | 7,142 | 20,000 | No |
| | | | 2# stator heat-treating furnace 3#discharge outlet | 602 mg/m ³ | | | | |
| | | | Stator +rotor | ND | | | | |

| | | | | | | | | | |
|----------------|---|---|--|-------------------------|---|-------|--------|----|--|
| | | | heat-treating furnace 1# discharge outlet | | | | | | |
| | | | The head of discharge outlet of 3# stator furnace | 245mg/m ³ | | | | | |
| | | | The head of discharge outlet of 2#stator furnace and the 4#rotor furnace | 146 mg/m ³ | | | | | |
| | | | The tail of 3# and 4#stator furnace and the general discharge outlet for 4 melting aluminum furnaces | 124 mg/m ³ | | | | | |
| | | | The discharge outlet for waste gas of melting aluminum furnace | 136 mg/m ³ | | | | | |
| Nitrogen oxide | Collected by gas trap hood +21m high exhaust cylinder | 3 | Stator + rotor heat-treating furnace2#discharge outlet | 244 mg/m ³ | / | 8,028 | 18,000 | No | |
| | | | 2#stator heat-treating furnace 3#discharge outlet | 790 mg/m ³ | | | | | |
| | | | Stator + rotor heat-treating furnace 1#discharge outlet | 275 mg/m ³ | | | | | |
| VOCs | Direct-fired waste gas incinerator +21m high exhaust cylinder | 2 | 1-4#discharge outlet for drying waste gas | 13.09 mg/m ³ | 120 (comprehensive discharge standard of air pollutant GB16297-1996 | 2,947 | 5,000 | No | |
| | | | 5-10#discharge outlet for drying waste gas | 30.36 mg/m ³ | | | | | |

| | | | | | | | | | |
|--|------------------|---|---|----------------------|-------------------------|--|-------|--------|----|
| | | | | | | chart 2 the second level) | | | |
| Guangdong Midea Refrigeration Equipment Co., Ltd | COD | Discharge after being treated by wastewater treatment station | 1 | 4#Southeastern plant | 39 mg/L | Wastewater discharge standard for Guangdong electroplating industry (DB441597-2015) chart 2The standard of Pearl River Delta | 2,318 | 14,600 | No |
| | Ammonia nitrogen | Discharge after being treated by wastewater treatment station | | 4#Southeastern plant | 0.631 mg/L | | 1,510 | | No |
| | Total VOCs | High altitude discharge | 4 | 4#plant | 10.26 mg/m ³ | 《VOC Emission Standards for Furniture Manufacturing Industry》(DB44/814-2010) the second time period | 87 | 5,930 | No |

The construction of pollution prevention facilities and their operation

During the Reporting Period, all subsidiaries have strictly abided by the laws and regulations related to environment protection, and no major environmental pollution incidents occurred. All subsidiaries have set up reliable waste water and gas treatment systems. Through regular monitoring, supervision and inspection mechanisms, as well as third-party testing, it is ensured that the discharge of waste water, waste gas and solid waste during the production and operation process meets the national and local laws and regulations. There is no excessive discharge by any subsidiary, which is in compliance with the relevant requirements of the environment administrations. The specific treatments for waste water, waste gas and solid wastes are as follows:

A. Waste water treatments: The waste water from subsidiaries is classified as household waste water and industrial waste water. Household waste water is discharged to the municipal waste water treatment network and waste water treatment plants after being pre-treated in septic tanks, etc. And industrial waste water is discharged to the municipal waste water treatment network and waste water treatment plants after being pre-treated in the subsidiaries' waste water treatment stations.

B. Waste gas treatments: The waste gas from subsidiaries is mainly the industrial waste gas and dust produced during the production process. Corresponding waste gas treatment systems have been set up for different types of waste gas. The waste gas is let out at a high altitude after being treated in the corresponding treatment system. As for dust, the polishing machines operate in a closed environment, with a fully automated cleaner sucking in the dust in the waste gas.

C. Solid waste treatments: The solid waste from subsidiaries is classified into general solid waste, hazardous solid waste, and household solid waste. Hazardous solid waste, according to laws and regulations, is required to be treated by qualified treatment institutions; general solid waste, after being classified at the subsidiaries, is collected and treated by resource recycling plants; and household solid waste is treated by the local sanitation administration, which is in compliance with the relevant regulations.

The environmental effect evaluation of construction projects and other administrative permits in relation to environmental protection

All subsidiaries strictly observe the laws and regulations governing environmental protection, and all construction projects are in compliance with the environmental effect requirements and other rules, with no misdeeds during the Reporting Period. Once a construction project is finished, a third-party testing institution is hired to examine indexes including waste water, waste gas and noise, and the compilation and approval of the environmental effect evaluation report is finished in time.

Contingency plans for environmental accidents

All subsidiaries have finished the compilation and approval of their contingency plans for environmental accidents. Emergency mechanisms for environmental pollution accidents have been established and improved, and the subsidiaries' ability to deal with environmental pollution accidents has been enhanced, so as to maintain social stability, protect the lives, health and properties of the public, protect the environment, and promote a comprehensive, coordinated and sustainable development of the society. According to the accident levels, subsidiaries have formulated rules covering working principles, contingency plans, risk prevention measures, commanding departments, responsibilities and labor division, and have filed these contingency plans with the government.

Environment self-monitoring plans

All subsidiaries have formulated their own environment self-monitoring plans according to China's relevant laws and regulations, and have entrusted third-party qualified institutions to monitor the discharge of waste including waste water and waste gas on a regular basis. Meanwhile, 11 factories have

been equipped with an online waste water monitoring system, and such a system is underway for other operations.

Other environment-related information that should be made public

According to the national and local laws and regulations, information including pollutant discharge information, the construction and operation of pollution prevention facilities, environmental effect evaluations of construction projects and other administrative permits in relation to environmental protection, contingency plans for environmental accidents, and environment self-monitoring results is all made public through the official WeChat account on a regular basis.

Other environment-related information

None

15.2 Measures taken for targeted poverty alleviation

15.2.1 Summary of the work done for targeted poverty alleviation during the Reporting Period

Midea attaches great importance to helping those in need as a way to meet its social responsibility and give back to society. In 2018, in response to the call of the Guangdong provincial government and the government's office, Midea has been trying to help reduce poverty through industrial development, creating more jobs and giving donations for public welfare. It has donated RMB10 million to the Beijiao Town Charity Federation for a ninth consecutive year for poverty alleviation and public welfare. And another RMB10 million has been given on the Guangdong Poverty Alleviation Day to improve education, medical care and housing in poor villages of the province.

15.2.2 Targeted poverty alleviation plans for the coming future

To support rural revitalization, Midea Group has signed a co-working framework agreement with the Huanglong Village (in Beijiao Town, Shunde District, Guangdong Province). According to the framework, it will donate approximately RMB16.98 million in total to support two projects of the village, including building a new provincial kindergarten and renovating the existing kindergarten as part of the Huanglong Academy, which emphasizes party building.

Moreover, to help with the Foshan city's poverty alleviation support for Liangshan, Sichuan Province under an east and west China co-working poverty alleviation framework, Midea has undertaken to donate RMB100 million for new housing, industrial development, vocational education and labour service

introduction for the local Yi people in Liangshan in June 2018.

16. Other Significant Events

The *Proposal on the Plan for the Repurchase of Some Public Shares* was approved at the 37th Meeting of the 2nd Board of Directors on 4 July 2018 and later at the 2018 First Extraordinary General Meeting of Shareholders on 23 July 2018. As such, the Company was agreed to repurchase, with its own capital of no more than RMB4 billion, some of its shares through bidding at the stock exchange at a price not exceeding RMB50/share. The *Report on the Repurchase of Some Public Shares* was disclosed on 26 July 2018.

As per the *Measures for the Administration of Listed Companies' Repurchasing Shares Held by the Public (Trial)*, the *Supplementary Provisions on the Share Repurchase by Listed Companies by Means of Centralized Bidding*, the *Guides of the Shenzhen Stock Exchange for the Share Repurchase by Listed Companies by Means of Centralized Bidding*, and other applicable rules, the Company shall disclose the share repurchase progress in its periodic reports.

Up to 17 August 2018 (share repurchase is not allowed within the 10 trading days before the disclosure of a periodic report according to the *Guides of the Shenzhen Stock Exchange for the Share Repurchase by Listed Companies by Means of Centralized Bidding*), the Company had accumulatively repurchased 39,332,706 shares (0.5921% of the Company's total shares on 30 August 2018) with a total payment of around RMB1.8 billion (to be specific, RMB1,799,726,974.66, exclusive of transaction charges), with the highest trading price being RMB48.40/share and the lowest being RMB42.12/share.

17. 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 | 212,022,910 | 3.23 | 25,955,000 | 0 | 0 | -91,356,275 | -65,401,275 | 146,621,635 | 2.21 |
| 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 | 211,272,910 | 3.22 | 24,645,000 | 0 | 0 | -91,046,275 | -66,401,275 | 144,871,635 | 2.19 |
| Among which: Shares held by domestic corporations | 82,500,000 | 1.26 | | 0 | 0 | -82,500,000 | -82,500,000 | 0 | 0 |
| Shares held by domestic individuals | 128,772,910 | 1.96 | 24,645,000 | 0 | 0 | -8,546,275 | 16,098,725 | 144,871,635 | 2.19 |
| 1.4 Shares held by foreign investors | 750,000 | 0.01 | 1,310,000 | 0 | 0 | -310,000 | 1,000,000 | 1,750,000 | 0.02 |

| | | | | | | | | | |
|--|---------------|-------|------------|---|---|------------|-------------|---------------|-------|
| Among which: Shares held by foreign corporations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Shares held by foreign individuals | 750,000 | 0.01 | 1,310,000 | 0 | 0 | -310,000 | 1,000,000 | 1,750,000 | 0.02 |
| 2. Non-restricted shares | 6,349,030,409 | 96.77 | 41,605,028 | 0 | 0 | 89,654,441 | 131,259,469 | 6,480,289,878 | 97.79 |
| 2.1 RMB common shares | 6,349,030,409 | 96.77 | 41,605,028 | 0 | 0 | 89,654,441 | 131,259,469 | 6,480,289,878 | 97.79 |
| 2.2 Domestically listed shares for foreign investors | 0 | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2.3 Overseas listed shares for foreign investors | 0 | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2.4 Other | 0 | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Total shares | 6,561,053,319 | 100 | 67,560,028 | 0 | 0 | -1,701,834 | 65,858,194 | 6,626,911,513 | 100 |

Reasons for the changes in shares

- a. 5,385,000 reserved restricted shares were granted to 54 employees for the Company's 2017 Restricted Share Incentive Scheme, of which 240,000 were granted to foreign employees who work in China.
- b. 20,570,000 restricted shares were granted to 319 employees for the first phase of the Company's 2018 Restricted Share Incentive Scheme, of which 1,070,000 were granted to foreign employees who work in China.
- c. As the conditions for the first unlocking period for the first phase of the 2017 Restricted Share Incentive Scheme had been satisfied, the 7,198,166 restricted shares of a total of 131 eligible employees were unlocked and allowed for public trading, including 250,000 restricted shares of foreign employees who work in China.
- d. The repurchase and retirement of 1,701,834 shares under the 2017 Restricted Share Incentive Scheme was completed on 30 July 2018.
- e. The 82,500,000 restricted shares held by Xiaomi Technology Co., Ltd. were unlocked and allowed for public trading.

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

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 reserved restricted shares under 2017 Restricted Share Incentive Scheme <input type="checkbox"/> | 0 | 0 | 5,385,000 | 5,235,000 | Lockup according to the Scheme | 29 December 2018 |
| Incentive receivers of 2018 Restricted Share Incentive Scheme | 0 | 0 | 20,570,000 | 20,570,000 | Lockup according to the Scheme | 7 May 2020 |
| Incentive receivers of 2017 Restricted Share Incentive Scheme (first phase) <input type="checkbox"/> | 23,130,000 | 7,198,166 | 0 | 14,380,000 | Lockup according to the Scheme | 12 May 2018 |
| Xiaomi Technology Co., Ltd. | 82,500,000 | 82,500,000 | 0 | 0 | Promised lockup of privately issued shares | 29 June 2018 |
| Li Feide | 843,750 | 0 | 17,500 | 861,250 | Lockup for senior management position | |
| Zhang Xiaoyi | 0 | 0 | 53,725 | 53,725 | Lockup of new shares for senior management position | |
| Jiang Peng | 458,750 | 27,500 | 0 | 431,250 | Lockup for senior management position | |
| Total | 106,932,500 | 89,725,666 | 26,026,225 | 41,531,225 | -- | -- |

Notes: 150,000 reserved restricted shares under the 2017 Restricted Share Incentive Scheme that had been granted but were still in lockup were retired on 30 July 2018, reducing the closing restricted shares by 150,000 shares.

1,551,834 restricted shares for the first phase of the 2017 Restricted Share Incentive Scheme that had been granted but

were still in lockup were retired on 30 July 2018, reducing the closing restricted shares by 1,551,834 shares.

2. Issuance and Listing of Securities

Applicable N/A

3. Total Number of Shareholders and Their Shareholdings

Unit: share

| Total number of common shareholders at the end of the Reporting Period | | 165,179 | | Total number of preference shareholders with resumed voting rights at the period-end (if any) | | 0 | | |
|--|--------------------------------------|------------------------------|--|---|---|---|--------------------------|-------------|
| 5% or greater common shareholders or top 10 common shareholders | | | | | | | | |
| Name of shareholder | Nature of shareholder | Share holding percentage (%) | Total common shares held at the period-end | Increase/d decrease during the Reporting Period | Number of restricted common shares held | Number of non-restricted common shares held | Pledged or frozen shares | |
| | | | | | | | Status | Shares |
| Midea Holding Co., Ltd. | Domestic non-state-owned corporation | 33.37 | 2,212,046,613 | 0 | 0 | 2,212,046,613 | Pledged | 666,065,000 |
| Hong Kong Exchanges and Clearing Limited | Foreign corporation | 11.59 | 768,294,661 | 141,347,166 | 0 | 768,294,661 | - | - |
| China Securities Finance Co., Ltd. | State-owned corporation | 4.09 | 271,434,266 | 48,756,611 | 0 | 271,434,266 | - | - |
| Fang Hongbo | Domestic individual | 2.07 | 136,990,492 | 0 | 102,742,869 | 34,247,623 | - | - |
| Hillhouse Capital Management Limited—HCM China Fund | Foreign corporation | 1.62 | 107,658,338 | -6,232,800 | 0 | 107,658,338 | - | - |
| Huang Jian | Domestic individual | 1.33 | 88,005,400 | 25,400 | 0 | 88,005,400 | Pledged | 22,999,900 |
| Xiaomi Technology Co., Ltd. | Domestic non-state-owned corporation | 1.24 | 82,500,000 | 0 | 0 | 82,500,000 | - | - |

| Central Huijin Asset Management Ltd. | State-owned corporation | 1.18 | 78,474,900 | 0 | 0 | 78,474,900 | - | - |
|--|---|------------------|---------------|------------|---|------------|---------|-----------|
| Canada Pension Plan Investment Board – self-owned capital (stock exchange) | Foreign corporation | 1.09 | 72,309,875 | 47,145,264 | 0 | 72,309,875 | - | - |
| Li Jianwei | Domestic individual | 0.89 | 59,176,770 | -4,968,064 | 0 | 59,176,770 | Pledged | 5,400,000 |
| Strategic investors or general corporations becoming top-ten common shareholders due to placing of new shares (if any) | N/A | | | | | | | |
| Related-parties or acting-in-concert parties among the shareholders above | N/A | | | | | | | |
| Top 10 non-restricted common shareholders | | | | | | | | |
| Name of shareholder | Number of non-restricted common 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 | 768,294,661 | RMB common stock | 768,294,661 | | | | | |
| China Securities Finance Co., Ltd. | 271,434,266 | RMB common stock | 271,434,266 | | | | | |
| Hillhouse Capital Management Limited – HCM China Fund | 107,658,338 | RMB common stock | 107,658,338 | | | | | |
| Huang Jian | 88,005,400 | RMB common stock | 88,005,400 | | | | | |
| Xiaomi Technology Co., Ltd. | 82,500,000 | RMB common stock | 82,500,000 | | | | | |
| Central Huijin Asset Management Ltd. | 78,474,900 | RMB common stock | 78,474,900 | | | | | |
| Canada Pension Plan Investment Board – self-owned capital (stock exchange) | 72,309,875 | RMB common stock | 72,309,875 | | | | | |
| Li Jianwei | 59,176,770 | RMB common stock | 59,176,770 | | | | | |
| Yuan Liqun | 54,916,850 | RMB common stock | 54,916,850 | | | | | |
| Related-parties or acting-in-concert parties among the top ten non-restricted common shareholders and between the top ten non-restricted common shareholders and the top ten common shareholders | N/A | | | | | | | |
| Explanation on the top 10 common shareholders participating in securities margin trading (if any) | N/A | | | | | | | |

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.

4. Change of Controlling Shareholder or Actual Controller in the Reporting Period

Change of the controlling shareholder during the Reporting Period

Applicable N/A

No such cases in the Reporting Period.

Change of the actual controller during the Reporting Period

Applicable N/A

No such cases in the Reporting Period.

Section VII Preference Shares

Applicable N/A

No such cases in the Reporting Period.

Section VIII Information about Directors, Supervisors and Senior Management

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

| Name | Office title | Incumbent / Former | Shares held at the year-begin (share) | Shares increased at the Reporting Period (share) | Shares decreased at the Reporting Period (share) | Shares held at the period-end (share) | Granted Restricted shares at the year-begin (share) | Restricted shares granted in the Reporting Period (share) | Granted restricted shares at the period-end (share) |
|----------------|---------------------|--------------------|---------------------------------------|--|--|---------------------------------------|---|---|---|
| Li Feide | Director | Incumbent | 1,335,000 | 100,000 | 0 | 1,435,000 | 210,000 | 100,000 | 240,000 |
| Hu Ziqiang | Vice President | Incumbent | 300,000 | 100,000 | 0 | 400,000 | 300,000 | 100,000 | 300,000 |
| Zhang Xiaoyi | Vice President | Incumbent | 258,300 | 100,000 | 0 | 358,300 | 210,000 | 100,000 | 240,000 |
| Xiao Mingguang | Director of Finance | Incumbent | 0 | 250,000 | 0 | 250,000 | 0 | 250,000 | 250,000 |
| Jiang Peng | Company Secretary | Incumbent | 575,000 | 0 | 143,700 | 431,300 | 0 | 0 | 0 |
| Total | -- | -- | 2,468,300 | 550,000 | 143,700 | 2,874,600 | 720,000 | 550,000 | 1,030,000 |

Note: Locked-up incentive shares were unlocked for trading in the public market on 31 May 2018 during the first unlocking period of the first phase of the 2017 Restricted Share Incentive Scheme, including 70,000 shares of Li Feide, 100,000 shares of Hu Ziqiang and 70,000 shares of Zhang Xiaoyi.

2. Changes in Directors, Supervisors and Senior Management

| Name | Office title | Type of change | Date | Reason |
|--------------|----------------|----------------|------------|-------------------------------|
| Zhang Xiaoyi | Vice President | Appointed | 2018-04-23 | Senior management appointment |

Section IX Corporate Bonds

Does the Company have any corporate bonds publicly offered on the stock exchange, which were undue before the date of this Report's approval or were due but could not be redeemed in full?

Yes No

Section X Financial Report

1. Auditor's Report

Have the H1 2018 financial statements been audited by a CPAs firm?

Yes No

The H1 2018 financial statements are unaudited by a CPAs firm.

2. Financial Statements

MIDEA GROUP CO., LTD.

CONSOLIDATED AND COMPANY BALANCE SHEETS

AS AT 30 JUNE 2018

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

[English translation for reference only]

| ASSETS | Note | 30 June 2018 | 31 December 2017 | 30 June 2018 | 31 December 2017 |
|-------------------------------------|-------------|--------------------|--------------------|--------------------|-------------------|
| | | Consolidated | Consolidated | Company | Company |
| Current assets: | | | | | |
| Cash at bank and on hand | 4(1) | 45,087,756 | 48,274,200 | 33,118,924 | 29,349,926 |
| Derivative financial assets | | 316,540 | 353,327 | - | - |
| Notes receivable | 4(2) | 16,777,243 | 10,854,226 | - | - |
| Accounts receivable | 4(3) | 20,537,867 | 17,528,717 | - | - |
| Advances to suppliers | 4(4) | 1,885,815 | 1,672,248 | 52,710 | 23,877 |
| Loans and advances | 4(5) | 15,474,368 | 12,178,953 | - | - |
| Dividends receivable | | - | - | 133,078 | 897,040 |
| Other receivables | 4(3), 17(1) | 2,027,623 | 2,657,568 | 10,217,662 | 8,403,564 |
| Inventories | 4(6) | 23,723,338 | 29,444,166 | - | - |
| Including: Completed but unsettled | | 4,309,124 | 4,023,467 | - | - |
| Other current assets | 4(7) | 46,376,007 | 46,847,271 | 30,118,604 | 27,311,464 |
| Total current assets | | 172,206,557 | 169,810,676 | 73,640,978 | 65,985,871 |
| Non-current assets: | | | | | |
| Available-for-sale financial assets | 4(8) | 2,044,442 | 1,831,051 | 61,768 | 56,868 |
| Long-term receivables | | 44,116 | 362,248 | - | - |
| Long-term equity investments | 4(9), 17(2) | 2,753,940 | 2,633,698 | 26,883,508 | 24,540,601 |
| Investment properties | | 411,198 | 420,802 | 572,008 | 597,200 |
| Fixed assets | 4(10) | 22,256,928 | 22,600,724 | 1,164,872 | 1,245,998 |
| Construction in progress | 4(11) | 1,562,256 | 879,576 | 54,093 | 36,313 |
| Intangible assets | 4(12) | 15,034,199 | 15,167,036 | 227,774 | 231,154 |
| Goodwill | 4(13) | 28,494,163 | 28,903,785 | - | - |
| Long-term prepaid expenses | | 908,621 | 859,106 | 148,393 | 121,452 |
| Deferred tax assets | 4(14) | 4,618,066 | 4,023,334 | 144,139 | 152,069 |
| Other non-current assets | | 663,315 | 614,822 | 13,711 | 9,700 |
| Total non-current assets | | 78,791,244 | 78,296,182 | 29,270,266 | 26,991,355 |
| TOTAL ASSETS | | 250,997,801 | 248,106,858 | 102,911,244 | 92,977,226 |

Legal representative:
Fang Hongbo

Person in charge of accounting function:
Xiao Mingguang

Person in charge of accounting department:
Chen Lihong

MIDEA GROUP CO., LTD.

**CONSOLIDATED AND COMPANY BALANCE SHEETS (CONT'D)
AS AT 30 JUNE 2018**

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

| Liabilities and shareholders' equity | Note | 30 June 2018 | 31 December 2017 | 30 June 2018 | 31 December 2017 |
|--|-------|--------------|------------------|--------------|------------------|
| | | Consolidated | Consolidated | Company | Company |
| Current liabilities: | | | | | |
| Short-term borrowings | 4(17) | 1,261,033 | 2,584,102 | - | - |
| Borrowings from the central bank | | 30,367 | - | - | - |
| Customer deposits and deposits from banks and other financial institutions | | 103,071 | 108,926 | - | - |
| Derivative financial liabilities | | 678,413 | 90,432 | - | - |
| Financial assets sold under repurchase agreements | | - | - | - | - |
| Notes payable | 4(18) | 24,345,348 | 25,207,785 | - | - |
| Accounts payable | 4(19) | 35,995,885 | 35,144,777 | - | - |
| Advances from customers | 4(20) | 11,009,217 | 17,409,063 | - | - |
| Including: Settled but not completed | | 1,633,114 | 1,670,855 | - | - |
| Employee benefits payable | 4(21) | 3,901,384 | 5,247,500 | 124,860 | 427,806 |
| Taxes payable | 4(22) | 4,355,575 | 3,544,154 | 134,595 | 45,179 |
| Interest payable | | 90,677 | 94,801 | 205,997 | 146,513 |
| Dividends payable | | 42,859 | 95,317 | 23,538 | - |
| Other payables | 4(23) | 3,444,684 | 3,170,405 | 66,698,166 | 57,867,535 |
| Current portion of non-current liabilities | | 6,726,551 | 136,605 | - | - |
| Other current liabilities | 4(24) | 32,191,163 | 26,257,990 | 27,532 | 40,830 |
| Total current liabilities | | 124,176,227 | 119,091,857 | 67,214,688 | 58,527,863 |
| Non-current liabilities: | | | | | |
| Long-term borrowings | 4(25) | 30,276,189 | 32,986,325 | - | - |
| Debentures payable | | - | 4,553,054 | - | - |
| Long-term payables | | 309,180 | 248,036 | - | - |
| Payables for specific projects | | 2,500 | 2,500 | - | - |
| Provisions | | 275,222 | 330,736 | - | - |
| Deferred revenue | | 559,456 | 536,443 | - | - |
| Long-term employee benefits payable | 4(26) | 2,430,786 | 2,465,854 | - | - |
| Deferred tax liabilities | 4(14) | 4,014,510 | 3,972,823 | - | - |
| Other non-current liabilities | | 1,015,129 | 994,059 | - | - |
| Total non-current liabilities | | 38,882,972 | 46,089,830 | - | - |
| Total liabilities | | 163,059,199 | 165,181,687 | 67,214,688 | 58,527,863 |
| Shareholders' equity: | | | | | |
| Share capital | 4(27) | 6,626,912 | 6,561,053 | 6,626,912 | 6,561,053 |
| Capital surplus | 4(28) | 17,323,156 | 15,911,504 | 9,590,860 | 7,726,237 |
| Less: Treasury stock | | (918,171) | (366,842) | (918,171) | (366,842) |
| Other comprehensive income | 4(29) | (644,579) | (244,692) | 130,373 | 33,459 |
| General reserve | | 366,947 | 366,947 | - | - |
| Surplus reserve | 4(30) | 3,882,232 | 3,882,232 | 3,882,232 | 3,882,232 |
| Undistributed profits | 4(31) | 52,665,296 | 47,627,235 | 16,384,350 | 16,613,224 |
| Total equity attributable to equity holders of the parent company | | 79,301,793 | 73,737,437 | 35,696,556 | 34,449,363 |
| Minority interests | | 8,636,809 | 9,187,734 | - | - |
| Total shareholders' equity | | 87,938,602 | 82,925,171 | 35,696,556 | 34,449,363 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 250,997,801 | 248,106,858 | 102,911,244 | 92,977,226 |

Legal representative:
Fang Hongbo

Person in charge of accounting function:
Xiao Mingguang

Person in charge of accounting department:
Chen Lihong

MIDEA GROUP CO., LTD.

CONSOLIDATED AND COMPANY INCOME STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

| Item | Note | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|--------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | | Consolidated | Consolidated | Company | Company |
| Total revenue | | 143,735,916 | 124,963,616 | 866,310 | 701,070 |
| Including: Operating revenue | 4(32), 17(3) | 142,623,837 | 124,450,065 | 866,310 | 701,070 |
| Interest income | 4(33) | 1,112,014 | 513,549 | - | - |
| Fee and commission income | | 65 | 2 | - | - |
| Total cost of sales | | (128,341,849) | (113,963,618) | 43,359 | (323,655) |
| Including: Cost of sales | 4(32) | (103,881,438) | (93,051,081) | (21,954) | (19,329) |
| Interest expenses | 4(33) | (168,235) | (165,666) | - | - |
| Fee and commission expense | | (1,529) | (1,661) | - | - |
| Taxes and surcharges | 4(34) | (847,650) | (754,771) | (17,701) | (3,779) |
| Selling and distribution expenses | 4(35) | (16,892,503) | (12,404,770) | - | - |
| General and administrative expenses | 4(36) | (7,234,520) | (6,832,958) | (167,898) | (105,438) |
| Financial expenses | 4(37) | 984,113 | (346,614) | 250,626 | (194,963) |
| Asset impairment losses | 4(38) | (300,087) | (406,097) | 286 | (146) |
| Add: Gains on changes in fair value | 4(39) | (613,928) | (9,523) | - | - |
| Investment income | 4(40), 17(4) | 912,624 | 1,199,452 | 6,583,452 | 6,125,238 |
| Including: Share of profit of associates and joint ventures | | 187,245 | 287,134 | 127,081 | 214,433 |
| Gains on disposal of assets | 4(41) | (18,759) | 744,102 | 263 | (119) |
| Other income | 4(42) | 626,278 | 846,226 | 184,077 | - |
| Operating profit | | 16,300,282 | 13,780,255 | 7,677,461 | 6,502,534 |
| Add: Non-operating income | | 150,800 | 209,685 | 4,418 | 757 |
| Less: Non-operating expenses | | (56,509) | (382,816) | (4,038) | (922) |
| Total profit | | 16,394,573 | 13,607,124 | 7,677,841 | 6,502,369 |
| Less: Income tax expenses | 4(43) | (2,614,882) | (2,059,053) | (7,930) | (7,902) |
| Net profit | | 13,779,691 | 11,548,071 | 7,669,911 | 6,494,467 |
| (1) Classified by continuity of operations | | | | | |
| Net profit from continuing operations | | 13,779,691 | 11,548,071 | 7,669,911 | 6,494,467 |
| Net profit from discontinued operations | | - | - | - | - |
| (2) Classified by ownership of the equity | | | | | |
| Attributable to shareholders of the Company | | 12,936,846 | 10,811,322 | 7,669,911 | 6,494,467 |
| Minority interests | | 842,845 | 736,749 | - | - |
| Other comprehensive income, net of tax | | (586,379) | 26,322 | 96,914 | (3,426) |
| Other comprehensive income attributable to shareholders of the parent company | | (399,887) | 9,682 | 96,914 | (3,426) |
| (1) Other comprehensive income items which will not be reclassified subsequently to profit or loss | | 18,286 | 39,579 | - | - |
| 1) Changes arising from remeasurement of net liability or net asset of defined benefit plan | | 18,286 | 39,579 | - | - |
| 2) Share of other comprehensive income of the investee accounted for using equity method that will not be subsequently reclassified to profit or loss | | - | - | - | - |
| (2) Other comprehensive income items which will be reclassified subsequently to profit or loss | | (418,173) | (29,897) | 96,914 | (3,426) |
| 1) Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified subsequently to profit and loss | | 45,974 | (8,069) | 34,306 | (3,426) |
| 2) Change in fair value of available-for-sale financial assets | | 14,579 | (292,475) | 62,608 | - |
| 3) Losses or profits arising from the reclassification of held-to-maturity investments into available-for-sale financial assets | | - | - | - | - |
| 4) Effective portion of cash flow hedging gains or losses | | (634,467) | 168,716 | - | - |
| 5) Translation of foreign currency financial statements | | 155,741 | 101,931 | - | - |
| Other comprehensive income attributable to minority shareholders, net of tax | | (186,492) | 16,640 | - | - |
| Total comprehensive income | | 13,193,312 | 11,574,393 | 7,766,825 | 6,491,041 |
| Attributable to shareholders of the parent company | | 12,536,959 | 10,821,004 | 7,766,825 | 6,491,041 |
| Minority interests | | 656,353 | 753,389 | - | - |
| Earnings per share: | | | | | |
| (1) Basic earnings per share | 4(44) | 1.97 | 1.67 | N/A | N/A |
| (2) Diluted earnings per share | 4(44) | 1.94 | 1.66 | N/A | N/A |

Legal representative:
Fang Hongbo

Person in charge of accounting function:
Xiao Mingguang

Person in charge of accounting department:
Chen Lihong

MIDEA GROUP CO., LTD.

**CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

| Item | Note | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|----------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | | Consolidated | Consolidated | Company | Company |
| 1. Cash flows from operating activities: | | | | | |
| Cash received from sales of goods or rendering of services | | 101,192,080 | 99,984,184 | - | - |
| Net increase in customer deposits and deposits from banks and other financial institutions | | - | 73,308 | - | - |
| Net increase in borrowings from the central bank | | 30,367 | - | - | - |
| Cash received for interest, fee and commission | | 656,777 | 543,915 | - | - |
| Refund of taxes and surcharges | | 3,648,098 | 2,593,364 | - | - |
| Cash received relating to other operating activities | 4(45)(a) | 3,556,377 | 2,485,847 | 9,646,377 | 8,176,371 |
| Sub-total of cash inflows | | 109,083,699 | 105,680,618 | 9,646,377 | 8,176,371 |
| Cash paid for goods and services | | (62,574,802) | (58,343,060) | - | - |
| Net increase in loans and advances | | (3,345,537) | (1,903,898) | - | - |
| Net decrease in customer deposits and deposits from banks and other financial institutions | | (5,855) | - | - | - |
| Net increase in deposits with the central bank | | (1,332,232) | (528,948) | - | - |
| Cash paid for interest, fee and commission | | (169,952) | (167,327) | - | - |
| Cash paid to and on behalf of employees | | (13,600,798) | (11,456,781) | (325,065) | (112,878) |
| Payments of taxes and surcharges | | (6,994,367) | (5,982,427) | (17,702) | (94,326) |
| Cash paid relating to other operating activities | 4(45)(b) | (13,446,468) | (13,402,245) | (1,592,701) | (1,958,570) |
| Sub-total of cash outflows | | (101,470,011) | (91,784,686) | (1,935,468) | (2,165,774) |
| Net cash flows from operating activities | 4(45)(c) | 7,613,688 | 13,895,932 | 7,710,909 | 6,010,597 |
| 2. Cash flows from investing activities: | | | | | |
| Cash received from disposal of investments | | 31,793,113 | 40,674,727 | 13,502,964 | 27,815,545 |
| Cash received from returns on investments | | 1,007,924 | 1,223,225 | 7,568,060 | 5,297,145 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | | 36,333 | 859,943 | - | 12,049 |
| Net cash received from disposal of subsidiaries and other business units | | 30,755 | 2,415 | - | - |
| Cash received relating to other investing activities | | - | - | - | - |
| Sub-total of cash inflows | | 32,868,125 | 42,760,310 | 21,071,024 | 33,124,739 |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | | (2,368,539) | (1,520,059) | (115,266) | (59,406) |
| Cash paid to acquire investments | | (39,300,659) | (42,660,602) | (21,358,367) | (32,378,633) |
| Net cash paid to acquire subsidiaries and other business units | | (142,604) | (25,331,546) | - | - |
| Cash paid relating to other investing activities | | - | - | - | - |
| Sub-total of cash outflows | | (41,811,802) | (69,512,207) | (21,473,633) | (32,438,039) |
| Net cash flows from investing activities | | (8,943,677) | (26,751,897) | (402,609) | 686,700 |
| 3. Cash flows from financing activities: | | | | | |
| Cash received from capital contributions | | 1,711,968 | 629,854 | 1,168,515 | 629,854 |
| Including: Cash received from capital contributions by minority shareholders of subsidiaries | | 521,351 | - | - | - |
| Cash received from borrowings | | 1,117,310 | 31,631,302 | - | 1,600,000 |
| Cash received from issuing short-term financing bonds | | - | - | - | - |
| Cash received relating to other financing activities | | - | - | - | - |
| Sub-total of cash inflows | | 2,829,278 | 32,261,156 | 1,168,515 | 2,229,854 |
| Cash repayments of borrowings | | (2,493,061) | (4,198,336) | - | (1,600,000) |
| Cash payment for issuing short-term financing bonds | | - | - | - | - |
| Cash payments for interest expenses and distribution of dividends or profits | | (8,667,397) | (7,072,016) | (8,093,220) | (6,816,712) |
| Including: Cash payments for dividends or profit to minority shareholders of subsidiaries | | (497,161) | (395,950) | - | - |
| Cash paid relating to other financing activities | | (1,835,429) | - | (28,811) | - |
| Sub-total of cash outflows | | (12,995,887) | (11,270,352) | (8,122,031) | (8,416,712) |
| Net cash flows from financing activities | | (10,166,609) | 20,990,804 | (6,953,516) | (6,186,858) |
| 4. Effect of foreign exchange rate changes on cash and cash equivalents | | | | | |
| | | 92,339 | 137,862 | - | - |
| 5. Net increase in cash and cash equivalents | | | | | |
| Add: Cash and cash equivalents at beginning of period | | 21,831,653 | 12,513,730 | 25,978,543 | 8,174,915 |
| 6. Cash and cash equivalent at end of period | | | | | |
| | | 10,427,394 | 20,786,431 | 26,333,327 | 8,685,354 |

Legal representative:
Fang Hongbo

Person in charge of accounting function:
Xiao Mingguang

Person in charge of accounting department:
Chen Lihong

MIDEA GROUP CO., LTD.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

[English translation for reference only]

| Item | Current figure | | | | | | | | |
|---|---|-----------------|----------------------|----------------------------|-----------------|-----------------|-----------------------|--------------------|----------------------------|
| | Equity attributable to the parent company | | | | | | | Minority interests | Total shareholders' equity |
| | Share capital | Capital surplus | Less: Treasury stock | Other comprehensive income | Surplus reserve | General reserve | Undistributed profits | | |
| Balance at end of last year | 6,561,053 | 15,911,504 | (366,842) | (244,692) | 3,882,232 | 366,947 | 47,627,235 | 9,187,734 | 82,925,171 |
| Add: Changes in accounting policies | - | - | - | - | - | - | - | - | - |
| Balance at beginning of current period | 6,561,053 | 15,911,504 | (366,842) | (244,692) | 3,882,232 | 366,947 | 47,627,235 | 9,187,734 | 82,925,171 |
| Movements in current period | 65,859 | 1,411,652 | (551,329) | (399,887) | - | - | 5,038,061 | (550,925) | 5,013,431 |
| (1) Total comprehensive income | - | - | - | (399,887) | - | - | 12,936,846 | 656,353 | 13,193,312 |
| (2) Capital contribution and withdrawal by shareholders | 65,859 | 1,415,125 | (551,329) | - | - | - | - | (786,740) | 142,915 |
| 1) Capital contribution from shareholders | 67,560 | 1,695,573 | (717,841) | - | - | - | - | - | 1,045,292 |
| 2) Business combinations | - | - | - | - | - | - | - | 521,504 | 521,504 |
| 3) Share-based payment included in shareholders' equity | - | 232,497 | - | - | - | - | - | 65,123 | 297,620 |
| 4) Others | (1,701) | (512,945) | 166,512 | - | - | - | - | (1,373,367) | (1,721,501) |
| (3) Profit distribution | - | - | - | - | - | - | (7,898,785) | (420,252) | (8,319,037) |
| 1) Appropriation to surplus reserve | - | - | - | - | - | - | - | - | - |
| 2) Appropriation to general reserve | - | - | - | - | - | - | - | - | - |
| 3) Profit distribution to shareholders | - | - | - | - | - | - | (7,898,785) | (420,252) | (8,319,037) |
| 4) Others | - | - | - | - | - | - | - | - | - |
| (4) Transfer within shareholders' equity | - | - | - | - | - | - | - | - | - |
| 1) Transfer from capital surplus to paid-in capital | - | - | - | - | - | - | - | - | - |
| 2) Transfer from surplus reserve to paid-in capital | - | - | - | - | - | - | - | - | - |
| 3) Surplus reserve used to offset accumulated losses | - | - | - | - | - | - | - | - | - |
| 4) Others | - | - | - | - | - | - | - | - | - |
| (5) Specific reserve | - | - | - | - | - | - | - | - | - |
| 1) Increase in current period | - | - | - | - | - | - | - | - | - |
| 2) Usage in current period | - | - | - | - | - | - | - | - | - |
| (6) Others | - | (3,473) | - | - | - | - | - | (286) | (3,759) |
| Balance at the end of current period | 6,626,912 | 17,323,156 | (918,171) | (644,579) | 3,882,232 | 366,947 | 52,665,296 | 8,636,809 | 87,938,602 |

Legal representative:

Fang Hongbo

Person in charge of accounting function:

Xiao Mingguang

Person in charge of accounting department:

Chen Lihong

MIDEA GROUP CO., LTD.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

| Item | Comparative figure | | | | | | | | |
|---|---|-----------------|----------------------|----------------------------|-----------------|-----------------|-----------------------|--------------------|----------------------------|
| | Equity attributable to the parent company | | | | | | | Minority interests | Total shareholders' equity |
| | Share capital | Capital surplus | Less: Treasury stock | Other comprehensive income | Surplus reserve | General reserve | Undistributed profits | | |
| Balance at end of last year | 6,458,767 | 13,596,569 | - | 13,125 | 2,804,469 | 148,602 | 38,105,391 | 7,849,773 | 68,976,696 |
| Add: Changes in accounting policies | - | - | - | - | - | - | - | - | - |
| Balance at beginning of current period | 6,458,767 | 13,596,569 | - | 13,125 | 2,804,469 | 148,602 | 38,105,391 | 7,849,773 | 68,976,696 |
| Movements in current period | 102,286 | 2,314,935 | (366,842) | (257,817) | 1,077,763 | 218,345 | 9,521,844 | 1,337,961 | 13,948,475 |
| (1) Total comprehensive income | - | - | - | (257,817) | - | - | 17,283,689 | 1,274,690 | 18,300,562 |
| (2) Capital contribution and withdrawal by shareholders | 102,286 | 2,273,030 | (366,842) | - | - | - | - | 796,545 | 2,805,019 |
| 1) Capital contribution from shareholders | 102,286 | 1,947,025 | (366,842) | - | - | - | - | 690,282 | 2,372,751 |
| 2) Business combinations | - | - | - | - | - | - | - | - | - |
| 3) Share-based payment included in shareholders' equity | - | 326,005 | - | - | - | - | - | 106,263 | 432,268 |
| 4) Others | - | - | - | - | - | - | - | - | - |
| (3) Profit distribution | - | - | - | - | 1,077,763 | 218,345 | (7,761,845) | (733,274) | (7,199,011) |
| 1) Appropriation to surplus reserve | - | - | - | - | 1,077,763 | - | (1,077,763) | - | - |
| 2) Appropriation to general reserve | - | - | - | - | - | 218,345 | (218,345) | - | - |
| 3) Profit distribution to shareholders | - | - | - | - | - | - | (6,465,677) | (733,274) | (7,198,951) |
| 4) Others | - | - | - | - | - | - | (60) | - | (60) |
| (4) Transfer within shareholders' equity | - | - | - | - | - | - | - | - | - |
| 1) Transfer from capital surplus to paid-in capital | - | - | - | - | - | - | - | - | - |
| 2) Transfer from surplus reserve to paid-in capital | - | - | - | - | - | - | - | - | - |
| 3) Surplus reserve used to offset accumulated losses | - | - | - | - | - | - | - | - | - |
| 4) Others | - | - | - | - | - | - | - | - | - |
| (5) Specific reserve | - | - | - | - | - | - | - | - | - |
| 1) Increase in current period | - | - | - | - | - | - | - | - | - |
| 2) Usage in current period | - | - | - | - | - | - | - | - | - |
| (6) Others | - | 41,905 | - | - | - | - | - | - | 41,905 |
| Balance at the end of current period | 6,561,053 | 15,911,504 | (366,842) | (244,692) | 3,882,232 | 366,947 | 47,627,235 | 9,187,734 | 82,925,171 |

Legal representative:
Fang Hongbo

Person in charge of accounting function:
Xiao Mingguang

Person in charge of accounting department:
Chen Lihong

MIDEA GROUP CO., LTD.

**COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

| Item | Current figure | | | | | | | |
|---|----------------|-----------------|----------------------|----------------------------|------------------|-----------------|-----------------------|----------------------------|
| | Share capital | Capital surplus | Less: Treasury stock | Other comprehensive income | Specific reserve | Surplus reserve | Undistributed profits | Total shareholders' equity |
| Balance at end of last year | 6,561,053 | 7,726,237 | (366,842) | 33,459 | - | 3,882,232 | 16,613,224 | 34,449,363 |
| Add: Changes in accounting policies | - | - | - | - | - | - | - | - |
| Balance at beginning of current period | 6,561,053 | 7,726,237 | (366,842) | 33,459 | - | 3,882,232 | 16,613,224 | 34,449,363 |
| Movements in current period | 65,859 | 1,864,623 | (551,329) | 96,914 | - | - | (228,874) | 1,247,193 |
| (1) Total comprehensive income | - | - | - | 96,914 | - | - | 7,669,911 | 7,766,825 |
| (2) Capital contribution and withdrawal by shareholders | 65,859 | 1,864,623 | (551,329) | - | - | - | - | 1,379,153 |
| 1) Capital contribution from shareholders | 67,560 | 1,695,573 | (717,841) | - | - | - | - | 1,045,292 |
| 2) Capital contribution from owners of other equity instruments | - | - | - | - | - | - | - | - |
| 3) Share-based payment included in owners' equity | - | 196,159 | - | - | - | - | - | 196,159 |
| 4) Others | (1,701) | (27,109) | 166,512 | - | - | - | - | 137,702 |
| (3) Profit distribution | - | - | - | - | - | - | (7,898,785) | (7,898,785) |
| 1) Appropriation to surplus reserve | - | - | - | - | - | - | - | - |
| 2) Profit distribution to shareholders | - | - | - | - | - | - | (7,898,785) | (7,898,785) |
| 3) Others | - | - | - | - | - | - | - | - |
| (4) Transfer within shareholders' equity | - | - | - | - | - | - | - | - |
| 1) Transfer from capital surplus to paid-in capital | - | - | - | - | - | - | - | - |
| 2) Transfer from surplus reserve to paid-in capital | - | - | - | - | - | - | - | - |
| 3) Surplus reserve used to offset accumulated losses | - | - | - | - | - | - | - | - |
| 4) Others | - | - | - | - | - | - | - | - |
| (5) Specific reserve | - | - | - | - | - | - | - | - |
| 1) Increase in current period | - | - | - | - | - | - | - | - |
| 2) Usage in current period | - | - | - | - | - | - | - | - |
| (6) Others | - | - | - | - | - | - | - | - |
| Balance at end of year | 6,626,912 | 9,590,860 | (918,171) | 130,373 | - | 3,882,232 | 16,384,350 | 35,696,556 |

Legal representative:
Fang Hongbo

Person in charge of accounting function:
Xiao Mingguang

Person in charge of accounting department:
Chen Lihong

MIDEA GROUP CO., LTD.

**COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

[English translation for reference only]

| Item | Comparative figure | | | | | | | |
|---|--------------------|-----------------|----------------------|----------------------------|------------------|-----------------|-----------------------|----------------------------|
| | Share capital | Capital surplus | Less: Treasury stock | Other comprehensive income | Specific reserve | Surplus reserve | Undistributed profits | Total shareholders' equity |
| Balance at end of last year | 6,458,767 | 5,455,268 | - | (9,069) | - | 2,804,469 | 13,379,033 | 28,088,468 |
| Add: Changes in accounting policies | - | - | - | - | - | - | - | - |
| Balance at beginning of current period | 6,458,767 | 5,455,268 | - | (9,069) | - | 2,804,469 | 13,379,033 | 28,088,468 |
| Movements in current period | 102,286 | 2,270,969 | (366,842) | 42,528 | - | 1,077,763 | 3,234,191 | 6,360,895 |
| (1) Total comprehensive income | - | - | - | 42,528 | - | - | 10,777,631 | 10,820,159 |
| (2) Capital contribution and withdrawal by shareholders | 102,286 | 2,231,354 | (366,842) | - | - | - | - | 1,966,798 |
| 1) Capital contribution from shareholders | 102,286 | 1,947,025 | (366,842) | - | - | - | - | 1,682,469 |
| 2) Capital contribution from owners of other equity instruments | - | - | - | - | - | - | - | - |
| 3) Share-based payment included in owners' equity | - | 284,329 | - | - | - | - | - | 284,329 |
| 4) Others | - | - | - | - | - | - | - | - |
| (3) Profit distribution | - | - | - | - | - | 1,077,763 | (7,543,440) | (6,465,677) |
| 1) Appropriation to surplus reserve | - | - | - | - | - | 1,077,763 | (1,077,763) | - |
| 2) Profit distribution to shareholders | - | - | - | - | - | - | (6,465,677) | (6,465,677) |
| 3) Others | - | - | - | - | - | - | - | - |
| (4) Transfer within shareholders' equity | - | - | - | - | - | - | - | - |
| 1) Transfer from capital surplus to paid-in capital | - | - | - | - | - | - | - | - |
| 2) Transfer from surplus reserve to paid-in capital | - | - | - | - | - | - | - | - |
| 3) Surplus reserve used to offset accumulated losses | - | - | - | - | - | - | - | - |
| 4) Others | - | - | - | - | - | - | - | - |
| (5) Specific reserve | - | - | - | - | - | - | - | - |
| 1. Increase in current period | - | - | - | - | - | - | - | - |
| 2. Usage in current period | - | - | - | - | - | - | - | - |
| (6) Others | - | 39,615 | - | - | - | - | - | 39,615 |
| Balance at end of year | 6,561,053 | 7,726,237 | (366,842) | 33,459 | - | 3,882,232 | 16,613,224 | 34,449,363 |

Legal representative:
Fang Hongbo

Person in charge of accounting function:
Xiao Mingguang

Person in charge of accounting department:
Chen Lihong

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

1 General information

Midea Group is a technology company that boasts a diversified offering in products and services, mainly comprises heating&ventilation, as well as air-conditioner("HVAC"), consumer appliances, robots and automatic system and smart supply chain. Consumer appliances centred on kitchen appliances, refrigerators, washing machines and various small appliances. HVAC centred on household air-conditioner, commercial air-conditioner, heating and ventilation systems. Robots and automation systems centred on KUKA Aktiengesellschaft and its subsidiaries (hereinafter referred to as "KUKA Group") and robots corporations of Midea Group, and smart supply chain systems centred on smart integrated logistics solutions. Other operations include sale, wholesale and processing of raw materials of household electrical 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 30 June 2018, the Company's registered capital is RMB 6,626,911,513, the same as share capital, and the total number of shares in issue is 6,626,911,513, of which 146,621,635 shares are restricted tradable shares and 6,480,289,878 shares are unrestricted tradable shares.

The detailed information of major subsidiaries included in the consolidation scope in current period is set out in Notes 5 and 6. Entities newly included in the consolidation scope in current period include Guangdong Midea Industrial Technology Co., Ltd., Midea Home Appliances UK Ltd., and Shanghai Chemours Electric Appliances Co., Ltd. Please refer to Note 5(2)(a) for details. The detailed information of subsidiaries no longer included in the consolidation scope in current period is set out in Note 5(1) and 5(2)(b).

These financial statements were authorised for issue by the Company's Board of Directors on 29 August 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 2(15), (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).

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

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

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

The financial statements of the Company for the six months ended 30 June 2018 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 30 June 2018 and their financial performance, cash flows and other information for the six months 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 Renminbi ("RMB"). The 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.

(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 date. 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(5) Business combinations (Cont'd)

(b) Business combination involving enterprises not under common control (Cont'd)

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 belong, excluding those arising from changes in the investee's remeasurements 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 date.

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 income 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 owners of the parent. 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 owners 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 owners 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(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 RMB 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 the 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.

(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 owners' 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 instrument

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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 instrument (Cont'd)

(a) Financial assets (Cont'd)

(i) Classification of financial assets (Cont'd)

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 the 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.

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 prepares formal written documents for relations between hedging instruments and hedged items, 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 hedging

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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 instrument (Cont'd)

(a) Financial assets (Cont'd)

(ii) Derivative financial instruments (Cont'd)

Cash flow hedging (Cont'd)

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 period and accumulated in equity in the "other comprehensive income". The ineffective portion is recognised immediately in the profit or loss.

Accumulated profits or loss originally included in equities of shareholders 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.

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 shareholder's 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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 instrument (Cont'd)

(a) Financial assets (Cont'd)

(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 cost of available-for-sale equity instrument 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.

If an impairment loss on available-for-sale financial assets measured at fair value is incurred, 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 available-for-sale financial asset, which is measured at cost model, is impaired, the amount of loss is measured as 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. Impairment losses on these assets are recognised in profit or loss for the current period. 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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 instrument (Cont'd)

(a) Financial assets (Cont'd)

(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.

Other financial liabilities of which the period is within one year (inclusive) are classified as the current liabilities; the period is over one year while will be due within one year (inclusive) since the balance sheet date are classified as current portion of non-current liabilities; and the 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 a financial liability (or part of a financial liability) extinguished and the consideration paid, shall be 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. During valuation, the Group uses valuation technique appropriate in the current situation with sufficient available data and other supporting information, and select input with the same feature of assets or liabilities which are taken into consideration by market participants in transactions of related assets and liabilities, and observable inputs are preferential. When relevant observable inputs are impossible or not practicable be obtained, unobservable inputs are used.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(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 RMB 5,000,000 for accounts receivable and RMB 500,000 for other receivables.

The method of providing for bad debts for those individually significant amounts is as follows: the amount of the present value of the future cash flows expected to be derived from the receivable below its carrying amount.

- (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 receivable 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 |
|-----------------------------|-----------------|--------------------|--------------|--------------|--------------|--------------|
| HVAC | 0% or 5% | 5% | 10% | 30% | 50% | 100% |
| Consumer appliances | 0% or 5% | 5% | 10% | 30% | 50% | 100% |
| Robots and automatic system | 0% or 5% | 5% | 10% | 30% | 50% | 100% |
| Others | 0% or 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 using percentage-of-balance method with reference to the average percentage of bad debts during last three years. For the receivables that are overdue, they make bad debts provision on an individual basis.

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

(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)

(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 (Cont'd)

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.

The provision for bad debts is determined based on the amount of the present value of the future cash flows expected to be derived from the receivable 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% |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

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

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.

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(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, 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 date, 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 date, the difference is included in profit or loss and the cost of the long-term equity investment is adjusted upwards accordingly.

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 the net losses of an investee after the carrying amounts 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 of the Group's share of the investee's owner's equity 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 transactions between the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, based on which the investment gain or losses are recognised. Any losses resulting from transactions between the Group and its investees attributable to asset impairment losses are 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)).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(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:

| | Estimated useful lives | Estimated net residual values | 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 its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(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 a fixed asset are included in the cost of the fixed asset 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.

(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:

| Category | Estimated useful lives | Estimated net residual values | 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 | N/A | N/A |

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(15) Fixed assets (Cont'd)

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

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. A lease that 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 disposal 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)).

(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 an asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(17) Borrowing costs (Cont'd)

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, royalties 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 amortised 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 amortised over the estimated useful life of 40 years.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(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 the end of the project.

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

- The development of production processes or products has been fully justified by technical team;
- The budget on the development of production processes or products has been approved by the management;
- There is market research analysis that demonstrates the product produced by the production process or product has the ability of marketing;
- There are sufficient technical and financial resources to support the development of production processes or products and subsequent mass production; and
- Expenditure attributable to the development 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)).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(19) Long-term prepaid 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.

(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, 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. Employee benefits which are non-monetary benefits are measured at fair value.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(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 Group, the Group's subsidiaries, provide supplemental retirement benefits beyond the national regulatory insurance system.

Basic pensions

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. 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.

Supplementary 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 at the interest rate of treasury bonds with similar obligation term and currency. The charges related to the supplementary 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 remeasurement 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(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.

The provisions expected to be settled within one year since the balance sheet date are classified as current liabilities.

(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 vested 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 vested equity instruments, and capital surplus is increased accordingly. If the subsequent information indicates the number of vested 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(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 options

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, recognise 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.

When restricted shares are vested, capital surplus recognised in the vesting period are carried forward to share premium based on the actual vesting results.

(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 comprises HVAC and consumer appliances), and robots and automatic system (mainly comprises robots and automatic system).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(27) Revenue (Cont'd)

(a) Sales of goods (Cont'd)

Revenue from domestic sales 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 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.

Revenue from sales of robots and automatic system 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 recognised according to the percentage of completion.

(c) 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(27) Revenue (Cont'd)

(c) Construction contract (Cont'd)

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

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(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 tax assets tax assets and deferred tax liabilities

Deferred tax assets tax assets and deferred 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 tax assets tax assets and deferred 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

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

Deferred 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.

Deferred 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 tax assets tax assets are recognised.

Deferred 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 leases

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 leases

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(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.

Non-current assets (except for financial assets, investment properties at fair value and deferred tax assets) that meet the recognition criteria for held for sale are recognised at the amount equal to the lower of the fair value less costs to sell and the carrying amount, and the excess of the original carrying amount over the fair value less costs to sell is recognised as asset 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 coordinated 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(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:

- (i) The fair value assessment of identifiable assets and recognition of goodwill related to the business combination not under common control

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 consideration transferred 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) Provision for impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

(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)

(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* (Cai Kuai [2017] No. 30). The financial statements for the six months ended 30 June 2018 are prepared in accordance with the above standards and circular, and impacts are as follows:

| Details and reasons of the changes in accounting policies | The line items affected | The amounts affected for the six months ended 30 June 2017 |
|--|---|--|
| The Group recorded the gains or losses on disposal of fixed assets and intangible assets, occurred for the six months ended 30 June 2018, in gains on disposal of assets. The comparatives as at 30 June 2017 were restated accordingly. | Gains on disposal of assets Non-operating income Non-operating expenses | Increase by 744,102,000 Decrease by 781,229,000 Decrease by 37,127,000 |

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

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) | 3%, 5%, 6%, 10%, 11%, 16%, 17%, 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 educational 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 2018 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 | 17 November 2017 | 3 years |
| Guangdong Midea Environmental Electric Appliance Manufacturing Co., Ltd. | GR201644002286 | 30 November 2016 | 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 2016 | 3 years |
| Guangdong Midea Heating & Ventilation Equipment Co., Ltd. | GF201544000292 | 20 October 2015 | 3 years |
| Hefei Midea Heating & Ventilation Equipment Co., Ltd. | GR201634000207 | 21 October 2016 | 3 years |
| Anhui GMCC Precision Manufacturing Co., Ltd. | GR201534000785 | 15 October 2015 | 3 years |
| Guangzhou Midea Hualing Refrigerator Co., Ltd. | GR201644002925 | 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 |

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

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 corporate income tax at the rate of 15% in 2018 as they qualified as high-tech enterprises and obtained the *High-tech Enterprise Certificate*. (Cont'd)

| Name of tax payer | No. of the <i>Certificate of the High-tech Enterprise</i> | Dates of issuance | Effective period |
|---|---|-------------------|------------------|
| 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 Group Wuhan Refrigeration Equipment 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 |
| Foshan Shunde Midea Water Dispenser Manufacturing Co., Ltd. | GR201744008471 | 11 December 2017 | 3 years |
| Midea Welling Motor Technologies (Shanghai) Co., Ltd. | GR201731001731 | 23 November 2017 | 3 years |
| Hefei Hualing Co., Ltd. | | | |

(a-2) The application for corporate income tax preferential treatment by 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 2018.

(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 Honour 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%.

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

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-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., Chairing 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. and Main Power Electrical Factory Limited.
- (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 Ltda., the Company's subsidiaries in Brazil, is subject to Brazil corporate income tax at the rate of 34%.
- (a-8) TLSC, the Company's subsidiaries in Japan, and its subsidiaries, are subject to Japan corporate income tax at the rate of 30.58%.
- (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 Group, 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%.
- (b) Notes to the VAT rate of the principal tax payers with different tax rates
- (b-1) According to the *Notice for the Full Implementation of Transformation from business tax to value-added tax Pilot* (Cai Shui [2016] No. 36) and the relevant provisions issued by Ministry of Finance and the State Administration of Taxation, since 1 May 2016, revenue from rental services, real estate management services, financial services, consulting services and logistics services of the Company and its subsidiaries are subject to VAT, while these services are subject to business tax at the rate of 5% before 1 May 2016.
- (b-2) Sales of goods and provision of repairs and replacement service provided by certain subsidiaries of the Company are subject to VAT at the rate of 17% before 1 May 2018 and of 16% after 1 May 2018.
- (b-3) Rental services on real estate and distribution services provided by the Company and certain subsidiaries are subject to VAT at the rate of 11% before 1 May 2018 and of 10% after 1 May 2018.
- (b-4) Financial services, consulting services and storage services provided by the Company and certain subsidiaries are subject to VAT 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 VAT at the rate of 5%.

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

4 Notes to the consolidated financial statements

(1) Cash at bank and on hand

| Item | Ending balance | Opening balance |
|--|-------------------|-------------------|
| Cash on hand | 5,232 | 4,589 |
| Cash at bank (a) | 15,708,849 | 21,954,206 |
| Other cash balances (b) | 122,131 | 267,259 |
| Statutory reserve deposits with the Central Bank (c) | 3,167,283 | 1,835,051 |
| Surplus reserve with the Central Bank | 81,100 | 305,963 |
| Financial enterprises' deposits with domestic banks | 26,003,161 | 23,907,132 |
| Total | 45,087,756 | 48,274,200 |
| Including: Total amounts deposited with foreign banks (including Germany, Japan, Hong Kong, Macau, Singapore and Brazil, etc.) | 4,806,621 | 10,685,588 |

- (a) As at 30 June 2018, cash at bank includes fixed deposits with the term of over three months, amounting to RMB 6,960,071,000 (31 December 2017: RMB 3,540,237,000).
- (b) Other cash balances mainly includes security deposits, bank acceptance note and letter of credit.
- (c) Statutory reserve with 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 30 June 2018, deposits with banks and other financial institutions include time deposits with the term of over three months, amounting to RMB 24,470,000,000 (31 December 2017: RMB 20,800,000,000).

(2) Notes receivable

| Item | Ending balance | Opening balance |
|-----------------------|----------------|-----------------|
| Bank acceptance notes | 16,777,243 | 10,854,226 |

- (a) As at 30 June 2018, the Group's notes receivable that are not mature but have been endorsed to other parties, or that have been discounted are as follows:

| Item | Derecognised | Recognised |
|-----------------------|--------------|------------|
| Bank acceptance notes | 19,637,640 | - |

(3) Receivables

- (a) Accounts receivable

| Item | Ending balance | Opening balance |
|-------------------------------|-------------------|-------------------|
| Accounts receivable | 21,599,626 | 18,410,114 |
| Less: Provision for bad debts | (1,061,759) | (881,397) |
| Total | 20,537,867 | 17,528,717 |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(3) Receivables (Cont'd)

(a) Accounts receivable (Cont'd)

The ageing of other receivables is analysed as follows:

| Ageing | Ending balance | Opening balance |
|---------------|----------------|-----------------|
| Within 1 year | 21,261,129 | 17,932,715 |
| 1 to 2 years | 158,074 | 266,896 |
| 2 to 3 years | 109,769 | 103,978 |
| 3 to 5 years | 45,791 | 64,300 |
| Over 5 years | 24,863 | 42,225 |
| Sub-total | 21,599,626 | 18,410,114 |

Accounts receivable are analysed by categories as follows:

| Categories | 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 | 7,469 | 0.03% | 7,469 | 100.00% | 32,448 | 0.18% | 6,960 | 21.45% |
| That the related provision for bad debts is provided on the age grouping basis | 21,231,784 | 98.30% | 1,022,832 | 4.82% | 18,079,721 | 98.20% | 867,797 | 4.80% |
| With amounts that are not individually significant but that the related provision for bad debts is provided on the individual basis | 360,373 | 1.67% | 31,458 | 8.73% | 297,945 | 1.62% | 6,640 | 2.23% |
| Total | 21,599,626 | 100.00% | 1,061,759 | 4.92% | 18,410,114 | 100.00% | 881,397 | 4.79% |

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 | | |
|---------------|----------------|-------------------------|---------|-----------------|-------------------------|---------|
| | Book balance | Provision for bad debts | | Book balance | Provision for bad debts | |
| | Amount | Amount | Ratio | Amount | Amount | Ratio |
| Within 1 year | 20,951,267 | 873,108 | 4.17% | 17,693,549 | 673,853 | 3.81% |
| 1 to 2 years | 113,531 | 33,581 | 29.58% | 191,494 | 59,250 | 30.94% |
| 2 to 3 years | 101,587 | 62,262 | 61.29% | 101,994 | 61,313 | 60.11% |
| 3 to 5 years | 45,437 | 33,919 | 74.65% | 57,889 | 38,586 | 66.66% |
| Over 5 years | 19,962 | 19,962 | 100.00% | 34,795 | 34,795 | 100.00% |
| Total | 21,231,784 | 1,022,832 | 4.82% | 18,079,721 | 867,797 | 4.80% |

The provision for bad debts reversed for the six months ended 30 June 2018 was RMB 129,660,000.

The accounts receivable written off by the Group for the six months ended 30 June 2018 were arising from transactions with third parties and there were no written-off accounts receivable that are individually significant.

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(3) Receivables (Cont'd)

(a) Accounts receivable (Cont'd)

As at 30 June 2018, the top 5 accounts receivable assembled by debtors were analysed as follows:

| Item | Amount | Provision for bad debts | % of total balance |
|--|-----------|-------------------------|--------------------|
| Total balance of top 5 accounts receivable | 1,704,630 | 85,232 | 7.89% |

(b) Other receivables

| Item | Ending balance | Opening balance |
|-------------------------------|----------------|-----------------|
| Other receivables | 2,102,785 | 2,706,912 |
| Less: Provision for bad debts | (75,162) | (49,344) |
| Total | 2,027,623 | 2,657,568 |

Other receivables mainly include exercising accounts, current accounts, petty cash to staff and deposits. The ageing of other receivables is analysed below:

| Ageing | Ending balance | Opening balance |
|---------------|----------------|-----------------|
| Within 1 year | 1,966,437 | 2,596,908 |
| 1 to 2 years | 82,939 | 64,118 |
| 2 to 3 years | 38,893 | 35,284 |
| 3 to 5 years | 5,762 | 6,907 |
| Over 5 years | 8,754 | 3,695 |
| Sub-total | 2,102,785 | 2,706,912 |

Other receivables are analysed by categories as follows:

| Categories | 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 | 389,365 | 18.52% | - | - | 64,760 | 2.39% | - | - |
| That the related provision for bad debts is provided on the age grouping basis | 1,709,847 | 81.31% | 72,106 | 4.22% | 2,642,152 | 97.61% | 49,344 | 1.87% |
| With amounts that are not individually significant but that the related provision for bad debts is provided on the individual basis | 3,573 | 0.17% | 3,056 | 85.53% | - | - | - | - |
| Total | 2,102,785 | 100.00% | 75,162 | 3.57% | 2,706,912 | 100.00% | 49,344 | 1.82% |

As at 30 June 2018, 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 | Book balance | Provision for bad debts | Ratio | Reason |
|--|--------------|-------------------------|-------|---|
| China Securities Depository and Clearing Corporation Limited Shenzhen Branch | 389,365 | - | 0% | Receivables related to share options without bad debt risks |

The provision for bad debts reversed for the six months ended 30 June 2018 is RMB 7,811,000.

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(3) Receivables (Cont'd)

(b) Other receivables (Cont'd)

As at 30 June 2018, the top 5 other receivables assembled by debtors are analysed as follows:

| Name of the Company | Amount | Provision for bad debts | % of total balance |
|--|---------|-------------------------|--------------------|
| Total balance of top 5 other receivables | 447,190 | 2,891 | 21.27% |

As at 30 June 2018, the Group' has no significant government grants recognised at amounts receivable.

(4) Advances to suppliers

| Item | Ending balance | Opening balance |
|--|----------------|-----------------|
| Advances paid for raw materials and others | 1,885,815 | 1,672,248 |

(a) The ageing of advances to suppliers is analysed below:

| Ageing | Ending balance | | Opening balance | |
|---------------|----------------|--------------------|-----------------|--------------------|
| | Amount | % of total balance | Amount | % of total balance |
| Within 1 year | 1,751,811 | 92.89% | 1,620,207 | 96.89% |
| 1 to 2 years | 109,295 | 5.80% | 36,689 | 2.19% |
| 2 to 3 years | 13,729 | 0.73% | 5,662 | 0.34% |
| Over 3 years | 10,980 | 0.58% | 9,690 | 0.58% |
| Total | 1,885,815 | 100.00% | 1,672,248 | 100.00% |

As at 30 June 2018, advances to suppliers over 1 year with a carrying amount of RMB 134,004,000 (31 December 2017: RMB 52,041,000) are mainly unsettled advances paid for raw materials.

As at 30 June 2018, the top five balances of advances to suppliers assembled by debtors are summarised as follows:

| Item | Amount | % of total balance |
|--|---------|--------------------|
| Total balance of top 5 advances to suppliers | 310,569 | 16.47% |

(5) Loans and advances

(a) Financial enterprises' loans and advances analysed to individual and corporation are as follows:

| Item | Ending balance | Opening balance |
|------------------------------------|----------------|-----------------|
| Loans and advances to individuals | 892,068 | 567,998 |
| Loans and advances to corporations | 14,800,076 | 11,778,609 |
| Total loans and advances | 15,692,144 | 12,346,607 |
| Less: Loan impairment provision | (217,776) | (167,654) |
| Total | 15,474,368 | 12,178,953 |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(5) Loans and advances (Cont'd)

- (b) Financial enterprises' loans and advances analysed by type of collateral held or other credit enhancements are as follows:

| Item | Ending balance | Opening balance |
|----------------------------------|----------------|-----------------|
| Unsecured loans | 755,307 | 389,057 |
| Guaranteed loans | 497,990 | 256,112 |
| Secured loans by monetary assets | 14,438,847 | 11,701,438 |
| Sub-total | 15,692,144 | 12,346,607 |
| Less: Loan impairment provision | (217,776) | (167,654) |
| Total | 15,474,368 | 12,178,953 |

(6) Inventories

- (a) Inventories are summarised by categories as follows:

| Item | Ending balance | | | Opening balance | | |
|-------------------------------|----------------|--|-----------------|-----------------|--|-----------------|
| | Book balance | Provision for declines in value of inventories | Carrying amount | Book balance | Provision for declines in value of inventories | Carrying amount |
| Finished goods | 12,856,895 | (156,317) | 12,700,578 | 17,625,714 | (160,843) | 17,464,871 |
| Raw materials | 4,739,541 | (19,608) | 4,719,933 | 5,680,125 | (46,139) | 5,633,986 |
| Work in progress | 1,751,363 | - | 1,751,363 | 2,040,630 | - | 2,040,630 |
| Consigned processing material | 201,642 | - | 201,642 | 221,842 | - | 221,842 |
| Low value consumables | 40,698 | - | 40,698 | 59,370 | - | 59,370 |
| Completed but unsettled | 4,309,124 | - | 4,309,124 | 4,023,467 | - | 4,023,467 |
| Total | 23,899,263 | (175,925) | 23,723,338 | 29,651,148 | (206,982) | 29,444,166 |

- (b) Provision for decline in the value of inventories is analysed as follows:

| Item | Opening balance | Increase in current period | Decrease of reversal or write-off in current period | Differences on translation of foreign currency financial statements | Ending balance |
|-------------------------|-----------------|----------------------------|---|---|----------------|
| Finished goods | 160,843 | 132,283 | (157,781) | (8,943) | 126,402 |
| Raw materials | 46,139 | 33,135 | (29,759) | 8 | 49,523 |
| Work in progress | - | - | - | - | - |
| Completed but unsettled | - | - | - | - | - |
| Total | 206,982 | 165,418 | (187,540) | (8,935) | 175,925 |

- (c) Provision for decline in the value of inventories is as follows:

| Item | Basis for provision for decline in the value of inventories | Reason for the write-off of provision for decline in the value of inventories in current period |
|----------------|---|---|
| Finished goods | Stated at the lower of cost and net realisable value | Sales |
| Raw materials | Stated at the lower of cost and net realisable value | Requisition for production |

MIDEA GROUP CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

4 Notes to the consolidated financial statements (Cont'd)**(7) Other current assets**

| Item | Ending balance | Opening balance |
|---------------------------------------|----------------|-----------------|
| Wealth management products (a) | 12,642,160 | 22,094,715 |
| Structural deposits and swap deposits | 29,378,897 | 19,252,086 |
| Deductible input VAT | 1,595,049 | 2,988,800 |
| Prepaid expenses | 639,313 | 639,409 |
| Others | 2,120,588 | 1,872,261 |
| Total | 46,376,007 | 46,847,271 |

- (a) As at 30 June 2018, wealth management products due within one year are presented as other current assets, mainly including non-principal-guaranteed wealth management products with floating earnings (Note 15(1)).
- (b) The Company didn't purchase wealth management products and assets management plan due more than one year which are presented as other non-current assets.

(8) Available-for-sale financial assets

| Item | Ending balance | Opening balance |
|---|----------------|-----------------|
| Measured at fair value | | |
| - Available-for-sale equity instruments (a) | 96,486 | 118,711 |
| Measured at cost | | |
| - Available-for-sale equity instruments (b) | 1,947,956 | 1,712,340 |
| Total | 2,044,442 | 1,831,051 |

- (a) As at 30 June 2018, available-for-sale financial assets measured at fair value mainly include equity investments of TLSC and KUKA Group.
- (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:

| Item | Ending balance | Opening balance |
|--|----------------|-----------------|
| Investment in associates | 2,753,940 | 2,633,698 |
| Less: Provision for impairment of long-term equity investments | - | - |
| Total | 2,753,940 | 2,633,698 |

- (a) Investment in associates mainly refers to 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 by the Group.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(10) Fixed assets

| Item | Buildings | Land | Machinery and equipment | Motor vehicles | Electronic equipment and other equipment | Total |
|---|------------|-----------|-------------------------|----------------|--|------------|
| Carrying amount | | | | | | |
| Opening balance | 16,760,157 | 1,090,527 | 17,892,971 | 779,279 | 3,635,383 | 40,158,317 |
| Increase in current period | 281,430 | 31,282 | 809,288 | 12,676 | 394,859 | 1,529,535 |
| 1) Purchase | 261,856 | 31,282 | 778,465 | 12,676 | 353,809 | 1,438,088 |
| 2) Transfers from construction in progress | 19,574 | - | 30,823 | - | 41,050 | 91,447 |
| 3) Increase in business combination | - | - | - | - | - | - |
| 4) Transfer from investment prosperities | - | - | - | - | - | - |
| 5) Others | - | - | - | - | - | - |
| Decrease in current period | (8,146) | - | (415,266) | (22,503) | (196,566) | (642,481) |
| 1) Disposal or retirement | (8,146) | - | (415,266) | (22,503) | (196,566) | (642,481) |
| 2) Transfer to investment prosperities | - | - | - | - | - | - |
| 3) Others | - | - | - | - | - | - |
| Differences on translation of foreign currency financial statements | 5,512 | (3,323) | 19,773 | (39) | (6,415) | 15,508 |
| Ending balance | 17,038,953 | 1,118,486 | 18,306,766 | 769,413 | 3,827,261 | 41,060,879 |
| Accumulated depreciation | | | | | | |
| Opening balance | 5,734,279 | - | 8,932,987 | 434,515 | 2,429,550 | 17,531,331 |
| Increase in current period | 447,446 | - | 864,964 | 48,168 | 325,931 | 1,686,509 |
| 1) Depreciation charged | 447,446 | - | 864,964 | 48,168 | 325,931 | 1,686,509 |
| 2) Transfer from investment prosperities and others | - | - | - | - | - | - |
| Decrease in current period | (3,886) | - | (253,385) | (20,298) | (172,045) | (449,614) |
| 1) Disposal or retirement | (3,886) | - | (253,385) | (20,298) | (172,045) | (449,614) |
| 2) Others | - | - | - | - | - | - |
| Differences on translation of foreign currency financial statements | 2,411 | - | 5,295 | (131) | (950) | 6,625 |
| Ending balance | 6,180,250 | - | 9,549,861 | 462,254 | 2,582,486 | 18,774,851 |
| Provision for impairment loss | | | | | | |
| Opening balance | 3,925 | - | 21,846 | 218 | 273 | 26,262 |
| Increase in current period | 508 | 5,561 | - | - | 1,010 | 7,079 |
| 1) Depreciation charged | 508 | 5,561 | - | - | 1,010 | 7,079 |
| Decrease in current period | - | - | (4,319) | (19) | (26) | (4,364) |
| 1) Disposal or retirement | - | - | (4,319) | (19) | (26) | (4,364) |
| Differences on translation of foreign currency financial statements | 9 | 100 | (3) | (1) | 18 | 123 |
| Ending balance | 4,442 | 5,661 | 17,524 | 198 | 1,275 | 29,100 |
| Carrying amount at end of period | 10,854,261 | 1,112,825 | 8,739,381 | 306,961 | 1,243,500 | 22,256,928 |
| Carrying amount at beginning of period | 11,021,953 | 1,090,527 | 8,938,138 | 344,546 | 1,205,560 | 22,600,724 |

- (a) For the six months ended 30 June 2018, the depreciation of fixed assets amounted to RMB 1,686,509,000 (for the six months ended 30 June 2017: RMB 1,669,291,000) and is included in income statement.
- (b) As at 30 June 2018, the Company is still in the course of obtaining the ownership certificate for the fixed asset with a carrying amount of RMB 594,344,000.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

[English translation for reference only]

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

(11) Construction in progress

(a) Movement of significant projects of construction in progress

| Project name | Opening balance | Increase in current period | Transfer to fixed assets | Other decreases | Ending balance | Accumulative amount of capitalised borrowing costs | Including: Borrowing costs capitalised in current period | Capitalisation rate of borrowing costs in current period | Source of funds |
|--------------------|-----------------|----------------------------|--------------------------|-----------------|----------------|--|--|--|-------------------|
| KUKA project | 561,675 | 604,426 | - | - | 1,166,101 | - | - | - | Internal resource |
| Innovation project | 36,313 | 17,780 | - | - | 54,093 | - | - | - | Internal resource |
| Other projects | 281,588 | 153,815 | (91,447) | (1,894) | 342,062 | - | - | - | Internal resource |
| Total | 879,576 | 776,021 | (91,447) | (1,894) | 1,562,256 | - | - | - | |

As at 30 June 2018, 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.

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

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

(12) Intangible assets

| Item | Land use rights | Non-patent technology | Trademark rights | Trademark use rights | Others | Total |
|---|-----------------|-----------------------|------------------|----------------------|-------------|-------------|
| Carrying amount | | | | | | |
| Opening balance | 3,862,449 | 2,039,958 | 4,948,967 | 2,433,542 | 5,653,312 | 18,938,228 |
| Increase in current period | 134,051 | 19,298 | - | - | 319,540 | 472,889 |
| 1) Purchase | 134,051 | 19,298 | - | - | 179,650 | 332,999 |
| 2) Increase in business combinations | - | - | - | - | - | - |
| 3) Others | - | - | - | - | 139,890 | 139,890 |
| Decrease in current period | - | (12,551) | - | - | (1,856,070) | (1,868,621) |
| 1) Disposal | - | (12,551) | - | - | (1,856,070) | (1,868,621) |
| 2) Transfer to investment prosperities | - | - | - | - | - | - |
| 3) Others | - | - | - | - | - | - |
| Differences on translation of foreign currency financial statements | 132 | (36,661) | (76,145) | 84,535 | (74,256) | (102,395) |
| Ending balance | 3,996,632 | 2,010,044 | 4,872,822 | 2,518,077 | 4,042,526 | 17,440,101 |
| Accumulated amortisation | | | | | | |
| Opening balance | 752,029 | 418,260 | 40,199 | 99,960 | 2,448,693 | 3,759,141 |
| Increase in current period | 50,595 | 138,171 | 18,981 | 29,098 | 293,055 | 529,900 |
| 1) Depreciation charged | 50,595 | 138,171 | 18,981 | 29,098 | 293,055 | 529,900 |
| 2) Transfer from investment prosperities and others | - | - | - | - | - | - |
| Decrease in current period | - | (8,117) | - | - | (1,850,967) | (1,859,084) |
| 1) Disposal | - | (8,117) | - | - | (1,850,967) | (1,859,084) |
| 2) Others | - | - | - | - | - | - |
| Differences on translation of foreign currency financial statements | (324) | (3,863) | (108) | 4,484 | (36,314) | (36,125) |
| Ending balance | 802,300 | 544,451 | 59,072 | 133,542 | 854,467 | 2,393,832 |
| Provision for impairment loss | | | | | | |
| Opening balance | - | 10,738 | - | - | 1,313 | 12,051 |
| Increase in current period | - | 82 | - | - | - | 82 |
| 1) Depreciation charged | - | 82 | - | - | - | 82 |
| Decrease in current period | - | (56) | - | - | - | (56) |
| 1) Disposal | - | (56) | - | - | - | (56) |
| Differences on translation of foreign currency financial statements | - | (8) | - | - | 1 | (7) |
| Ending balance | - | 10,756 | - | - | 1,314 | 12,070 |
| Carrying amount at end of period | 3,194,332 | 1,454,837 | 4,813,750 | 2,384,535 | 3,186,745 | 15,034,199 |
| Carrying amount at beginning of period | 3,110,420 | 1,610,960 | 4,908,768 | 2,333,582 | 3,203,306 | 15,167,036 |

- (a) For the six months ended 30 June 2018, the amortisation of intangible assets amounted to RMB 529,900,000 (for the six months ended 30 June 2017: RMB 1,477,108,000) and is included in income statement.
- (b) As at 30 June 2018, the Group had no certificates of land use rights to be obtained.
- (c) As at 30 June 2018, other intangible assets mainly represented customer relationship.

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(13) Goodwill

The goodwill allocated to the asset groups of the Group are summarised as follows:

| Investee | Opening balance | Increase | Differences on translation of foreign currency financial statements | Others | Ending balance |
|----------------------------------|-----------------|----------|---|--------|----------------|
| Wuxi Little Swan Company Limited | 1,361,306 | - | - | - | 1,361,306 |
| Clivet | 498,724 | - | (9,696) | - | 489,028 |
| Carrier S.A. Co., Ltd. | 569,493 | - | (75,415) | - | 494,078 |
| TLSC | 2,695,355 | - | 94,553 | - | 2,789,908 |
| KUKA Group | 22,202,569 | - | (429,123) | - | 21,773,446 |
| Others | 1,576,338 | 9,999 | 60 | - | 1,586,397 |
| Total | 28,903,785 | 9,999 | (419,621) | - | 28,494,163 |

(14) Deferred tax assets tax assets and deferred tax liabilities

(a) Deferred tax assets tax assets without taking into consideration the offsetting of balances

| Item | Ending balance | | Opening balance | |
|---------------------------------|--|---------------------|--|---------------------|
| | Deductible temporary differences and deductible losses | Deferred tax assets | Deductible temporary differences and deductible losses | Deferred tax assets |
| Deductible losses | 1,654,550 | 572,418 | 1,482,569 | 442,219 |
| Provision for asset impairments | 1,269,040 | 246,896 | 1,121,334 | 249,163 |
| Employee benefits payable | 632,368 | 149,876 | 1,294,431 | 291,511 |
| Other current liabilities | 17,897,074 | 3,561,189 | 15,398,407 | 3,279,340 |
| Others | 4,563,944 | 1,040,376 | 3,544,103 | 894,981 |
| Total | 26,016,976 | 5,570,755 | 22,840,844 | 5,157,214 |

(b) Deferred tax liabilities without taking into consideration the offsetting of balances

| Deferred tax liabilities | Ending balance | | Opening balance | |
|--|-------------------------------|--------------------------|-------------------------------|--------------------------|
| | Taxable temporary differences | Deferred tax liabilities | Taxable temporary differences | Deferred tax liabilities |
| Changes in fair value | 64,727 | 12,506 | 482,092 | 46,086 |
| Business combinations involving enterprises not under common control | 11,847,714 | 3,521,284 | 12,152,077 | 3,595,258 |
| Others | 4,746,776 | 1,433,409 | 4,723,128 | 1,465,359 |
| Total | 16,659,217 | 4,967,199 | 17,357,297 | 5,106,703 |

(c) The net balances of deferred tax assets and liabilities after offsetting are as follows:

| Item | Balance after offsetting at end of period | Balance after offsetting at beginning of period |
|--------------------------|---|---|
| Deferred tax assets | 4,618,066 | 4,023,334 |
| Deferred tax liabilities | 4,014,510 | 3,972,823 |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(15) Details of provision for asset impairments

| Item | Opening balance | Increase in current period | Decrease in current period | | Differences on translation of foreign currency financial statements | Ending balance |
|---|-----------------|----------------------------|----------------------------|-----------|---|----------------|
| | | | Reversal | Write-off | | |
| Provision for bad debts | 1,098,395 | 403,352 | (137,471) | 1,627 | (11,206) | 1,354,697 |
| Including: Provision for bad debts of accounts receivable | 881,397 | 319,716 | (129,660) | 1,627 | (11,321) | 1,061,759 |
| Provision for impairment of loans and advances | 167,654 | 50,122 | - | - | - | 217,776 |
| Provision for bad debts of other receivables | 49,344 | 33,514 | (7,811) | - | 115 | 75,162 |
| Provision for decline in the value of inventories | 206,982 | 165,418 | (138,373) | (49,167) | (8,935) | 175,925 |
| Provision for impairment of available-for-sale financial assets | 2,254 | - | - | - | (42) | 2,212 |
| Provision for impairment of fixed assets | 26,262 | 7,079 | - | (4,364) | 123 | 29,100 |
| Provision for impairment of intangible assets | 12,051 | 82 | - | (56) | (7) | 12,070 |
| Provision for impairment of investment properties | 12,576 | - | - | - | - | 12,576 |
| Total | 1,358,520 | 575,931 | (275,844) | (51,960) | (20,067) | 1,586,580 |

(16) Assets with ownership or use right restricted

As at 30 June 2018, details of assets with restricted ownership are as follows:

| Item | Ending balance | Opening balance |
|--------------------------------|----------------|-----------------|
| Cash at bank and on hand | 7,023,079 | 3,807,496 |
| Deposits with the Central Bank | 3,167,283 | 1,835,051 |
| Deposits with other banks | 24,470,000 | 20,800,000 |
| Total | 34,660,362 | 26,442,547 |

(17) Short-term borrowings

| Item | Ending balance | Opening balance |
|-----------------------|----------------|-----------------|
| Unsecured | 1,244,051 | 2,028,265 |
| Guaranteed borrowings | 16,982 | 555,837 |
| Total | 1,261,033 | 2,584,102 |

- (a) As at 30 June 2018, the annual interest rate range of short-term borrowings is 1.34% to 11.63% (31 December 2017: 0.81% to 11%).

(18) Notes payable

| Item | Ending balance | Opening balance |
|-----------------------|----------------|-----------------|
| Bank acceptance notes | 24,345,348 | 25,207,785 |

(19) Accounts payable

| Item | Ending balance | Opening balance |
|------------------------|----------------|-----------------|
| Materials cost payable | 32,066,265 | 31,009,375 |
| Others | 3,929,620 | 4,135,402 |
| Total | 35,995,885 | 35,144,777 |

- (a) As at 30 June 2018, accounts payable with ageing over 1 year with a carrying amount of RMB 951,557,000 (31 December 2017: RMB 978,692,000) are mainly unsettled accounts payable for materials.

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(20) Advances from customers

| Item | Ending balance | Opening balance |
|---------------------------|----------------|-----------------|
| Advances on sales | 9,376,103 | 15,738,208 |
| Settled but not completed | 1,633,114 | 1,670,855 |
| Total | 11,009,217 | 17,409,063 |

- (a) As at 30 June 2018, accounts payable with ageing over 1 year with a carrying amount of RMB 403,229,000 (31 December 2017: RMB 202,302,000) are mainly unsettled advances on sales.

(21) Employee benefits payable

| Total | Ending balance | Opening balance |
|--|----------------|-----------------|
| Short-term employee benefits payable (a) | 3,839,959 | 5,063,266 |
| Others | 61,425 | 184,234 |
| Total | 3,901,384 | 5,247,500 |

- (a) Short-term employee benefits

| Item | Opening balance | Increase in current period | Decrease in current period | Ending balance |
|---|-----------------|----------------------------|----------------------------|----------------|
| Wages and salaries, bonus, allowances and subsidies | 4,622,447 | 10,410,385 | (11,620,399) | 3,412,433 |
| Staff welfare | 264,274 | 341,267 | (351,247) | 254,294 |
| Social security contributions | 107,013 | 783,380 | (792,658) | 97,735 |
| Including: Medical insurance | 103,801 | 752,293 | (760,201) | 95,893 |
| Work injury insurance | 2,278 | 18,293 | (19,026) | 1,545 |
| Maternity insurance | 934 | 12,794 | (13,431) | 297 |
| Housing funds | 22,129 | 164,972 | (166,474) | 20,627 |
| Labour union funds and employee education funds | 18,821 | 43,664 | (44,171) | 18,314 |
| Other short-term employee benefits | 28,582 | 285,151 | (277,177) | 36,556 |
| Sub-total | 5,063,266 | 12,028,819 | (13,252,126) | 3,839,959 |

(22) Taxes payable

| Total | Ending balance | Opening balance |
|------------------------------|----------------|-----------------|
| Corporate income tax payable | 2,823,019 | 2,277,595 |
| Unpaid VAT | 874,069 | 664,196 |
| Others | 658,487 | 602,363 |
| Total | 4,355,575 | 3,544,154 |

(23) Other payables

- (a) Other payables are mainly restricted share repurchase obligation, deposit and security deposit payable, reimbursed logistics expense, manufacturing equipment expense and refund for energy-saving and beneficial to people.
- (b) As at 30 June 2018, accounts payable with ageing over 1 year with a carrying amount of RMB 853,161,000 (31 December 2017: RMB 405,709,000) are mainly restricted share repurchase obligation, deposit and security deposit payable, which are unsettled for related projects that are uncompleted.

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(24) Other current liabilities

| Item | Ending balance | Opening balance |
|---|----------------|-----------------|
| Accrued sales rebate | 19,268,259 | 17,240,015 |
| Accrued installation and maintenance expenses | 6,544,828 | 4,171,520 |
| Accrued sales promotion expenses | 2,148,102 | 1,288,509 |
| Accrued transportation expenses | 707,460 | 596,877 |
| Others | 3,522,514 | 2,961,069 |
| Total | 32,191,163 | 26,257,990 |

(25) Long-term borrowings

| Item | Ending balance | Opening balance |
|--------------------------|----------------|-----------------|
| Unsecured borrowings (a) | 28,363,014 | 28,922,008 |
| Guaranteed borrowings | - | 2,114,423 |
| Unsecured | 1,913,175 | 1,949,894 |
| Total | 30,276,189 | 32,986,325 |

- (a) As at 30 June 2018, mortgage borrowings of RMB 28,363,014,000 was pledged by 81.04% equity of KUKA Group, which was acquired by the subsidiary of the Company (31 December 2017: RMB 28,922,008,000). Interest is paid on a semi-annual basis.
- (b) As at 30 June 2018, the annual interest rate range of the long-term borrowings was 0.9% to 5.5% (31 December 2017: 0.4% to 6%).

(26) Long-term employee benefits payable

| Item | Ending balance | Opening balance |
|---------------------------------------|----------------|-----------------|
| Supplementary retirement benefits (a) | 2,297,939 | 2,330,599 |
| Others | 132,847 | 135,255 |
| Total | 2,430,786 | 2,465,854 |

- (a) Supplementary retirement benefits arise from KUKA Group and TLSC (subsidiaries).

(27) Share capital

| Item | Opening balance | Movements in current period | | | | | Ending balance |
|--|-----------------|-----------------------------|-------------------|-----------------|---------|-----------|----------------|
| | | Exercise of share options | Restricted shares | Desterilisation | Others | Sub-total | |
| RMB-denominated ordinary shares - | | (a) | (b) | | | | |
| RMB-denominated ordinary shares subject to trading restriction | 212,023 | - | 25,955 | (89,655) | (1,701) | (65,401) | 146,622 |
| RMB-denominated ordinary shares not subject to trading restriction | 6,349,030 | 41,605 | - | 89,655 | - | 131,260 | 6,480,290 |
| | 6,561,053 | 41,605 | 25,955 | - | (1,701) | 65,859 | 6,626,912 |

- (a) Pursuant to the *Proposal on Write-offs of Partial Incentive Shares Repurchase for the 2017 Restricted Share Incentive Plan* as approved at the 34th meeting of 2nd shareholders' meeting dated 21 May 2018, the Company determined to repurchase 1,551,000 initial restricted shares granted to 29 employees, reducing the share capital by RMB 1,551,000 and the share premium by RMB 23,060,000.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(27) Share capital (Cont'd)

Pursuant to the Restricted Share Incentive Plan for 2017 as approved at the shareholders' meeting for the year ended 31 December 2016 dated 21 April 2017 (the "Restricted Share Incentive Plan for 2017"), and pursuant to the *Proposal to Grant Reserved Restricted Shares to Targeted Employees for 2017* as approved at the 29th meeting of the 2nd shareholders' meeting dated 29 December 2017, the Company determined to grant reserved restricted shares of 5,385,000 to 54 employees with the initial granting price of RMB 27.99. Under the circumstance that specified performance conditions are met, one third of the total restricted shares granted will become effective after 1 year, 2 years and 3 years, respectively, since 29 December 2017. For the six months ended 30 June 2018, the total number of shares exercised by the granted employees was 5,385,000, of which RMB 5,385,000 was recognised as share capital, and RMB 145,341,000 was recognised as capital surplus (share premium). Pursuant to the *Proposal on Write-offs of Partial Incentive Shares Repurchase for the 2017 Restricted Share Incentive Plan* as approved at the 34th meeting of 2nd shareholders' meeting dated 21 May 2018, the Company determined to repurchase 150,000 reserved restricted shares granted to 2 employees, reducing the share capital by RMB 150,000 and the share premium by RMB 4,049,000.

Pursuant to the restricted share incentive plan for 2018 as approved at the shareholders' meeting for the year ended 31 December 2017 dated 23 April 2018 (the "Restricted Share Incentive Plan for 2018"), the Company granted restricted shares of 20,570,000 to 319 employees for the first time with the initial granting price of RMB 27.57. Under the circumstance that specified performance conditions are met, one third of the total share options granted will become effective after 1 year, 2 years, 3 years and 5 years, respectively, since 7 May 2018. For the six months ended 30 June 2018, the total number of shares exercised by the granted employees was 20,570,000, of which RMB 20,570,000 was recognised as share capital, and RMB 546,545,000 was recognised as capital surplus (share premium).

- (b) 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"), for the six months ended 30 June 2018, the total number of shares exercised by the granted employees was 10,640,000, of which RMB 10,640,000 was recognised as share capital, and RMB 130,420,000 was recognised as capital surplus (share premium), of which RMB 39,042,000 transferred from capital surplus (others) to capital surplus (share premium).

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"), for the six months ended 30 June 2018, the total number of shares exercised by the granted employees was 14,271,000, of which RMB 14,271,000 was recognised as share capital, and RMB 337,763,000 was recognised as capital surplus (share premium), of which RMB 96,851,000 transferred from capital surplus (others) to capital surplus (share premium).

Pursuant to the third share option incentive plan as approved at the first extraordinary general meeting dated 6 June 2016 (the "Third Options Incentive Programme"), for the six months ended 30 June 2018, the total number of shares exercised by the granted employees was 7,389,000, of which RMB 7,389,000 was recognised as share capital, and RMB 179,741,000 was recognised as capital surplus (share premium), of which RMB 40,255,000 transferred from capital surplus (others) to capital surplus (share premium).

Pursuant to the fourth share option incentive plan as approved at the first extraordinary general meeting dated 21 April 2017 (the "Fourth Options Incentive Programme"), for the six months ended 30 June 2018, the total number of shares exercised by the granted employees was 9,305,000, of which RMB 9,305,000 was recognised as share capital, and RMB 355,763,000 was recognised as capital surplus (share premium), of which RMB 71,763,000 transferred from capital surplus (others) to capital surplus (share premium).

MIDEA GROUP CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

4 Notes to the consolidated financial statements (Cont'd)**(28) Capital surplus**

| Item | Opening balance | Increase in current period | Decrease in current period | Ending balance |
|---------------------------------|-----------------|----------------------------|----------------------------|----------------|
| Share premium (a) | 11,908,475 | 1,695,573 | (27,109) | 13,576,939 |
| Share option incentive plan (b) | 943,243 | 480,408 | (247,911) | 1,175,740 |
| Others | 3,059,786 | 1,147 | (490,456) | 2,570,477 |
| Total | 15,911,504 | 2,177,128 | (765,476) | 17,323,156 |

- (a) The increase in share premium arose from the exercise of share options with the amount of RMB 1,003,687,000, and restricted shares subscription with amount of RMB 691,886,000, and the decrease in share premium arose from the repurchased restricted shares with the amount of RMB 27,109,000.
- (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 RMB 480,408,000, while the decrease arose from the transfer of RMB 247,911,000 to share premium due to exercise of share option.

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(29) Other comprehensive income

| Item | Other comprehensive income in the balance sheet | | | Other comprehensive income in the income statement | | | | |
|--|---|--|----------------|---|---|---------------------------|--|---|
| | Opening balance | Attributable to the parent company after tax | Ending balance | Amount arising before income tax for current period | Less: Reclassification of previous other comprehensive income to profit or loss | Less: Income tax expenses | Attributable to the parent company after tax | Attributable to minority shareholders after tax |
| Other comprehensive income items which will not be reclassified subsequently to profit or loss | | | | | | | | |
| Remeasurement of net liabilities and net assets of defined-benefit plan | 51,091 | 18,286 | 69,377 | 22,515 | - | 3,174 | 18,286 | 1,055 |
| Other comprehensive income items which will be reclassified subsequently to profit or loss | | | | | | | | |
| Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified subsequently to profit and loss | (111,070) | 45,974 | (65,096) | 45,751 | - | - | 45,974 | (223) |
| Gains or losses arising from changes in fair value of available-for-sale financial assets | 151,781 | 14,579 | 166,360 | 157,955 | 151,845 | (2,679) | 14,579 | (5,790) |
| Effective portion of cash flow hedging gains or losses | 323,147 | (634,467) | (311,320) | (508,730) | 228,101 | (55,072) | (634,467) | (47,292) |
| Difference on translation of foreign currency financial statement | (659,641) | 155,741 | (503,900) | 21,499 | - | - | 155,741 | (134,242) |
| Total | (244,692) | (399,887) | (644,579) | (261,010) | 379,946 | (54,577) | (399,887) | (186,492) |

MIDEA GROUP CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

4 Notes to the consolidated financial statements (Cont'd)**(30) Surplus reserve**

| Item | Opening balance | Increase in current period | Decrease in current period | Ending balance |
|---------------------------|-----------------|----------------------------|----------------------------|----------------|
| Statutory surplus reserve | 3,882,232 | - | - | 3,882,232 |

(31) Undistributed profits

| Item | Current figure | Comparative figure |
|---|----------------|--------------------|
| Undistributed profits at beginning of year | 47,627,235 | 38,105,391 |
| Add: Net profit attributable to the parent company for current period | 12,936,846 | 10,811,322 |
| Less: Ordinary share dividends payable | 7,898,785 | 6,465,677 |
| Appropriation to general reserve | - | - |
| Undistributed profits at end of period | 52,665,296 | 42,451,036 |

(a) Ordinary share dividends distributed in current period

In accordance with the resolution at the Board of Shareholders' meeting, dated on 21 April 2018, the Company distributed a cash dividend to the shareholders at RMB1.20 per share, amounting to RMB7,898,785,000 (deducting a portion of dividend from repurchased restricted shares) calculated by 6,584,022,574 issued shares (2017: RMB1 per share, amounting to RMB6,465,677,000).

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(32) Revenue and cost of sales

| Item | Current figure | Comparative figure |
|-------------------------------|----------------|--------------------|
| Revenues from main operations | 133,077,713 | 116,534,606 |
| Other operating income | 9,546,124 | 7,915,459 |
| Sub-total | 142,623,837 | 124,450,065 |

| Item | Current figure | Comparative figure |
|-------------------------------------|----------------|--------------------|
| Cost of sales from main operations | 95,385,475 | 85,738,240 |
| Cost of sales from other operations | 8,495,963 | 7,312,841 |
| Sub-total | 103,881,438 | 93,051,081 |

(a) Revenue and cost of sales from main operations

| Products or business type | Current figure | | Comparative figure | |
|-----------------------------|----------------|---------------|--------------------|---------------|
| | Revenue | Cost of sales | Revenue | Cost of sales |
| HVAC | 63,873,960 | 44,548,938 | 50,022,802 | 35,410,252 |
| Consumer appliances | 55,279,120 | 40,043,342 | 51,827,140 | 37,688,678 |
| Robots and automatic system | 12,502,301 | 9,447,728 | 13,606,260 | 11,605,771 |
| Others | 1,422,332 | 1,345,467 | 1,078,404 | 1,033,539 |
| Sub-total | 133,077,713 | 95,385,475 | 116,534,606 | 85,738,240 |

For the six months ended 30 June 2018, cost of sales was mainly material costs and labour costs, which accounted for over 80% of total cost of sales from main operations (for the six months ended 30 June 2017: over 80%).

(b) Revenue and cost of sales from other operations

| Item | Current figure | | Comparative figure | |
|--------------------------------|----------------|---------------|--------------------|---------------|
| | Revenue | Cost of sales | Revenue | Cost of sales |
| Revenue from sales of material | 8,605,866 | 8,225,748 | 7,276,885 | 7,097,826 |
| Others | 940,258 | 270,215 | 638,574 | 215,015 |
| Sub-total | 9,546,124 | 8,495,963 | 7,915,459 | 7,312,841 |

For the six months ended 30 June 2018, cost of sales from other operations is mainly material costs, which accounts for over 80% of total cost of sales from other operations (for the six months ended 30 June 2017: over 80%).

MIDEA GROUP CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]**4 Notes to the consolidated financial statements (Cont'd)****(33) Interest income/(expenses)**

Interest income and expenses arising from financial enterprises are presented as follows:

| Item | Current figure | Comparative figure |
|---|----------------|--------------------|
| Interest income from loans and advances | 430,800 | 385,056 |
| Interest income from deposits with banks, other financial institutions and central bank | 681,214 | 128,493 |
| Interest income | 1,112,014 | 513,549 |
| Interest expenses | (168,235) | (165,666) |

(34) Taxes and surcharges

| Item | Current figure | Comparative figure |
|---------------------------------------|----------------|--------------------|
| City maintenance and construction tax | 377,860 | 331,227 |
| Educational surcharge | 274,527 | 240,908 |
| Others | 195,263 | 182,636 |
| Total | 847,650 | 754,771 |

(35) Selling and distribution expenses

| Item | Current figure | Comparative figure |
|-----------------------------------|----------------|--------------------|
| Selling and distribution expenses | 16,892,503 | 12,404,770 |

For the six months ended 30 June 2018, selling and distribution expenses were mainly maintenance and installation expenses, advertisement and promotion fee, transportation and storage fee, employee benefits and rental expenses, which accounted for over 80% of total selling and distribution expenses (for the six months ended 30 June 2017: over 80%).

(36) General and administrative expenses

| Item | Current figure | Comparative figure |
|-------------------------------------|----------------|--------------------|
| General and administrative expenses | 7,234,520 | 6,832,958 |

For the six months ended 30 June 2018, general and administrative expenses were mainly employee benefits, R&D expenditures, expenses of depreciation and amortisation, technical maintenance expenses and administrative office expenses, which accounted for over 80% of total general and administrative expenses (for the six months ended 30 June 2017: over 80%).

(37) Financial expenses

The Group's finance expenses, other than those arising from financial business (Note 4(33)), are presented as follows:

| Item | Current figure | Comparative figure |
|-------------------------------|----------------|--------------------|
| Interest expenses | 304,703 | 467,895 |
| Less: Interest income | (757,815) | (533,217) |
| Add: Exchange gains or losses | (585,871) | 336,092 |
| Add: Others | 54,870 | 75,844 |
| Total | (984,113) | 346,614 |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(38) Asset impairment loss

| Item | Current figure | Comparative figure |
|--|----------------|--------------------|
| Loss/(reversal) of bad debts (Note 4(3)) | 215,759 | 248,471 |
| Loss on decline in the value of inventories (Note 4(6)) | 27,045 | 114,783 |
| Impairment loss on available-for-sale financial assets (Note 4(8)) | - | - |
| Impairment loss on fixed assets (Note 4(10)) | 7,079 | 5,779 |
| Impairment loss on intangible assets (Note 4(12)) | 82 | 9,477 |
| (Reversal)/loss of impairment of loans (Note 4(5)) | 50,122 | 27,587 |
| Total | 300,087 | 406,097 |

(39) Gains/(losses) on changes in fair value

| Item | Current figure | Comparative figure |
|---|----------------|--------------------|
| Financial instruments at fair value through profit or loss - derivative financial instruments | (613,928) | (9,523) |

(40) Investment income

| Source of investment income | Current figure | Comparative figure |
|--|----------------|--------------------|
| Investment income from wealth management products purchased from financial institutions | 347,371 | 628,641 |
| Investment income from disposal of financial assets at fair value through profit or loss | 92,213 | (125,508) |
| Investment income from long-term equity investment under equity method | 187,245 | 287,134 |
| Others | 285,795 | 409,185 |
| Total | 912,624 | 1,199,452 |

There is no restriction on recovery of investment income.

(41) Gains on disposal of assets

| Item | Current figure | Comparative figure |
|--|----------------|--------------------|
| Gains on disposal of non-current assets | 17,902 | 781,229 |
| Losses on disposal of non-current assets | (36,661) | (37,127) |
| Total | (18,759) | 744,102 |

(42) Other income

| Item | Current figure | Comparative figure |
|--------------|----------------|--------------------|
| Other income | 626,278 | 846,226 |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(43) Income tax expenses

| Item | Current figure | Comparative figure |
|------------------------------|----------------|--------------------|
| Current income tax expenses | 3,098,450 | 2,741,646 |
| Deferred income tax expenses | (483,568) | (682,593) |
| Total | 2,614,882 | 2,059,053 |

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated income statement to the income tax expenses is listed below:

| Item | Current figure | Comparative figure |
|--|----------------|--------------------|
| Total profit | 16,394,573 | 13,607,124 |
| Income tax calculated at tax rate of 25% | 4,098,643 | 3,401,781 |
| Effect of different tax rates applicable to subsidiaries | (1,018,015) | (1,105,403) |
| Adjustment of income tax annual filing for prior periods | (88,464) | (102,064) |
| Effect of income not subject to tax | (156,177) | (113,664) |
| Effect of costs, expenses and losses not deductible for tax purposes | 154,906 | 128,859 |
| Effect of usage of deductible losses for which no deferred income tax asset was recognised in prior periods | (83,582) | (186,000) |
| Effect of deductible temporary differences or deductible losses that are not recognised as deferred tax assets in current period | 18,168 | 17,446 |
| Others | (310,597) | 18,098 |
| Income tax expenses | 2,614,882 | 2,059,053 |

(44) 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:

| Item | Unit | Current figure | Comparative figure |
|---|------------------|----------------|--------------------|
| Consolidated net profit attributable to ordinary shareholders of the parent company | RMB'000 | 12,936,846 | 10,811,322 |
| Weighted average number of outstanding ordinary shares | Thousands shares | 6,575,678 | 6,464,909 |
| Basic earnings per share | RMB per share | 1.97 | 1.67 |

(b) 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:

| Item | Unit | Current figure | Comparative figure |
|--|------------------|----------------|--------------------|
| Consolidated net profit attributable to ordinary shareholders of the Company | RMB'000 | 12,936,846 | 10,811,322 |
| Weighted average number of ordinary shares of the Company outstanding | Thousands shares | 6,575,678 | 6,464,909 |
| Weighted average number of ordinary shares increased due to share options | Thousands shares | 95,007 | 39,541 |
| Weighted average number of diluted outstanding ordinary shares | Thousands shares | 6,670,685 | 6,504,450 |
| Diluted earnings per share | RMB per share | 1.94 | 1.66 |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(45) Notes to the cash flow statement

(a) Cash received relating to other operating activities

| Item | Current figure | Comparative figure |
|---------------------------|----------------|--------------------|
| Non-operating income | 148,745 | 148,188 |
| Other income | 649,291 | 823,350 |
| Other operating income | 908,034 | 568,021 |
| Financial interest income | 140,352 | 87,473 |
| Others | 1,709,955 | 858,815 |
| Total | 3,556,377 | 2,485,847 |

(b) Cash paid relating to other operating activities

| Item | Current figure | Comparative figure |
|--|----------------|--------------------|
| General and administrative expenses (excluding employee benefits and taxes and surcharges) | 3,210,192 | 3,778,202 |
| Selling and distribution expenses (excluding employee benefits and taxes and surcharges) | 10,057,941 | 9,577,762 |
| Others | 178,335 | 46,281 |
| Total | 13,446,468 | 13,402,245 |

(c) Supplementary information to the cash flow statement

Reconciliation of net profit to cash flow from operating activities is as follows:

| Supplementary information | Current figure | Comparative figure |
|--|----------------|--------------------|
| 1) Reconciliation from net profit to cash flows from operating activities: | | |
| Net profit | 13,779,691 | 11,548,071 |
| Add: Provision for asset impairment | 300,087 | 406,097 |
| Depreciation and amortisation | 2,431,629 | 3,406,392 |
| Net loss on disposal of non-current assets | 18,759 | (744,102) |
| Losses on changes in fair value | 613,928 | 9,523 |
| Financial expenses | (356,164) | 56,225 |
| Investment income | (912,624) | (1,199,452) |
| Share options expenses | 545,531 | 340,262 |
| Decrease in deferred tax assets | (581,702) | (196,587) |
| Increase in deferred tax liabilities | 105,493 | (466,590) |
| Decrease in inventories | 5,575,127 | 1,152,072 |
| Decrease in operating receivables | (19,845,991) | (11,272,631) |
| Increase in operating payables | 5,939,924 | 10,856,652 |
| Net cash flows from operating activities | 7,613,688 | 13,895,932 |
| 2) Net movement in cash and cash equivalents | | |
| Cash at end of period | 10,427,394 | 20,786,431 |
| Less: Cash at beginning of period | 21,831,653 | 12,513,730 |
| Add: Cash equivalents at end of period | - | - |
| Less: Cash equivalents at beginning of period | - | - |
| Net increase in cash and cash equivalents | (11,404,259) | 8,272,701 |

(d) Composition of cash and cash equivalents

| Item | Current figure | Comparative figure |
|--|----------------|--------------------|
| Cash on hand | 5,232 | 4,456 |
| Cash at bank that can be readily drawn on demand | 8,748,778 | 9,486,925 |
| Other monetary fund that can be readily drawn on demand | 59,123 | 81,937 |
| Deposits with the central bank that can be readily drawn on demand | 81,100 | 32,528 |
| Deposits with banks and other financial institutions | 1,533,161 | 11,180,585 |
| Cash and cash equivalent at end of period | 10,427,394 | 20,786,431 |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(46) Monetary items denominated in foreign currencies

| Item | 30 June 2018 | | |
|---------------------------------|--------------------------|---------------|-------------|
| | Foreign currency balance | Exchange rate | RMB balance |
| Cash at bank and on hand | | | |
| USD | 1,495,148 | 6.6166 | 9,892,799 |
| JPY | 1,415,286 | 0.0599 | 84,795 |
| HKD | 209,169 | 0.8431 | 176,350 |
| EURO | 169,635 | 7.6515 | 1,297,963 |
| BRL | 289,682 | 1.7161 | 497,137 |
| Other currencies | N/A | N/A | 843,915 |
| Sub-total | | | 12,792,959 |
| Accounts receivable | | | |
| USD | 1,126,227 | 6.6166 | 7,451,792 |
| JPY | 26,014,080 | 0.0599 | 1,558,608 |
| HKD | 110,575 | 0.8431 | 93,226 |
| EURO | 371,671 | 7.6515 | 2,843,844 |
| BRL | 260,881 | 1.7161 | 447,711 |
| Other currencies | N/A | N/A | 1,845,703 |
| Sub-total | | | 14,240,884 |
| Other receivables | | | |
| USD | 53,792 | 6.6166 | 355,922 |
| JPY | 2,109,846 | 0.0599 | 126,409 |
| HKD | 1,788 | 0.8431 | 1,508 |
| EURO | 51,841 | 7.6515 | 396,664 |
| BRL | 46,064 | 1.7161 | 79,053 |
| Other currencies | N/A | N/A | 305,609 |
| Sub-total | | | 1,265,165 |
| Total | | | 28,299,008 |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(46) Monetary items denominated in foreign currencies (Cont'd)

| Item | 30 June 2018 | | |
|---|--------------------------|---------------|-------------|
| | Foreign currency balance | Exchange rate | RMB balance |
| Short-term borrowings | | | |
| USD | 43,828 | 6.6166 | 289,993 |
| EURO | 58,611 | 7.6515 | 448,460 |
| BRL | 95,953 | 1.7161 | 164,670 |
| Other currencies | N/A | N/A | 182,020 |
| Sub-total | | | 1,085,143 |
| Accounts payable | | | |
| USD | 277,301 | 6.6166 | 1,834,788 |
| JPY | 18,027,349 | 0.0599 | 1,080,091 |
| HKD | 87,119 | 0.8431 | 73,450 |
| EURO | 318,583 | 7.6515 | 2,437,641 |
| BRL | 256,356 | 1.7161 | 439,944 |
| Other currencies | N/A | N/A | 959,427 |
| Sub-total | | | 6,825,341 |
| Other payables | | | |
| USD | 53,395 | 6.6166 | 353,294 |
| JPY | 6,206,512 | 0.0599 | 371,857 |
| HKD | 188,209 | 0.8431 | 158,679 |
| EURO | 27,085 | 7.6515 | 207,244 |
| Other currencies | N/A | N/A | 10,069 |
| Sub-total | | | 1,101,143 |
| Current portion of non-current liabilities | | | |
| USD | 697,909 | 6.6166 | 4,617,784 |
| EURO | 271,048 | 7.6515 | 2,073,921 |
| Other currencies | N/A | N/A | 34,347 |
| Sub-total | | | 6,726,052 |
| Long-term borrowings | | | |
| EURO | 3,956,272 | 7.6515 | 30,271,417 |
| BRL | 829 | 1.7161 | 1,423 |
| Other currencies | N/A | N/A | 3,349 |
| Sub-total | | | 30,276,189 |
| Total | | | 46,013,868 |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(46) Monetary items denominated in foreign currencies (Cont'd)

| Item | 31 December 2017 | | |
|---------------------------------|--------------------------|---------------|-------------------|
| | Foreign currency balance | Exchange rate | RMB balance |
| Cash at bank and on hand | | | |
| USD | 1,601,324 | 6.5342 | 10,463,372 |
| JPY | 2,292,090 | 0.0579 | 132,712 |
| HKD | 167,138 | 0.8359 | 139,711 |
| EURO | 181,609 | 7.8023 | 1,416,970 |
| BRL | 173,113 | 1.9755 | 341,985 |
| Other currencies | N/A | N/A | 888,618 |
| Sub-total | | | 13,383,368 |
| 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 |
| EURO | 283,715 | 7.8023 | 2,213,627 |
| BRL | 480,808 | 1.9755 | 949,836 |
| Other currencies | N/A | N/A | 1,885,439 |
| Sub-total | | | 12,948,209 |
| Other receivables | | | |
| USD | 48,777 | 6.5342 | 318,717 |
| JPY | 2,234,111 | 0.0579 | 129,355 |
| HKD | 723 | 0.8359 | 604 |
| EURO | 50,804 | 7.8023 | 396,390 |
| BRL | 44,134 | 1.9755 | 87,187 |
| Other currencies | N/A | N/A | 208,022 |
| Sub-total | | | 1,140,275 |
| Total | | | 27,471,852 |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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

(46) Monetary items denominated in foreign currencies (Cont'd)

| Item | 31 December 2017 | | |
|------------------------------|--------------------------|---------------|-------------|
| | Foreign currency balance | Exchange rate | RMB balance |
| Short-term borrowings | | | |
| USD | 258,328 | 6.5342 | 1,687,965 |
| EURO | 30,233 | 7.8023 | 235,885 |
| BRL | 135,206 | 1.9755 | 267,100 |
| Other currencies | N/A | N/A | 393,152 |
| Sub-total | | | 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 |
| EURO | 259,337 | 7.8023 | 2,023,424 |
| BRL | 208,088 | 1.9755 | 411,078 |
| Other currencies | N/A | N/A | 1,013,751 |
| Sub-total | | | 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 |
| EURO | 33,701 | 7.8023 | 262,945 |
| Other currencies | N/A | N/A | 51,418 |
| Sub-total | | | 1,232,783 |
| Long-term borrowings | | | |
| EURO | 4,227,267 | 7.8023 | 32,982,403 |
| BRL | 933 | 1.9755 | 1,843 |
| Other currencies | N/A | N/A | 2,079 |
| Sub-total | | | 32,986,325 |
| Debentures payable | | | |
| USD | 696,804 | 6.5342 | 4,553,054 |
| Total | | | 48,193,321 |

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

5 Changes in consolidation scope

(1) Disposal of subsidiaries

KUKA Group, the subsidiary of the Company, disposed of Connyun GmbH to Körber GmbH in June 2018, which do not have significant impact on the financial position of the Group.

(2) Changes in consolidation scope due to other reasons

(a) Increase of consolidation scope

In February 2018, Guangdong Midea Electric Co., Ltd. (a fully-owned subsidiary of the Company) invested an amount of RMB 100,000,000 by cash in the establishment of Guangdong Midea Industrial Technology Co., Ltd.

In April 2018, Midea Electrics Netherlands B.V. (a fully-owned subsidiary of the Company) established Midea Home Appliances UK Ltd.

In May 2018, the Company established Shanghai Chemours Electric Co., Ltd.

(b) Decrease of consolidation scope

Decrease of consolidation scope mainly includes deregistration of subsidiaries. Details are as follows:

| Name of company | Disposal method of the equity | Disposal time-point of the equity |
|---|-------------------------------|-----------------------------------|
| Wuhan Midea Home Appliances Manufacturing Co., Ltd. | Deregistration | March 2018 |

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

[English translation for reference only]

6 Interests in other entities

(1) Interests in subsidiaries

(a) Information of significant subsidiaries

| Subsidiaries | Major business location | Place of registration | Nature of business | Shareholding (%) | | Acquisition method |
|--|-------------------------|------------------------|---|------------------|----------|--|
| | | | | Direct | Indirect | |
| Guangdong Midea Refrigeration Equipment Co., Ltd. | Foshan, PRC | Foshan, PRC | Manufacture and sales of air conditioner | 73% | 7% | Business combinations involving enterprises not under common control |
| Guangdong Midea Wuhu Refrigeration Equipment Co., Ltd. | Wuhu, PRC | Wuhu, PRC | Manufacture and sales of air conditioner | 73% | 7% | Business combinations involving enterprises not under common control |
| Midea Wuhan Refrigeration Equipment Co., Ltd. | Wuhan, PRC | Wuhan, PRC | Manufacture of air conditioner | 73% | 7% | Establishment |
| Wuhu Meizhi Air-Conditioning Equipment Co., Ltd. | Wuhu, PRC | Wuhu, PRC | Manufacture of air conditioner | 88% | 12% | Establishment |
| Guangzhou Hualing Air-Conditioner Equipment Co., Ltd. | Guangzhou, PRC | Guangzhou, PRC | Manufacture of air conditioner | 90% | 10% | Business combinations involving enterprises not under common control |
| Guangdong Midea Heating & Ventilation Equipment Co., Ltd. | Foshan, PRC | Foshan, PRC | Manufacture of air conditioner | 90% | 10% | Establishment |
| Guangdong GMCC Refrigeration Equipment Co., Ltd. | Foshan, PRC | Foshan, PRC | Manufacture of compressors | 60% | | Business combinations involving enterprises not under common control |
| Zhejiang GMCC Compressor Co., Ltd. | Ningbo, PRC | Ningbo, PRC | Manufacture of compressors | 100% | | Establishment |
| Hefei Midea Refrigerator Co., Ltd. | Hefei, PRC | Hefei, PRC | Manufacture of refrigerator | 75% | 25% | Business combinations involving enterprises not under common control |
| Ningbo Midea United Material Supply Co., Ltd. | Ningbo, PRC | Ningbo, PRC | Manufacture of air conditioner | 100% | - | Business combination under common control |
| Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd. | Foshan, PRC | Foshan, PRC | Manufacture of small household appliances | - | 100% | Establishment |
| Foshan Shunde Midea Electric Appliance Manufacturing Co., Ltd. | Foshan, PRC | Foshan, PRC | Manufacture of small household appliances | - | 100% | Establishment |
| Wuxi Little Swan Company Limited | Wuxi, PRC | Wuxi, PRC | Manufacture of washing machine | 38% | 15% | Business combinations involving enterprises not under common control |
| Wuhu Welling Motor Sales Co., Ltd. | Wuhu, PRC | Wuhu, PRC | Sales of motors | | 100% | Establishment |
| Midea Electric Trading (Singapore) Co. Pte. Ltd. | Singapore | Singapore | Export trade | | 100% | Establishment |
| Midea Group Finance Co., Ltd. | Foshan, PRC | Foshan, PRC | Financial industry | 95% | 5% | Establishment |
| Midea Petty Loan Co., Ltd. | Wuhu, PRC | Wuhu, PRC | Petty loan | 5% | 95% | Business combinations involving enterprises not under common control |
| Shenzhen Qianhai Midea Assets Management Co., Ltd. | Shenzhen, PRC | Shenzhen, PRC | Assets management | | 100% | Establishment |
| MECCA INTERNATIONAL (BVI) LIMITED | British Virgin Islands | British Virgin Islands | Investment holding | - | 100% | Establishment |
| Midea International Corporation Company Limited | Hong Kong | Hong Kong | Investment holding | 100% | - | Establishment |
| Midea Investment & Development Corporation | British Virgin Islands | British Virgin Islands | Investment holding | | 100% | Establishment |
| Midea Electric Netherlands (I) B.V. | Netherlands | Netherlands | Investment holding | | 100% | Establishment |
| Springer Carrier Ltda. | Brazil | Brazil | Sales of home appliances | | 49% | Business combinations involving enterprises not under common control |
| Toshiba Consumer Marketing Corporation | Japan | Japan | Manufacture of home appliances | | 100% | Business combinations involving enterprises not under common control |
| TLSC | Japan | Japan | Manufacture of home appliances | | 100% | Business combinations involving enterprises not under common control |
| KUKA Group | Germany | Germany | Manufacture and sales of robots | - | 94.55% | Business combinations involving enterprises not under common control |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

6 Interests in other entities (Cont'd)

(1) Interests in subsidiaries (Cont'd)

(b) Subsidiaries that have significant minority interests

| Subsidiaries | Shareholding of minority shareholders | Total profit or loss attributable to minority shareholders for current period | Dividends distributed to minority interests for the current period | Minority interests at end of period |
|----------------------------------|---------------------------------------|---|--|-------------------------------------|
| Wuxi Little Swan Company Limited | 47% | 426,575 | 299,335 | 3,368,584 |

(2) Information of enterprise group

The major financial information of the subsidiaries that have significant minority interests is listed below:

| Subsidiaries | Ending balance | | | | | | Opening balance | | | | | |
|----------------------------------|----------------|--------------------|--------------|---------------------|-------------------------|-------------------|-----------------|--------------------|--------------|---------------------|-------------------------|-------------------|
| | 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 | 17,738,535 | 1,810,991 | 19,549,526 | 10,912,290 | 14,712 | 10,927,002 | 19,564,974 | 1,773,447 | 21,338,421 | 13,103,359 | 16,764 | 13,120,123 |

| Subsidiaries | Current figure | | | | Comparative figure | | | |
|----------------------------------|----------------|------------|----------------------------|--------------------------------------|--------------------|------------|----------------------------|--------------------------------------|
| | 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 | 12,056,938 | 1,003,465 | 990,991 | 173,229 | 10,568,061 | 832,760 | 800,344 | (142,411) |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

6 Interests in other entities

(3) Interests in associates and joint ventures

The impact of the Group's associates and joint ventures on the Group is not significant. Summarised information is as follows:

| Item | Current figure | Comparative figure |
|---|----------------|--------------------|
| Aggregated carrying amount of investments | 2,753,940 | 2,586,329 |
| Aggregate of the following items calculated in proportion to shareholding (i) | 187,245 | 287,134 |
| Other comprehensive income (i) | 45,751 | (8,069) |
| Total comprehensive income | 232,996 | 279,065 |

- (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 the 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.

The Group identified 4 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.

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

8 Segment reporting

(a) Information on the profit or loss, assets and liabilities of reported segment

Segment information as at and for the six months ended 30 June 2018 was as follows:

| Item | Current figure | | | | | Total |
|---|--|---------------------|--------------------------------|-----------------------------------|--------------|---------------|
| | Heating & ventilation, as well as air- conditioner | Consumer appliances | Robots and automatic system | Other segments and unallocated | Elimination | |
| Revenue from external customers | 71,054,762 | 57,431,088 | 12,527,883 | 2,722,183 | - | 143,735,916 |
| Inter-segment revenue | 683,380 | 169,729 | 27,628 | 3,026,975 | (3,907,712) | - |
| Operating expenses | (63,782,969) | (51,448,350) | (12,506,308) | (4,574,615) | 3,970,393 | (128,341,849) |
| Segment profit | 7,955,173 | 6,152,467 | 49,203 | 1,174,543 | 62,681 | 15,394,067 |
| Other profit or loss | | | | | | 1,000,506 |
| Total profit | | | | | | 16,394,573 |
| Total assets | 102,561,819 | 91,717,760 | 27,920,064 | 95,439,400 | (66,641,242) | 250,997,801 |
| Total liabilities | 69,244,032 | 64,756,334 | 19,205,830 | 89,728,014 | (79,875,011) | 163,059,199 |
| Long-term equity investments in associates and joint ventures | 328,824 | 65,662 | 114,220 | 2,245,234 | | 2,753,940 |
| Investment income from associates and joint ventures | 41,003 | (3,538) | (10,705) | 160,485 | | 187,245 |
| Increase in non-current assets (excluding available-for-sale financial assets, long-term equity investments and deferred tax assets) | 731,745 | 932,421 | 1,217,350 | 118,287 | - | 2,999,803 |
| Asset impairment losses/(reversal) | 206,497 | (20,413) | 24,230 | 121,847 | (32,074) | 300,087 |
| Depreciation and amortisation | 770,940 | 890,286 | 513,702 | 256,701 | - | 2,431,629 |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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 six months ended 30 June 2017 is as follows:

| Item | Comparative figure | | | | | |
|---|--|------------------------|--------------------------------|-----------------------------------|--------------|---------------|
| | Heating & ventilation, as well as air- conditioner | Consumer appliances | Robots and automatic system | Other segments and unallocated | Elimination | Total |
| Revenue from external customers | 55,624,107 | 54,049,321 | 13,655,523 | 1,634,665 | - | 124,963,616 |
| Inter-segment revenue | 1,216,745 | 139,860 | 433 | 2,879,845 | (4,236,883) | - |
| Operating expenses | (51,390,893) | (48,664,743) | (14,486,022) | (3,640,771) | 4,218,811 | (113,963,618) |
| Segment profit | 5,449,959 | 5,524,438 | (830,066) | 873,739 | (18,072) | 10,999,998 |
| Other profit or loss | | | | | | 2,607,126 |
| Total profit | | | | | | 13,607,124 |
| Total assets | 92,062,091 | 90,073,822 | 27,602,655 | 81,363,914 | (60,085,990) | 231,016,492 |
| Total liabilities | 62,786,365 | 92,183,380 | 17,183,416 | 68,684,125 | (84,815,686) | 156,021,600 |
| Long-term equity investments in associates and joint ventures | 209,974 | 74,533 | 138,011 | 2,163,811 | - | 2,586,329 |
| Investment income from associates and joint ventures | 37,670 | 4,097 | (7,902) | 253,269 | - | 287,134 |
| Increase in non-current assets (excluding available-for-sale financial assets, long-term equity investments and deferred tax assets) | 471,922 | 1,011,631 | 12,736,618 | 110,494 | - | 14,330,665 |
| Asset impairment losses/(reversal) | 248,101 | 47,601 | 27,591 | 18,859 | 63,945 | 406,097 |
| Depreciation and amortisation | 794,475 | 947,541 | 1,462,109 | 202,267 | - | 3,406,392 |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

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 tax assets located domestically and in foreign countries or geographical areas (including Germany, Japan, Hong Kong, Macau, Singapore, and Brazil, etc.) are as follows:

| Revenue from external customers | Current figure | Comparative figure |
|---------------------------------------|----------------|--------------------|
| Domestic | 85,166,057 | 69,364,700 |
| In other countries/geographical areas | 58,569,859 | 55,598,916 |
| Total | 143,735,916 | 124,963,616 |

| Total non-current assets | Current figure | Comparative figure |
|---------------------------------------|----------------|--------------------|
| Domestic | 22,617,962 | 23,250,191 |
| In other countries/geographical areas | 18,262,671 | 19,155,011 |
| Total | 40,880,633 | 42,405,202 |

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

| Name of the parent company | Registered capital |
|----------------------------|--------------------|
| Midea Holding Co., Ltd. | 330,000 |

(c) The percentages of shareholding and voting rights in the Company held by the parent company

| Name of the parent company | At the end of period | | | At the beginning of period | | |
|----------------------------|----------------------|----------|-------------------|----------------------------|----------|-------------------|
| | Shareholding (%) | | Voting rights (%) | Shareholding (%) | | Voting rights (%) |
| | Direct | Indirect | | Direct | Indirect | |
| Midea Holding Co., Ltd. | 33.37% | - | 33.37% | 33.71% | - | 33.71% |

(2) Information of the Company's subsidiaries

Please refer to Note 6(1) for the information of the Company's main subsidiaries.

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

9 Related parties and significant related party transactions (Cont'd)

(3) Information of other related parties

| Name of other related parties | Relationship |
|--|---|
| Guangzhou Wellkey Electrician Material Co., Ltd. | Under the common control of the direct relatives of the Company's ultimate controlling shareholders |
| Anhui Wellkey Electrician Material Co., Ltd. | Under the common control of the direct relatives of the Company's ultimate controlling shareholders |
| Guangdong Infore Electronics Co., Ltd. | Under the common control of the direct relatives of the Company's ultimate controlling shareholders |
| Hefei Orinko Plastics Group. | Under the 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 parties | Content of related party transactions | Pricing policies of related party transactions | Current figure | Comparative figure |
|--|---------------------------------------|--|----------------|--------------------|
| Hefei Orinko Plastics Group. | Purchase of goods | Agreed price | 170,578 | 241,380 |
| Guangzhou Wellkey Electrician Material Co., Ltd. | Purchase of goods | Agreed price | 449,123 | 417,827 |
| Foshan Micro Midea Filter MFG Co., Ltd. | Purchase of goods | Agreed price | 93,526 | 93,705 |
| Anhui Wellkey Electrician Material Co., Ltd. | Purchase of goods | Agreed price | 165,746 | 123,049 |
| Total | | | 878,973 | 875,961 |

(b) Investment income

| Related parties | Content | Current figure | Comparative figure |
|---|---------------------------|----------------|--------------------|
| Foshan Shunde Rural Commercial Bank Co., Ltd. | Wealth management product | 35,625 | 28,287 |

(5) Receivables from and payables to related parties

Receivables from related parties:

| Items | Related parties | Ending balance | Opening balance |
|--------------------------|---|----------------|-----------------|
| Cash at bank and on hand | Foshan Shunde Rural Commercial Bank Co., Ltd. | 49,387 | 459,297 |

Payables to related parties:

| Items | Related parties | Ending balance | Opening balance |
|------------------|--|----------------|-----------------|
| Accounts payable | Guangzhou Wellkey Electrician Material Co., Ltd. | 180,972 | 195,860 |
| | Foshan Micro Midea Filter MFG Co., Ltd. | 35,917 | 27,554 |
| | Hefei Orinko Plastics Group. | 32,919 | 16,152 |
| | Anhui Wellkey Electrician Material Co., Ltd. | 64,428 | 73,897 |
| Sub-total | | 314,237 | 313,463 |

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

10 Share-based payment

(1) Share Option Incentive Plan

- (a) Pursuant to the fifth share option incentive plan (the "Fifth Share Option Incentive Plan") approved at the shareholders' meeting for the year ended 31 December 2017 dated 23 April 2018, the Company granted 54,520,000 share options with exercise price of RMB 56.34 to 1330 employees. Under the circumstance that the Company meets expected performance, 1/4 of the total share options granted will become effective after 2 years, 3 years, 4 years and 5 years respectively since 7 May 2018.

Determination method for fair value of share options at the grant date

| | |
|---|-----------|
| Exercise price of options: | RMB 56.34 |
| Effective period of options: | 6 years |
| Current price of underlying shares: | RMB 52.4 |
| Estimated fluctuation rate of share price: | 37.34% |
| Estimated dividend rate: | 2.95% |
| Risk-free interest rate within effective period of options: | 2.89% |

The fair value of the Fifth Share Option Incentive Plan calculated pursuant to the above parameters is: RMB 668,983,000.

(b) Movements of share options during the six months

| Item | For the six months ended 30 June 2018 (share options in thousands) | For the six months ended 30 June 2017 (share options in thousands) |
|---|--|--|
| Share options issued at beginning of year | 253,541 | 250,797 |
| Share options granted during current period | 54,520 | 98,274 |
| Share options exercised during current period | (41,605) | (37,740) |
| Share options lapsed during current period | (501) | - |
| Share options issued at end of year | 265,955 | 311,331 |

As at 30 June 2018, 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 Fourth Share Option Incentive Plan is on 12 May 2021. The residual contractual maturity date of the Fifth Share Option Incentive Plan is on 7 May 2024.

(c) Impact of share-based payment transactions on financial position and financial performance

The total share option expenses recognised for the six months ended 30 June 2018 were RMB 346,659,000.

(2) Restricted shares

- (a) Pursuant to the Restricted Share Incentive Plan for 2018 as approved at the shareholders' meeting dated 23 April 2018 (the "Restricted Share Incentive Plan for 2018"), the Company granted 20,570,000 restricted shares with an exercise price of RMB 27.57 to 319 employees. Under the circumstance that specified performance conditions are met, one fourth of the total share options granted will become effective after 2 years, 3 years, 4 years and 5 years, respectively, since 7 May 2018.

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

10 Share-based payment (Cont'd)

(2) Restricted shares (Cont'd)

(b) Movements of share options during the six months

| Item | For the six months ended 30 June 2018 (share options in thousands) | For the six months ended 30 June 2017 (share options in thousands) |
|---|--|--|
| Share options issued at beginning of year | 28,605 | - |
| Share options granted during current period | 20,570 | 23,130 |
| Share options exercised during current period | (7,198) | - |
| Share options lapsed during current period | (1,876) | - |
| Share options issued at end of year | 40,101 | 23,130 |

(c) Impact of share-based payment transactions on financial position and financial performance

The total share option expenses recognised for the six months ended 30 June 2018 were RMB 198,872,000.

11 Contingencies

The amount in tax disputes involving Brazilian subsidiary with 51% interests held by the Company is about BRL 672 million (equivalent to RMB 1,153 million) (Some cases have lasted for more than 10 years. The above amount includes the principal and interest). As at 30 June 2018, 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 BRL 157 million (equivalent to RMB 269 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

The Group has no significant commitments at the balance sheet date.

13 Subsequent events

Nil

14 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

[English translation for reference only]

14 Financial risk (Cont'd)

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 exchange 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 controlling the scale of foreign currency assets and liabilities, to minimise foreign exchange risk, and to reduce the impact of exchange rate fluctuations on business performance.

(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 30 June 2018, the Group had no long-term interest bearing borrowings at floating rates (31 December 2017: null) (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.

14 Financial risk (Cont'd)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

(2) Credit risk

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. 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. As at the balance sheet date, monetary assets held by the Group, including cash at bank and on hand, notes assets, discounted assets and wealth management funds in other current assets, amounted to RMB 114,423,861,000.

The financial liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

| Item | 30 June 2018 | | | | Total |
|--|---------------|--------------|--------------|--------------|-------------|
| | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | |
| Short-term borrowings (including interest) | 1,270,216 | - | - | - | 1,270,216 |
| Notes payable | 24,345,348 | - | - | - | 24,345,348 |
| Accounts payable | 35,995,885 | - | - | - | 35,995,885 |
| Interest payable | 90,677 | - | - | - | 90,677 |
| Dividends payable | 42,859 | - | - | - | 42,859 |
| Other payables | 3,444,684 | - | - | - | 3,444,684 |
| Borrowings from central bank | 30,367 | - | - | - | 30,367 |
| Customer deposits and deposits from banks and other financial institutions | 103,071 | - | - | - | 103,071 |
| Derivative financial liabilities | 678,413 | - | - | - | 678,413 |
| Current portion of non-current liabilities | 6,850,601 | - | - | - | 6,850,601 |
| Other current liabilities | 32,191,163 | - | - | - | 32,191,163 |
| Long-term borrowings (including interest) | 353,474 | 334,641 | 30,795,857 | - | 31,483,972 |
| Other non-current liabilities | - | 185,743 | 163,374 | 666,012 | 1,015,129 |
| Sub-total | 105,396,758 | 520,384 | 30,959,231 | 666,012 | 137,542,385 |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

14 Financial risk (Cont'd)

(3) Liquidity risk (Cont'd)

| 31 December 2017 | | | | | |
|--|---------------|--------------|--------------|--------------|-------------|
| Ending balance | 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 payable (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 |
| Sub-total | 75,947,839 | 7,287,483 | 31,782,578 | 668,099 | 115,685,999 |

15 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 30 June 2018, the assets and liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

| Item | Fair value at end of period | | | Total |
|--|-----------------------------|-----------|------------|------------|
| | Level 1 | Level 2 | Level 3 | |
| Financial assets at fair value through profit or loss - | | | | |
| derivative financial assets | - | 316,540 | - | 316,540 |
| Other current assets - hedging instruments | - | 10,461 | - | 10,461 |
| Available-for-sale financial assets - | | | | |
| other current assets - wealth management products | - | - | 12,642,160 | 12,642,160 |
| Available-for-sale financial assets | - | - | 96,486 | 96,486 |
| Total assets | - | 327,001 | 12,738,646 | 13,065,647 |
| Financial liabilities at fair value through profit or loss - | | | | |
| Derivative financial liabilities | - | 678,413 | - | 678,413 |
| Other financial liabilities - hedging instruments | - | 388,312 | - | 388,312 |
| Total liabilities | - | 1,066,725 | - | 1,066,725 |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

15 Fair value estimates (Cont'd)

(1) Assets and liabilities measured at fair value on a recurring basis (Cont'd)

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:

| Item | Fair value at beginning of year | | | |
|--|---------------------------------|----------------|-------------------|-------------------|
| | 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 instruments | - | 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 financial liabilities - hedging instruments | - | 1,877 | - | 1,877 |
| Total liabilities | - | 92,309 | - | 92,309 |

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 among the three levels.

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 period.

The changes in Level 3 financial assets are analysed below:

Available-for-sale financial assets

| Item | - Available-for-sale equity instruments |
|--|---|
| 1 January 2018 | 22,174,966 |
| Increase | 8,873,379 |
| Decrease | (18,825,652) |
| Total gains of current period | |
| Investment income recognised in the income statement | 347,371 |
| Gains recognised in other comprehensive income | 168,582 |
| 30 June 2018 | 12,738,646 |

Available-for-sale financial assets

| Item | - 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 |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

15 Fair value estimates (Cont'd)
(1) Assets and liabilities measured at fair value on a recurring basis (Cont'd)

Information about the Level 3 fair value measurement is as follows:

| | 30 June 2018 Fair value | Valuation technique | Inputs | | | |
|--|----------------------------|--------------------------|---------------------------|--------------|---------------------------------|-----------------------------|
| | | | Name | Range | Relationship with fair value | Observable/ unobservable |
| Available-for-sale financial assets - | | | | | | |
| Other current assets | 12,642,160 | Discounted cash flows | Estimated annual yield | 2.2% to 5.4% | Positive | Unobservable |
| Available-for-sale financial assets | <u>96,486</u> | Income approach | - | - | - | - |
| | <u>12,738,646</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 15(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 30 June 2018 and 31 December 2017 approximated to their fair value.

16 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 divide total liabilities).

As at 30 June 2018 and 31 December 2017, the Group's gearing ratio is as follows:

| Item | Ending balance | Opening balance |
|-------------------|----------------|-----------------|
| Total liabilities | 163,059,199 | 165,181,687 |
| Total assets | 250,997,801 | 248,106,858 |
| Gearing ratio | 64.96% | 66.58% |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

17 Notes to the parent company's financial statements

(1) Other receivables

| Item | Ending balance | Opening balance |
|-------------------------------|----------------|-----------------|
| Current accounts | 9,824,397 | 8,316,708 |
| Others | 393,767 | 87,645 |
| Sub-total | 10,218,164 | 8,404,353 |
| Less: Provision for bad debts | (502) | (789) |
| Total | 10,217,662 | 8,403,564 |

(a) Other receivables are analysed by ageing as follows:

| Ageing | Ending balance | Opening balance |
|-------------------------------|----------------|-----------------|
| Within 1 year (inclusive) | 10,212,392 | 5,150,753 |
| Over 1 year | 5,772 | 3,253,600 |
| Sub-total | 10,218,164 | 8,404,353 |
| Less: Provision for bad debts | (502) | (789) |
| Total | 10,217,662 | 8,403,564 |

(b) Other receivables are analysed by categories as follows:

| Categories | Ending balance | | | | Opening balance | | | |
|---|----------------|--------------------|-------------------------|-------|-----------------|---------|-------------------------|-------|
| | Book balance | | Provision for bad debts | | Book balance | | Provision for bad debts | |
| | Amount | % of total balance | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Provision for bad debts on the individual basis | 10,211,488 | 99.93% | - | - | 8,392,449 | 99.86% | - | - |
| Provision for bad debts on the grouping basis | 6,676 | 0.07% | 502 | 7.52% | 11,904 | 0.14% | 789 | 6.63% |
| Total | 10,218,164 | 100.00% | 502 | 0.00% | 8,404,353 | 100.00% | 789 | 0.01% |

(c) Other receivables 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 | | |
|---------------|----------------|-------------------------|--------|-----------------|-------------------------|--------|
| | Book balance | Provision for bad debts | | Book balance | Provision for bad debts | |
| | Amount | Amount | Ratio | Amount | Amount | Ratio |
| Within 1 year | 3,306 | 165 | 5.00% | 8,020 | 401 | 5.00% |
| Over 1 year | 3,370 | 337 | 10.00% | 3,884 | 388 | 10.00% |
| Sub-total | 6,676 | 502 | 7.52% | 11,904 | 789 | 6.63% |

MIDEA GROUP CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

17 Notes to the parent company's financial statements (Cont'd)**(1) Other receivables (Cont'd)**

(d) As at 30 June 2018, other receivables from the top five debtors are analysed as below:

| Name of the Company | Nature | Book balance | Ageing | % of total balance | Provision for bad debts |
|---------------------|---------------------|--------------|---------------|--------------------|-------------------------|
| 1st | Current accounts | 5,410,000 | Within 1 year | 53% | - |
| 2nd | Current accounts | 3,100,000 | Within 1 year | 30% | - |
| 3rd | Current accounts | 956,000 | Within 1 year | 9% | - |
| 4th | Exercising accounts | 389,365 | Within 1 year | 4% | - |
| 5th | Current accounts | 88,946 | Within 1 year | 1% | - |
| Sub-total | | 9,944,311 | | 97% | - |

(2) Long-term equity investments

Long-term equity investments are classified as follows:

| Item | Ending balance | Opening balance |
|--------------------------------|----------------|-----------------|
| Subsidiaries (a) | 25,359,456 | 23,099,672 |
| Associates (b) | 1,524,052 | 1,440,929 |
| Sub-total | 26,883,508 | 24,540,601 |
| Less: Provision for impairment | - | - |
| Total | 26,883,508 | 24,540,601 |

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

17 Notes to the parent company's financial statements (Cont'd)

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

(a) Subsidiary

| Investee | Opening balance | Movements in current period | | | | | Ending balance | Cash dividends declared in current period |
|---|-----------------|-----------------------------|--|------------------------|-----------------------|--------|----------------|---|
| | | Additional investment | Changes arising from share-based payment | Decrease in investment | Absorption and merger | Others | | |
| Wuxi Little Swan Company Limited | 2,754,240 | - | 38,512 | - | - | - | 2,792,752 | 238,948 |
| Midea Group Finance Co., Ltd. | 1,442,479 | - | 7,007 | - | - | - | 1,449,486 | |
| Hefei Midea Heating & Ventilation Equipment Co., Ltd. | 1,058,887 | - | 4,543 | - | - | - | 1,063,430 | 1,016,699 |
| Hubei Midea Refrigerator Co., Ltd. | 839,749 | - | 2,167 | - | - | - | 841,916 | 389,495 |
| Anhui GMCC Precision Manufacturing Co., Ltd. | 817,266 | - | 5,909 | - | - | - | 823,175 | 475,564 |
| Foshan Shunde Home Appliance Industrial Co., Ltd. | 2,949,000 | - | - | - | - | - | 2,949,000 | |
| Wuhu Meizhi Air-Conditioning Equipment Co., Ltd. | 745,841 | - | 5,501 | - | - | - | 751,342 | |
| Guangdong Midea Refrigeration Equipment Co., Ltd. | 1,180,664 | - | 146,800 | - | - | - | 1,327,464 | |
| Annto Logistics Co., Ltd. | 479,028 | - | 1,284 | - | - | - | 480,312 | 273,870 |
| Guangdong Midea Commercial Air Conditioning Equipment Co., Ltd. | 569,430 | - | - | - | - | - | 569,430 | |
| Ningbo Midea United Material Supply Co., Ltd. | 486,738 | - | 787 | - | - | - | 487,525 | 596,686 |
| Guangzhou Hualing Refrigeration Equipment Co., Ltd. | 503,762 | - | 3,900 | - | - | - | 507,662 | |
| Guangzhou Midea Hualing Refrigerator Co., Ltd. | 426,238 | - | 1,949 | - | - | - | 428,187 | |
| Hefei Midea Refrigerator Co., Ltd. | 484,312 | - | 19,311 | - | - | - | 503,623 | |
| Guangdong Midea Wuhu Refrigeration Equipment Co., Ltd. | 352,041 | - | 588 | - | - | - | 352,629 | |
| Anhui GMCC Refrigeration Equipment Co., Ltd. | 322,072 | - | 3,027 | - | - | - | 325,099 | |
| Guangdong Midea Heating & Ventilation Equipment Co., Ltd. | 402,829 | - | 39,320 | - | - | - | 442,149 | 802,445 |
| Midea Electric Investment (BVI) Limited | 236,543 | - | - | - | - | - | 236,543 | |
| Midea International Corporation Company Limited | 176,974 | - | - | - | - | - | 176,974 | |
| Guangzhou Hualing Air-Conditioner Equipment Co., Ltd. | 136,745 | - | - | - | - | - | 136,745 | |
| Foshan Midea Carrier Refrigeration Equipment Co., Ltd. | 132,807 | - | 1,468 | - | - | - | 134,275 | |
| Hefei Midea Material Supplies Co., Ltd. | 117,000 | - | - | - | - | - | 117,000 | |
| Midea Group E-commerce Co., Ltd. | 131,356 | - | 9,717 | - | - | - | 141,073 | |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

17 Notes to the parent company's financial statements (Cont'd)

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

(a) Subsidiary (Cont'd)

| Investee | Opening balance | Movements in current period | | | | | Ending balance | Cash dividends declared in current period |
|--|-----------------|-----------------------------|--|------------------------|-----------------------|--------|----------------|---|
| | | Additional investment | Changes arising from share-based payment | Decrease in investment | Absorption and merger | Others | | |
| Guangdong GMCC Refrigeration Equipment Co., Ltd. | 164,640 | - | 18,153 | - | - | - | 182,793 | |
| Hefei Hualing Co., Ltd. | 126,286 | - | 15,231 | - | - | - | 141,517 | |
| Midea Wuhan Refrigeration Equipment Co., Ltd. | 89,275 | - | 5,493 | - | - | - | 94,768 | |
| Foshan City Midea Material Supplies Co., Ltd. | 54,000 | - | 23 | - | - | - | 54,023 | 11,722 |
| Zhejiang GMCC Compressor Co., Ltd. | 56,302 | - | 2,089 | - | - | - | 58,391 | 455,445 |
| Chongqing Midea Refrigeration Equipment Co., Ltd. | 65,728 | - | 2,878 | - | - | - | 68,606 | |
| Wuhu Little Swan Refrigeration Equipment Co., Ltd. | 47,500 | - | - | - | - | - | 47,500 | |
| Guangdong GMCC Precision Manufacturing Co., Ltd. | 38,714 | - | 363 | - | - | - | 39,077 | |
| Foshan City Midea Air-conditioners Industrial Investment Co., Ltd. | 36,062 | - | - | - | - | - | 36,062 | |
| Chongqing Midea General Refrigeration Equipment Co., Ltd. | 47,106 | - | 3,494 | - | - | - | 50,600 | |
| Foshan City Shunde District Midea Electronic Technology Co., Ltd. | 19,526 | - | 1,473 | - | - | - | 20,999 | |
| Midea Holdings (BVI) Ltd. | 82 | - | - | - | - | - | 82 | |
| Handan Midea Refrigeration Equipment Co., Ltd. | 137,186 | - | 3,024 | - | - | - | 140,210 | |
| Midea Innovation Investment Co., Ltd. | 35,000 | - | - | - | - | - | 35,000 | |
| Guangdong Midea Microwave Electric Manufacturing Co., Ltd. | 1,880,041 | - | - | - | - | - | 1,880,041 | 1,049,906 |
| Wuhu Midea Kitchen Appliances Manufacturing Co., Ltd. | 21,706 | - | 1,330 | - | - | - | 23,036 | 15,249 |
| Jiangsu Midea Cleaning Appliance Company Limited | 103,414 | - | 6,381 | - | - | - | 109,795 | |
| Guangdong Witt Vacuum Electronics Manufacturing Co., Ltd. | 198,147 | - | 1,385 | - | - | - | 199,532 | 63,226 |
| Guangdong Midea Life Electric Appliance Manufacturing Co., Ltd. | 1,034,420 | - | 21,480 | - | - | - | 1,055,900 | |
| Wuhu Midea Life Electric Appliance Manufacturing Co., Ltd. | 56,223 | - | - | - | - | - | 56,223 | 41,325 |
| Foshan Shunde Water Cooler Manufacturing Co., Ltd. | 43,465 | - | 5,001 | - | - | - | 48,466 | |
| Foshan Midea Qinghu Purification Equipment Co., Ltd. | 65,652 | - | 4,620 | - | - | - | 70,272 | 18,000 |
| Wuhan Midea Life Electric Appliances Manufacturing Co., Ltd. | 80,000 | - | - | (80,000) | - | - | - | |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

17 Notes to the parent company's financial statements (Cont'd)

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

(a) Subsidiary (Cont'd)

| Investee | Opening balance | Movements in current period | | | | | Ending balance | Cash dividends declared in current period |
|--|-------------------|-----------------------------|--|------------------------|-----------------------|----------|-------------------|---|
| | | Additional investment | Changes arising from share-based payment | Decrease in investment | Absorption and merger | Others | | |
| Guangdong Midea Environmental Electric Appliance Manufacturing Co., Ltd. | 342,233 | - | 19,958 | - | - | - | 362,191 | |
| Foshan Shunde Midea Washing Appliance Manufacturing Co., Ltd. | 427,372 | - | 6,922 | - | - | - | 434,294 | 277,987 |
| Guangdong Midea Kitchen & Bathroom Electric Manufacturing Co., Ltd. | 88,260 | - | 7,585 | - | - | - | 95,845 | |
| Wuhu Midea Kitchen & Bathroom Electric Manufacturing Co., Ltd. | 103,643 | - | 13,408 | - | - | - | 117,051 | 547,744 |
| Jiangxi Midea Guiya lighting Co., Ltd. | 170,464 | - | 2,755 | (545) | - | - | 172,674 | |
| Guangdong Midea Household Appliances Import and Export Trade Co., Ltd. | 53,207 | - | - | - | - | - | 53,207 | |
| JV MIDEA-HORIZON Co., Ltd. | 41,357 | - | - | - | - | - | 41,357 | 854 |
| Guangdong MIDEA-YASKAWA Service Robotics Ltd. | 24,040 | - | 45 | - | - | - | 24,085 | |
| Foshan Shunde Midea Petty Loan Co., Ltd. | 69,766 | - | 1,154 | - | - | - | 70,920 | |
| Midea Petty Loan Co., Ltd. | 55,381 | - | 88 | - | - | - | 55,469 | |
| Midea Robotics Industry Development Co., Ltd. | 7,000 | - | - | - | - | - | 7,000 | |
| Wuhu Midea Household Consultation Service Co., Ltd. | 101,648 | - | - | - | - | - | 101,648 | |
| Hefei Midea Washing Machine Co., Ltd. | 84,895 | - | 4,172 | - | - | - | 89,067 | |
| China Refrigerator Industry Co., Ltd. | 2,430 | - | - | - | - | - | 2,430 | |
| Guangdong Midea Advanced Technologies Co., Ltd. | 50,000 | - | 34 | - | - | - | 50,034 | |
| Foshan Shunde Meiying 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 | 1,900,000 | - | - | - | - | 1,950,000 | |
| 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 Environment Technology Co., Ltd. | 47,500 | - | - | - | - | - | 47,500 | |
| Total | 23,099,672 | 1,900,000 | 440,329 | (80,545) | - | - | 25,359,456 | 6,275,165 |

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

17 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

| Item | Current figure | Comparative figure |
|---|----------------|--------------------|
| Income from long-term equity investment under cost method | 6,275,165 | 5,484,209 |
| Investment income from wealth management products purchased from financial institutions | 257,771 | 426,915 |
| Investment income from long-term equity investment under equity method | 127,081 | 214,433 |
| Losses on disposal of long-term equity investment | (76,565) | (319) |
| Income earned during the holding period of available-for-sale financial assets | - | - |
| Total | 6,583,452 | 6,125,238 |

There is no significant restriction on repatriation of the Company's investment income.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

1 Details of non-recurring profit or loss

| Item | Current figure | Comparative figure |
|--|----------------|--------------------|
| Disposal gains of non-current assets, including the portion written off in provision for asset impairment | 266,895 | 759,055 |
| Government grants recognised in profit or loss for the current period (closely related to the Company's normal course of business and in line with the state's policies and regulations, except continuous government grants based on a certain standard quota) | - | - |
| Profit or loss from entrusting others with investment or asset management | - | - |
| Provision for impairment of assets owing to force majeure factor, such as natural disaster | - | - |
| Profit or loss from debt restructuring | - | - |
| Enterprise restructuring expenses including staff resettlement expenses and integration expenses | - | - |
| Except for the effective hedging activities related to the Company's ordinary activities, profit or loss arising from changes in fair value of financial assets and financial liabilities held for trading, and investment income from disposal of financial assets and financial liabilities held for trading and available-for-sale financial assets | (521,715) | (135,031) |
| Reversal of impairment provision for receivables individually assessed for impairment | - | - |
| Others | 1,065,178 | 657,289 |
| Sub-total | 810,358 | 1,281,313 |
| Less: Corporate Income tax effect (of which the decrease is represented by "-") | (253,535) | (297,237) |
| Minority interests effect (after tax) | (120,230) | (64,520) |
| Net non-recurring profit or loss attributable to shareholders of the parent company | 436,593 | 919,556 |

Basis of preparation of details of non-recurring profit or loss:

Under the requirements in *Explanatory announcement No. 1 on information disclosure by companies offering securities to the public – non-recurring profit or loss [2008]* from CSRC, non-recurring profit or loss refer to that arises from transactions and events that are not directly relevant to ordinary activities, or that is relevant to ordinary activities, but is extraordinary and not expected to recur frequently that would have an influence on users of financial statements making economic decisions on the financial performance and profitability of an enterprise.

2 Return on net assets 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:

| Item | Weighted average return on net assets (%) | | Earnings per share (RMB/share) | | | |
|--|---|--------------------|--------------------------------|--------------------|----------------------------|--------------------|
| | | | Basic earnings per share | | Diluted earnings per share | |
| | Current figure | Comparative figure | Current figure | Comparative figure | Current figure | Comparative figure |
| Net profit attributable to shareholders of the Company | 16.43% | 16.46% | 1.97 | 1.67 | 1.94 | 1.66 |
| Net profit attributable to shareholders of the Company net of non-recurring profit or loss | 15.88% | 15.06% | 1.90 | 1.53 | 1.87 | 1.52 |

Section XI Documents Available for Reference

1. The original of *The Semi-Annual Report 2018 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 originals of all company documents and announcements that are disclosed to the public via newspaper designated for information disclosure during the Reporting Period; and
4. The electronic version of *The Semi-Annual Report 2018* that is released on <http://www.cninfo.com.cn>.

Midea Group Co., Ltd.

Legal Representative: Fang Hongbo

31 August 2018