

Midea Group Co., Ltd.

Interim Report for the Third Quarter 2016



October 2016

Section I Important Notes, Contents and Definitions

1.1 The Board of Directors, Board of Supervisors, 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 truthful, accurate and complete, and shall together be jointly and severally liable for any false records, misleading statements or material omissions in this Report.

1.2 All directors of the Company attended the Board meeting for reviewing this Report.

1.3 This Report has not been audited by a CPAs firm.

1.4 Mr. Fang Hongbo, chairman of the Board and president of the Company and Mr. Xiao Mingguang, responsible person for the Company’s financial affairs have represented and warranted that the financial statements carried in this Report are truthful, accurate and complete.

Section II Financial Highlights & Changes in Shareholders

I Key accounting data and financial indicators

Does the Company perform a retroactive adjustment to or restatement of accounting data of previous years due to changes in accounting policy or correction of any accounting error?

Yes No

	30 Sept. 2016	31 Dec. 2015	YoY Change (%)	
Total assets (RMB'000)	162,991,610	128,841,935	26.51%	
Net assets attributable to the shareholders of the Company (RMB'000)	58,385,178	49,201,852	18.66%	
	Jul.-Sept. 2016	YoY Change (%)	Jan.-Sept. 2016	YoY Change (%)
Operating revenues (RMB'000)	38,856,130	34.61%	116,378,417	4.49%
Net profits attributable to the shareholders of the Company (RMB'000)	3,311,500	23.20%	12,807,993	16.31%
Net profits attributable to the shareholders of the Company excluding non-recurring gains and losses (RMB'000)	3,131,646	61.21%	12,231,890	30.47%
Net cash flows from operating activities (RMB'000)	--	--	19,037,495	5.94%
Basic earnings per share (RMB/share)	0.51	21.43%	2.00	15.61%
Diluted earnings per share (RMB/share)	0.51	21.43%	1.99	15.70%
Weighted average ROE (%)	5.82%	0.07%	23.76%	-1.70%

Note: On June 30, 2016, Midea completed the transaction to acquire 80.1% stake in Toshiba's home appliances business, Toshiba Lifestyle Products & Services Corporation ("TLSC"). Due to the consolidation of TLSC, the 2016Q3 results include TLSC's revenue of 3,873,064,000 RMB and Net profits attributable to the shareholders of the Company of 19,702,000 RMB.

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

Total share capital of the Company on the last trading session before the disclosure of this Report (share)	6,450,774,771
Fully diluted earnings per share based on the latest	1.99

share capital above (RMB/share)	
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Items and amounts of non-recurring gains and losses

Applicable N/A

Unit: RMB'000

Item	Amount	Note
Gains or losses on disposal of non-current assets (including the offset asset impairment provisions)	-22,992	
Government grants charged to the gains/losses for the Reporting Period (except for the government grants closely related to the business of the Company and given at a fixed quota or amount in accordance with nationally uniform standards)	1,042,565	
Gains or losses on the changes in the fair value of held-for-trading financial assets and liabilities, as well as investment gains or losses on the disposal of held-for-trading financial assets and liabilities and available-for-sale financial assets, except for the effectively hedging business related to normal business operations of the Company	-605,843	
Non-operating incomes and expense other than the above	87,213	
Less: Income tax effects	39,586	
Minority interests effects (after tax)	-114,746	
Total	576,103	--

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

Applicable N/A

No such cases in the Reporting Period.

II Total number of shareholders and shareholdings of the top ten shareholders at the period-end

1. Total number of common shareholders and shareholdings of the top ten common shareholders at the period-end

Total number of ordinary shareholders at the end of the Reporting Period	106,167	Total number of preference shareholders with resumed voting rights at the period-end (if any)	0
Shareholdings of the top 10 ordinary shareholders			

Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Total ordinary shares held at the period-end	Number of restricted ordinary shares held	Pledged or frozen shares	
					Status of shares	Number of shares
Midea Holding Co., Ltd.	Domestic corporation	34.79%	2,244,375,000		Pledged	854,955,000
China Securities Finance Corporation Limited	Domestic corporation	2.85%	184,076,580			
Fang Hongbo	Domestic individual	2.12%	136,990,492	102,742,869		
Hillhouse Capital Management Limited—HCM China Fund	Foreign corporation	1.77%	113,891,138			
Ningbo Maysun Equity Investment Partnership (limited partnership)	Domestic corporation	1.74%	112,500,000			
Huang Jian	Domestic individual	1.71%	110,000,000			
Guotai Junan - Construction Bank - Shanghai HSBC	Foreign corporation	1.57%	101,283,468			
Yuan Liqun	Domestic individual	1.41%	90,750,000	90,750,000		
Tianjin CDH Jiatai Equity Investment Partnership (limited partnership)	Domestic corporation	1.36%	87,777,826			
Xiaomi Technology Co., Ltd	Domestic corporation	1.28%	82,500,000	82,500,000		
Shareholdings of the top 10 non-restricted ordinary shareholders						
Name of shareholder	Number of non-restricted ordinary shares held at the period-end	Type of shares				
		Type	Number			
Midea Holding Co., Ltd.	2,244,375,000	RMB ordinary share	2,244,375,000			
China Securities Finance Corporation Limited	184,076,580	Ditto	184,076,580			
Hillhouse Capital Management Limited—HCM China Fund	113,891,138	Ditto	113,891,138			
Ningbo Maysun Equity Investment Partnership (limited partnership)	112,500,000	Ditto	112,500,000			
Huang Jian	110,000,000	Ditto	110,000,000			
Guotai Junan - Construction Bank - Shanghai	101,283,468	Ditto	101,283,468			

HSBC			
Tianjin CDH Jiatai Equity Investment Partnership (limited partnership)	87,777,826	Ditto	87,777,826
Central Huijin Asset Management Co., Ltd.	78,474,900	Ditto	78,474,900
He Xiangjian	77,334,548	Ditto	77,334,548
Huang Xiaoming	77,085,099	Ditto	77,085,099
Related-parties or acting-in-concert parties among the top ten non-restricted ordinary shareholders and between the top ten non-restricted ordinary shareholders and the top ten ordinary shareholders	The controlling Shareholder of Midea Holding Co., Ltd is Mr. He Xiangjian, they are acting-in-concert parties.		
Explanation on the top 10 ordinary 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 carry out any agreed buy-back in the Report Period?

Yes No

No such cases in the Reporting Period.

2. Total number of preference shareholders and shareholdings of the top ten preference shareholders at the period-end

Applicable N/A

Section III Significant Events

I Major changes of main items in financial statements and financial indicators within the Report Period, as well as the reasons for the changes

√ Applicable □ N/A

Unit: RMB'000

Balance sheet items	30 Sept. 2016	30 Sept. 2015	YoY Change (%)	Main reasons for the changes
Advances to suppliers	2,106,914	988,625	113.12%	Mainly due to purchase of materials
Loans and advances	11,940,979	6,608,705	80.69%	Mainly due to operational changes of the finance company
Available-for-sale financial assets	5,097,575	3,289,954	54.94%	Mainly due to the share purchase of Germany company KUKA
Intangible Asset	5,986,226	3,392,402	76.46%	Mainly due to appraisal of intangible assets resulting from acquisition of Toshiba home appliance business
Goodwill	4,862,150	2,393,066	103.18%	Mainly due to acquisition of Toshiba home appliance business
Other non-current assets	4,853,722	669,730	624.73%	Mainly due to purchase of wealth management products with over one year maturity period
Taxes payable	2,798,083	1,607,181	74.10%	Mainly due to increase of VAT & CIT
Interests payable	48,749	9,343	421.77%	Mainly due to increase of interests
Dividends payable	196,694	118,851	65.50%	Mainly due to increase of payment of dividend of subsidiaries
Other accounts payable	2,229,265	1,139,306	95.67%	Mainly due to acquisition of Toshiba home appliance business
Long-term borrowings	2,110,281	90,061	2,243.17%	Mainly due to increase of borrowings
Debentures payable	4,617,408	0	100.00%	Mainly due to issuance of debentures
Long-term payroll payable	1,385,592	0	100.00%	Mainly due to acquisition of Toshiba home appliance business
Deferred income tax liabilities	1,675,765	40,464	4,041.37%	Mainly due to appraisal related to the acquisition of Toshiba home appliance business
Other non-current liabilities	867,399	157,194	451.80%	Mainly due to acquisition of Toshiba home appliance business

Income statement items	Jan.-Sept. 2016	Jan.-Sept. 2015	YoY Change (%)	Main reasons for the changes
Financial expenses	-913,165	100,875	-1,005.24%	Mainly due to increase of interests income and depreciation of RMB
Asset impairment loss	211,833	87,844	141.15%	Mainly due to yoy increase of change in accounts receivable
Gains on fair value changes	-488,089	45,766	-1,166.49%	Mainly due to changes in the fair value of derivative financial instruments
Cash flow statement items	Jan.-Sept. 2016	Jan.-Sept. 2015	YoY Change (%)	Main reasons for the changes
Net cash flows from investing activities	-17,770,441	-9,849,714	80.42%	Mainly due to increase of wealth management and structured deposits
Net cash flows from financing activities	1,992,708	-6,899,879	-128.88%	Mainly due to increase of borrowings

II Progress, influence and solutions of significant events

√ Applicable □ N/A

The *Proposal Regarding Tender Offer of KUKA AG* was reviewed and approved at the 11th and 12th Meeting of the Second Board of Directors and at the Third Extraordinary General Meeting of Shareholders for 2016. The Company, through its subsidiary MECCA International (BVI) Limited, has launched a voluntary public tender offer for all shares in KUKA AG (KUKA). It is offering EUR 115 in cash in exchange for each KUKA share. The acquisition shall be financed by the Company's own cash and syndicated loans.

By the end of the additional acceptance period on August 4th, 2016, 80.04% of KUKA shares were tendered. The total number of KUKA shares for which the takeover offer has been accepted during the offer period plus the 13.51% KUKA shares indirectly held by Midea prior to the takeover offer, result in 94.55% of the issued share capital and the existing voting rights of KUKA.

By August 20th, 2016, one of the Completion Conditions of the tender offer, "BMW i has not prohibited the direct or indirect acquisition of voting rights in KUKA", has been fulfilled.

Up to the disclosure of this report, all required merger control procedures in the countries related to this transaction, i.e. EU, US, China, Russia, Brazil and Mexico, have been cleared.

This transaction is still subject to approvals by CFIUS and DDTC from the US which shall be obtained before March 31st, 2017.

III Undertakings made by the Company, its shareholders, actual controllers, acquirers, directors, supervisors, senior management staff or other related parties fulfilled in the Reporting Period or ongoing at the Reporting Period

√ Applicable □ N/A

Undertaking	Undertaking giver	Type of undertaking	Details of undertaking	Undertaking date	Term	Particulars on the performance
Undertaking made in offering documents or shareholding alternation documents	Controlling shareholder, actual controller	Share lock-up	1. Midea Holding and He Xiangjian have undertaken as follows: Within 36 months from the listing date of Midea Group's stocks, they will neither transfer or entrust others to manage their directly and indirectly held shares of Midea Group issued prior to this issuance, nor sell them to Midea Group. If they break the above undertaking, they will assume all liabilities arising therefrom.	2013.03.28	36 months from the day of Midea Group's listing (2013.09.18-2016.09.18)	1. There has been no violation of this undertaking.
	Controlling shareholder, actual controller	Maintenance of independence	2. Midea Holding and He Xiangjian have undertaken as follows: He Xiangjian, Midea Holding and their controlled enterprises will remain independent from Midea Group in respect of personnel, finance, assets, business and institutions, in accordance with relevant laws and regulations and regulatory documents. They will faithfully fulfill the above undertaking, and assume the corresponding legal liability. If they fail to fulfill their obligations and responsibilities conferred by the undertaking, they will bear the corresponding legal liabilities according to relevant laws, rules, regulations and regulatory documents.	2013.03.28	Long-standing	2. There has been no violation of this undertaking.
	Controlling shareholder, actual controller	Avoiding competition within the industry	3. In order to avoid possible competition within the industry between Midea Group and Midea Holding and its controlled enterprises as well as He Xiangjian, his immediate family and his controlled companies, Midea Holding and He Xiangjian	2013.03.28	Long-standing	3. There has been no violation of this undertaking.

		<p>have undertaken as follows:</p> <p>(1) None of the entities or individuals mentioned above is or will be engaged in the same or similar business as the existing main business of Midea Group and its controlled companies. They are not or will not be engaged or participate in such business that is competitive to the existing main business of Midea Group and its controlled companies by controlling other economic entities, institutions or economic organizations;</p> <p>(2) If Midea Group and its controlled companies expand their business on the basis of the existing ones to those where the above mentioned related entities or individuals are already performing such production and operations, as long as He Xiangjian is still the actual controller of Midea Group, and Midea Holding the controlling shareholder, they will agree on solving the problem of competition within the industry arising therefrom within a reasonable period;</p> <p>(3) If Midea Group and its controlled companies expand their business scope on the basis of the existing ones to those where the above mentioned related subjects have not gone into production or operation, as long as He Xiangjian is still the actual controller of Midea Group, and Midea Holding the controlling shareholder, they would undertake as not to engage in competitive business to the new ones of Midea Group and its controlled companies;</p> <p>(4) In accordance with effective laws, regulations or other regulatory documents of People's Republic of China, as long as Midea Holding is identified as the controlling shareholder of Midea Group, and He Xiangjian the actual controller, they will not change or terminate this undertaking.</p>			
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			(5) Midea Holding and He Xiangjian shall faithfully fulfill the above undertaking, and assume the corresponding legal responsibilities. If they fail to fulfill their obligations and responsibilities conferred by the undertaking, they would bear the corresponding legal responsibilities according to relevant laws, rules, regulations and regulatory documents.			
	Controlling shareholder, actual controller	Regulation of related transactions	<p>4. In order to regulate matters of related transactions that may occur in the future between Midea Group and Midea Holding and its controlled companies as well as He Xiangjian, his immediate family and his controlled companies, Midea Holding and He Xiangjian have undertaken as follows:</p> <p>(1) They will regulate any related transactions with Midea Group and its controlled companies using their utmost efforts to reduce them. For unavoidable related transactions with Midea Group and its controlled companies, including but not limited to commodity trading, providing services to each other or as agent, they will sign legal normative agreements with Midea Group, and go through approval procedures in accordance with related laws, regulations, rules, other regulatory documents, and relevant provisions of the Articles of Association of Midea Group. They guarantee to offer fair prices for related transactions, and fulfill the information disclosure obligations in respect of the related transactions according to related laws, regulations, rules, other regulatory documents, and relevant provisions of the Articles of Association of Midea Group. They also guarantee not to illegally transfer the funds or profits from Midea Group, or damage the interests of its shareholders at their advantages during the related transactions.</p> <p>(2) They shall fulfill the obligation of withdrawing from voting</p>	2013.03.28	Long-standing	4. There has been no violation of this undertaking.

		<p>that involves the above mentioned related transactions at the general meeting of Midea Group;</p> <p>(3) The related subject mentioned above shall not require Midea Group to offer more favorable conditions than those to any independent third party in any fair market transactions.</p> <p>(4) In accordance with effective laws, regulations or other regulatory documents of People's Republic of China, as long as Midea Holding is identified as the controlling shareholder of Midea Group, and He Xiangjian the actual controller, they shall not change or terminate this undertaking.</p> <p>(5) Midea Holding and He Xiangjian will faithfully fulfill the above undertaking and assume the corresponding legal liabilities. If they fail to fulfill their obligations and responsibilities conferred by the undertaking, they will bear the corresponding legal responsibilities according to relevant laws, rules, regulations and regulatory documents.</p>			
Controlling shareholder, actual controller	On Midea Trade Union Committee transferring its limited equity of Midea Group	<p>5. On 4 January 2001, the Midea Trade Union Committee signed the "Equity Transfer Contract" with five people, namely He Xiangjian, Chen Dajiang, Feng Jingmei, Chen Kangning and Liang Jieyin, where it transferred all its limited equity of Midea Group (22.85%) respectively to those five people. According to the confirmation letter issued by members of the Midea Trade Union Committee at that time, the equity transfer price was determined after mutual discussion on the basis of their true opinions, therefore there was no dispute or potential dispute.</p> <p>On 28 June, 2013, Foshan Shunde Beijiao General Union, superior department of Midea Trade Union Committee, issued a confirmation letter to the fact that the Midea Trade Union Committee funded the establishment of Midea Group Co., Ltd.</p>	2013.03.28	Long-standing	<p>5. So far, there have been no controversy or potential disputes arising from this shareholding transfer. There has been no violation of this undertaking.</p>

		<p>In addition the letter also confirmed that the council of Midea Trade Union Committee is entitled to dispose any property of the committee, and such property disposal does not need any agreement from all staff committee members.</p> <p>Midea Holding and He Xiangjian, respectively the controlling shareholder and actual controller of Midea Group Co., Ltd. have undertaken as follows: For any loss to Midea Group caused by any dispute or potential dispute arising from the matters of equity transfer mentioned above, they are willing to assume full liability for such loss.</p>			
Controlling shareholder, actual controller	<p>Issues about Payment of the Staff Social Insurance and the Housing Provident Fund involved in Midea Group's Overall Listing</p>	<p>6. Midea Holding and He Xiangjian have undertaken to be liable for (1) paying such expenses and related expenses on time based on the requirements of relevant state departments if Midea Group is required to be liable for the payment of staff social insurance, housing provident fund and the payment required by relevant state authorities prior to this merger, (2) paying corresponding compensation for all direct and indirect losses incurred by Midea Group and its subsidiaries due to this merger, (3) indemnifying and holding harmless Midea Group and its subsidiaries in time from such expenses when Midea Group and its subsidiaries are required to pay them in advance.</p>	2013.03.28	Long-standing	<p>6. So far, there have been no controversy or potential disputes arising from the payment of the staff social insurance and the housing provident fund. There has been no violation of this undertaking.</p>
Controlling shareholder, actual controller	<p>Issues about asset alteration, asset flaw and house leasing of Midea Group and its subsidiaries</p>	<p>7. Undertakings on issues about asset alteration, asset flaw and house leasing of Midea Group and its subsidiaries</p> <p>Midea Holding and He Xiangjian have undertaken as follows:</p> <p>(1) Midea Holding will do its utmost to assist and urge Midea Group (including its subsidiaries) to complete renaming procedures of related assets, such as land, housing, trademarks, patents and stock rights, declared in the related</p>	2013.03.28	Long-standing	<p>7. So far, there have been no controversy or potential disputes arising from asset alteration, asset flaw and house leasing. There has been no violation of this undertaking. Midea Holding will keep this undertaking long standing.</p>

		<p>files of this merger. Midea Holding will be liable for all compensations of losses caused by issues about renaming procedures of related assets mentioned above to Midea Group.</p> <p>(2) Midea Holding shall do its utmost to assist Midea Group (including its subsidiaries) to apply for ownership certificates of land and housing or property declared in related files of this merger.</p> <p>(3) Midea Holding shall assist Midea Group (including its subsidiaries) to re-apply for corresponding construction procedures and apply for their ownership certificates for houses without complete procedures, as happened in the past, to apply for the ownership certificate. If the competent authorities requires Midea Group to dismantle buildings that cannot acquire the re-application for real estate registration procedures, Midea Holding shall do its utmost to provide assistance and be liable for any related expenses used in dismantling such buildings by Midea Group (including its subsidiaries).</p> <p>(4) Under any circumstances that Midea Group suffers from losses incurred from no longer using these properties or presently using the land or house above due to failing to obtain or collect in time the ownership certificates of the land or house above or any losses caused by any other reasons, Midea Holding shall compensate any loss for these reasons in time and in full. Midea Holding shall compensate the actual loss Midea Group suffers from any circumstances above resulting in penalties subjected to from competent authorities or through claims from any other third party.</p> <p>(5) Based on issues of defective house leasing declared in</p>			
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		<p>related files of this merger, Midea Holding shall provide sufficient compensations for all economic losses incurred by Midea Group (including its subsidiaries) where the leasehold relations above become invalid or other disputes occur, which are caused by rights claims from a third party or by means of an administrative authority exercising a right and therefore results in any economic losses due to eviction from rental houses, or any penalties subjected to by competent government departments or any recourse from related parties.</p> <p>(6) Based on the issues of defective land leasing declared in related files of this merger, when leasehold relations become invalid caused by defects of land leasing or when other disputes occur, resulting in any economic losses to Midea Group (including its subsidiaries) or through any penalties administered by competent government departments. Likewise if the lessor cannot compensate for losses caused by such defective leasing, Midea Holding shall compensate Midea Group for losses caused by such defective land leasing.</p> <p>Midea Holding and He Xiangjian will compensate any losses of Midea Group where a violation of guarantees and undertakings referred to previously occurs or such guarantees and undertakings are not consistent with the reality.</p>			
Other shareholders	Share lock-up	<p>Shareholders of Midea Group, Ningbo Maysun, Fang Hongbo, Huang Jian, Cai Qiwu, Yuan Liqun, Huang Xiaoming, Li Jianwei, Zheng Weikang promise that since Midea Group was listed on the Shenzhen Stock Exchange, transferring shares or delegating others to manage their shares with either direct or indirect ownership of Midea Group, issued before this time, has been forbidden for 36 months. Midea Group is not allowed to</p>	2013.03.28	36 months from the day of Midea Group's listing (2013.09.18-2016.09.18)	This undertaking has expired. There has been no violation of this undertaking.

			buy back those shares either.			
Undertakings given in time of IPO or refinancing	Xiaomi Technology	Private placement	Xiaomi Technology has given an undertaking that it shall not transfer the shares that it had subscribed for in this private offering with Midea Group within 36 months from the completion date of this offering (26 June 2015, the listing date for this offering).	2015.06.26	36 months from the listing date of this private offering, i.e. to 26 June 2018	There has been no violation of this undertaking.
Whether the undertaking is fulfilled on time	Yes					
Specific reasons for failing to fulfill any undertaking and plan for the next step	N/A					

IV Operating result forecast for the year of 2016

Warning of possible loss or considerable YoY change of the accumulated net profit made during the period-start until the end of the next Report Period according to predictions as well as any explanations for these reasons:

Applicable N/A

V Securities investment

Applicable N/A

No such cases in the Report Period.

VI Investments in financial derivatives

Applicable N/A

Unit: RMB'0,000

Operating party	Related party or not	Whether it is a related-party transaction	Type of derivative	Initial investment amount	Commencement date	Termination date	Investment amount at the beginning of the period	Purchased amount in the Reporting Period	Sold amount in the Reporting Period	Amount provided for impairment (if any)	Investment amount at the end of the period	Ratio of investment amount at the end of the period to the Company's net assets at the end of the period (%)	Actual gain or loss amount for the period
Futures company	No	No	Futures contracts	748.20	2016.01.01	2016.12.31	748.20	-	-	-	25.5	0.0004%	234.9
Bank	No	No	Forward forex contracts	-8,414.40	2016.01.01	2016.12.31	-8,414.40	-	-	-	-39,095	-0.5928%	-54,459.4
Total				-7,666.20	--	--	-7,666.20	-	-	-	-39,069.5	-0.5924%	-54,224.5
Source of derivatives investment funds	All from the Company's own cash.												
Litigation involved (if applicable)	N/A												
Disclosure date of the announcement about the board's consent for the derivative investment (if any)	2016.03.26												
Disclosure date of the announcement about	2016.04.27												

the general meeting's consent for the derivative investment (if any)	
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 and legal risk)	<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 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.</p>
Changes in market price or fair value of derivatives product invested during the Reporting Period: specific methods used and relevant assumption and parameter settings shall be disclosed for analysis of fair value of derivatives	<p>1. Gain/loss from futures hedging contracts incurred during the Reporting Period was RMB2.349mn;</p> <p>2. Gain/loss from forward forex contracts incurred during the Reporting Period was RMB-544.594mn;</p> <p>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.</p>
Explanation of significant changes in accounting policies and specific financial accounting principles in respect of the Company's derivatives	N/A

for the Reporting Period as compared to the previous Reporting Period	
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.

VIII Visits received during the Report Period

√ Applicable □ N/A

Date	Type of visit	Type of visitor	Discussions
2016-07-05	Teleconference	Institution	Please refer to <i>Investor Relations Activities from 5 July 2016 to 29 July 2016</i> on the website of www.cninfo.com.cn
2016-07-06	Field research	Institution	
2016-07-08	A-Share Conference	Institution	
2016-07-08	Field research	Institution	
2016-07-12	Field research	Institution	
2016-07-13	A-Share Conference	Institution	
2016-07-14	A-Share Conference	Institution	
2016-07-19	Field research	Institution	
2016-07-20	Field research	Institution	
2016-07-21	A-Share Conference	Institution	
2016-07-22	A-Share Conference	Institution	
2016-07-25	Teleconference	Institution	
2016-07-29	Teleconference	Institution	
2016-08-31	Teleconference	Institution	
2016-09-01	A-Share Conference	Institution	
2016-09-02	A-Share Conference	Institution	
2016-09-02	Roadshow	Institution	
2016-09-05	A-Share Conference	Institution	
2016-09-06	A-Share Conference	Institution	
2016-09-06	Roadshow	Institution	
2016-09-07	A-Share Conference	Institution	
2016-09-08	A-Share Conference	Institution	
2016-09-08	Teleconference	Institution	
2016-09-09	A-Share Conference	Institution	
2016-09-12	Teleconference	Institution	
2016-09-13	A-Share Conference	Institution	
2016-09-20	Roadshow	Institution	
2016-09-21	Field research	Institution	
2016-09-22	A-Share Conference	Institution	
2016-09-23	Field research	Institution	
2016-09-27	A-Share Conference	Institution	
2016-09-28	A-Share Conference	Institution	
2016-09-29	Field research	Institution	
2016-09-30	Teleconference	Institution	

IX Irregular provision of guarantees

Applicable N/A

No such cases in the Report Period.

X Occupation of the Company's funds by the controlling shareholder or its related parties for non-operating purposes

Applicable N/A

No such cases in the Report Period.

Section IV Financial Statements

I Financial statements

Balance Sheet

Prepared by: Midea Group Co., Ltd.

Unit:RMB'000

Assets	Consolidated		The Company	
	30-Sept-16	31-Dec-15	30-Sept-16	31-Dec-15
Current assets				
Cash at bank and on hand	18,583,682	11,861,977	14,219,823	14,213,747
Deposits with central bank	861,138	1,048,045	-	-
Deposits with banks and other financial institutions	5,049,747	4,062,807	-	-
Derivative financial assets	7,313	158,822	-	-
Notes receivable	10,948,120	12,889,151	591,180	727,218
Accounts receivable	12,726,023	10,371,718	-	-
Advances to suppliers	2,106,914	988,625	10,972	8,915
Loans and advances	11,940,979	6,608,705	-	-
Dividends receivable	-	-	1,072,306	290,245
Other receivables	804,792	1,101,339	11,963,777	7,461,039
Inventories	10,434,353	10,448,937	-	-
Other current assets	40,223,937	33,827,580	24,505,701	21,059,789
Total current assets	113,686,998	93,367,706	52,363,759	43,760,953
Non-current assets				
Available-for-sale financial assets	5,097,575	3,289,954	24,556	9,000
Long-term receivables	39,780	-	-	-
Long-term equity investments	2,908,769	2,888,274	23,478,806	23,126,546
Investment properties	140,413	150,803	273,359	286,272
Fixed assets	20,836,612	18,729,881	1,042,917	1,107,082
Construction in progress	1,050,564	954,761	770,366	543,588

The Interim Report for the Third Quarter of 2016 of Midea Group Co., Ltd.

Intangible assets	5,986,226	3,392,402	241,957	248,482
Goodwill	4,862,150	2,393,066	-	-
Long-term prepaid expenses	633,656	781,359	44,232	57,393
Deferred income tax assets	2,895,145	2,223,999	7,156	7,961
Other non-current assets	4,853,722	669,730	4,015,000	-
Total non-current assets	49,304,612	35,474,229	29,898,349	25,386,324
TOTAL ASSETS	162,991,610	128,841,935	82,262,108	69,147,277

Legal representative: Fang Hongbo
Chief of the accounting division: Chen Lihong

Person-in-charge of the accounting work: Xiao Mingguang

Balance Sheet (Continued)

Prepared by: Midea Group Co., Ltd.

Unit:RMB'000

Liabilities and Shareholders' Equity	Consolidated		The Company	
	30-Sept-16	31-Dec-15	30-Sept-16	31-Dec-15
Current liabilities				
Short-term borrowings	4,731,148	3,920,933	-	1,290,000
Borrowings from the Central Bank	80,730	-	-	-
Customer deposits and deposits from banks and other financial institutions	55,561	52,000	-	-
Derivative financial liabilities	376,221	33,377	-	22,671
Financial assets sold under repurchase agreements	-	651,784	-	-
Notes payable	21,547,591	17,078,520	-	-
Accounts payable	21,321,068	17,448,684	27,965	9,403
Advances from customers	6,612,400	5,616,361	-	-
Payroll payable	2,141,151	2,229,332	1,441	13,411
Taxes payable	2,798,083	1,607,181	23,263	52,656
Interests payable	48,749	9,343	236,188	200,090
Dividends payable	196,694	118,851	-	-
Other payables	2,229,265	1,139,306	54,281,776	45,166,453
Current portion of non-current liabilities	57,899	-	-	-
Other current liabilities	23,000,383	22,098,177	28,330	5,106
Total current liabilities	85,196,943	72,003,849	54,598,963	46,759,790
Non-current liabilities				
Long-term borrowings	2,110,281	90,061	-	-
Debentures payable	4,617,408	-	-	-
Long-term payables	416,961	-	-	-
Payables for specific projects	500	500	-	-
Provisions	302,642	38,893	-	3,800
Deferred revenue	470,765	479,352	-	-
Long-term payroll payable	1,385,592	-	-	-

The Interim Report for the Third Quarter of 2016 of Midea Group Co., Ltd.

Deferred income tax liabilities	1,675,765	40,464	-	-
Other non-current liabilities	867,399	157,194	-	-
Total non-current liabilities	11,847,313	806,464	-	3,800
Total liabilities	97,044,256	72,810,313	54,598,963	46,763,590
Shareholders' equity				
Share capital	6,450,552	4,266,839	6,450,552	4,266,839
Capital surplus	13,358,424	14,511,190	5,206,601	6,370,934
Less: treasury stock	-	-	-	-
Other comprehensive income	(605,897)	(1,071,151)	19,104	21,006
Surplus reserve	1,846,523	1,846,523	1,846,523	1,846,523
General reserve	118,624	118,624	-	-
Undistributed profits	37,216,952	29,529,827	14,140,365	9,878,385
Total equity attributable to shareholders of the parent company	58,385,178	49,201,852	27,663,145	22,383,687
Minority interests	7,562,176	6,829,770	-	-
Total shareholders' equity	65,947,354	56,031,622	27,663,145	22,383,687
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	162,991,610	128,841,935	82,262,108	69,147,277

Legal representative: Fang Hongbo
Chief of the accounting division: Chen Lihong

Person-in-charge of the accounting work: Xiao Mingguang

Income Statement

Prepared by: Midea Group Co., Ltd.

Unit: RMB'000

	Consolidated		Company	
	Jan. – Sept. 2016	Jan. – Sept. 2015	Jan. – Sept. 2016	Jan. – Sept. 2015
1. Total revenue	117,077,949	112,033,855	851,892	683,222
Including: Operating revenue	116,378,417	111,374,416	851,892	683,222
Interest income	691,759	656,236	-	-
Fee and commission income	7,773	3,203	-	-
2. Total Cost	(102,498,007)	(100,582,802)	(1,006,971)	(1,062,012)
Less: Cost of sales	(83,828,027)	(82,112,452)	(14,829)	(20,689)
Interest expenses	(384,002)	(448,163)	-	-
Fee and commission expenses	(2,012)	(1,564)	-	-
Taxes and surcharges	(662,794)	(737,243)	(7,988)	(2,714)
Selling and distribution expenses	(12,341,424)	(11,598,555)	-	-
General and administrative expenses	(5,981,080)	(5,496,106)	(276,093)	(366,531)
Financial expenses – net	913,165	(100,875)	(708,030)	(672,619)
Asset impairment (loss)/reversal	(211,833)	(87,844)	(31)	541
Add: Gains/(losses) on changes in fair value	(488,089)	45,766	22,673	(2,369)
Investment income	1,183,473	1,593,820	9,491,666	6,480,996
Including: Share of profit of associates and joint ventures	295,082	78,081	201,015	17,323
3. Operating profit	15,275,326	13,090,639	9,359,260	6,099,837
Add: Non-operating income	1,258,778	1,224,384	44,954	62,081
Including: Gains on disposal of non-current assets	10,933	41,434	-	23,874
Less: Non-operating expenses	(193,914)	(184,525)	(3,681)	(8,525)
Including: Losses on disposal of non-current assets	(73,136)	(138,447)	(1,562)	(3,734)
4. Total profit	16,340,190	14,130,498	9,400,533	6,153,393
Less: Income tax expenses	(2,588,202)	(2,301,994)	(17,685)	(149,031)
5. Net profit	13,751,988	11,828,504	9,382,848	6,004,362
Including: Net profit of the consolidated subsidiaries before consolidation	-	-	-	-
Attributable to shareholders of the parent company	12,807,993	11,012,103	9,382,848	6,004,362
Minority interests	943,995	816,401	-	-
6. Other comprehensive income net of tax	538,964	(335,083)	(1,902)	(31)
Attributable to shareholders of the parent company	465,254	(171,375)	(1,902)	(31)

(1) Other comprehensive income items which will not be reclassified subsequently to profit or loss	-	-	-	-
1)Changes in net liabilities or assets with a defined benefit plan upon re-measurement	-	-	-	-
2)Shares in other comprehensive incomes in investees that cannot be reclassified into gains and losses under the equity method	-	-	-	-
(2) Other comprehensive income items which will be reclassified subsequently to profit or loss	465,254	(171,375)	(1,902)	(31)
1)Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified subsequently to profit and loss	(56,537)	(3,904)	(1,902)	(31)
2)Changes in fair value of available-for-sale financial assets	358,607	(89,149)	-	-
3)Effective portion of cash flow hedging gains or losses	-	-	-	-
4)Translation of foreign currency financial statements	174,794	67,084	-	-
5)Foreign-currency financial statement translation difference	(11,610)	(145,406)	-	-
Attributable to minority shareholders	73,710	(163,708)	-	-
7. Total comprehensive income	14,290,952	11,493,421	9,380,946	6,004,331
Attributable to shareholders of the parent company	13,273,247	10,840,728	9,380,946	6,004,331
Attributable to minority shareholders	1,017,705	652,693	-	-
8. Earnings per share		(restated)		
Basic earnings per share (RMB Yuan)	2.00	1.73	N/A	N/A
Diluted earnings per share (RMB Yuan)	1.99	1.72	N/A	N/A

Legal representative: Fang Hongbo
Chief of the accounting division: Chen Lihong

Person-in-charge of the accounting work: Xiao Mingguang

Income Statement

Prepared by: Midea Group Co., Ltd.

Unit: RMB'000

	Consolidated		Company	
	July – Sept. 2016	July – Sept. 2015	July – Sept. 2016	July – Sept. 2015
1. Total revenue	39,070,433	29,158,785	263,641	213,239
Including: Operating revenue	38,856,130	28,865,272	263,641	213,239
Interest income	212,183	292,404	-	-
Fee and commission income	2,120	1,109	-	-
2. Total Cost	(35,679,594)	(26,950,391)	(247,382)	(392,706)
Less: Cost of sales	(28,961,867)	(22,233,546)	(1,181)	(6,348)
Interest expenses	(122,684)	(131,092)	-	-
Fee and commission expenses	(625)	(676)	-	-
Taxes and surcharges	(195,032)	(168,607)	(4,653)	(1,776)
Selling and distribution expenses	(4,156,246)	(2,612,456)	-	-
General and administrative expenses	(2,291,021)	(1,891,349)	62,445	(100,911)
Financial expenses – net	7,904	(101,653)	(303,995)	(284,406)
Asset impairment (loss)/reversal	39,977	188,988	2	735
Add: Gains/(losses) on changes in fair value	37,000	263,230	-	(8,995)
Investment income	469,391	412,615	1,932,955	1,672,607
Including: Share of profit of associates and joint ventures	94,340	34,954	69,904	11,261
3. Operating profit	3,897,230	2,884,239	1,949,214	1,484,145
Add: Non-operating income	355,506	573,793	43,117	11,937
Including: Gains on disposal of non-current assets	7,385	3,261	-	5,060
Less: Non-operating expenses	(90,115)	(84,109)	(2,124)	(4,066)
Including: Losses on disposal of non-current assets	(40,987)	(61,002)	(15)	-
4. Total profit	4,162,621	3,373,923	1,990,207	1,492,016
Less: Income tax expenses	(641,531)	(493,987)	17,216	(31,996)
5. Net profit	3,521,090	2,879,936	2,007,423	1,460,020
Including: Net profit of the consolidated subsidiaries before consolidation	-	-	-	-
Attributable to shareholders of the parent company	3,311,500	2,687,980	2,007,423	1,460,020
Minority interests	209,590	191,956	-	-
6. Other comprehensive income net of tax	(808,298)	(458,608)	8,675	(31)
Attributable to shareholders of the parent company	(811,460)	(386,133)	8,675	(31)

(1) Other comprehensive income items which will not be reclassified subsequently to profit or loss	-	-	-	-
1)Changes in net liabilities or assets with a defined benefit plan upon re-measurement	-	-	-	-
2)Shares in other comprehensive incomes in investees that cannot be reclassified into gains and losses under the equity method	-	-	-	-
(2) Other comprehensive income items which will be reclassified subsequently to profit or loss	(811,460)	(386,133)	8,675	(31)
1)Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified subsequently to profit and loss	9,169	1,517	8,675	(31)
2)Changes in fair value of available-for-sale financial assets	(723,900)	(100,067)	-	-
3)Effective portion of cash flow hedging gains or losses	-	-	-	-
4)Translation of foreign currency financial statements	29,191	(293,331)	-	-
5)Foreign-currency financial statement translation difference	(125,920)	5,748	-	-
Attributable to minority shareholders	3,162	(72,475)	-	-
7. Total comprehensive income	2,712,792	2,421,328	2,016,098	1,459,989
Attributable to shareholders of the parent company	2,500,040	2,301,847	2,016,098	1,459,989
Attributable to minority shareholders	212,752	119,481	-	-
8. Earnings per share		(restated)		
Basic earnings per share (RMB Yuan)	0.51	0.42	N/A	N/A
Diluted earnings per share (RMB Yuan)	0.51	0.42	N/A	N/A

Legal representative: Fang Hongbo
Chief of the accounting division: Chen Lihong

Person-in-charge of the accounting work: Xiao Mingguang

Cash Flow Statement

Prepared by: Midea Group Co., Ltd.

Unit: RMB'000

	Consolidated		Company	
	Jan. – Sept. 2016	Jan. – Sept. 2015	Jan. – Sept. 2016	Jan. – Sept. 2015
1. Cash flows from operating activities				
Cash received from sales of goods or rendering of services	112,216,632	92,229,531	-	-
Net increase in customer deposits and deposits from banks and other financial institutions	3,561	-	-	-
Net increase in deposits with central bank	126,053	69,017	-	-
Net increase in borrowing from central bank	80,730	-	-	-
Cash received from interest, fee and commission	700,653	659,439	-	-
Refund of taxes and surcharges	4,124,618	3,216,937	-	-
Cash received relating to other operating activities	2,201,828	3,700,556	10,532,437	14,319,778
Sub-total of cash inflows	119,454,075	99,875,480	10,532,437	14,319,778
Cash paid for goods and services	(63,672,706)	(53,838,373)	-	-
Net decrease in customer deposits and deposits from banks and other financial institutions	-	-	-	-
Net decrease in loans and advances	(5,428,328)	(67,922)	-	-
Net decrease in deposits with central bank	-	141,562	-	-
Cash paid for interest, fee and commission	(387,319)	(451,072)	-	-
Cash paid to and on behalf of employees	(8,673,520)	(8,776,445)	(27,898)	(147,910)
Payments of taxes and surcharges	(6,828,734)	(6,747,191)	(52,312)	(14,244)
Cash paid relating to other operating activities	(15,425,973)	(12,165,557)	(4,590,393)	(6,138,998)
Sub-total of cash outflows	(100,416,580)	(81,904,998)	(4,670,603)	(6,301,152)
Net cash flows from operating activities	19,037,495	17,970,482	5,861,834	8,018,626
2. Cash flows from investing activities				
Cash received from disposal of investments	48,980,669	6,737	25,674,850	12,000
Cash received from returns on investments	1,339,590	1,529,729	8,738,751	4,917,338
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	170,570	212,940	111	354
Net cash received from disposal of subsidiaries and other business units	272,899	-	-	273,077

Cash received relating to other investing activities	-	-	-	-
Sub-total of cash inflows	50,763,728	1,749,406	34,413,712	5,202,769
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(1,605,425)	(1,898,205)	(247,748)	(394,332)
Cash paid to acquire investments	(65,071,957)	(9,703,810)	(35,644,352)	(4,832,290)
Net cash paid to acquire subsidiaries and other business units	(1,856,787)	2,895	-	-
Cash paid to other investment activities	-	-	-	-
Sub-total of cash outflows	(68,534,169)	(11,599,120)	(35,892,100)	(5,226,622)
Net cash flows from investing activities	(17,770,441)	(9,849,714)	(1,478,388)	(23,853)
3. Cash flows from financing activities				
Cash received from capital contributions	651,628	1,651,109	635,611	1,637,649
Including: Cash received from capital contributions by minority shareholders of subsidiaries	16,017	13,460	-	-
Cash received from borrowings	28,817,816	19,484,160	1,800,000	-
Cash received from issuing short-term bonds	1,999,500	-	1,999,500	-
Cash received relating to other financing activities	-	-	-	-
Sub-total of cash inflows	31,468,944	21,135,269	4,435,111	1,637,649
Cash repayments of borrowings	(21,748,594)	(22,253,997)	(3,090,000)	(500,000)
Cash repayments for the issued short-term bonds	(1,999,500)	-	(1,999,500)	-
Cash payments for interest expenses and distribution of dividends or profits	(5,728,142)	(4,781,153)	(6,234,046)	(5,233,030)
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries	(417,287)	(476,028)	-	-
Cash payments to other financing activities	-	(999,998)	-	(999,998)
Sub-total of cash outflows	(29,476,236)	(28,035,148)	(11,323,546)	(6,733,028)
Net cash flows from financing activities	1,992,708	(6,899,879)	(6,888,435)	(5,095,379)
4. Effect of foreign exchange rate changes on cash and cash equivalents	101,834	(17,501)	-	-
5. Net decrease in cash and cash equivalents	3,361,596	1,203,388	(2,504,989)	2,899,394
Add: Cash and cash equivalents at beginning of year	5,187,317	5,272,238	6,245,008	6,879,717
6. Cash and cash equivalents at end of year	8,548,913	6,475,626	3,740,019	9,779,111

Legal representative: Fang Hongbo
Chief of the accounting division: Chen Lihong

Person-in-charge of the accounting work: Xiao Mingguang

II Auditor's report

Is this Report audited by a CPAs firm?

Yes No

This Report is un-audited by a CPAs firm.

Midea Group Co., Ltd.
Legal Representative: Fang Hongbo
31 October 2016