

Midea Group Co., Ltd.

Semi-Annual Report 2017



August 2017

Part I Important Statements, Contents and Definitions

The board of directors (the “Board of Directors” or the “Board”), the Supervisory Board (the “Supervisory Board”), as well as the 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 false representation, 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 2017.

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 in this report are true, accurate and complete.

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

The future plans and other 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 investment risk.

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

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Definitions

| Term | Definition |
|--|---|
| Company, the Company, Midea, Midea Group, 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 |
| MECCA | MECCA International (BVI) Limited |
| SMC | Servotronix and its subsidiaries |
| The Reporting Period | The period from 1 January 2017 to 30 June 2017 |

Part II Company Profile and Key Financial Results

1. Corporate Information

| | | | |
|---|-------------------------|------------|--------|
| Stock name | 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 (if any) | 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

| | Board Secretary | Securities Representative |
|---------|--|---------------------------|
| 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 in the Reporting Period to the registered address, office address and their zip codes, website address and email address of the Company:

Applicable N/A

No such changes in the Reporting Period. The said information can be found in the 2016 Annual Report.

3.2 About Media for Information Disclosure and Place where Materials Carrying Disclosed Information such as this Report are Kept

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

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 2016 Annual Report.

3.3 Other Information

Changes in the Reporting Period to other information:

Applicable N/A

4. Key Accounting Data and Financial Indicators

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

Yes No

| | H1 2017 | H1 2016 | Change (%) |
|---|----------------|-------------|------------|
| Operating revenues (RMB'000) | 124,450,065 | 77,522,287 | 60.53% |
| Net profits attributable to shareholders of the Company (RMB'000) | 10,811,322 | 9,496,493 | 13.85% |
| Net profits attributable to shareholders of the Company before non-recurring gains and losses (RMB'000) | 9,891,766 | 9,100,244 | 8.70% |
| Net cash flows from operating activities (RMB'000) | 13,895,932 | 8,129,163 | 70.94% |
| Basic earnings per share (RMB/share) | 1.67 | 1.48 | 12.84% |
| Diluted earnings per share (RMB/share) | 1.66 | 1.48 | 12.16% |
| Weighted average ROE (%) | 16.46% | 17.64% | -1.18% |
| | End of H1 2017 | End of 2016 | Change (%) |
| Total assets (RMB'000) | 231,016,492 | 170,600,711 | 35.41% |
| Net assets attributable to shareholders of the Company (RMB'000) | 66,314,017 | 61,126,923 | 8.49% |

Note: For H1 2017, Midea Group, exclusive of its recently acquired international subsidiaries, achieved operating revenue

of RMB103,877,094,000, up 34% compared to H1 2016; and net profits attributable to the Company's shareholders of RMB11,457,951,000, representing a 21% year-on-year increase. According to an international professional evaluation agency and the accounting standards for business enterprises, the amortization from purchase price allocation (PPA) of the acquired assets for H1 2017 was recognized at RMB1,360,091,000.

In H1 2017, KUKA achieved operating revenue of RMB13,512,870,000 and net profits of RMB451,080,000, with the YoY increase of respectively 35% and 98% (if exclusive of the extraordinary expense effect in H1 2016, net profit represents 35% YoY growth). In the same period, TLSC earned operating revenue of RMB7,531,196,000 and net profits of RMB-92,027,000, showing a continual improvement over H2 2016.

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

| | |
|--|---------------|
| Number of total share outstanding of the Company on the last trading session before disclosure (share) | 6,542,190,987 |
| Fully diluted earnings per share based on latest number of total share outstanding above (RMB/share) | 1.65 |

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

5.1 Differences in Net Profits and Net Assets Disclosed in Financial Reports Prepared under Domestic and International Accounting Standards

Applicable N/A

No such differences for the Reporting Period.

5.2 Differences in Net Profits and Net Assets Disclosed in Financial Reports Prepared under Domestic and Foreign Accounting Standards

Applicable N/A

No such differences for the Reporting Period.

5.3 Reasons for Differences in Accounting Data under Domestic and Foreign Accounting Standards

Applicable N/A

6. Non-recurring Gains and Losses

Applicable N/A

RMB'000

| Item | H1 2017 | Note |
|--|----------|------|
| Gains/Losses on disposal of non-current assets (inclusive of offset asset impairment provisions) | 759,055 | |
| Government grants accounted for, in gains or losses for current period (exclusive of government grants closely related to the Company's business and given at fixed quotas or amounts as per government's uniform standards) | 843,198 | |
| Gains/Losses on fair value changes of financial assets and liabilities held for trading & investment income from disposal of financial assets and liabilities held for trading as well as financial assets available for sale (exclusive of effective hedges related to normal business operations of the Company) | -135,031 | |
| Other non-operating income and expenditure except above-mentioned items | -185,909 | |
| Less: Income tax effects | 297,237 | |
| Minority interests effects (after tax) | 64,520 | |
| Total | 919,556 | -- |

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 recurring gain/loss item:

Applicable N/A

No such cases for the Reporting Period.

Part III Business Profile

1. Business Scope for Reporting Period

Midea boasts a diversified offering, including consumer appliances centered on kitchen appliances, refrigerators, washing machines and various small appliances; HVAC centered on household AC, commercial AC, heating and ventilation systems; robots and automation systems with KUKA and joint ventures with YASKAWA as the main producers; and smart supply chain systems centered on smart integrated logistics solutions. Midea has approximately 130,000 employees around the world, about 200 subsidiaries and 11 strategic business units. Midea is also the largest shareholder of KUKA Aktiengesellschaft (KUKA), a globally leading robot company in Germany, with an approximately 95% stake in it. Upholding the principle of “Create Value for Customers”, Midea is committed to continual technical innovations, the improvement of products and services, as well as a better life for consumers. It provides satisfactory products and services for around 300 million consumers across the globe every year.

Midea ranks No. 450 on the *2017 Fortune Global 500* list, a big step forward compared to No. 481 in 2016. And it is the only Chinese home appliance manufacturer who has made it on to the list twice in a row. On the *Forbes 2017 Global 2000* list, Midea is No. 335, beating down another 67 competitors on the list from where it was last year. In addition, Midea has climbed to No. 30 on the *WPP 2017 BrandZ™ Top 100 Most Valuable Chinese Brands* list, making it the highest-ranking home appliance brand on that list for a second consecutive year. Also, in the “National Brand Plan” launched by CCTV, China’s national state-run television broadcaster, Midea is selected as one of the top 10 brands.

2. Significant Changes in Main Assets

2.1 Significant Changes in Main Assets

| Main assets | Reasons for any significant change |
|-------------------|---|
| Equity assets | Up 16.94% YoY, mainly due to acquisition of subsidiaries |
| Intangible assets | Up 137.49% YoY, mainly due to acquisition of subsidiaries |

| | |
|--------------------------|---|
| Construction in progress | Up 51.7% YoY, mainly due to acquisition of subsidiaries |
|--------------------------|---|

2.2 Main Assets Overseas

Applicable N/A

3. Core Competitiveness Analysis

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

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

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

The Group is focused on building a competitive, multi-layered global R&D system centering on user experience and product functions, which represents world-class R&D input and strength. With more than RMB20 billion invested in R&D over the past five years, the Group has set up a total of 17 research centers in eight countries, with its R&D employees over 10,000 and senior foreign experts over 300. And the applications the Group has filed for white goods-related patents are second to none worldwide. While building its own research centers around the world, the Group has also signed technical cooperation agreements with scientific research institutions at home and abroad, such as MIT, UC Berkeley, UIUC, Stanford, Purdue University, Tsinghua University and the Chinese Academy of Sciences, to establish

joint labs and build a global innovation ecosystem. The Group's long-term focus on building technology, marketing, product and open innovation systems, building a cutting-edge research system and building reserves in technology for the mid and long term, has helped lay 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 enormous business size

The success of a series of global acquisitions and new business expansion moves has further solidified Midea's global operations and leading advantages in robot manufacturing 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 markets. The Group is one of the biggest manufacturers in the world for many product categories, which gives it its competitive edges in efficiency and cost, that its overseas competitors are unable to compete with or replicate. Overseas sales have accounted for nearly 50% of the Group's total sales. Its products are exported to over 200 countries. In addition, with a deep knowledge and understanding about the characteristics and needs of overseas markets, it is promoting overseas branding and expansion through overseas joint ventures set up by seizing opportunities. In this way, it is increasing its global competitiveness step by step.

3.4 Broad channel networks ensuring the steady growth of Midea's online and off-line sales

By virtue of years of development and investments, Midea Group has formed an all-dimensional market coverage. In the mature first and second-tier markets, the Company has developed and maintained good partnerships with large home appliance retail chains. While in the broad third and fourth-tier markets, the Company uses flagship stores, specialty shops, traditional channels and new channels as effective supplements. Already, the Company has achieved 100% coverage in first and second-tier markets, as well as over 95% coverage in third and fourth-tier markets. Additionally, the Company's dominance in branding, products, offline channels and logistics distribution have also created powerful guarantees for the Company's rapid expansion of its e-commerce business and channels. Achieving the highest online sales among China's household appliance manufacturers, Midea's online retail sales exceeded RMB20 billion (around 25% of Midea's total domestic sales) in H1 2017, a year-on-year

growth of 80%.

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

Paying close attention to the construction of a governance framework, regarding its corporate control, centralization and decentralization systems, the Group formed a mature management system for professional managers. The divisional system has been in operation for many years, and its performance-oriented evaluation and incentive mechanism featuring full decentralization has become a training and growth platform for the Group's professional managers. The Group's senior management team consists of professional managers who have been trained and forged in the operational practices of Midea Group. They have been working for Midea on average for more than 15 years, so they all have rich industry and professional experience, a deep understanding of the home appliance industry throughout both China and the world, and an accurate understanding of the industry's functioning environment and corporate operations management. The Company's advantages in systems and mechanisms have laid a solid foundation for the efficient and effective business operations, as well as the promising, stable and sustainable future development of the Company.

So far, the Company has launched four stock option incentive plans, one restricted stock incentive plan and three senior management "partner" stock ownership plans 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.

Part IV Performance Discussion and Analysis

1. Overview

1.1 Industry Overview

A. Home Appliance Industry

In H1 2017, with a stable domestic economy and a continued recovery in the world economy, home appliance manufacturers carried on the supply-side structural reform by stimulating technical innovation and adjusting product mix according to the shift in home appliance consumption. Despite pressure from higher raw material costs, more stringent real estate control, etc., the KPIs of this industry registered steady improvements in this period.

According to the China Household Electrical Appliance Association, H1 2017 saw stable retail sales of home appliances, with the industry-wide sales revenue reaching RMB804.6 billion and the profits generated amounting to RMB50.48 billion, recording impressive year-on-year growth of 16.02% and 9.63% respectively. With regard to white goods, data from China Market Monitor show that comparing H1 2017 to H1 2016, air conditioners registered a fast sales growth of 31.9% due to re-stocking, high temperature and previous low sales effects; washing machines recorded a solid 10.3% growth in retail sales; refrigerators experienced flat retail sales with a 4.81% increase; and the sales of kitchen appliances continued to see stable growth, with the retail sales of kitchen ranges and range hoods expanding 11.34% and 12.42% respectively.

In 2017, the online retail sales of home appliances have continued to expand at a high speed, with the H1 2017 figure accounting for 24.88% of the total retail sales. According to AVC, a research firm, as of June 2017, major appliances such as air conditioners, refrigerators, washing machines, range hoods, gas ranges and water heaters had recorded over 50% year-on-year growth in both online sales volume and value, with the corresponding figures for air conditioners even exceeding 100%. In the H1 2017 Online Home Appliance Sales Analysis report released by China's Ministry of Industry and Information Technology, the country's B2C online sales of home appliances reached RMB216 billion in H1 2017, expanding 16.9% compared to H1 2016. It is also indicated in the report that there has been a marked shift to high-end products on the home appliance market and domestic brands are gaining dominance.

China's home appliance industry reported export sales of USD31.05 billion in H1 2017, up 7.7% from a year earlier, hitting a historical high, which was mainly resulted by recovering foreign economies and upgraded product mix. It is expected that China's home appliance manufacturers will continue to seize opportunities arising from the ongoing deep change in manufacturing worldwide, so as to promote their brands and products across the world, and bring about a shift in export mix and growth driver from products alone to combination of products, services, technology and capital, as well as from the price advantage alone to comprehensive advantages in technology, brand, quality and service. With better products and services, they will be able to explore the global market for new sources of growth.

B. Robotics Industry

Currently, there are more than 1,500,000 industrial robots in use around the world, and the number is expected to surpass 2,300,000 by 2018, of which Asia will have 1,400,000 such robots, more than half of the global number. As shown in the *World Robotics Report 2016* unveiled by the International Federation of Robotics, since 2013, China has been the world's biggest robot consumer for five years in a row. With a basically above 20% growth in size every year, China's robot industry plays a significant role in the growing size of the global robot industry. With regard to industrial robots, in particular, China saw an output of 59,000 units in H1 2017, a year-on-year increase of 52%, indicating that China's share of the global industrial robot market has increased from a quarter to a third.

According to the International Federation of Robotics, China's expected surging demand for robots is attributed in part to its low robot density (only around 30 robots for every 10,000 workers, and for comparison, that number for Germany is about 300). In this respect, South Korea leads with 531 robots for every 10,000 workers, followed by Singapore (398 robots) and Japan (305 robots). The global average is 69 robots for every 10,000 workers.

The World Health Organization has predicted that China may become, by 2050, the country that faces the most serious problems caused by aging, with 35% of its population over 60 years old. These problems may include labor shortages and rising labor costs, which will stimulate demand among manufacturing enterprises for smart equipment including industrial robots. Prospects look promising for China's robot industry. In addition to carmaking, robots will be used increasingly in manufacturing of general-purpose equipment, home appliances, electronics and rubber and plastic products. Robots are also needed in labor-intensive textile and logistics industries, dangerous military and commercial

explosive sectors, pharmaceutical, semi-conductor and food industries that require a clean production environment, as well as hazardous ceramic- and brick-making. Therefore, China's industrial robot market is expected to experience dramatic growth to become a market worth hundreds of billions in RMB in the foreseeable future.

The output of homemade industrial robots is experiencing an explosion, with over 40 robot industrial parks built or being built, as well as more than 800 robot companies, across China. But this is not enough to send the country to the top of the global value chain for China has fewer six-or-more-joint robots. The Japan-based FANUC and YASKAWA, KUKA controlled by Midea Group and the Switzerland-based ABB, are the world's four major robot manufacturers that control core components and technologies for robots (electronic control systems, servomotors and decelerators), with their products combined taking up over 65% of the Chinese market.

1.2 Analysis of the Company's Main Business

In H1 2017, guided by the three main strategies of "Leading Products, Operational Efficiency and Global Operations", Midea focused on improving products, investigating customers' needs, increasing inputs to technology, promoting lean management and improving operations throughout the value chain. As a result, all the business objectives set for the half year have been accomplished. The products have seen fast growth in sales, indicators such as profits, operating cash flows, cash conversion cycle and channel inventory have continued to improve, and the product quality and reputation have kept increasing. Meanwhile, the effective integration of the newly acquired international subsidiaries has further solidified Midea's competitive edges with an enriched product range and global operations synergies. For the six months ended 30 June 2017, Midea achieved, on a consolidated basis, operating revenues of RMB124.964 billion, up 60.19% compared to H1 2016; and net profits of RMB10.811 billion attributable to Midea exclusive of subsidiaries, a 13.85% year-on-year increase. The operating revenue and the net profits attributable to Midea's shareholders achieved by Midea exclusive of its recently acquired international subsidiaries recorded 34% and 21% increases from a year earlier. According to an international professional evaluation agency and the accounting standards for business enterprises, the amortization of the M&A expense for H1 2017 was recognized at RMB1,360,091,000.

What Midea has accomplished in H1 2017 is summarized as follows:

A. Focusing on customers' needs, Midea continued to optimize its product mix and steadily

improved product competitive advantages.

With regard to its residential air-conditioner business, Midea continuously increased R&D investment to develop differentiated products tailored for consumers' needs. The Midea iYouth Smart Cloud Air Conditioner has won favor among young people for its smart control and slightest noise; the Midea Power Saving King Air Conditioner has perfectly solved customers' problems with better power saving and dry cleaning functions, as well as a high cooling capacity; and the Midea Pure Wind Cloud Smart Free Standing Air Conditioner is cleverly designed with strong cooling and a triple purification system to provide surprisingly comfortable experience for customers. Relying on solid technological advantages and bold innovations, Midea's residential air conditioners have won recognition and awards from home and abroad. Three of them have won the German iF Design Award, the highest award for product design worldwide. During an EU conference on upgrading energy efficiency standards, Midea actively participated in the establishment of new EU standards and called for energy efficiency upgrade for the home appliance industry. In 2017, the Ministry of Science and Technology of China has granted Midea the "Outstanding Private S&T Enterprise Award" and the "First Prize on Innovation". At the 14th Top China Real Estate Oscar, Midea was honored with the title of "First-Choice Residential Air Conditioner Brand for China's Real Estate Sector". In addition, the two projects for research and industrialization of key technology respectively of air conditioners for highly smart rooms and of noise-free one-piece air conditioners completed by Midea's residential air conditioner division have been recognized by a team of experts gathered by the China National Light Industry Council at an "internationally leading level".

In its commercial air conditioner business, with years of accumulation in technology, outstanding product advantages and brand influence, Midea possesses over 1,000 patents and has won bids for a lot of substantial projects worldwide, including 2014 FIFA World Cup, Games of the XXXI Olympiad, European Youth Olympic Games and Milan EXPO 2015. And in 2017, we won the bid for 2018 FIFA World Cup, which, once again, showcased our strong competitiveness. According to the online data, in the first half of 2017, our market share of commercial air-conditioners was 18.7%, continuously taking a leading position in this field. In the auxiliary market of real estate, we provided MDV X series commercial air conditioner for villa and TR series for duplex apartment and big house. Besides, we also offered a string of products tailored for customers differentiated needs, namely, the water heater driven by air energy, integral AIO air purifier, household wall-hanging stove with gas as its energy and "electricity replacing

coal” ultra low temperature heater with air source heat pump. Midea offered professional solutions covering air conditioner, water heater, new wind and heating in an all-round manner. During the evaluation of the 14th Top China Real Estate Oscar, Midea commercial air conditioner was awarded the title of “Excellent and First-choice Brand for Real Estate”. In the field of rail transit, Midea commercial air conditioner became the outstanding brand which occupied the biggest market share in the high speed train market. According to statistics, Midea commercial air conditioner covered 650 high-speed railway stations in over 300 cities. And we also blanketed over 50% of the heating project for high-speed train. Among the 44 cities which were entitled to build metro, we got orders from 20 cities, a coverage of 18 provinces with a percentage of 45% of its total. And hence, we claimed our fame as a brand of “entering the most cities, covering the longest mileage in metro and enjoying the biggest blanket order”.

In terms of its washing machine business, Midea boasted many core technologies, including converter technique, smart drive control, physical design and industrial design. With over 2,000 patents at hand, we boasted the leading position in the washing machine industry. We, under the wing of excellent quality, continued to push forward outstanding projects, increased investment in technical innovation and R&D, improved product structure and enriched product layout of middle and high-end products. We tried to find out the thorny problems of customers and the market demand through enhancing customer research. We launched various products featured in cold water washing, antianaphylaxis, BLDC smart frequency conversion, iclean smart cleaning, ultrasonic washing and classified washing. In 2017, Midea fast&clean washing machine won the “Appliance Prize”, Little Swan roller washing machine with integrated function of washing and dry-cleaning got the certification of allergen tests. Beverly roller washing machine won the China Household Appliance Innovation Award and the wall-hanging washing machine won a gold award of the 10th Jiangsu Patent Awards.

Regarding its refrigerator business, Midea continued to make new competitive products and took a leading role in product up-gradation. Midea variable frequency BCD-629 refrigerator can provide the customers with brand new experience through 360°sensitive temperature sensor, optimal cooling capacity adjustment, long distance temperature control, expiry date reminder and online warranty. Midea Vandelo BCD-532French-style refrigerator was the winner of Red Dot Design Award 2017with its features of 90°door-opening, independent multifunction area, on-door make-up box, dedicate control of temperature and humidity, full-open locker and hook face dynamic sterilized indicator. In China

Refrigerator Industry Symposium, 2017, Midea gained the title of 2016-2017 annual leading innovation brand of the smart refrigerator industry. Midea 532 refrigerator obtained one prize of 2016-2017 annual leading brand of the fresh refrigerator industry. Midea BCD-525 won the online award of “2016-2017 annual high-end smart bestseller”.

As for Midea’s small appliance business, with the improvement on technical innovation and the product capacity, many small household appliances won the honor of IF design award, Red Dot award and Appliance Prize, etc, which showcased our competitiveness. Midea “Aurora” kitchen cleaner with “Skyeye detector”, featured in real time temperature variation, automatic adjustment, overall automation, strong suction (20m³/min) and high-temperature steam cleaning, could solve the thorny problem for customers. Midea M-box “cooking robot” electronic cooker, combined functions of rice recognition, rice access, cleaning, water access and cooking, won a gold award of the Appliance Awards. Midea 105kpa electronic pressure cooker with the function of fast cooking within 19 minutes and 121℃ high-temperature sterilization, ranked No. 1 of its kind from its launching day till now. Midea “Ironman” and “Hot Hatch”, high-end cell wall breaker, was warmly welcomed by the market, because it has multiple functions and highly efficiency on breaking the cell walls of food materials for cooking. And it also ranked No.1 of its kind from its launching day till now. Midea “Qingyu” smart fan was tailored for the needs and the children and the elderly with its double fan blade which enabled a gentle wind. It could be used as a helper of the air conditioner in different temperatures. Midea installation-free dish washer with many washing modes was specially designed for small families, because it can finish washing within 29 minutes and no need for installation. Midea Beverly G400E water purifier could provide water flow of 1L/min with its dedicate and small body and it provided users with water of 2 different quality. Midea Beverly I8 water heater optimized customers’ experience for shower, since it had functions of 3.0T zero cool water, constant temperature system and sine sound wave for denoising, and it also won the Appliance Award 2017.

B. Midea continuously increased investment in and focused on R&D to improve its global R&D network.

We continuously increased investment on R&D and R&D mechanism innovation. We pushed forward the innovation on technology, users and products. What’s more, we also conducted opening innovation system and technical innovation planning system. The 4th grade R&D systematic management model

was further enhanced. We focused on prior research and paid attention to middle and long term technical reserve and long term competitiveness. Apart from research on core technology, we gave full play to the transformation of R&D result, which helped us win many prizes and awards. In the first half of 2017, altogether 14 technologies got “the global advanced level” awards, including research and industrialization on key integral mute technology, research and industrialization on key technology of IH electronic cooker with nuclear boiling and cooking supply function, application of all-variable frequency second-grade compression technique on multi-split air conditioner, research and application of household kitchen ventilator smart steam cleaning technology, research on microwave oven variable frequency power technology, modularizing easy-cleaning material and its application in the kitchen appliance and AC no-polar variable frequency technology. In the industrial field, we had 14 industrial designs got the IF award 2017, and 16 industrial designs won the Red Dot Award 2017.

In the first half of 2017, the company continued to drive international R&D arrangement, integrated global R&D resources, and speeded up technical research and localized development. Hence, we made many achievements, for example, in April, the office building of Silicon Valley Future Technology Center was completed and unveiled its plaque. Louisville R&D Center moved into new office. In May, R&D Research Institute was established and Midea RDICE Europe was set up at Graz, Austria. In June, Midea User Experience Innovation (Shanghai) Lab unveiled its plaque. In July, R&D Center in Singapore was established, up till now, we have 17 R&D Centers all around the world. Beside our arrangement on the R&D Centers, we also signed technical cooperation agreement with top research institutes from home and abroad, including MIT, UC Berkeley, UIUC, Stanford, Purdue University, Tsinghua University and Chinese Academy of Sciences, and established joint labs for in-depth cooperation to create global innovative ecosystem.

C. Midea continued to promote marketing and channel reform to improve its channel efficiency and eventually realize fast growth in online sales.

The Company persistently promoted channel transformation, decreased offline channel hierarchy, pushed forward direct sales on e-commerce and reduced channel inventory to improve the efficiency substantially. In the first half of 2017, our product models declined for 24%, offline inventory decreased for 51%, and channel circulation increased by 1.6 times compared to the same period of last year. Only 70 out of over 2,000 agencies had subletting. We advanced the operating system for our flagship stores,

in the first half of 2017, 200 new flagship stores were opened, and the sales revenue enjoyed a year-on-year growth of 45%. With the TOP Club reaching its scale of 10 billion, we were committed to creating the V200 Club for small and medium-sized chain stores to increase our coverage and enhance terminal sales. In the first half of this year, the sales of V200 enjoyed a year-on-year growth of 27%. We also promoted the sharing of distributors, sales channel, terminal resources, shopping guide, inventory and logistics. Many commercial centers were set up to reduce the costs and expenses in a coordinated manner. We gave full play to various advantages of different products to gain the common growth.

In the first half of 2017, with the help of overall arrangement of “online customer & order + offline flagship store + logistic storage”, the big data platform supported by various products, improvement on users operation system, exploration of targeted digital marketing assisted by users and big data, coupled with the all-round marketing strategy of the readiness of offline products and the connectivity of orders and users, our e-commerce retail revenue reached over 20 billion RMB, a year-on-year growth of 80%. We maintained ranking the 1st on the network, and online sales accounted for 25% of the total income of our company.

D. Midea improved its entire logistics platform, with the focus on building a shared inventory system for all channels.

With the help of Annto smart platform, we positively caught the trend of “new retail”. We improved prompt response of the whole value chain and the efficiency of channel inventory by online & offline inventory, one set of system, one set of SKU, the “T+3” distribution mode, as well as integrated and shared inventory resources. In the first half of 2017, the number of Annto logistic center increased from 78 to 111. The establishment of new logistic centers further boosted the inner and outer inventory for customers and fastened the efficiency of inventory and capital circulation. In the first half of this year, inventory area decreased by 27% on a year-on-year basis, and the delivery and timeliness ratio reached 98%, which showcased the capacity of smart logistics under the requirement of supply chain management.

The smart logistic system was further developed and applied. We carried out in-depth research on integrated storage of big products, highly efficient sorting process for small products, automatic loading, moveable AGV and analog simulation. Moreover, the Magic Center order management system, Magic Space warehouse management system and Magic Control warehouse control system was delicately created. Besides, we also conducted overall connectivity with the consignor, third party logistic company

(transport company/ driver) and the consignee. Hence, a modern and visible information system with balanced core procedure was formed to provide integral service of software and hardware, and hence a multi-win result was ensured. As for data operation, we successfully developed “KUNPENG” transparent business analysis system, and it covered various scenarios, including warehouse, main delivery, branch delivery, allocation, e-commerce and international business. Consequently, we could offer customers smart order management, decision-making analysis, cloud arrangement and mobile transformation, by doing so , we optimized the traditional IT information flow for customers.

E. Midea improved its smart home operations and carried on its smart home strategy.

In 2017, Midea continued to advance its smart home strategy, persistently optimized its cloud platform, beautified homeware, communication module, smart security and after sale service to improve the customer’s satisfaction. In 2017, Guangdong Provincial Department of Science and Technology named Midea Smart Technology Co., Ltd as the IOT Smart Technology Research Center of Guangdong.

We continued to tap the market potential of smart household appliance, increased investment in R&D of smart household appliance, maintained input on market resource and carried out the IOT Wi-Fi security chip. Midea M-Smart security system was a forerunner in obtaining level-A certification from the “Smart Household Appliance Information Security” program. We persistently boosted the development of M-smart platform ecosystem and further opened the M-smart system to the outside world. Besides, we also enhanced the cooperation on cloud matching, third party mobile terminal management, smart access of hardware and bringing in resources from the third parties. The number of our accumulated M-smart partners reached 105. We maintained strategic partnership with China Mobile, Huawei, State Grid Corporation of China, COFCO and Onstar. We positively explored the overall arrangement for full-house smart houseware and provided comprehensive solution in this regard. The nationwide sales system was established, which had already entered the real estate companies, including Hengda, Country Garden, and Vanke. And the solution for smart homeware package, smart sharing & renting, smart hardware and smart core module was formed.

F. Midea improved its overseas operations by promoting better compliance with laws and regulations, as well as by beefing up the integration of the newly acquired international subsidiaries.

We insisted on the global business strategy, explored the overseas market for self-owned brands, gave

full play to the coordination of overseas subsidiaries and product management department, enhanced the localized and individualized design with customers as its core and optimized product structure to ensure that the overseas income could enjoy a solid growth. In the first half of 2017, sales from the targeted market witnessed a double-digit growth. At the same time, the overseas operation capacity gained a solid development and the popularity of our brand increased.

The global compliance system was enhanced. We applied the international standard on anti-dumping, anti-corruption, export control and product liability. We drew a limitation to prevent serious compliance risks from happening. The overseas operation organization and the marketing management system was advanced, while the operation mode was localized. We established offices, sole proprietorship marketing company and JV marketing company, which covered the world market. Meanwhile, we systematized and processed the management of brand establishment, product launching, distribution channel, retail store and terminal shopping guidance, and hence, we were determined to improve the overall capacity of the value chain.

We insisted on boosting the merger and acquisition of Toshiba home appliance, Italian Clivet, Israel Servotronix and Eureka in North America. The process reengineering was advanced, and the coordination on brand, channel, R&D innovation and supply chain of the acquisition project and product department was accelerated. Among all of them, 50 complementary projects between Toshiba home appliance and Midea product department were carried out. In the first half of this year, we successfully launched washing machine, dust collector, refrigerator, microwave oven and freezer. Meanwhile, we established a business division for cleaning appliance with the industrial forerunner as our benchmark. We made a market layout, and gave full play to the complementary advantages of Midea products and technology of Toshiba. By doing so, we expected our income from dust collector could reach 10 billion RMB by 2021, and making us a front runner in this field.

G. Midea seized opportunities arising from the thriving robot and automation industry across the world, and achieved rapid growth in its robot business as a result.

We comprehensively promoted the fast growth of KUKA robot. In the first half of 2017, it enjoyed a year-on-year growth of 34.9%, reaching a historic high. And we received on-going orders and the increase rate was 16%. We boomed the business by smart manufacturing application, clients resource sharing, logistics and medical treatment automation and coordinating the resource and support from the

government.

Midea Robotics Co., Ltd was established to give full play to smart logistics robots and the market of rehabilitation and caring for the elderly. Besides, we also integrated the inner and outer resources to develop products with market potential. Currently, the model machine of the logistic robots was under testing, and later, we would allocate them in the nationwide warehouses of Annto. Furthermore, 2 products tailored for rehabilitation and caring of the elderly obtained the medical equipment certificates, and they were deeply favored by the market.

H. Midea improved its operations throughout the value chain.

We put market and users first and continued to boost “T+3” production and marketing transformation, as well as product development on CDOC(Concept, Design, Optimize, Capability). And we also promoted MBS (Midea Business System) lean manufacturing, simplified our operation, optimized supply chain, improved our terminal and flattened our channel. We boosted digitization, on-line normalization and standardization for all of our business to polish our advantages on remarkable operation.

I. Midea improved its corporate governance sysem and long-term incentive mechanism.

In 2017, besides the 1st term of restricted stock plan and the 4th term of stock option incentive plan for its medium and high-level executives as well as key-business employees, Midea continued to carry out the 3rd term of “partner” stock ownership plan for its core management personnel that played a significant role in the Company’s medium and long-term business performance, to encourage them to develop and grow with the company together. Besides, we established a mechanism to ensure the long-term and consistent benefit among the executives, core business personnel and all of the shareholders, and hence, the company governance would welcome in further improvement.

Midea’s main work plans for H2 2017 are summarized as follows:

A. increasing investments in and strengthening R&D of products needed by users in the ongoing structural upgrade in consumption, to ensure the steady improvement of product competitiveness; seizing opportunities in the rise of new home appliances to maintain advantages in differentiation and size by organic means;

B. further improving operations throughout the value chain by focusing on inventory structure optimization, cash conversion cycle shortening, overheads reduction, profitability increase, cost and efficiency improvement and synergies tapping;

C. continuously carrying on the global operations through effective integration of the newly acquired international subsidiaries and prevention of irregularities, to increase brand awareness and competitiveness across the globe; and

D. continuously improving corporate structure and systems, paying attention to the training of talents and recruitment of professionals, improving the corporate atmosphere and innovating long term incentive plans.

2. Analysis of Main Business

Overview:

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

Yes No

See “1. Overview” of this part.

YoY changes in key financial data:

Unit: RMB'000

| | H1 2017 | H1 2016 | YoY Change (%) | Main reasons for change |
|---|-------------|-------------|----------------|--|
| Operating revenues | 124,450,065 | 77,522,287 | 60.53% | Increased sales and consolidation of KUKA and TLSC |
| Operating costs | 93,051,081 | 54,866,160 | 69.60% | Increased sales and consolidation of KUKA and TLSC |
| Selling expenses | 12,404,770 | 8,185,178 | 51.55% | Increased sales and consolidation of KUKA and TLSC |
| Administrative expenses | 6,832,958 | 3,690,059 | 85.17% | Increased sales and consolidation of KUKA and TLSC |
| Finance costs | 346,614 | -905,261 | 138.29% | Increased exchange losses |
| Net cash flows from operating activities | 13,895,932 | 8,129,163 | 70.94% | Increased revenues |
| Net cash flows from investing activities | -26,751,897 | -16,336,731 | 63.75% | Increase in net cash paid to obtain subsidiaries |
| Net cash flows from financing activities | 20,990,804 | 13,246,447 | 58.46% | Increase in borrowings secured |
| Net increase in cash and cash equivalents | 8,272,701 | 5,109,499 | 61.91% | Increased net cash flows from operating 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 margin (%) | YoY change in operating revenue (%) | YoY change in operating cost (%) | YoY change in gross margin (%) |
|--------------------------------|-------------------|----------------|------------------|-------------------------------------|----------------------------------|--------------------------------|
| By business segment | | | | | | |
| Manufacturing | 115,456,202 | 84,704,701 | 26.63% | 63.39% | 73.27% | -4.18% |
| Others | 1,078,404 | 1,033,539 | 4.16% | 19.15% | 23.59% | -3.44% |
| By product | | | | | | |
| HVAC | 50,022,802 | 35,410,252 | 29.21% | 41.52% | 48.64% | -3.39% |
| Consumer appliances | 51,827,140 | 37,688,678 | 27.28% | 46.75% | 50.38% | -1.75% |
| Robotics and automatic systems | 13,606,260 | 11,605,771 | 14.70% | - | - | - |
| Others | 1,078,404 | 1,033,539 | 4.16% | 19.15% | 23.59% | -3.44% |
| By geographical segment | | | | | | |
| PRC | 61,071,521 | 41,470,376 | 32.10% | 51.76% | 58.51% | -2.88% |
| Other countries and regions | 55,463,085 | 44,267,864 | 20.18% | 77.05% | 87.91% | -4.62% |

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 2017 | | 31 December 2016 | | Change in percentage (%) | Explanation about any material change |
|--------------------------|--------------|-------------------------------------|------------------|-------------------------------------|--------------------------|---------------------------------------|
| | Amount | As a percentage of total assets (%) | Amount | As a percentage of total assets (%) | | |
| Cash at bank and on hand | 34,219,018 | 14.81% | 27,169,118 | 15.93% | -1.12% | |

| | | | | | | |
|------------------------------|------------|--------|------------|--------|--------|--|
| Accounts receivable | 19,380,874 | 8.39% | 13,454,511 | 7.89% | 0.50% | |
| Inventories | 20,885,038 | 9.04% | 15,626,897 | 9.16% | -0.12% | |
| Investment property | 480,814 | 0.21% | 494,122 | 0.29% | -0.08% | |
| Long-term equity investments | 2,586,329 | 1.12% | 2,211,732 | 1.30% | -0.18% | |
| Fixed assets | 22,603,151 | 9.78% | 21,056,791 | 12.34% | -2.56% | |
| Construction in progress | 880,939 | 0.38% | 580,729 | 0.34% | 0.04% | |
| Short-term borrowings | 32,391,950 | 14.02% | 3,024,426 | 1.77% | 12.25% | |
| Long-term borrowings | 4,036,714 | 1.75% | 2,254,348 | 1.32% | 0.43% | |

4.2 Assets and Liabilities Measured at Fair Value

√ Applicable □ N/A

Unit: RMB'000

| Item | Opening balance | Gain/loss on 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 at fair value through gains/losses (exclusive of derivative financial assets) | | | | | | | |
| 2. Derivative financial assets | 424,163 | -156,236 | 176,121 | 74,433 | - | - | 518,481 |
| 3. Financial assets available for sale | 33,627,760 | 628,641 | 69,063 | -3,453,928 | 17,374,199 | 17,163,908 | 31,081,827 |
| Sub-total of financial assets | 34,051,923 | 472,405 | 245,184 | -3,379,495 | 17,374,199 | 17,163,908 | 31,600,308 |
| Investment property | | | | | | | |
| Productive living assets | | | | | | | |
| Others | | | | | | | |

| | | | | | | | |
|-----------------------|------------|----------|---------|------------|------------|------------|------------|
| Sub-total of above | 34,051,923 | 472,405 | 245,184 | -3,379,495 | 17,374,199 | 17,163,908 | 31,600,308 |
| Financial liabilities | 96,102 | -146,713 | -6,023 | 100,609 | - | - | 43,975 |

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 End of Reporting Period

As of the end of the 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. Analysis of Investments

5.1 Total Investments Made

Applicable N/A

| Investments made in H1 2017 (RMB'000) | Investments made in H1 2016 (RMB'000) | YoY Change |
|--|--|------------|
| 69,512,207 | 46,226,607 | 50.37% |

5.2 Significant Equity Investments Made in Reporting Period

Applicable N/A

Unit: RMB'000

| Investee | Main business of investee | Way of investment | Amount of investment | The Company's shareholding percentage | Source of investment funds | Joint holder | Term of investment | Type of investee's products | Progress as of balance sheet date | Projected earnings | Gain/loss for the period | Lawsuits involved | Disclosure date (if any) | Index to disclosed information (if any) |
|----------|---------------------------|---------------------|----------------------|---------------------------------------|----------------------------|--------------|--------------------|-----------------------------|-----------------------------------|--------------------|--------------------------|-------------------|--------------------------|---|
| KUKA | Smart automation | Acquisition in cash | 27,001,856 | 81.04% | Borrowings | None | Longlasting | Smart automation | Completed | N/A | 451,080 | None | - | - |
| SMC | Motion control systems | Acquisition in cash | 901,794 | 79.37% | Borrowings | None | Longlasting | Motion control | Completed | N/A | -4,137 | None | - | - |

| | | | | | | | | | | | | | | | | | |
|-------|----|----|------------|----|----|----|----|----|---------|----|----------|----|----|----|--|--|--|
| | | | | | | | | | systems | | | | | | | | |
| Total | -- | -- | 27,903,650 | -- | -- | -- | -- | -- | -- | -- | -446,943 | -- | -- | -- | | | |

5.3 Significant Non-Equity Investments Ongoing in Reporting Period

Applicable N/A

5.4 Financial Investments

5.4.1 Securities Investments

Applicable N/A

No such cases in the Reporting Period.

5.4.2 Derivatives Investments

Applicable N/A

Unit: RMB'0,000

| Operating party | Related party or not | Related transaction or not | Investment type | Initial investment amount | Commencement date | Termination date | Investment amount at beginning of the period | Purchased in the period | Sold in the period | Amount provided for impairment (if applicable) | Investment amount at end of the period | Ratio of investment amount to the Company's net assets at end of the period (%) | Actual gain or loss amount for the period |
|--|----------------------|----------------------------|-------------------------|----------------------------------|-------------------|------------------|--|-------------------------|--------------------|--|--|---|---|
| Futures company | Not | Not | Futures contracts | -11.5 | 01/01/2017 | 31/12/2017 | -11.5 | - | - | - | 90 | 0.001% | -372.4 |
| Bank | Not | Not | Forward forex contracts | 32,817.6 | 01/01/2017 | 31/12/2017 | 32,817.6 | - | - | - | 47,360.6 | 0.714% | 20,763.5 |
| Total | | | | 32,806.1 | -- | -- | 32,806.1 | - | - | - | 47,450.6 | 0.715% | 20,391.1 |
| Source of derivatives investment funds | | | | All from the Company's own funds | | | | | | | | | |

| | |
|---|--|
| Litigation involved (if applicable) | N/A |
| Disclosure date of board announcement approving derivative investment (if any) | 31/03/2017 |
| Disclosure date of shareholders' meeting announcement approving derivative investment (if any) | 22/04/2017 |
| Risk analysis of positions held in derivatives during 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</p> |

| | |
|---|--|
| | <p>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> |
| <p>Changes in market price or fair value of derivatives product invested during Reporting Period: specific methods used and relevant assumption and parameter settings shall be disclosed for analysis of fair value of derivatives</p> | <p>1. Gains/losses on futures hedging contracts incurred during the Reporting Period were RMB-3,724,000.</p> <p>2. Gains/losses on forward forex contracts incurred during the Reporting Period were RMB207,635,000.</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> |
| <p>Explanation of significant changes in accounting policies and specific financial accounting principles in respect of the Company's derivatives for Reporting Period compared to last reporting period</p> | <p>No change</p> |
| <p>Special opinions expressed by independent directors concerning the Company's derivatives investment and risk control</p> | <p>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.</p> |

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

Applicable N/A

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

| Company name | Company type | Business scope | Industry | Registered capital (RMB'0,000) | Total assets (RMB million) | Net assets (RMB million) | Operating Revenue (RMB million) | Operating profit (RMB million) | Net profit (RMB million) |
|---|--------------|-----------------------------------|----------------|--------------------------------|----------------------------|--------------------------|---------------------------------|--------------------------------|--------------------------|
| Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd. | Subsidiary | Manufacturing of home appliances | Home appliance | USD7,200 | 10,367.19 | 2,091.78 | 7,750.85 | 1,059.93 | 930.12 |
| Guangdong Midea Refrigeration Equipment Co., Ltd. | Subsidiary | Manufacturing of air conditioners | Home appliance | RMB85,400 | 34,918.70 | 3,346.66 | 19,448.64 | 351.00 | 405.83 |
| Foshan Shunde Midea Electric Appliance Manufacturing Co., Ltd. | Subsidiary | Manufacturing of home appliances | Home appliance | USD4,200 | 6,010.46 | 2,741.25 | 4,532.67 | 764.51 | 652.38 |
| Wuhu Midea Kitchen & Bathroom Electric Appliances Manufacturing Co., Ltd. | Subsidiary | Manufacturing of water heaters | Home appliance | RMB6,000 | 4,331.85 | 800.74 | 4,028.40 | 693.75 | 653.33 |

Acquisition and disposal of subsidiaries during the Reporting Period:

Applicable N/A

For the Reporting Period, the newly consolidated subsidiaries are: Guangdong Midea Electric Co., Ltd., Guangdong Midea Smart Robots Co., Ltd., Chongqing Midea Microcredit Co., Ltd., Guangdong Midea GiMAY Technology Co., Ltd., Hefei Midea Smart Technology Co., Ltd., Guangdong Midea Kafei Coffee Machine Manufacturing Co., Ltd., Midea Electric Netherlands (I) B.V., KUKA Aktiengesellschaft and its subsidiaries, Easy Conveyors B.V. and Servotronix and its subsidiaries. For details, see (1) and (2) (a) in Note 5 to the financial statements herein. Meanwhile, subsidiary Wuhu Bainian Technology Development Co., Ltd. has been dissolved and thus deconsolidated. See (2) (b) in Note 5 to the financial statements herein for details.

8. Structured Bodies Controlled by the Company

Applicable N/A

9. Forecast of Business Performance from January to September in 2017

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 the Company and Countermeasures

A. Risk of Macro Economy Fluctuation

Owing to uncertain recovery in the global economy, the downward pressure on domestic economic growth, China's tightening real estate controls, political and economic chaos across the world, etc., the sluggish consumer market may continue, which could lead to a lack of momentum in growth of the home appliance industry.

B. Risks in 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. It has also conducted a series of significant acquisitions to promote new business, enlarge its global market share, expand its channels and seek greater brand recognition. 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 is expected to account for over 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.

Part V Significant Events

1. Annual and Special Meetings of Shareholders Convened during Reporting Period

1.1 Meetings of Shareholders Convened during Reporting Period

| Meeting | Type | Investor participation ratio | Convened date | Disclosure date | Index to disclosed information |
|-------------------------------------|--------|------------------------------|---------------|-----------------|---|
| 2016 Annual Meeting of Shareholders | Annual | 45.2524 % | 21/04/2017 | 22/04/2017 | Announcement No. 2017-017 on Resolutions of 2016 Annual Meeting of Shareholders, disclosed on www.cninfo.com.cn |

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

Applicable N/A

2. Proposal on Profit Distribution and Converting Capital Reserves into Share Capital for 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 2017.

3. Undertakings of the Company's Actual Controller, Shareholders, Related Parties and Acquirer, as well as the Company and Other Commitment Makers Fulfilled in Reporting Period or Overdue as of Period-End

Applicable N/A

No such cases in the Reporting Period.

4. Engagement and Disengagement of CPAs Firm

Have the H1 2017 financial statements been audited by a CPAs firm?

Yes No

The H1 2017 financial statements are unaudited by a CPAs firm.

5. Explanation of Board of Directors and Supervisory Board Regarding "Modified Audit Opinion" for Reporting Period

Applicable N/A

6. Explanation of Board of Directors Regarding "Modified Audit Opinion" for Last Year

Applicable N/A

7. Bankruptcy and Reorganization

Applicable N/A

No such cases in the Reporting Period.

8. Legal Matters

Material litigations and arbitrations involved:

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 Equity Incentive Plans, Employee Stock Ownership Plans or Other Incentive Measures for Employees

Applicable N/A

A. Overview of First Stock Option Incentive Plan

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

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

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

The Company convened the 22nd Meeting of the 2nd Board of Directors on 12 May 2017, at which the *Proposal for the Adjustments to the Exercise Price for the First Stock Option Incentive Plan* was reviewed and approved. As the 2016 Annual Profit Distribution had been carried out, the exercise price for the First Stock Option Incentive Plan was revised from RMB11.01 to RMB10.01 per share.

c. On 24 May 2017, the exercise conditions grew mature for the third exercise period of the First Stock Option Incentive Plan. Upon examination by the Shenzhen Stock Exchange and the Shenzhen branch of China Securities Depository and Clearing Co., Ltd., the third exercise period of the First Stock Option Incentive Plan started on 24 May 2017. In the Reporting Period, 23,706,509 stock options have been exercised.

B. Overview of Second Stock Option Incentive Plan

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

for the Second Stock Option Incentive Plan was revised from RMB19.56 to RMB18.56 per share.

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

The *Proposal for Matters Related to the Stock Option Exercise for the Second Exercise Period of the Second Stock Option Incentive Plan* was also considered and approved. Because the exercise conditions have grown mature for the second exercise period, a total of 577 incentive receivers who have ascertained and verified the Second Stock Option Incentive Plan have been allowed to exercise 32,940,000 stock options in the second exercise period (ended 27 May 2019).

c. On 9 June 2017, the exercise conditions grew mature for the second exercise period of the Second Stock Option Incentive Plan. Upon examination by the Shenzhen Stock Exchange and the Shenzhen branch of China Securities Depository and Clearing Co., Ltd., the second exercise period of the Second Stock Option Incentive Plan started on 9 June 2017. In the Reporting Period, 22,027,187 stock options have been exercised.

C. Overview of Third Stock Option Incentive Plan

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

b. The Company convened the 24th Meeting of the 2nd Board of Directors on 29 June 2017, at which the *Proposal for the Adjustments to the Incentive Receivers and Their Exercisable Stock Options of the Third Stock Option Incentive Plan* 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 Plan due to the departure, positional changes, low performance appraisals or other factors of some incentive receivers. Upon the adjustments, the number of incentive receivers decreased from 929 to 891, and the

number of locked-up stock options granted to them was also reduced from 127,290,000 to 121,485,000.

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

c. On 6 July 2017, the exercise conditions grew mature for the first exercise period of the Third Stock Option Incentive Plan. Upon examination by the Shenzhen Stock Exchange and the Shenzhen branch of China Securities Depository and Clearing Co., Ltd., the first exercise period of the Third Stock Option Incentive Plan started on 7 July 2017. In the Reporting Period, 14,419,891 stock options have been exercised.

D. Overview of Fourth Stock Option Incentive Plan

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

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

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

c. In light of the authorization given at the 2016 Annual Meeting of Shareholders, the Company convened the 22nd Meeting of the 2nd Board of Directors on 12 May 2017, at which the *Proposal for the Adjustments to the Exercise Price, Incentive Receiver List and Number of Stock Options to Be Granted for the Fourth Stock Option Incentive Plan*, the *Proposal for the Determination of the Grant Date for the Fourth Stock Option Incentive Plan* and the *Proposal for the Grant-Related Matters for the Fourth Stock Option Incentive Plan* were reviewed and approved. As such, the Company agreed to grant 98,274,000 stock options to 1,463 receivers on 12 May 2017 with the exercise price being RMB32.72 per share. The

incentive receiver list and the number of stock options to be granted were revised by the Company's Board of Directors because 13 incentive receivers were no longer eligible due to their departure or positional changes.

E. Overview of First Employee Stock Ownership Plan

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

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

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

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

F. Overview of Second Employee Stock Ownership Plan

a. The company performance requirement for the Second Employee Stock Ownership Plan is a weighted average ROE not lower than 20% for 2016. According to the *2016 Annual Auditor's Report for Midea Group Co., Ltd.* issued by PricewaterhouseCoopers China (LLP), this ROE requirement has been

met at 26.88%.

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

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

G. Overview of Third Employee Stock Ownership Plan

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

b. On 18 May 2017, CICC, the stock ownership plan administrator, purchased a total of 2,846,445 Midea Group shares at an average price of RMB34.77/share from the secondary market. The funds used for the share purchase were sourced from Midea Group's special fund for the Third Employee Stock Ownership Plan of RMB99 million. As such, the shares needed by the Third Employee Stock Ownership Plan have been purchased, with a statutory lock-up period from 19 May 2017 to 18 May 2018.

H. Overview of 2017 Restricted Share Incentive Plan

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

Board.

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

For this restricted share incentive plan, the Company intended to grant, for the first phase, 24,240,000 restricted shares to 140 receivers at the price of RMB16.86 per share.

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

12. Significant Related Transactions

12.1 Related Transactions Arising from Routine Operation

√ Applicable □ N/A

| Related transaction party | Relation with the Company | Type of transaction | Contents of transaction | Pricing principle | Transaction price | Transaction amount (RMB '0,000) | Proportion in total amount of same-type transactions | Approved transaction line (RMB '0,000) | Over approved line | Way of settlement | Obtainable market price for same-type transaction | Disclosure date | Index to disclosed information |
|---------------------------|---------------------------|---------------------|-------------------------|-------------------|-------------------|---------------------------------|--|--|--------------------|-------------------|---|-----------------|--------------------------------|
| | | | | | | | | | | | | | |

| | | | | | | | (%) | | | | | | |
|--|--|-------------|----------------------|--|----|-----------|-------|---------|----|------------------------|----|------------|-------------------|
| Infore Environment Technology Group Co., Ltd. | Controlled by family member of Company's actual controller | Procurement | Procurement of goods | Market price | - | 54,087.60 | 0.65% | 110,000 | No | Payment after delivery | - | 31/03/2017 | www.cninfo.com.cn |
| Orinko Plastics Group | Controlled by family member of Company's actual controller | Procurement | Procurement of goods | Market price | - | 24,138.00 | 0.29% | 40,000 | No | Payment after delivery | - | 31/03/2017 | www.cninfo.com.cn |
| Total | | | | -- | -- | 78,225.60 | -- | 150,000 | -- | -- | -- | -- | -- |
| Details of significant sales return | | | | Zero | | | | | | | | | |
| Give actual situation in Reporting Period (if any) where forecast had been made for total amounts of routine related transactions by type to occur in Reporting Period | | | | The associated amount limit between the Company and the related parties and the subsidiaries did not exceed the estimated total amounts of routine related-party transactions by type. | | | | | | | | | |
| Reason for significant difference between transaction price and 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 Third Parties

Applicable N/A

No such cases in the Reporting Period.

12.4 Credits and Liabilities with Related Parties

Applicable N/A

No such cases in the Reporting Period.

12.5 Other Significant Related Transactions

Applicable N/A

No such cases in the Reporting Period.

13. Occupation of the Company's Capital by 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

√ Applicable □ N/A

14.2.1 Major Guarantees

Unit: RMB'0,000

| Guarantees provided by the Company as parent company and its subsidiaries for third parties (excluding those for subsidiaries) | | | | | | | | |
|--|--|-------------------|--|---|-----------------------------|-------------------|------------|------------------------------------|
| Guaranteed party | Disclosure date of 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 related party or not |
| Misr Refrigeration And Air Conditioning Manufacturing CO. | 31/03/2017 | 3,500 | 01/01/2017 | 0 | Joint and several liability | One year | Not | Not |
| Concepcion Midea INC | 31/03/2017 | 600 | 01/01/2017 | 0 | Joint and several liability | One year | Not | Not |
| Total external guarantee line approved during Reporting Period (A1) | | | 4,100 | Total actual external guarantee amount during Reporting Period (A2) | | | | 0 |
| Total approved external guarantee line at end of Reporting Period (A3) | | | 4,100 | Total actual external guarantee balance at end of Reporting Period (A4) | | | | 0 |
| Guarantees between the Company as parent company and its subsidiaries | | | | | | | | |
| Guaranteed party | Disclosure date of 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 related party or not |
| Midea Group Finance Co., Ltd. | 31/03/2017 | 1,040,000 | 01/01/2017 | 171,766 | Joint and several liability | One year | Not | Not |
| Guangdong Midea Refrigeration Equipment Co., Ltd. | 31/03/2017 | 1,110,000 | 09/02/2017 | 371,717 | Ditto | Ditto | Ditto | Ditto |
| Guangzhou Hualing Refrigeration | 31/03/20 | 150,000 | 20/01/20 | 0 | Ditto | Ditto | Ditto | Ditto |

| | | | | | | | | |
|--|------------|---------|------------|---------|-------|-------|-------|-------|
| Equipment Co., Ltd. | 17 | | 17 | | | | | |
| Foshan Midea Carrier Refrigeration Equipment Co., Ltd. | 31/03/2017 | 9,500 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd. | 31/03/2017 | 547,200 | 01/01/2017 | 192,959 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Witt Vacuum Electronics Manufacturing Co., Ltd. | 31/03/2017 | 5,000 | 01/01/2017 | 2,676 | Ditto | Ditto | Ditto | Ditto |
| Foshan Shunde Midea Washing Appliance Manufacturing Co., Ltd. | 31/03/2017 | 146,200 | 09/01/2017 | 51,505 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea Heating & Ventilation Equipment Co., Ltd. | 31/03/2017 | 214,400 | 12/01/2017 | 23,970 | Ditto | Ditto | Ditto | Ditto |
| Midea Commercial Air Conditioning Equipment Co., Ltd., Guangdong Province | 31/03/2017 | 55,000 | 12/05/2017 | 10,800 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea-SIIX Electronics Co., Ltd. | 31/03/2017 | 13,200 | 01/01/2017 | 41 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea Consumer Electric Manufacturing Co., Ltd. | 31/03/2017 | 27,500 | 01/01/2017 | 811 | Ditto | Ditto | Ditto | Ditto |
| Foshan Shunde Midea Electric Appliance Manufacturing Co., Ltd. | 31/03/2017 | 62,100 | 15/01/2017 | 10,429 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea Kitchen & Bathroom Appliances Manufacturing Co., Ltd. | 31/03/2017 | 10,600 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Foshan Shunde Midea Drinking Manufacturing Co., Ltd. | 31/03/2017 | 28,100 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Foshan Midea Clear Lake Water Purification Equipment Manufacturing Co., Ltd. | 31/03/2017 | 6,000 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea Environment Appliances Manufacturing Co., Ltd. | 31/03/2017 | 52,200 | 24/03/2017 | 795 | Ditto | Ditto | Ditto | Ditto |
| Guangdong GMCC Refrigeration Equipment Co., Ltd. | 31/03/2017 | 45,500 | 21/03/2017 | 4,096 | Ditto | Ditto | Ditto | Ditto |
| Guangdong GMCC Precise Manufacture Co., Ltd. | 31/03/2017 | 34,000 | 01/01/2017 | 1,207 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Welling Motor Co., Ltd. | 31/03/2017 | 46,900 | 01/01/2017 | 35 | Ditto | Ditto | Ditto | Ditto |
| Foshan Welling Washer Motor Manufacturing Co., Ltd. | 31/03/2017 | 78,200 | 20/01/2017 | 4,735 | Ditto | Ditto | Ditto | Ditto |
| Ningbo Midea Joint Materials Supply Co. Ltd. | 31/03/2017 | 66,000 | 01/01/2017 | 10,000 | Ditto | Ditto | Ditto | Ditto |

| | | | | | | | | |
|--|----------------|---------|----------------|--------|-------|-------|-------|-------|
| Foshan Welling Material Co., Ltd. | 31/03/20 17 | 6,000 | 01/01/20 17 | 2,503 | Ditto | Ditto | Ditto | Ditto |
| Guangzhou Kaizhao Trading Co., Ltd. | 31/03/20 17 | 18,000 | 01/01/20 17 | 492 | Ditto | Ditto | Ditto | Ditto |
| Guangdong Midea Group Wuhu Refrigeration Equipment Co., Ltd. | 31/03/20 17 | 122,300 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Wuhu GMCC Air Conditioning Equipment Co., Ltd. | 31/03/20 17 | 111,000 | 12/01/20 17 | 1,864 | Ditto | Ditto | Ditto | Ditto |
| Hefei Midea Refrigerator Co., Ltd. | 31/03/20 17 | 34,000 | 06/01/20 17 | 0 | Ditto | Ditto | Ditto | Ditto |
| Hubei Midea Refrigerator Co., Ltd. | 31/03/20 17 | 10,000 | 24/03/20 17 | 1,075 | Ditto | Ditto | Ditto | Ditto |
| Hefei Hualing Co., Ltd. | 31/03/20 17 | 52,000 | 10/01/20 17 | 950 | Ditto | Ditto | Ditto | Ditto |
| Guangzhou Midea Hualing Refrigerator Equipment Co., Ltd. | 31/03/20 17 | 20,000 | 12/01/20 17 | 1,089 | Ditto | Ditto | Ditto | Ditto |
| Hefei Midea Heating & Ventilation Equipment Co., Ltd. | 31/03/20 17 | 24,200 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Hefei Midea-Bosch Air Conditioning Equipment Co., Ltd. | 31/03/20 17 | 5,000 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Wuhu Midea Kitchen & Bathroom Electric Manufacturing Co., Ltd. | 31/03/20 17 | 44,000 | 05/05/20 17 | 16,472 | Ditto | Ditto | Ditto | Ditto |
| Wuhu Midea Kitchen Appliances Manufacturing Co., Ltd. | 31/03/20 17 | 4,000 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Anhui GMCC Refrigeration Equipment Co., Ltd. | 31/03/20 17 | 10,000 | 14/03/20 17 | 21 | Ditto | Ditto | Ditto | Ditto |
| Anhui GMCC Precise Manufacture Co., Ltd. | 31/03/20 17 | 25,200 | 12/01/20 17 | 2,983 | Ditto | Ditto | Ditto | Ditto |
| Welling (Wuhu) Motor Manufacturing Co., Ltd. | 31/03/20 17 | 16,800 | 18/05/20 17 | 6,040 | Ditto | Ditto | Ditto | Ditto |
| Annto Logistics Co., Ltd. | 31/03/20 17 | 32,000 | 01/01/20 17 | 479 | Ditto | Ditto | Ditto | Ditto |
| Hefei Midea Washing Machine Co., Ltd. | 31/03/20 17 | 105,000 | 21/02/20 17 | 24,433 | Ditto | Ditto | Ditto | Ditto |
| Jiangsu Midea Cleaning Appliances Co., Ltd. | 31/03/20 17 | 22,000 | 16/03/20 17 | 17,505 | Ditto | Ditto | Ditto | Ditto |
| Jiangxi Midea Guiya Lighting Co., Ltd. | 31/03/20 17 | 7,700 | - | 0 | Ditto | Ditto | Ditto | Ditto |

| | | | | | | | | |
|--|------------|---------|------------|---------|-------|-------|-------|-------|
| Chongqing Midea General Refrigeration Equipment Co., Ltd. | 31/03/2017 | 7,700 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Zhejiang GMCC Compressor Co., Ltd. | 31/03/2017 | 80,000 | 28/03/2017 | 63,247 | Ditto | Ditto | Ditto | Ditto |
| Midea International Holdings Ltd. | 31/03/2017 | 701,300 | 01/01/2017 | 197,212 | Ditto | Ditto | Ditto | Ditto |
| Midea International Trading Co., Ltd | 31/03/2017 | 83,350 | 05/01/2017 | 34,057 | Ditto | Ditto | Ditto | Ditto |
| Midea Electric Investment (BVI) Limited | 31/03/2017 | 80,780 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Midea Refrigeration (Hong Kong) Ltd. | 31/03/2017 | 3,500 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Calpore Macao Commercial Offshore Ltd. | 31/03/2017 | 22,500 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Welling International Hong Kong Limited | 31/03/2017 | 32,190 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Midea Investment and Development Co., Ltd. | 31/03/2017 | 700,000 | 01/01/2017 | 485,436 | Ditto | Ditto | Ditto | Ditto |
| Main Power Electrical Factory Ltd | 31/03/2017 | 48,500 | 20/01/2017 | 6,517 | Ditto | Ditto | Ditto | Ditto |
| Midea Electric Trading (Singapore) Co. Pte. Ltd. | 31/03/2017 | 439,000 | 06/02/2017 | 36,754 | Ditto | Ditto | Ditto | Ditto |
| Toshiba Lifestyle Products & Services Corporation and its subsidiaries | 31/03/2017 | 446,000 | 01/01/2017 | 50,879 | Ditto | Ditto | Ditto | Ditto |
| Midea Consumer Electric (Vietnam) Co., Ltd. | 31/03/2017 | 6,860 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Springer Carrier Ltda. | 31/03/2017 | 130,000 | 01/03/2017 | 59,313 | Ditto | Ditto | Ditto | Ditto |
| Climazon Industrial Ltda. | 31/03/2017 | | | | Ditto | Ditto | Ditto | Ditto |
| Carrier(Chile) S.A. | 31/03/2017 | 3,900 | 27/06/2017 | 1,900 | Ditto | Ditto | Ditto | Ditto |
| Midea Electrics Netherlands B.V. | 31/03/2017 | 6,860 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Midea America Corp. | 31/03/2017 | 17,400 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| PT.MIDEA Planet Indonesia | 31/03/2017 | 15,100 | - | 0 | Ditto | Ditto | Ditto | Ditto |

| Midea Scott & English Electronics SDN BHD | 31/03/2017 | 4,510 | 17/01/2017 | 3,306 | Ditto | Ditto | Ditto | Ditto |
|---|--|-------------------|--|---|-------------------|-------------------|------------|------------------------------------|
| Midea America (Canada) Corp. | 31/03/2017 | 5,500 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Midea México, S. DE R.L. DE C.V. | 31/03/2017 | 13,810 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Orient Household Appliances Ltd. | 31/03/2017 | 10,290 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Midea Electric Netherlands (I) B.V. | 31/03/2017 | 3,000,000 | 01/01/2017 | 2,697,658 | Ditto | Ditto | Ditto | Ditto |
| Midea India Private Limited | 31/03/2017 | 6,900 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Midea Electric Trading (Thailand) Limited | 31/03/2017 | 6,900 | - | 0 | Ditto | Ditto | Ditto | Ditto |
| Total guarantee line for subsidiaries approved during Reporting Period (B1) | | 10,289,650 | | Total actual guarantee amount for subsidiaries during Reporting Period (B2) | | 4,410,531 | | |
| Total approved guarantee line for subsidiaries at end of Reporting Period (B3) | | 10,289,650 | | Total actual guarantee balance for subsidiaries at end of Reporting Period (B4) | | 4,569,726 | | |
| Guarantees between subsidiaries | | | | | | | | |
| Guaranteed party | Disclosure date of 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 related party or not |
| No such cases | | | | | | | | |
| Total guarantee amount (total of above three kinds of guarantees) | | | | | | | | |
| Total guarantee line approved during Reporting Period (A1+B1+C1) | | 10,293,750 | | Total actual guarantee amount during Reporting Period (A2+B2+C2) | | 4,410,531 | | |
| Total approved guarantee line at end of Reporting Period (A3+B3+C3) | | 10,293,750 | | Total actual guarantee balance at end of Reporting Period (A4+B4+C4) | | 4,569,726 | | |
| Proportion of total actual guarantee amount (A4+B4+C4) in net assets of the Company | | | | 68.91% | | | | |
| Of which: | | | | | | | | |

| | |
|---|-----------|
| Amount of guarantees provided for shareholders, actual controller and their related parties (D) | 0 |
| Amount of debt guarantees provided directly or indirectly for entities with liability-to-asset ratio over 70% (E) | 1,779,482 |
| Portion of total guarantee amount in excess of 50% of net assets (F) | 0 |
| Total amount of three kinds of guarantees above (D+E+F) | 1,779,482 |
| Joint responsibilities possibly borne for undue guarantees (if any) | N/A |
| Provision of guarantees in breach of prescribed procedures (if any) | N/A |

14.2.2 Illegal Provision of Guarantees for Third 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 Responsibilities

15.1 Targeted Measures Taken to Help People Lift Themselves out of Poverty

15.1.1 Summary of Poverty Alleviation Measures Taken in H1 2017

Midea attaches great importance to helping those in need as a way to meet its social responsibility and give back to society. In 2017, in response to the call of the Guangdong provincial government and the government's office for poverty alleviation and development, Midea has been trying to help reduce poverty through industrial development, creating more jobs and giving donations for public welfare. In H1 2017, Midea donated a total of RMB10 million to the Guangdong government's office for poverty alleviation and development to improve education, medical care and housing in over 2,000 poor villages. This was not only given as cash hand-outs to the poor, but also used to help them develop or improve abilities to make more money on their own.

15.1.2 Poverty Alleviation Plans for Coming Future

In H2 2017, Midea will follow the Guangdong government's instructions and make plans to help reduce poverty as a way to meet its social responsibility as a private company.

Midea will work closely with the Guangdong government's office for poverty alleviation and development to help those most in need with what they really need by targeted identification and planning. The poverty alleviation will focus on development or improvement of the poor's abilities to increase their income on their own, building of a longlasting poverty alleviation mechanism and optimization of donation projects. In the meantime, it will be fair, transparent and open for public supervision.

15.2 Material Environmental Issues

Whether the Company or any of its subsidiaries is a heavily polluting business declared by environmental protection authorities:

Yes No

16. Other Significant Events

Applicable N/A

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

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

17. Significant Events of Subsidiaries

Applicable N/A

Part VI Changes in Shares and Information about Shareholders

1. Changes in Shares

1.1 Changes in Shares

Unit: share

| | Before | | Change in Reporting Period | | | | | After | |
|---|---------------|-----------------------------------|----------------------------|--------------|---------------------------------|-------------|-------------|---------------|-----------------------------------|
| | Number | As percentage in total shares (%) | New issue | Bonus shares | Converted from capital reserves | Other | Subtotal | Number | As percentage in total shares (%) |
| 1. Restricted shares | 279,045,260 | 4.32 | 23,130,000 | 0 | 0 | -90,498,800 | -67,368,800 | 211,676,460 | 3.25 |
| 1.1 Shares held by the state | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1.2 Shares held by state-owned corporations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1.3 Shares held by other domestic investors | 279,045,260 | 4.32 | 22,380,000 | 0 | 0 | -90,498,800 | -68,118,800 | 210,926,460 | 3.24 |
| Among which: Shares held by domestic corporations | 82,500,000 | 1.28 | 0 | 0 | 0 | 0 | 0 | 82,500,000 | 1.27 |
| Shares held by domestic individuals | 196,545,260 | 3.04 | 22,380,000 | 0 | 0 | -90,498,800 | -68,118,800 | 128,426,460 | 1.97 |
| 1.4 Shares held by foreign investors | 0 | 0 | 750,000 | 0 | 0 | 0 | 750,000 | 750,000 | 0.01 |
| Among which: Shares held by foreign corporations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Shares held by foreign individuals | 0 | 0 | 750,000 | 0 | 0 | 0 | 750,000 | 750,000 | 0.01 |
| 2. Non-restricted shares | 6,179,721,548 | 95.68 | 37,740,390 | 0 | 0 | 90,498,800 | 128,239,190 | 6,307,960,738 | 96.75 |
| 2.1 RMB common shares | 6,179,721,548 | 95.68 | 37,740,390 | 0 | 0 | 90,498,800 | 128,239,190 | 6,307,960,738 | 96.7 |

| | | | | | | | | | |
|--|---------------|-----|------------|---|---|---|------------|---------------|-----|
| | 8 | | | | | | 0 | 8 | 5 |
| 2.2 Domestically listed shares for foreign investors | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2.3 Overseas listed shares for foreign investors | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2.4 Others | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Total shares | 6,458,766,808 | 100 | 60,870,390 | 0 | 0 | 0 | 60,870,390 | 6,519,637,198 | 100 |

Reasons for the changes in shares:

Applicable N/A

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

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

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

d. Ms. Mai Yufen, a former employee supervisor, left the Company on 30 March 2017, and all her 575 tradable shares in the Company should be locked up for six months from her departure.

Approval of share changes:

Applicable N/A

Transfer of share ownership:

Applicable N/A

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

Applicable N/A

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

Applicable N/A

1.2 Changes in Restricted Shares

Applicable N/A

Unit: share

| Name of shareholder | Opening restricted shares | Unlocked in Reporting Period | Increased in Reporting Period | Closing restricted shares | Reason for change | Date of unlocking |
|---|---------------------------|------------------------------|-------------------------------|---------------------------|---|-------------------|
| Receivers of 2017 Restricted Share Incentive Plan | 0 | 0 | 23,130,000 | 23,130,000 | Lockup according to the Plan | 12/05/2018 |
| Li Feide | 562,500 | 0 | 281,250 | 843,750 | Lockup caused by senior executive's exercise of share options granted | - |
| Mai Yufen | 1,725 | 0 | 575 | 2,300 | Lockup caused by senior executive's departure | 30/09/2017 |
| Yuan Liqun | 90,750,000 | 90,750,000 | 0 | 0 | Lockup caused by senior executive's departure | 15/01/2017 |
| Total | 91,314,225 | 90,750,000 | 23,411,825 | 23,976,050 | -- | -- |

2. New Issues and Listing

Applicable N/A

3. Shareholders and Their Shareholdings at End of Reporting Period

Unit: share

| Total number of common shareholders at end of Reporting Period | 145,123 | | Total number of preference shareholders with resumed voting rights at end of Reporting Period (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 period-end | Increase/d decrease in Reporting Period | Restricted common shares held at period-end | Non-restricted common shares held at period-end | Pledged or frozen shares | |
| | | | | | | | Status | Number |

| Midea Holding Co., Ltd. | Domestic non-state-owned corporation | 33.93 | 2,212,046,613 | -32,328,387 | 0 | 2,212,046,613 | Pledged | 854,955,000 |
|--|---|------------------|---------------|-------------|-------------|---------------|---------|-------------|
| Hong Kong Exchanges and Clearing Limited | Foreign corporation | 5.82 | 379,247,553 | 326,064,038 | 0 | 379,247,553 | - | - |
| China Securities Finance Co., Ltd. | State-owned corporation | 2.70 | 176,076,530 | -3,963,350 | 0 | 176,076,530 | - | - |
| Fang Hongbo | Domestic individual | 2.10 | 136,990,492 | 0 | 102,742,869 | 34,247,623 | - | - |
| Hillhouse Capital Management Limited—HCM China Fund | Foreign corporation | 1.75 | 113,891,138 | 0 | 0 | 113,891,138 | - | - |
| Huang Jian | Domestic individual | 1.35 | 87,980,000 | -20,000 | 0 | 87,980,000 | Pledged | 22,999,900 |
| Xiaomi Technology Co., Ltd. | Domestic non-state-owned corporation | 1.27 | 82,500,000 | 0 | 82,500,000 | 0 | - | - |
| Central Huijin Asset Management Ltd. | State-owned corporation | 1.20 | 78,474,900 | 0 | 0 | 78,474,900 | - | - |
| Yuan Liqun | Domestic individual | 1.13 | 73,986,200 | -16,763,800 | 0 | 73,986,200 | Pledged | 13,052,500 |
| UBS AG | Foreign corporation | 1.06 | 69,254,607 | 3,833,560 | 0 | 69,254,607 | - | - |
| Strategic investors or general corporations becoming top-ten shareholders due to placing of new shares (if any) (see note 3) | N/A | | | | | | | |
| Related or acting-in-concert parties among shareholders above | N/A | | | | | | | |
| Top 10 non-restricted common shareholders | | | | | | | | |
| Name of shareholder | Non-restricted common shares held at period-end | Type of shares | | | | | | |
| | | Type | Number | | | | | |
| Midea Holding Co., Ltd. | 2,212,046,613 | RMB common share | 2,212,046,613 | | | | | |
| Hong Kong Exchanges and Clearing Limited | 379,247,553 | Ditto | 379,247,553 | | | | | |
| China Securities Finance Co., Ltd. | 176,076,530 | Ditto | 176,076,530 | | | | | |
| Hillhouse Capital Management Limited— | 113,891,138 | Ditto | 113,891,138 | | | | | |

| | | | |
|---|------------|-------|------------|
| HCM China Fund | | | |
| Huang Jian | 87,980,000 | Ditto | 87,980,000 |
| Central Huijin Asset Management Ltd. | 78,474,900 | Ditto | 78,474,900 |
| Yuan Liqun | 73,986,200 | Ditto | 73,986,200 |
| UBS AG | 69,254,607 | Ditto | 69,254,607 |
| Fu Xuan | 68,013,680 | Ditto | 68,013,680 |
| Li Jianwei | 64,144,834 | Ditto | 64,144,834 |
| Related or acting-in-concert parties among top 10 non-restricted common shareholders, as well as between top 10 non-restricted common shareholders and top 10 common shareholders | N/A | | |
| Top 10 common shareholders conducting securities margin trading (if any) (see note 4) | N/A | | |

Note: Mr. He Xiangjian, Midea Group's actual controller, has declared on 25 July 2017 that he would donate 100,000,000 Midea Group shares he holds via Midea Holding to charity. Midea Holding is currently unable to transfer these shares to the charity trust it has set up because certain confirmations are needed regarding the execution of the regulations for share transfers to charitable trusts and taxes on these share transfers. Midea Holding will begin to deal with the formalities for the trust's registration and the said shares' transfer to the trust as soon as the problems are solved. Before that, these shares will remain with Midea Holding.

Whether any of the top 10 common shareholders or the top 10 non-restricted common shareholders of the Company conducted 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 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.

Part VII Preference Shares

Applicable N/A

No such cases in the Reporting Period.

Part VIII Information about Directors, Supervisors and Senior Management

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

√ Applicable □ N/A

| Name | Office title | Incumbent/ Former | Opening shareholding (share) | Increase in Reporting Period (share) | Decrease in Reporting Period (share) | Closing shareholding (share) | Granted restricted shares at period-beginning (share) | Restricted shares granted in Reporting Period (share) | Granted restricted shares at period-end (share) |
|------------|--------------------------|-------------------|------------------------------|--------------------------------------|--------------------------------------|------------------------------|---|---|---|
| Li Feide | Director, Vice President | Incumbent | 750,000 | 375,000 | 0 | 1,125,000 | 0 | 210,000 | 210,000 |
| Hu Ziqiang | Vice President | Incumbent | 0 | 0 | 0 | 0 | 0 | 300,000 | 300,000 |
| Jiang Peng | Board Secretary | Incumbent | 140,625 | 0 | 30,625 | 110,000 | 0 | 0 | 0 |
| Total | -- | -- | 890,625 | 375,000 | 30,625 | 1,235,000 | 0 | 510,000 | 510,000 |

2. Changes in Directors, Supervisors and Senior Management

√ Applicable □ N/A

| Name | Office title | Type of change | Date | Reason |
|---------------|--------------------------|----------------|------------|-----------------|
| Wu Wenxin | Director, Vice President | Outgoing | 06/01/2017 | Personal reason |
| Mai Yufen | Employee Supervisor | Outgoing | 30/03/2017 | Personal reason |
| Liang Huiming | Employee Supervisor | Elected | 30/03/2017 | By-election |
| Yin Bitong | Director | Elected | 21/04/2017 | By-election |
| Zhu Fengtao | Director | Elected | 21/04/2017 | By-election |

Part IX Financial Report

1. Auditor's Report

Have the H1 2017 financial statements been audited by a CPAs firm?

Yes No

The H1 2017 financial statements are unaudited by a CPAs firm.

2. Financial Statements

MIDEA GROUP CO., LTD.

**CONSOLIDATED AND COMPANY BALANCE SHEETS
AS AT 30 JUNE 2017**

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

| ASSETS | Note | 30 June 2017 | 31 December 2016 | 30 June 2017 | 31 December 2016 |
|-------------------------------------|-------------|--------------------|--------------------|-------------------|-------------------|
| | | Consolidated | Consolidated | Company | Company |
| Current assets: | | | | | |
| Cash at bank and on hand | 4(1) | 34,219,018 | 27,169,118 | 19,889,986 | 17,135,480 |
| Derivative financial assets | | 331,009 | 412,813 | - | - |
| Notes receivable | 4(2) | 10,884,391 | 7,427,488 | - | - |
| Accounts receivable | 4(3) | 19,380,874 | 13,454,511 | - | - |
| Advances to suppliers | 4(4) | 2,065,803 | 1,587,366 | 23,972 | 8,252 |
| Loans and advances | 4(5) | 12,149,708 | 10,273,397 | - | - |
| Dividends receivable | | 4,351 | - | 1,292,508 | 285,916 |
| Other receivables | 4(3), 17(1) | 2,170,084 | 1,140,133 | 14,686,795 | 12,644,592 |
| Inventories | 4(6) | 20,885,038 | 15,626,897 | - | - |
| Including: completed but unsettled | 4(6) | 5,154,238 | - | - | - |
| Other current assets | 4(7) | 50,041,889 | 43,529,597 | 25,265,903 | 24,165,141 |
| Total current assets | | 152,132,165 | 120,621,320 | 61,159,164 | 54,239,381 |
| Non-current assets: | | | | | |
| Available-for-sale financial assets | 4(8) | 1,872,393 | 5,187,732 | 56,868 | 28,931 |
| Long-term receivables | | 404,115 | 33,868 | - | - |
| Long-term equity investments | 4(9), 17(2) | 2,586,329 | 2,211,732 | 23,947,670 | 23,058,980 |
| Investment properties | | 480,814 | 494,122 | 588,175 | 604,881 |
| Fixed assets | 4(10) | 22,603,151 | 21,056,791 | 915,261 | 984,666 |
| Construction in progress | 4(11) | 880,939 | 580,729 | 516,104 | 467,053 |
| Intangible assets | 4(12) | 16,312,242 | 6,868,538 | 234,388 | 236,083 |
| Goodwill | 4(13) | 28,418,164 | 5,730,995 | - | - |
| Long-term prepaid expenses | | 712,450 | 625,971 | 36,788 | 46,090 |
| Deferred income tax assets | 4(14) | 3,602,239 | 3,030,383 | 38,531 | 62,711 |
| Other non-current assets | 4(7) | 1,011,491 | 4,158,530 | 3,961,576 | 3,342,000 |
| Total non-current assets | | 78,884,327 | 49,979,391 | 30,295,361 | 28,831,395 |
| TOTAL ASSETS | | 231,016,492 | 170,600,711 | 91,454,525 | 83,070,776 |

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 2017

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

| Liabilities and shareholders' equity | Note | 30 June 2017 | 31 December 2016 | 30 June 2017 | 31 December 2016 |
|--|-------|--------------------|--------------------|-------------------|-------------------|
| | | Consolidated | Consolidated | Company | Company |
| Current liabilities: | | | | | |
| Short-term borrowings | 4(17) | 32,391,950 | 3,024,426 | - | - |
| Borrowings from central bank | | - | - | - | - |
| Customer deposits and deposits from banks and other financial institutions | | 110,016 | 36,708 | - | - |
| Derivative financial liabilities | | 43,734 | 89,838 | - | - |
| Financial assets sold under repurchase agreements | | - | - | - | - |
| Notes payable | 4(18) | 22,034,312 | 18,484,939 | - | - |
| Accounts payable | 4(19) | 32,298,812 | 25,356,960 | - | - |
| Advances from customers | 4(20) | 14,170,593 | 10,252,375 | - | - |
| Including: settled but not completed | 4(20) | 1,955,231 | - | - | - |
| Employee benefits payable | 4(21) | 3,789,589 | 3,154,387 | 82,079 | 199,842 |
| Taxes payable | 4(22) | 3,614,764 | 2,364,446 | 12,233 | 103,848 |
| Interest payable | | 35,564 | 21,343 | 121,682 | 76,776 |
| Dividends payable | | 277,840 | 105,641 | - | - |
| Other payables | 4(23) | 2,262,085 | 1,571,422 | 62,301,628 | 54,461,578 |
| Current portion of non-current liabilities | | 77,711 | 158,545 | - | - |
| Other current liabilities | 4(24) | 26,604,521 | 24,562,970 | 5,379 | 140,264 |
| Total current liabilities | | 137,711,491 | 89,184,000 | 62,523,001 | 54,982,308 |
| Non-current liabilities: | | | | | |
| Long-term borrowings | 4(25) | 4,036,714 | 2,254,348 | - | - |
| Debentures payable | 4(26) | 4,713,144 | 4,818,769 | - | - |
| Long-term payables | | 554,781 | 366,881 | - | - |
| Payables for specific projects | | 2,500 | 2,405 | - | - |
| Provisions | | 654,385 | 325,217 | - | - |
| Deferred revenue | | 589,506 | 502,316 | - | - |
| Long-term employee benefits payable | 4(27) | 2,385,070 | 1,449,954 | - | - |
| Deferred income tax liabilities | 4(14) | 4,519,872 | 1,831,973 | - | - |
| Other non-current liabilities | | 854,137 | 888,152 | - | - |
| Total non-current liabilities | | 18,310,109 | 12,440,015 | - | - |
| Total liabilities | | 156,021,600 | 101,624,015 | 62,523,001 | 54,982,308 |
| Shareholders' equity: | | | | | |
| Share capital | 4(28) | 6,519,637 | 6,458,767 | 6,519,637 | 6,458,767 |
| Capital surplus | 4(29) | 14,734,308 | 13,596,569 | 6,578,932 | 5,455,268 |
| Less: Treasury stock | | 366,842 | - | 366,842 | - |
| Other comprehensive income | 4(30) | 22,807 | 13,125 | (12,495) | (9,069) |
| Surplus reserve | 4(31) | 2,804,469 | 2,804,469 | 2,804,469 | 2,804,469 |
| General reserve | | 148,602 | 148,602 | - | - |
| Undistributed profits | 4(32) | 42,451,036 | 38,105,391 | 13,407,823 | 13,379,033 |
| Total equity attributable to equity holders of the parent company | | 66,314,017 | 61,126,923 | 28,931,524 | 28,088,468 |
| Minority interests | | 8,680,875 | 7,849,773 | - | - |
| Total shareholders' equity | | 74,994,892 | 68,976,696 | 28,931,524 | 28,088,468 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 231,016,492 | 170,600,711 | 91,454,525 | 83,070,776 |

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 2017

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

| Item | Note | For the six months ended 30 June 2017 | For the six months ended 30 June 2016 | For the six months ended 30 June 2017 | For the six months ended 30 June 2016 |
|---|--------------|---|---|---|---|
| | | Consolidated | Consolidated | Company | Company |
| Total revenue | | 124,963,616 | 78,007,516 | 701,070 | 588,251 |
| Including: Operating revenue | 4(33), 17(3) | 124,450,065 | 77,522,287 | 701,070 | 588,251 |
| Interest income | 4(34) | 513,549 | 479,576 | - | - |
| Fee and commission income | | 2 | 5,653 | - | - |
| Total cost of sales | | (113,963,618) | (66,818,413) | (323,655) | (759,589) |
| Including: Cost of sales | 4(33) | (93,051,081) | (54,866,160) | (19,329) | (13,648) |
| Interest expenses | 4(34) | (165,666) | (261,318) | - | - |
| Fee and commission expense | | (1,661) | (1,387) | - | - |
| Taxes and surcharges | 4(35) | (754,771) | (467,762) | (3,779) | (3,335) |
| Selling and distribution expenses | 4(36) | (12,404,770) | (8,185,178) | - | - |
| General and administrative expenses | 4(37) | (6,832,958) | (3,690,059) | (105,438) | (338,538) |
| Financial expenses | 4(38) | (346,614) | 905,261 | (194,963) | (404,035) |
| Asset impairment loss | 4(39) | (406,097) | (251,810) | (146) | (33) |
| Add: (Losses)/gains on changes in fair value | 4(40) | (9,523) | (525,089) | - | 22,673 |
| Investment income | 4(41), 17(4) | 1,199,452 | 714,082 | 6,125,238 | 7,558,711 |
| Including: Share of profit of associates and joint ventures | | 287,134 | 200,742 | 214,433 | 131,111 |
| Other income | 4(42) | 846,226 | - | - | - |
| Operating profit | | 13,036,153 | 11,378,096 | 6,502,653 | 7,410,046 |
| Add: Non-operating income | 4(43) | 990,914 | 903,272 | 757 | 1,837 |
| Including: Gains on disposal of non-current assets | | 781,229 | 3,548 | - | - |
| Less: Non-operating expenses | 4(44) | (419,943) | (103,799) | (1,041) | (1,557) |
| Including: Losses on disposal of non-current assets | | (37,127) | (32,149) | (119) | (1,547) |
| Total profit | | 13,607,124 | 12,177,569 | 6,502,369 | 7,410,326 |
| Less: Income tax expenses | 4(45) | (2,059,053) | (1,946,671) | (7,902) | (34,901) |
| Net profit | | 11,548,071 | 10,230,898 | 6,494,467 | 7,375,425 |
| Including: Net profit of the acquiree entity before the combination date | | - | - | - | - |
| Attributable to shareholders of the Company | | 10,811,322 | 9,496,493 | 6,494,467 | 7,375,425 |
| Minority interests | | 736,749 | 734,405 | - | - |
| Other comprehensive income, net of tax | | 26,322 | 1,347,262 | (3,426) | (10,577) |
| Other comprehensive income attributable to shareholders of the parent company | | 9,682 | 1,276,714 | (3,426) | (10,577) |
| (1) Other comprehensive income items which will not be reclassified subsequently to profit or loss | | 39,579 | - | - | - |
| (2) Other comprehensive income items which will be reclassified subsequently to profit or loss | | (29,897) | 1,276,714 | (3,426) | (10,577) |
| 1) Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified subsequently to profit and loss | | (8,069) | (65,706) | (3,426) | (10,577) |
| 2) Change in fair value of available-for-sale financial assets | | (292,475) | 1,082,507 | - | - |
| 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 | | 168,716 | 145,603 | - | - |
| 5) Translation of foreign currency financial statements | | 101,931 | 114,310 | - | - |
| Other comprehensive income attributable to minority shareholders, net of tax | | 16,640 | 70,548 | - | - |
| Total comprehensive income | | 11,574,393 | 11,578,160 | 6,491,041 | 7,364,848 |
| Attributable to shareholders of the parent company | | 10,821,004 | 10,773,207 | 6,491,041 | 7,364,848 |
| Minority interests | | 753,389 | 804,953 | - | - |
| Earnings per share | | | | | |
| (1) Basic earnings per share | 4(46) | 1.67 | 1.48 | N/A | N/A |
| (2) Diluted earnings per share | 4(46) | 1.64 | 1.44 | 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 2017

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

[English translation for reference only]

| Item | Note | For the six months ended 30 June 2017 | For the six months ended 30 June 2016 | For the six months ended 30 June 2017 | For the six months ended 30 June 2016 |
|---|----------|---|---|---|---|
| | | Consolidated | Consolidated | Company | Company |
| 1. Cash flows from operating activities | | | | | |
| Cash received from sales of goods or rendering of services | | 99,984,184 | 67,859,148 | - | - |
| Net increase in customer deposits and deposits from banks and other financial institutions | | 73,308 | 20,521 | - | - |
| Net increase in borrowings from the central bank | | - | 45,740 | - | - |
| Cash received for interest, fee and commission | | 543,915 | 493,143 | - | - |
| Refund of taxes and surcharges | | 2,593,364 | 2,797,186 | - | - |
| Cash received relating to other operating activities | 4(47)(a) | 2,485,847 | 1,537,990 | 8,176,371 | 21,775,704 |
| Sub-total of cash inflows | | 105,680,618 | 72,753,728 | 8,176,371 | 21,775,704 |
| Cash paid for goods and services | | (58,343,060) | (39,448,768) | - | - |
| Net increase in loans and advances | | (1,903,898) | (4,588,457) | - | - |
| Net increase in deposits with central bank and deposits with banks and other financial institutions | | (528,948) | (454,933) | - | - |
| Cash paid for interest, fee and commission | | (167,327) | (262,705) | - | - |
| Cash paid to and on behalf of employees | | (11,456,781) | (5,660,543) | (112,878) | (97,184) |
| Payments of taxes and surcharges | | (5,982,427) | (4,743,106) | (94,326) | (42,490) |
| Cash paid relating to other operating activities | 4(47)(b) | (13,402,245) | (9,466,053) | (1,958,570) | (4,533,614) |
| Sub-total of cash outflows | | (91,784,686) | (64,624,565) | (2,165,774) | (4,673,288) |
| Net cash flows from operating activities | 4(47)(c) | 13,895,932 | 8,129,163 | 6,010,597 | 17,102,416 |
| 2. Cash flows from investing activities | | | | | |
| Cash received from disposal of investments | | 40,674,727 | 28,775,253 | 27,815,545 | 17,722,372 |
| Cash received from returns on investments | | 1,223,225 | 824,805 | 5,297,145 | 6,531,603 |
| Cash received from disposal of fixed assets, intangible assets and other long-term assets | | 859,943 | 16,919 | 12,049 | 110 |
| Net cash received from disposal of subsidiaries and other business units | | 2,415 | 272,899 | - | - |
| Cash received relating to other investing activities | | - | - | - | - |
| Sub-total of cash inflows | | 42,760,310 | 29,889,876 | 33,124,739 | 24,254,085 |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | | (1,520,059) | (1,076,411) | (59,406) | (217,976) |
| Cash paid to acquire investments | | (42,660,602) | (43,293,409) | (32,378,633) | (21,275,146) |
| Net cash paid to acquire subsidiaries and other business units | | (25,331,546) | (1,856,787) | - | - |
| Cash paid relating to other investing activities | | - | - | - | - |
| Sub-total of cash outflows | | (69,512,207) | (46,226,607) | (32,438,039) | (21,493,122) |
| Net cash flows from investing activities | | (26,751,897) | (16,336,731) | 686,700 | 2,760,963 |
| 3. Cash flows from financing activities | | | | | |
| Cash received from capital contributions | | 629,854 | 45,552 | 629,854 | 29,742 |
| Including: Cash received from capital contributions by minority shareholders of subsidiaries | | - | 15,810 | - | - |
| Cash received from borrowings | | 31,631,302 | 27,806,076 | 1,600,000 | 1,800,000 |
| Cash received from issuing short-term financing bonds | | - | 1,999,500 | - | 1,999,500 |
| Cash received relating to other financing activities | | - | - | - | - |
| Sub-total of cash inflows | | 32,261,156 | 29,851,128 | 2,229,854 | 3,829,242 |
| Cash repayments of borrowings | | (4,198,336) | (11,044,612) | (1,600,000) | (1,290,000) |
| Cash payment for issuing short-term financing bonds | | - | - | - | - |
| Cash payments for interest expenses and distribution of dividends or profits | | (7,072,016) | (5,560,069) | (6,816,712) | (5,782,143) |
| Including: Cash payments for dividends or profit to minority shareholders of subsidiaries | | (395,950) | (297,841) | - | - |
| Cash payments relating to other financing activities | | - | - | - | - |
| Sub-total of cash outflows | | (11,270,352) | (16,604,681) | (8,416,712) | (7,072,143) |
| Net cash flows from financing activities | | 20,990,804 | 13,246,447 | (6,186,858) | (3,242,901) |
| 4. Effect of foreign exchange rate changes on cash and cash equivalents | | | | | |
| | | 137,862 | 70,620 | - | - |
| 5. Net increase in cash and cash equivalents | | | | | |
| Add: Cash and cash equivalents at the beginning of the period | | 12,513,730 | 5,187,317 | 8,174,915 | 6,245,008 |
| 6. Cash and cash equivalent at the end of period | | 20,786,431 | 10,296,816 | 8,685,354 | 22,865,486 |

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 2017

(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 the 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 the beginning of current year | 6,458,767 | 13,596,569 | - | 13,125 | 2,804,469 | 148,602 | 38,105,391 | 7,849,773 | 68,976,696 |
| Movements in the current year | 60,870 | 1,137,739 | (366,842) | 9,682 | - | - | 4,345,645 | 831,102 | 6,018,196 |
| (1) Total comprehensive income | - | - | - | 9,682 | - | - | 10,811,322 | 753,389 | 11,574,393 |
| (2) Capital contribution and withdrawal by shareholders | 60,870 | 1,137,834 | (366,842) | - | - | - | - | 691,584 | 1,523,446 |
| 1) Capital contribution from shareholders | 60,870 | 1,026,038 | (366,842) | - | - | - | - | - | 720,066 |
| 2) Business combinations | - | - | - | - | - | - | - | 647,210 | 647,210 |
| 3) Share-based payment included in shareholders' equity | - | 111,796 | - | - | - | - | - | 44,374 | 156,170 |
| 4) Others | - | - | - | - | - | - | - | - | - |
| (3) Profit distribution | - | - | - | - | - | - | (6,465,677) | (612,353) | (7,078,030) |
| 1) Appropriation to surplus reserve | - | - | - | - | - | - | - | - | - |
| 2) Appropriation to general reserve | - | - | - | - | - | - | - | - | - |
| 3) Profit distribution to shareholders | - | - | - | - | - | - | (6,465,677) | (612,353) | (7,078,030) |
| 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 | - | (95) | - | - | - | - | - | (1,518) | (1,613) |
| Balance at the end of current period | 6,519,637 | 14,734,308 | (366,842) | 22,807 | 2,804,469 | 148,602 | 42,451,036 | 8,680,875 | 74,994,892 |

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 2017

(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 the end of last year | 4,266,839 | 14,511,190 | - | (1,071,151) | 1,846,523 | 118,624 | 29,529,827 | 6,829,770 | 56,031,622 |
| Add: Changes in accounting policies | - | - | - | - | - | - | - | - | - |
| Balance at the beginning of current year | 4,266,839 | 14,511,190 | - | (1,071,151) | 1,846,523 | 118,624 | 29,529,827 | 6,829,770 | 56,031,622 |
| Movements in the current year | 2,191,928 | (914,621) | - | 1,084,276 | 957,946 | 29,978 | 8,575,564 | 1,020,003 | 12,945,074 |
| (1) Total comprehensive income | | | - | 1,084,276 | - | - | 14,684,357 | 1,281,494 | 17,050,127 |
| (2) Capital contribution and withdrawal by shareholders | 58,232 | 1,235,744 | - | - | - | - | - | 445,093 | 1,739,069 |
| 1) Capital contribution from shareholders | 58,232 | 1,007,110 | - | - | - | - | - | 32,593 | 1,097,935 |
| 2) Business combinations | - | - | - | - | - | - | - | 339,543 | 339,543 |
| 3) Share-based payment included in shareholders' equity | - | 228,634 | - | - | - | - | - | 72,957 | 301,591 |
| 4) Others | - | - | - | - | - | - | - | - | - |
| (3) Profit distribution | - | - | - | - | 957,946 | 29,978 | (6,108,793) | (550,321) | (5,671,190) |
| 1) Appropriation to surplus reserve | - | - | - | - | 957,946 | - | (957,946) | - | - |
| 2) Appropriation to general reserve | - | - | - | - | - | 29,978 | (29,978) | - | - |
| 3) Profit distribution to shareholders | - | - | - | - | - | - | (5,120,869) | (550,321) | (5,671,190) |
| 4) Others | - | - | - | - | - | - | - | - | - |
| (4) Transfer within shareholders' equity | 2,133,696 | (2,133,696) | - | - | - | - | - | - | - |
| 1) Transfer from capital surplus to paid-in capital | 2,133,696 | (2,133,696) | - | - | - | - | - | - | - |
| 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 | - | (16,669) | - | - | - | - | - | (156,263) | (172,932) |
| Balance at the end 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 |

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 2017

(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 the 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 the beginning of current year | 6,458,767 | 5,455,268 | - | (9,069) | - | 2,804,469 | 13,379,033 | 28,088,468 |
| Movements in the current year | 60,870 | 1,123,664 | (366,842) | (3,426) | - | - | 28,790 | 843,056 |
| (1) Total comprehensive income | - | - | - | (3,426) | - | - | 6,494,467 | 6,491,041 |
| (2) Capital contribution and withdrawal by shareholders | 60,870 | 1,123,725 | (366,842) | - | - | - | - | 817,753 |
| 1) Capital contribution from shareholders | 60,870 | 1,026,038 | (366,842) | - | - | - | - | 720,066 |
| 2) Capital contribution from owners of other equity instruments | - | - | - | - | - | - | - | - |
| 3) Share-based payment included in owners' equity | - | 97,687 | - | - | - | - | - | 97,687 |
| 4) Others | - | - | - | - | - | - | - | - |
| (3) Profit distribution | - | - | - | - | - | - | (6,465,677) | (6,465,677) |
| 1) Appropriation to surplus reserve | - | - | - | - | - | - | - | - |
| 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 the current year | - | - | - | - | - | - | - | - |
| 2. Usage in the current year | - | - | - | - | - | - | - | - |
| (6) Others | - | (61) | - | - | - | - | - | (61) |
| Balance at the end of the year | 6,519,637 | 6,578,932 | (366,842) | (12,495) | - | 2,804,469 | 13,407,823 | 28,931,524 |

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 2017

(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 the end of last year | 4,266,839 | 6,370,934 | - | 21,006 | - | 1,846,523 | 9,878,385 | 22,383,687 |
| Add: Changes in accounting policies | - | - | - | - | - | - | - | - |
| Balance at the beginning of current year | 4,266,839 | 6,370,934 | - | 21,006 | - | 1,846,523 | 9,878,385 | 22,383,687 |
| Movements in the current year | 2,191,928 | (915,666) | - | (30,075) | - | 957,946 | 3,500,648 | 5,704,781 |
| (1) Total comprehensive income | - | - | - | (30,075) | - | - | 9,579,463 | 9,549,388 |
| (2) Capital contribution and withdrawal by shareholders | 58,232 | 1,217,773 | - | - | - | - | - | 1,276,005 |
| 1) Capital contribution from shareholders | 58,232 | 1,007,110 | - | - | - | - | - | 1,065,342 |
| 2) Capital contribution from owners of other equity instruments | - | - | - | - | - | - | - | - |
| 3) Share-based payment included in owners' equity | - | 210,663 | - | - | - | - | - | 210,663 |
| 4) Others | - | - | - | - | - | - | - | - |
| (3) Profit distribution | - | - | - | - | - | 957,946 | (6,078,815) | (5,120,869) |
| 1) Appropriation to surplus reserve | - | - | - | - | - | 957,946 | (957,946) | - |
| 2) Profit distribution to shareholders | - | - | - | - | - | - | (5,120,869) | (5,120,869) |
| 3) Others | - | - | - | - | - | - | - | - |
| (4) Transfer within shareholders' equity | 2,133,696 | (2,133,696) | - | - | - | - | - | - |
| 1) Transfer from capital surplus to paid-in capital | 2,133,696 | (2,133,696) | - | - | - | - | - | - |
| 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 the current year | - | - | - | - | - | - | - | - |
| 2. Usage in the current year | - | - | - | - | - | - | - | - |
| (6) Others | - | 257 | - | - | - | - | - | 257 |
| Balance at the end of the year | 6,458,767 | 5,455,268 | - | (9,069) | - | 2,804,469 | 13,379,033 | 28,088,468 |

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 2017

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

1. General information

The operational activities of Midea Group Co. Ltd. (hereinafter referred to as the “Company”) and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacturing and sale of household electrical appliances, design and implementation of scheme for robots and industrial automation system. 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 31 December 2011, 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 2017, the Company’s registered capital is RMB6,519,637,198 and the total number of shares in issue is 6,519,637,198, of which 211,676,460 shares are restricted tradable shares and 6,307,960,738 shares are unrestricted tradable shares.

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

These financial statements were authorised for issue by the Company’s Board of Directors on 29 August 2017.

2 Summary of significant accounting policies and accounting estimates

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

Critical judgements applied by the Group in determining significant accounting policies are set out in Note 2(32).

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

(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)

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

The financial statements of the Company for the six months ended 30 June 2017 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the consolidated and the Company as at 30 June 2017 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) Recording currency

The recording currency of the Company is the Renminbi ("RMB") and the financial statements are presented in RMB. The Company and its subsidiaries determine their recording currency based on the valuation and settlement currency of their respective main operating revenues and expenses. As the recording currency of some of the Company's subsidiaries is not RMB, the Company translates the foreign currency financial statements of such subsidiaries in the preparation of financial statements (Note 2(8)(b)).

(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. 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 2017**

(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 combinations 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 belongs, 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 incomes for the period not attributable to Company are recognised as minority interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to 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. 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

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that considers the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

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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 RMB 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 instruments

(a) Financial assets

(i) Classification of financial assets

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

Financial assets at fair value through profit or loss

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

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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 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 - wealth management products on the balance sheet if management intends to dispose of them within 12 months after the balance sheet date, while those are included in other non-current assets - wealth management products if management intends to dispose of them over 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 officially designates the hedging relations between hedging instruments and hedged items and documents the hedging relations, risk management objectives and hedging strategies. The Group also makes written assessment of the effectiveness of hedging instruments in offsetting changes in the fair value or cash flow of hedged items. These criteria should be met before hedging accounting is determined as applicable to such hedges.

Cash flow 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.

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

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

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

(iii) Recognition and measurement

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

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.

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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 not 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.

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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 (including one year) are classified as the current liabilities; the period is over one year while will be due within one year (including one year) 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.

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

(10) Provision for bad debts of receivables

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

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

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

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

The 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.

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

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

The Company's subsidiaries in Japan classify the credit risk groupings by taking the overdue of receivables as the risk characteristics and make bad debts provision 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.

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

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

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

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

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 Group assesses the carrying amounts of the loans and advances at each balance sheet date. If there is objective evidences that the loans and advances are impaired, provision will be made at the difference between the carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). Loans and advances that have not been individually assessed for impairment 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 loans and advances with similar credit risk characteristics, and take the current circumstances into consideration.

(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.

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

(12) Inventories (Cont'd)

(a) Classification of inventories (Cont'd)

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.

Subsidiaries are the investees over which the Company is able to exercise control. 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.

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

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

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 owners' equity of the party being absorbed at the combination date; for long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

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

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

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

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

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

For long-term equity investments accounted for using the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the acquisition 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.

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

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

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

For long-term equity investments accounted for using the equity method, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of 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)).

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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.

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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:

| Classes | Estimated useful lives | Estimated net residual values | Annual depreciation rates |
|--|------------------------|-------------------------------|---------------------------|
| Buildings | 20 to 60 years | 0% to 10% | 5% 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 with permanent ownership | 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.

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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. The leased asset is recognised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognised finance charge.

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

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

(e) Disposal of fixed assets

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

(16) Construction in progress

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

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

(17) Borrowing costs

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

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

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

(18) Intangible assets

Intangible assets include land use rights, patents and non-patent technologies, trademark rights, trademark use rights 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.

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

(18) Intangible assets (Cont'd)

(e) Periodical review of useful life and amortisation method

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

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

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

(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.

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

(20) Impairment of long-term assets

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

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

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

(21) Employee benefits

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

(a) Short-term employee benefits

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, 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.

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

(21) Employee benefits (Cont'd)

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and Defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's defined contribution plans mainly include basic pensions and unemployment insurance, while the defined benefit plans are that TLSC and KUKA, the Group's subsidiaries, 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. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The charges related to the supplemental retirement benefits (including current service costs, past-service costs and gains or losses on settlement) and net interest costs are recognised in the statement of profit or loss or included in the cost of an asset, and the changes of 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.

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

(21) Employee benefits (Cont'd)

(c) Termination benefits (Cont'd)

Early retirement benefits

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

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

(22) Financial assets sold under repurchase agreements

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

(23) General reserve

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

(24) Dividend distribution

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

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

(25) Provisions

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

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

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

(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.

(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.

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

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

(c) Basis for determining best estimate of 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 date, the final number of estimated exercisable equity instruments is consistent with the number of exercised 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.

(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 and mechanical and electrical products (namely large household appliances, small household appliances and motors).

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.

(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.

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

(27) Revenue (Cont'd)

(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.

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.

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

(27) Revenue (Cont'd)

(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.

(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.

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

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

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

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

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

Deferred income tax assets and liabilities are offset when:

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

(30) Leases

(a) Operating lease

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

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

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

(30) Leases (Cont'd)

(b) Finance lease

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

(31) 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.

(32) 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.

(a) 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 and recognition of goodwill related to the business combination not under common control

For business combination not under common control (Note 5(1)(a)), the Group shall allocate the cost of acquisition to identified assets and liabilities based on their fair values at the date of acquisition. 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, and evaluation of fair value, including sales growth rate, gross margin and discount rate, etc. The estimation of fair value is based on the information available at the acquisition date and on expectations and assumptions that have been deemed reasonable by management. Such judgements could materially impact the calculation of goodwill and amortisation charges of identified assets in subsequent periods. Determining the estimated useful lives of intangible assets acquired also requires critical judgement.

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

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

(a) Critical accounting estimates and key assumptions (Cont'd)

(ii) Provision for impairment of goodwill

The Group tests annually goodwill for impairment. The recoverable amount of asset groups inclusive of goodwill is the present value of the future cash flows expected to be derived from them. These calculations require use of estimates (Note 2(20)).

If management revises the gross margin that is used in the calculation of the future cash flows of asset groups, and the revised gross margin is lower than the one currently used, the Group would need to recognise further impairment against goodwill.

If management revises the pre-tax discount rate applied to the discounted cash flows, and the revised pre-tax discount rate is higher than the one currently applied, the Group would need to recognise further impairment against goodwill.

If the actual gross margin/pre-tax discount rate is higher/lower than management's estimates, the impairment loss of goodwill previously provided for is not allowed to be reversed by the Group.

(iii) Provisions for sales rebates, installation expenses and maintenance expenses.

The relevant expenditures, including sales rebates to the buyers, product installation expenses and maintenance expenses during the warranty period, are accrued when the Group recognises revenue from sales of products. The provision of sales rebates is to deduct revenue. The provisions for such expenditures involve management's judgements and estimates, the key factors mainly include the buyers' completion of agreed performance indicators, the unit historical and expected installation costs of products, the expected claim rate for maintenance, market conditions and the stock level kept in sale channel. The estimation basis is reviewed on an on-going basis and revised where appropriate. When the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying amount of the provisions and the provision amount charged/reversed in the period in which such estimate has been changed.

(iv) 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.

(v) Fair value of financial instruments

The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. Valuation techniques include discounted cash flow model analysis, etc. The Group makes estimates in terms of future cash flow, credit risk, market volatility and correlation for valuation. These estimates are uncertain and changes in them will impact the fair value of financial instruments.

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

(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%, 15%, 16.5%, 17%, 25%, 20%-31.4%, 31.5%, 32% or 34% |
| Value-added tax (VAT) (b) | Taxable value-added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period) | 5%, 6%, 11%, 17% or 19% |
| City maintenance and construction tax | The amount of VAT paid | 5% or 7% |
| Educational surcharge | The amount of VAT paid | 3% or 5% |
| Local education surcharge | The amount of VAT paid | 2% |
| Property tax | Price-based property is subject to a 1.2% tax rate after a 30% cut in the original price of property. Rental-based is subject to 12% tax rate for the rental income. | 1.2% or 12% |

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

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

| Name of tax payer | No. of the Certificate of the High-tech Enterprise | Dates of issuance | Effective period |
|--|--|-------------------|------------------|
| Jiangxi Midea Guiya lighting Co., Ltd. | GR201436000009 | 9 April 2014 | 3 years |
| Wuhu Midea Kitchen & Bathroom Electric Manufacturing Co., Ltd. | GF201434000129 | 2 July 2014 | 3 years |
| Hefei Midea Washing Machine Co., Ltd. | GR201434000147 | 2 July 2014 | 3 years |
| Welling (Wuhu) Motor Manufacturing Co., Ltd. | GR201434000371 | 2 July 2014 | 3 years |
| Jiangsu Midea Cleaning Appliance Company Limited | GF201432000806 | 5 August 2014 | 3 years |
| Handan Midea Refrigeration Equipment Co., Ltd. | GR201413000242 | 19 September 2014 | 3 years |
| Chongqing Midea General Refrigeration Equipment Co., Ltd. | GF201451100044 | 14 October 2014 | 3 years |
| Guangdong Midea Refrigeration Equipment Co., Ltd. | GR201444000965 | 10 October 2014 | 3 years |
| Guangzhou Hualing Refrigeration Equipment Co., Ltd. | GR201444000463 | 10 October 2014 | 3 years |
| Guangdong GMCC Refrigeration Equipment Co., Ltd. | GR201444000397 | 10 October 2014 | 3 years |
| Guangdong Witt Vacuum Electronics Manufacturing Co., Ltd. | GR201444000159 | 10 October 2014 | 3 years |
| Foshan Shunde Midea Washing Appliance Manufacturing Co., Ltd. | GR201444001324 | 10 October 2014 | 3 years |
| Foshan Welling Washer Motor Manufacturing Co., Ltd. | GR201444000608 | 10 October 2014 | 3 years |
| Guangdong Welling Motor Manufacturing Co., Ltd. | GR201444000268 | 10 October 2014 | 3 years |
| Midea Group Wuhan Refrigeration Equipment Co., Ltd. | GR201442000091 | 14 October 2014 | 3 years |
| Hubei Midea Refrigerator Co., Ltd. | GF201442000015 | 14 October 2014 | 3 years |
| Wuhu Meizhi Air-Conditioning Equipment Co., Ltd. | GR201434001064 | 21 October 2014 | 3 years |

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3 Taxation (Cont'd)

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

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

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

| Name of tax payer | No. of the <i>High-tech Enterprise Certificate</i> | Dates of issuance | Effective period |
|--|--|-------------------|------------------|
| Hefei Midea Refrigerator Co., Ltd. | GR201434001001 | 21 October 2014 | 3 years |
| Hefei Hualing Co., Ltd. | GR201434000715 | 21 October 2014 | 3 years |
| Annto Logistics Company Limited | GF201534000356 | 19 June 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 |
| Wuxi Little Swan Company Limited | GR201532000606 | 6 July 2015 | 3 years |
| Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd. | GR201544000202 | 30 September 2015 | 3 years |
| Foshan Shunde Midea Electric Appliance Manufacturing Co., Ltd. | GR201544001470 | 10 October 2015 | 3 years |
| Anhui GMCC Precision Manufacturing Co., Ltd. | GR201534000785 | 15 October 2015 | 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 |
| Guangdong Midea Environmental Electric Appliance Manufacturing Co., Ltd. | GR201644002286 | 30 November 2016 | 3 years |
| Guangzhou Midea Hualing Refrigerator Co., Ltd. | GR201644002925 | 30 November 2016 | 3 years |
| Foshan Shunde Midea Electric Technology Co., Ltd. | GR201644000358 | 30 November 2016 | 3 years |
| Foshan Shunde century Tongchuang Technology Co., Ltd. | GR201644000331 | 30 November 2016 | 3 years |
| Anhui GMCC Refrigeration Equipment Co., Ltd. | GR201634000994 | 5 December 2016 | 3 years |
| Huaian Weiling Motor Manufacturing Co., Ltd. | GF201632004278 | 30 November 2016 | 3 years |

(a-2) Above subsidiaries obtained the *High-tech Enterprise Certificate* in 2014, the period of validity of which will become due in 2017. The new certificates are still in the course of issuing, and these subsidiaries are expected to be subject to corporate income tax at the preferential rate for high-tech enterprises.

(a-3) 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 2017.

(a-4) The Company's subsidiaries in Mainland China other than those mentioned in (a-1), (a-2) and (a-3) are subject to corporate income tax at the rate of 25%.

(a-5) Calpore Macao Commercial Offshore Limited, the Company's subsidiary in Macau, is exempted from income supplement tax for profits gained from its offshore business pursuant to Article 12 in Chapter 2 of Decree-Law No. 58/99/M issued by Macao Special Administrative Region on 13 October 1999.

MIDEA GROUP CO., LTD.

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(All amounts in RMB'000 Yuan unless otherwise stated)
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3 Taxation (Cont'd)

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

- (a) Notes to the corporate income tax rate of the principal tax payers with different tax rates (Cont'd)
- (a-6) In August 2008, Midea Electric Appliance (Singapore) Co., Ltd., the Company's subsidiary, was awarded with the *Certificate of Honor for Development and Expansion* (NO.587) by the Singapore Economic Development Board, which approves that qualified income exceeding a certain amount is subject to corporate income tax at the rate of 5% while the unqualified income is subject to the corporate income tax at the rate of 17%. Midea Electric Appliance (Singapore) Co., Ltd. and Little Swan International (Singapore) Co., Ltd., the Company's subsidiary, is subject to corporate income tax at the rate of 17%.
- (a-7) The Company's subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5%. Such subsidiaries include Midea International Trade Co., Ltd., Midea International Co., Ltd., Midea Appliance Investment (Hong Kong) Ltd., Gold Emperor Enterprises Ltd., 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.
- (a-8) 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-9) Springer Carrier Ltda., the Company's subsidiaries in Brazil, is subject to Brazil corporate income tax at the rate of 34%.
- (a-10) TLSC, the Company's subsidiaries in Japan, is subject to Japan corporate income tax at the rate of 31.5%.
- (a-11) Clivet, the Company's subsidiaries in Italy, is subject to Italy corporate income tax at the rate between 20% and 31.4%.
- (a-12) KUKA, the Company's subsidiaries in Germany, is subject to Germany corporate income tax at the rate of 32%
- (a-13) SMC, the Company's subsidiaries in Israel, is subject to Israel corporate income tax at the rate of 25%
- (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* (tax[2016]36) and the relevant provisions issued by Ministry of Finance and the State Administration of Taxation, since 1 May 2016, revenue from rental service, real estate management service, financial service, consulting service and logistics service of the Company and its subsidiaries are subject to VAT, while these service 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 from certain subsidiaries of the Company are subject to VAT at the rate of 17%.
- (b-3) Rental service on real estate and distribution service provided by the Company and certain subsidiaries are subject to VAT at the rate of 11%.

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in RMB'000 Yuan unless otherwise stated)
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3 Taxation (Cont'd)

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

- (b) Notes to the VAT rate of the principal tax payers with different tax rates (Cont'd)
- (b-4) Financial service, consulting service and storage service 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%.

4 Notes to the consolidated financial statements

(1) Cash at bank and on hand

| Item | Ending balance | Opening balance |
|---|----------------|-----------------|
| Cash on hand | 4,456 | 2,315 |
| Cash at bank (a) | 20,598,595 | 16,151,724 |
| Other cash balances (b) | 696,895 | 1,042,031 |
| Statutory reserve deposits with the Central Bank (c) | 1,205,959 | 677,011 |
| Surplus reserve with the Central Bank | 32,528 | 58,172 |
| Financial enterprises' deposits with domestic banks | 11,680,585 | 9,237,865 |
| Total | 34,219,018 | 27,169,118 |
| Including: Cash abroad (including Germany, Japan, Hong Kong, Macau, Singapore and Brazil, etc.) | 5,899,032 | 4,234,153 |

- (a) As at 30 June 2017, cash at bank includes fixed deposits with the term of over three months, amounting to RMB11,111,670,000 (31 December 2016: RMB9,136,346,000).
- (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 2017, deposits with banks and other financial institutions include time deposits with the term of over three months, amounting to RMB500,000,000 (31 December 2016: RMB3,800,000,000).

MIDEA GROUP CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
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[English translation for reference only]**4 Notes to the consolidated financial statements (Cont'd)****(2) Notes receivable**

| Item | Ending balance | Opening balance |
|-----------------------|----------------|-----------------|
| Bank acceptance notes | 10,884,391 | 7,427,488 |

- (a) As at 30 June 2017, the Group's notes receivable that are not mature but have been endorsed to other parties, or that have been discounted are as follows:

| Item | Derecognised | Recognised |
|-----------------------|--------------|------------|
| Bank acceptance notes | 30,406,520 | - |

(3) Receivables

- (a) Accounts receivable

| Item | Ending balance | Opening balance |
|-------------------------------|----------------|-----------------|
| Accounts receivable | 20,340,317 | 14,198,320 |
| Less: Provision for bad debts | (959,443) | (743,809) |
| Total | 19,380,874 | 13,454,511 |

The ageing of other receivables is analysed as follows:

| Ageing | Ending balance | Opening balance |
|---------------|----------------|-----------------|
| Within 1 year | 19,637,201 | 13,603,125 |
| 1 to 2 years | 472,132 | 462,845 |
| 2 to 3 years | 133,475 | 66,756 |
| 3 to 5 years | 59,502 | 45,212 |
| Over 5 years | 38,007 | 20,382 |
| Sub-total | 20,340,317 | 14,198,320 |

As at 30 June 2017, the Group has no overdue accounts receivable with significant amount.

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
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4 Notes to the consolidated financial statements (Cont'd)

(3) Receivables (Cont'd)

(a) Accounts receivable (Cont'd)

Accounts receivable are analysed by categories as follows:

| Categories | Ending balance | | | | Opening balance | | | |
|---|----------------|--------------------|-------------------------|---------|-----------------|--------------------|-------------------------|--------|
| | Book balance | | 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 | 0.04% | 7,469 | 100.00% | 35,363 | 0.25% | 9,108 | 25.76% |
| That the related provision for bad debts is provided on the age grouping basis | 20,015,577 | 98.40% | 915,041 | 4.57% | 13,931,404 | 98.12% | 729,848 | 5.24% |
| With amounts that are not individually significant but that the related provision for bad debts is provided on the individual basis | 317,271 | 1.56% | 36,933 | 11.64% | 231,553 | 1.63% | 4,853 | 2.10% |
| Total | 20,340,317 | 100.00% | 959,443 | 4.72% | 14,198,320 | 100.00% | 743,809 | 5.24% |

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

| Ageing | Ending balance | | | Opening balance | | |
|---------------|----------------|-------------------------|---------|-----------------|-------------------------|---------|
| | Ending balance | Provision for bad debts | | Ending balance | Provision for bad debts | |
| | Amount | Amount | Ratio | Amount | Amount | Ratio |
| Within 1 year | 19,380,577 | 608,786 | 3.14% | 13,353,944 | 431,907 | 3.23% |
| 1 to 2 years | 419,863 | 126,198 | 30.06% | 445,165 | 198,277 | 44.54% |
| 2 to 3 years | 132,335 | 104,658 | 79.09% | 66,701 | 40,686 | 61.00% |
| 3 to 5 years | 52,156 | 44,753 | 85.81% | 45,212 | 38,596 | 85.37% |
| Over 5 years | 30,646 | 30,646 | 100.00% | 20,382 | 20,382 | 100.00% |
| Total | 20,015,577 | 915,041 | 4.57% | 13,931,404 | 729,848 | 5.24% |

The provision for bad debts reversed for the six months ended 30 June 2017 is RMB45,337,000.

The accounts receivable as written off by the Group for the six months ended 30 June 2017 are arising from transactions with third parties and there's no written-off accounts receivable with amounts that are individually significant.

As at 30 June 2017, the top 5 accounts receivable assembled by debtors are analysed as follows:

| Item | Amount | Provision for bad debts | % of total balance |
|--|-----------|-------------------------|--------------------|
| Total balance of top 5 accounts receivable | 2,275,146 | 113,757 | 11.19% |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
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4 Notes to the consolidated financial statements (Cont'd)

(3) Receivables (Cont'd)

(b) Other receivables

| Item | Ending balance | Opening balance |
|-------------------------------|----------------|-----------------|
| Other receivables | 2,200,274 | 1,168,005 |
| Less: Provision for bad debts | (30,190) | (27,872) |
| Total | 2,170,084 | 1,140,133 |

Large increase of balance of other receivables compared to the balance at the beginning of year mainly results from the Group's consolidation of KUKA for the six months ended 30 June 2017.

The ageing of other receivables is analysed as follows:

| Ageing | Ending balance | Opening balance |
|---------------|----------------|-----------------|
| Within 1 year | 2,098,127 | 1,106,995 |
| 1 to 2 years | 80,707 | 49,445 |
| 2 to 3 years | 13,936 | 7,263 |
| 3 to 5 years | 7,504 | 4,302 |
| Sub-total | 2,200,274 | 1,168,005 |

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 | 326,895 | 14.86% | 1,251 | 0.38% | 49,922 | 4.27% | - | 0.00% |
| That the related provision for bad debts is provided on the age grouping basis | 1,870,438 | 85.01% | 28,851 | 1.54% | 1,112,996 | 95.29% | 26,781 | 2.41% |
| With amounts that are not individually significant but that the related provision for bad debts is provided on the individual basis | 2,941 | 0.13% | 88 | 2.99% | 5,087 | 0.44% | 1,091 | 21.45% |
| Total | 2,200,274 | 100.00% | 30,190 | 1.37% | 1,168,005 | 100.00% | 27,872 | 2.39% |

As at 30 June 2017, other receivables with amounts that are individually significant and that the related provision for bad debts is provided on the individual basis are analysed as follows:

| Name of the Company | Ending balance | Provision for bad debts | Percentages | Reason |
|--|----------------|-------------------------|-------------|---|
| China Securities Depository and Clearing Corporation Limited Shenzhen Branch | 322,884 | - | 0% | Receivables related to share options without bad debt risks |

The provision for bad debts reversed for the six months ended 30 June 2017 is RMB8,193,000. Other receivables as written off by the Group for the six months ended 30 June 2017 arise from transactions with third parties and there's no written-off other receivables with amounts that are individually significant.

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

(3) Receivables (Cont'd)

(b) Other receivables (Cont'd)

As at 30 June 2017, 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 | 366,560 | 2,184 | 16.66% |

As at 30 June 2017, 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 | 2,065,803 | 1,587,366 |

(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 | 2,000,813 | 96.86% | 1,492,532 | 94.02% |
| 1 to 2 years | 43,623 | 2.11% | 73,736 | 4.65% |
| 2 to 3 years | 13,023 | 0.63% | 14,907 | 0.94% |
| Over 3 years | 8,344 | 0.40% | 6,191 | 0.39% |
| Total | 2,065,803 | 100.00% | 1,587,366 | 100.00% |

As at 30 June 2017, advances to suppliers over 1 year with a carrying amount of RMB64,990,000 (31 December 2016: RMB94,834,000) are mainly unsettled advances paid for raw materials.

As at 30 June 2017, 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 | 485,441 | 23.50% |

MIDEA GROUP CO., LTD.

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(All amounts in RMB'000 Yuan unless otherwise stated)
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4 Notes to the consolidated financial statements (Cont'd)

(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 | 732,479 | 417,793 |
| Loans and advances to corporations | 11,584,678 | 9,995,466 |
| Including: Loans | 3,024,680 | 2,652,425 |
| Discounted bills | 8,559,998 | 7,343,041 |
| Total loans and advances | 12,317,157 | 10,413,259 |
| Less: Loan impairment provision (Note4(17)) | (167,449) | (139,862) |
| Total | 12,149,708 | 10,273,397 |

(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 | 406,039 | 230,097 |
| Guaranteed loans | 863,853 | 524,537 |
| Secured loans by monetary assests | 11,047,265 | 9,658,625 |
| Sub-total | 12,317,157 | 10,413,259 |
| Less: Loan impairment provision (Note4(17)) | (167,449) | (139,862) |
| Total | 12,149,708 | 10,273,397 |

(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 |
| Completed but unsettled | 5,154,238 | - | 5,154,238 | - | - | - |
| Finished goods | 10,565,512 | (228,540) | 10,336,972 | 11,943,779 | (191,147) | 11,752,632 |
| Raw materials | 3,590,434 | (4,751) | 3,585,683 | 2,851,998 | (11,237) | 2,840,761 |
| Work in progress | 1,581,840 | (12,191) | 1,569,649 | 792,664 | - | 792,664 |
| Consigned processing materials | 207,797 | - | 207,797 | 235,633 | - | 235,633 |
| Low value consumables | 30,699 | - | 30,699 | 5,207 | - | 5,207 |
| Total | 21,130,520 | (245,482) | 20,885,038 | 15,829,281 | (202,384) | 15,626,897 |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
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4 Notes to the consolidated financial statements (Cont'd)

(6) Inventories (Cont'd)

(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 | 191,147 | 171,245 | (131,969) | (1,883) | 228,540 |
| Raw materials | 11,237 | 28,322 | (35,400) | 592 | 4,751 |
| Work in progress | - | 25,703 | (14,262) | 750 | 12,191 |
| Total | 202,384 | 225,270 | (181,631) | (541) | 245,482 |

(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 |
| Work in progress | Stated at the lower of cost and net realisable value | Requisition for production |

(d) Construction contract

| Item | Ending balance |
|---|----------------|
| Cost occurred and gross profit recognised | 23,983,000 |
| Less: Accumulated billed amount | (20,783,994) |
| Total | 3,199,006 |

| Item | Ending balance |
|---|----------------|
| Completed but unsettled products | 5,154,238 |
| Less: Provision for decline in the value of completed but unsettled | - |
| Net book value of completed but unsettled products | 5,154,238 |
| Settled but not completed (Note 4(20)) | (1,955,231) |
| Total | 3,199,006 |

MIDEA GROUP CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
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[English translation for reference only]**4 Notes to the consolidated financial statements (Cont'd)****(7) Other current assets**

| Item | Ending balance | Opening balance |
|--|-------------------|-------------------|
| Prepaid expenses | 721,838 | 467,916 |
| Deductible input VAT | 1,889,499 | 1,876,967 |
| Structural deposits with banks. | 15,303,105 | 14,442,697 |
| Wealth management products purchased from financial institutions (a) | 30,514,012 | 26,267,067 |
| Others | 1,613,435 | 474,950 |
| Total | 50,041,889 | 43,529,597 |

- (a) As at 30 June 2017, wealth management products due within one year are presented as other current assets, mainly including wealth management products with floating earnings of RMB30,514,012,000 (31 December 2016: wealth management products with floating earnings of RMB26,267,067,000) (Note 15(1)).
- (b) Wealth management products purchased by the Company due more than one year amounting to RMB500,000,000 are presented as other non-current assets (31 December 2016: RMB3,842,000,000) (Note 15(1)).

(8) Available-for-sale financial assets

| Item | Ending balance | Opening balance |
|---|------------------|------------------|
| Measured at fair value | | |
| - Available-for-sale equity instruments (a) | 67,815 | 3,518,693 |
| Measured at cost | | |
| - Available-for-sale equity instruments (b) | 1,804,578 | 1,669,039 |
| Total | 1,872,393 | 5,187,732 |

- (a) Since the equity acquisition of KUKA was completed during the first half year of 2017, the available-for-sale financial assets at fair value previously recognised were transferred to long-term equity investments and eliminated at the consolidation level, which led the balance at the beginning of year decreasing sharply.
- (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 | 2,586,329 | 2,211,732 |
| Carrying amount of investment in joint ventures | - | - |
| Less: Provision for impairment of long-term equity investments | - | - |
| Total | 2,586,329 | 2,211,732 |

MIDEA GROUP CO., LTD.

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

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

(Cont'd)

| Investee | Opening balance | Current year movement | | | | | | | | Ending balance | Ending balance of provision for impairment loss |
|---|------------------|-----------------------|------------------------|--|---|-------------------------|------------------------------------|-------------------------------|---------------|------------------|---|
| | | Additional investment | Decrease in investment | Share of net profit/(loss) under equity method | Adjustments of other comprehensive income | Other changes in equity | Cash dividends or profits declared | Provision for impairment loss | Others | | |
| Associates - | | | | | | | | | | | |
| Foshan Shunde Rural Commercial Bank Co., Ltd. | 1,577,716 | - | - | 246,959 | (9,170) | | (102,972) | - | - | 1,712,533 | - |
| Misr Refrigeration And Air Conditioning Manufacturing Co. | 146,882 | - | - | 41,400 | 798 | | - | - | 8,901 | 197,981 | - |
| Hefei Royalstar Motor Co., Ltd. | 102,575 | - | - | 551 | - | | - | - | - | 103,126 | - |
| Others | 384,559 | 166,111 | - | (1,776) | 303 | (6) | (12,987) | - | 36,540 | 572,689 | - |
| Total | 2,211,732 | 166,111 | - | 287,134 | (8,069) | (6) | (115,959) | - | 45,441 | 2,586,329 | - |

MIDEA GROUP CO., LTD.

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

(10) Fixed assets

| Item | Buildings | Land | Machinery and equipment | Motor vehicles | Electronic equipment and others | Total |
|---|------------|-----------|-------------------------|----------------|---------------------------------|------------|
| Carrying amount | | | | | | |
| Opening balance | 15,215,937 | 840,333 | 16,670,395 | 807,794 | 2,676,768 | 36,211,227 |
| Increase in current period | 1,084,218 | 255,604 | 787,630 | 535,432 | 694,044 | 3,356,928 |
| 1) Purchase | 120,521 | - | 746,458 | 89,453 | 229,233 | 1,185,665 |
| 2) Transfers from construction in progress | 21,611 | - | 41,172 | 7,080 | 11,300 | 81,163 |
| 3) Increase in business combinations | 942,086 | 255,604 | - | 438,899 | 453,511 | 2,090,100 |
| 4) Transfer from investment prosperities | - | - | - | - | - | - |
| 5) Others | - | - | - | - | - | - |
| Decrease in current period | (49,315) | (8,692) | (369,584) | (54,136) | (121,316) | (603,043) |
| 1) Disposal or retirement | (49,315) | (8,692) | (369,584) | (54,136) | (121,316) | (603,043) |
| 2) Transfer to investment prosperities | - | - | - | - | - | - |
| 3) Others | - | - | - | - | - | - |
| Differences on translation of foreign currency financial statements | 51,761 | 22,877 | 6,695 | 23,044 | 30,458 | 134,835 |
| Ending balance | 16,302,601 | 1,110,122 | 17,095,136 | 1,312,134 | 3,279,954 | 39,099,947 |
| Accumulated depreciation | | | | | | |
| Opening balance | 4,854,232 | - | 7,894,549 | 364,405 | 2,022,483 | 15,135,669 |
| Increase in current period | 402,512 | - | 862,813 | 126,915 | 277,051 | 1,669,291 |
| 1) Depreciation charged | 402,512 | - | 862,813 | 126,915 | 277,051 | 1,669,291 |
| 2) Transfer from investment prosperities and others | - | - | - | - | - | - |
| Decrease in current period | (19,847) | - | (196,483) | (36,808) | (79,352) | (332,490) |
| 1) Disposal and retirement | (19,847) | - | (196,483) | (36,808) | (79,352) | (332,490) |
| 2) Others | - | - | - | - | - | - |
| Differences on translation of foreign currency financial statements | (1,935) | - | (69) | 2,498 | 4,025 | 4,519 |
| Ending balance | 5,234,962 | - | 8,560,810 | 457,010 | 2,224,207 | 16,476,989 |
| Provision for impairment loss | | | | | | |
| Opening balance | 3,918 | - | 14,706 | 36 | 107 | 18,767 |
| Increase in current period | - | - | 5,242 | 257 | 280 | 5,779 |
| 1) Depreciation charged | - | - | 5,242 | 257 | 280 | 5,779 |
| Decrease in current period | - | - | (4,738) | (13) | (36) | (4,787) |
| 1) Disposal and retirement | - | - | (4,738) | (13) | (36) | (4,787) |
| Differences on translation of foreign currency financial statements | - | - | 33 | 8 | 7 | 48 |
| Ending balance | 3,918 | - | 15,243 | 288 | 358 | 19,807 |
| Carrying amount at the end of period | 11,063,721 | 1,110,122 | 8,519,083 | 854,836 | 1,055,389 | 22,603,151 |
| Carrying amount at the beginning of period | 10,357,787 | 840,333 | 8,761,140 | 443,353 | 654,178 | 21,056,791 |

- (a) For the six months ended 30 June 2017, the depreciation of fixed assets amounted to RMB1,669,291,000 (for the six months ended 30 June 2016: RMB1,248,904,000) and is included in income statement.
- (b) As at 30 June 2017, the Company is still in the course of obtaining the ownership certificate for the fixed asset with a carrying amount of RMB653,756,000.

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

(11) Construction in progress

(a) Movement of significant projects of construction in progress

| Project name | Opening balance | Increase in current period | Transfer to fixed assets | Other decreases | Ending balance | Accumulative amount of capitalised borrowing costs | Including: Borrowings costs capitalised in current year | Capitalisation rate of borrowing costs in current year | Source of funds |
|--|-----------------|----------------------------|--------------------------|-----------------|----------------|--|---|--|-------------------|
| Meizhi Compressor Project | 4,060 | 191 | (4,060) | - | 191 | - | - | - | Internal resource |
| Compressor (Anhui) Project | 1,949 | 136 | (743) | - | 1,342 | - | - | - | Internal resource |
| Guangdong Welling construction in progress | 28,129 | 9,648 | (29,096) | - | 8,681 | - | - | - | Internal resource |
| Innovation project | 434,173 | 49,051 | - | - | 483,224 | - | - | - | Internal resource |
| Other projects | 112,418 | 333,321 | (47,264) | (10,974) | 387,501 | - | - | - | Internal resource |
| Total | 580,729 | 392,347 | (81,163) | (10,974) | 880,939 | - | - | - | |

As at 30 June 2017, there's no provision for impairment of construction in progress with the ending balance consistent with the carrying amount; and the cost of construction in progress matches the budget amount. The projects are carried out on schedule.

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

(12) Intangible assets

| Item | Land use rights | Non-patent technology | Patents | Trademark rights | Trademark use rights | Others | Total |
|---|-----------------|-----------------------|---------|------------------|----------------------|-----------|------------|
| Carrying amount | | | | | | | |
| Opening balance | 3,814,516 | 221,106 | 176,953 | 556,022 | 2,561,623 | 397,238 | 7,727,458 |
| Increase in current period | 1,105 | 1,506,402 | 50,273 | 4,138,150 | 6,298 | 4,707,594 | 10,409,822 |
| 1) Purchase | 1,105 | 24,163 | 33,654 | - | 6,298 | 142,576 | 207,796 |
| 2) Increase in business combinations | - | 1,481,296 | 16,619 | 4,138,150 | - | 4,565,018 | 10,201,083 |
| 3) Others | - | 943 | - | - | - | - | 943 |
| Decrease in current period | - | (18,774) | - | - | - | (33,101) | (51,875) |
| 1) Disposal | - | (18,774) | - | - | - | (33,101) | (51,875) |
| 2) Transfer to investment prosperities | - | - | - | - | - | - | - |
| 3) Others | - | - | - | - | - | - | - |
| Differences on translation of foreign currency financial statements | (255) | 69,908 | (600) | 261,786 | 225 | 265,123 | 596,187 |
| Ending balance | 3,815,366 | 1,778,642 | 226,626 | 4,955,958 | 2,568,146 | 5,336,854 | 18,681,592 |
| Accumulated amortisation | | | | | | | |
| Opening balance | 638,786 | 128,303 | 11,005 | 2,123 | 36,518 | 36,120 | 852,855 |
| Increase in current period | 38,965 | 62,921 | 37,731 | 15,011 | 31,932 | 1,290,548 | 1,477,108 |
| 1) Depreciation charged | 38,965 | 62,921 | 37,731 | 15,011 | 31,932 | 1,290,548 | 1,477,108 |
| 2) Transfer from investment prosperities and others | - | - | - | - | - | - | - |
| Decrease in current period | - | (5,937) | - | - | - | (14,065) | (20,002) |
| 1) Disposal | - | (5,937) | - | - | - | (14,065) | (20,002) |
| 2) Others | - | - | - | - | - | - | - |
| Differences on translation of foreign currency financial statements | (49) | (23) | (107) | (292) | 211 | 44,047 | 43,787 |
| Ending balance | 677,702 | 185,264 | 48,629 | 16,842 | 68,661 | 1,356,650 | 2,353,748 |
| Provision for impairment loss | | | | | | | |
| Opening balance | - | 6,065 | - | - | - | - | 6,065 |
| Increase in current period | - | 7,539 | 1,276 | - | - | 662 | 9,477 |
| 1) Depreciation charged | - | 7,539 | 1,276 | - | - | 662 | 9,477 |
| Decrease in current period | - | - | - | - | - | - | - |
| 1) Disposal | - | - | - | - | - | - | - |
| Differences on translation of foreign currency financial statements | - | 81 | (21) | - | - | - | 60 |
| Ending balance | - | 13,685 | 1,255 | - | - | 662 | 15,602 |
| Carrying amount at the end of period | 3,137,664 | 1,579,693 | 176,742 | 4,939,116 | 2,499,485 | 3,979,542 | 16,312,242 |
| Carrying amount at the beginning of period | 3,175,730 | 86,738 | 165,948 | 553,899 | 2,525,105 | 361,118 | 6,868,538 |

(a) For the six months ended 30 June 2017, the amortisation of intangible assets amounted to RMB1,477,108,000 (for the six months ended 30 June 2016: RMB46,155,000) and is included in income statement.

(b) As at 30 June 2017, there isn't in course of obtaining the title certificates for land use rights

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

(13) Goodwill

| | Opening balance | Increase | Differences on translation of foreign currency financial statements | Others | Ending balance |
|----------------------------------|-----------------|------------|---|--------|----------------|
| Investee | | | | | |
| Wuxi Little Swan Company Limited | 1,361,306 | - | - | - | 1,361,306 |
| Clivet | 498,724 | - | 30,223 | - | 528,947 |
| Carrier S.A. Co., Ltd. | 614,728 | - | (24,335) | - | 590,393 |
| TLSC | 2,697,290 | - | 77,762 | - | 2,775,052 |
| KUKA | - | 20,698,212 | 1,354,393 | - | 22,052,605 |
| SMC | - | 544,555 | (8,261) | - | 536,294 |
| Others | 558,947 | 13,787 | 833 | - | 573,567 |
| Total | 5,730,995 | 21,256,554 | 1,430,615 | - | 28,418,164 |

- (a) Increase of goodwill for the six months ended 30 June 2017 mainly arises from purchase of shareholdings of KUKA.

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

- (a) Deferred income tax assets

| Item | Ending balance | | Opening balance | |
|---------------------------------|--|----------------------------|--|---------------------|
| | Deductible temporary differences and deductible losses | Deferred income tax assets | Deductible temporary differences and deductible losses | Deferred tax assets |
| Deductible losses | 1,346,935 | 416,611 | 763,015 | 223,187 |
| Provision for asset impairments | 1,253,190 | 274,459 | 1,099,118 | 224,302 |
| Employee benefits payable | 344,072 | 97,999 | 344,391 | 69,092 |
| Other current liabilities | 13,956,213 | 2,601,337 | 12,548,142 | 2,210,590 |
| Others | 1,089,563 | 211,833 | 1,423,137 | 303,212 |
| Total | 17,989,973 | 3,602,239 | 16,177,803 | 3,030,383 |

- (b) Deferred income tax liabilities

| Deferred income tax liabilities | Ending balance | | Opening balance | |
|--|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | Taxable temporary differences | Deferred income tax liabilities | Taxable temporary differences | Deferred income tax liabilities |
| Changes in fair value | 262,558 | 26,500 | 7,587 | 1,071 |
| Business combinations involving enterprises not under common control | 14,410,911 | 4,318,727 | 5,514,103 | 1,708,006 |
| Others | 634,035 | 174,645 | 423,030 | 122,896 |
| Total | 15,307,504 | 4,519,872 | 5,944,720 | 1,831,973 |

MIDEA GROUP CO., LTD.

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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 | 911,543 | 366,221 | (90,163) | (7,937) | (22,582) | 1,157,082 |
| Including: Provision for bad debts of accounts receivable | 743,809 | 291,386 | (45,337) | (7,887) | (22,528) | 959,443 |
| Provision for loans and advances | 139,862 | 64,220 | (36,633) | - | - | 167,449 |
| Provision for bad debts of other receivables | 27,872 | 10,615 | (8,193) | (50) | (54) | 30,190 |
| Provision for decline in the value of inventories | 202,384 | 225,270 | (110,487) | (71,144) | (541) | 245,482 |
| Provision for impairment of available-for-sale financial assets | 100 | - | - | - | - | 100 |
| Provision for impairment of fixed assets | 18,767 | 5,779 | - | (4,787) | 48 | 19,807 |
| Provision for impairment of intangible assets | 6,065 | 9,477 | - | - | 60 | 15,602 |
| Provision for impairment of investment properties | 12,576 | - | - | - | 67 | 12,643 |
| Total | 1,151,435 | 606,747 | (200,650) | (83,868) | (22,948) | 1,450,716 |

(16) Assets with ownership or use right restricted

As at 30 June 2017, details of assets with restricted ownership are as follows:

| Item | Ending balance | Opening balance |
|--------------------------------|----------------|-----------------|
| Cash at bank and on hand | 11,726,628 | 10,178,377 |
| Deposits with the central bank | 1,205,959 | 677,011 |
| Deposits with other banks | 500,000 | 3,800,000 |
| Total | 13,432,587 | 14,655,388 |

(17) Short-term borrowings

| Item | Ending balance | Opening balance |
|-----------------------|----------------|-----------------|
| Unsecured | 31,393,574 | 2,498,727 |
| Guaranteed borrowings | 998,376 | 525,699 |
| Total | 32,391,950 | 3,024,426 |

- (a) As at 30 June 2017, the annual interest rate range of short-term borrowings is 1.30% to 9.38% (31 December 2016: 1.77% to 9.38%).
- (b) There is a large increase in the balance of short-term borrowings compared to that at the beginning of year, mainly resulting from the new borrowings due to acquisition of KUKA, which were replaced with long-term borrowings in August 2017.

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4 Notes to the consolidated financial statements (Cont'd)**(18) Notes payable**

| Item | Ending balance | Opening balance |
|-----------------------|----------------|-----------------|
| Bank acceptance notes | 22,034,312 | 18,484,939 |

(19) Accounts payable

| Item | Ending balance | Opening balance |
|------------------------|----------------|-----------------|
| Materials cost payable | 29,609,383 | 21,453,740 |
| Others | 2,689,429 | 3,903,220 |
| Total | 32,298,812 | 25,356,960 |

- (a) As at 30 June 2017, accounts payable with ageing over 1 year with a carrying amount of RMB754,637,000 (31 December 2016: RMB849,693,000) are mainly unsettled accounts payable for materials.

(20) Advances from customers

| Item | Ending balance | Opening balance |
|---------------------------|----------------|-----------------|
| Advances on sales | 12,215,362 | 10,252,375 |
| Settled but not completed | 1,955,231 | - |
| Total | 14,170,593 | 10,252,375 |

- (a) As at 30 June 2017, accounts payable with ageing over 1 year with a carrying amount of RMB141,359,000 (31 December 2016: RMB165,010,000) are mainly unsettled advances on sales.

(21) Employee benefits payable

| Item | Ending balance | Opening balance |
|--|----------------|-----------------|
| Short-term employee benefits payable (a) | 3,566,042 | 3,064,520 |
| Others | 223,547 | 89,867 |
| Total | 3,789,589 | 3,154,387 |

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

(21) Employee benefits payable (Cont'd)

(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 | 2,720,179 | 9,946,093 | (9,526,559) | 3,139,713 |
| Staff welfare | 258,258 | 312,643 | (304,936) | 265,965 |
| Social security contributions | 17,741 | 1,146,351 | (1,061,380) | 102,712 |
| Including: Medical insurance | 15,866 | 1,032,650 | (946,934) | 101,582 |
| Work injury insurance | 1,637 | 87,521 | (88,662) | 496 |
| Maternity insurance | 238 | 26,180 | (25,784) | 634 |
| Housing funds | 21,317 | 130,225 | (136,836) | 14,706 |
| Labour union funds and employee education funds | 20,030 | 42,402 | (41,738) | 20,694 |
| Other employee expenses | 26,995 | 255,750 | (260,493) | 22,252 |
| Sub-total | 3,064,520 | 11,833,464 | (11,331,942) | 3,566,042 |

(22) Taxes payable

| Item | Ending balance | Opening balance |
|------------------------------|----------------|-----------------|
| VAT payable | 813,264 | 348,991 |
| Corporate income tax payable | 2,315,862 | 1,656,482 |
| Others | 485,638 | 358,973 |
| Total | 3,614,764 | 2,364,446 |

(23) Other payables

(a) Other payables are mainly deposit and security deposit payable, reimbursed logistics expense, manufacturing equipment expense and refund for energy-saving and beneficial to people.

(b) As at 30 June 2017, accounts payable with ageing over 1 year with a carrying amount of RMB413,943,000 (31 December 2016: RMB484,749,000) are mainly deposit and security deposit payable, which are unsettled for related projects that are uncompleted.

(24) Other current liabilities

| Item | Ending balance | Opening balance |
|---|----------------|-----------------|
| Accrued sales rebate | 16,239,045 | 16,201,044 |
| Accrued installation and maintenance expenses | 5,252,736 | 4,164,399 |
| Accrued sales promotion expenses | 1,569,320 | 985,665 |
| Accrued transportation expenses | 614,810 | 576,821 |
| Others | 2,928,610 | 2,635,041 |
| Total | 26,604,521 | 24,562,970 |

MIDEA GROUP CO., LTD.

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

(25) Long-term borrowings

| Item | Ending balance | Opening balance |
|-----------------------|----------------|-----------------|
| Unsecured borrowings | 1,936,572 | 2,645 |
| Guaranteed borrowings | 2,100,142 | 2,251,703 |
| Total | 4,036,714 | 2,254,348 |

- (b) As at 30 June 2017, the annual interest rate range of the long-term borrowings is 0.4% to 5.5% (31 December 2016: 0.4% to 5.5%).

(26) Debentures payable

| Name of the debentures | Opening balance | Issuing expenses | Interest accrued on par value | Amortisation of discount and premium | Exchange gains or loss and differences on translation of foreign currency financial statements | Repaid in current period | Ending balance |
|---------------------------------|-----------------|------------------|-------------------------------|--------------------------------------|--|--------------------------|----------------|
| USD Guaranteed Medium Term Note | 4,818,769 | - | 56,312 | 7,308 | (112,933) | - | 4,713,144 |
| Total | 4,818,769 | - | 56,312 | 7,308 | (112,933) | - | 4,713,144 |

Related information is as follows:

| Name of the debentures | Par value | Issuance date | Maturity | Issuance amount |
|---------------------------------|-----------|---------------|----------|-----------------|
| USD Guaranteed Medium Term Note | 4,605,510 | 03 June 2016 | 3 years | 4,605,510 |

- (a) Midea Investment Development Co., Ltd, the subsidiary of the Company, issued corporate debenture with total amount of USD700,000,000 and duration of 3 years on 3 June 2016. Interest of the debenture is paid on a semi-annual basis and calculated by the simple interest method, and the interest rate is 2.375% annually. The debenture is guaranteed by the Company.

(27) Long-term employee benefits payable

| Item | Ending balance | Opening balance |
|---------------------------------------|----------------|-----------------|
| Supplementary retirement benefits (a) | 2,356,445 | 1,418,921 |
| Others | 28,625 | 31,033 |
| Total | 2,385,070 | 1,449,954 |

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

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

(28) Share capital

| Item | Opening balance | Movements in the current year | | | | Ending balance |
|--|-----------------|--|---------------------------|-----------------|-----------|----------------|
| | | Transfer from surplus reserve to paid-in capital | Exercise of share options | Desterilisation | Sub-total | |
| RMB-denominated ordinary shares - | | | (a)/(b) | | | |
| RMB-denominated ordinary shares subject to trading restriction (a) | 279,045 | - | 23,130 | (90,499) | (67,369) | 211,676 |
| RMB-denominated ordinary shares not subject to trading restriction (b) | 6,179,722 | - | 37,740 | 90,499 | 128,239 | 6,307,961 |
| | 6,458,767 | - | 60,870 | - | 60,870 | 6,519,637 |

(a) Pursuant to the Restricted Share Incentive Plan for 2017 as approved at the shareholders' meeting dated 21 April 2017 (the "Restricted Share Incentive Plan for 2017"), the Company granted 23,130,000 restricted shares with an exercise price of RMB15.86 to 133 employees. 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 and 3 years, respectively, since 12 May 2017. For the six months ended 30 June 2017, the total number of shares exercised by the granted employees was 23,130,000, of which RMB 23,130,000 was recognised as share capital, and RMB343,712,000 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"), the Company granted 99,863,000 share options with an exercise price of RMB10.01 to 691 employees. 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 and 3 years, respectively, since 18 February 2014. For the six months ended 30 June 2017, the total number of shares exercised by the granted employees was 20,046,539, of which RMB 20,046,539 was recognised as share capital, and RMB 251,337,000 was recognised as capital surplus (share premium), of which RMB67,912,000 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"), the Company granted 83,790,000 share options with an exercise price of RMB18.56 to 733 employees. 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 and 3 years, respectively, since 27 May 2015. For the six months ended 30 June 2017, the total number of shares exercised by the granted employees was 17,693,851, of which RMB17,693,851 was recognised as share capital, and RMB430,989,000 was recognised as capital surplus (share premium), of which RMB116,180,000 transferred from capital surplus (others) to capital surplus (share premium).

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

(29) Capital surplus

| Item | Opening balance | Increase in current period | Decrease in current period | Ending balance |
|---------------------------------|-----------------|----------------------------|----------------------------|----------------|
| Share premium (a) | 9,961,450 | 1,026,038 | - | 10,987,488 |
| Share option incentive plan (b) | 617,238 | 295,888 | 184,092 | 729,034 |
| Others | 3,017,881 | 1,728 | 1,823 | 3,017,786 |
| Total | 13,596,569 | 1,323,654 | 185,915 | 14,734,308 |

- (a) The increase in share premium arose from the exercise of share options and grant of restricted shares, amounting to RMB682,326,000 and RMB343,712,000, respectively.
- (b) The increase in share option incentive plan arose from the share option expenses attributable to shareholders' equity of the Company with the amount of RMB295,888,000. The decrease in share option incentive programme arose from the transfer of RMB184,092,000 share options to share premium due to exercise of share option.

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

(30) 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 | | | | | | | | |
| Remeasurements of net liabilities and net assets of defined-benefit plan | 82,223 | 39,579 | 121,802 | 49,958 | - | 8,095 | 39,579 | 2,284 |
| 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 | (75,053) | (8,069) | (83,122) | (8,069) | - | - | (8,069) | - |
| Gains or losses arising from changes in fair value of available-for-sale financial assets | 392,378 | (292,475) | 99,903 | 97,691 | 408,968 | (5,719) | (292,475) | (13,083) |
| Effective portion of cash flow hedging gains or losses | 4,594 | 168,716 | 173,310 | 187,230 | 5,086 | 12,616 | 168,716 | 812 |
| Exchange differences arising from translating foreign operations | (391,017) | 101,931 | (289,086) | 128,558 | - | - | 101,931 | 26,627 |
| Total | 13,125 | 9,682 | 22,807 | 455,368 | 414,054 | 14,992 | 9,682 | 16,640 |

MIDEA GROUP CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
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4 Notes to the consolidated financial statements (Cont'd)**(31) Surplus reserve**

| Item | Opening balance | Increase in current period | Decrease in current period | Ending balance |
|---------------------------|-----------------|----------------------------|----------------------------|----------------|
| Statutory surplus reserve | 2,804,469 | - | - | 2,804,469 |

(32) Undistributed profits

| Item | Current figure | Comparative figure |
|---|----------------|--------------------|
| Undistributed profits at the beginning of year | 38,105,391 | 29,529,827 |
| Add: Net profit attributable to the parent company for current period | 10,811,322 | 9,496,493 |
| Less: Ordinary share dividends payable | 6,465,677 | 5,120,869 |
| Appropriation to general reserve | - | - |
| Undistributed profits at the end of period | 42,451,036 | 33,905,451 |

(a) Ordinary share dividends distributed in current year

In accordance with the resolution at the Board of Shareholders' meeting, dated on 21 April 2017, the Company distributed a cash dividend to the shareholders at RMB1.00 per share, amounting to RMB6,465,677,000 calculated by 6,465,677,368 issued shares (2016: RMB1.2 per share, amounting to RMB5,120,869,000).

(33) Revenue and cost of sales

| Item | Current figure | Comparative figure |
|-------------------------------|----------------|--------------------|
| Revenues from main operations | 116,534,606 | 71,567,026 |
| Other operating income | 7,915,459 | 5,955,261 |
| Sub-total | 124,450,065 | 77,522,287 |

| Item | Current figure | Comparative figure |
|-------------------------------------|----------------|--------------------|
| Cost of sales from main operations | 85,738,240 | 49,721,730 |
| Cost of sales from other operations | 7,312,841 | 5,144,430 |
| Sub-total | 93,051,081 | 54,866,160 |

MIDEA GROUP CO., LTD.

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

(33) Revenue and cost of sales (Cont'd)

(a) Revenue and cost of sale from main operations

| Products or business type | Current figure | | Comparative figure | |
|-----------------------------|----------------|---------------|--------------------|---------------|
| | Revenue | Cost of sales | Revenue | Cost of sales |
| HVAC | 50,022,802 | 35,410,252 | 35,346,190 | 23,823,434 |
| Consumer appliances | 51,827,140 | 37,688,678 | 35,315,742 | 25,062,020 |
| Robots and automatic system | 13,606,260 | 11,605,771 | - | - |
| Others | 1,078,404 | 1,033,539 | 905,094 | 836,276 |
| Sub-total | 116,534,606 | 85,738,240 | 71,567,026 | 49,721,730 |

For the six months ended 30 June 2017, cost of sales is mainly material costs and labour costs, which accounts for over 80% of total cost of sales from main operations (For the six months ended 30 June 2016: 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 materials | 7,276,885 | 7,097,826 | 5,506,428 | 5,024,891 |
| Others | 638,574 | 215,015 | 448,833 | 119,539 |
| Sub-total | 7,915,459 | 7,312,841 | 5,955,261 | 5,144,430 |

For the six months ended 30 June 2017, 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 2016: over 80%).

(34) 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 | 385,056 | 458,674 |
| Including: Interest income from loans and advances to corporations and individuals | 158,184 | 210,644 |
| Interest income from note discounting | 226,872 | 248,030 |
| Interest income from deposits with banks, other financial institutions and central bank | 128,493 | 20,902 |
| Interest income | 513,549 | 479,576 |
| Interest expenses | (165,666) | (261,318) |

MIDEA GROUP CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
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4 Notes to the consolidated financial statements (Cont'd)**(35) Taxes and surcharges**

| Item | Current figure | Comparative figure |
|---------------------------------------|----------------|--------------------|
| City maintenance and construction tax | 331,227 | 258,806 |
| Educational surcharge | 240,908 | 190,093 |
| Property tax | 57,488 | - |
| Land use tax | 48,235 | - |
| Others | 76,913 | 18,863 |
| Total | 754,771 | 467,762 |

(36) Selling and distribution expenses

| Item | Current figure | Comparative figure |
|-----------------------------------|----------------|--------------------|
| Selling and distribution expenses | 12,404,770 | 8,185,178 |

For the six months ended 30 June 2017, selling and distribution expenses are mainly maintenance and installation expenses, advertisement and promotion fee, transportation and storage fee, employee benefits and rental expenses, which account for over 80% of total selling and distribution expenses (For the six months ended 30 June 2016: over 80%).

(37) General and administrative expenses

| Item | Current figure | Comparative figure |
|-------------------------------------|----------------|--------------------|
| General and administrative expenses | 6,832,958 | 3,690,059 |

For the six months ended 30 June 2017, general and administrative expenses are mainly employee benefits, R&D expenditures, expenses of depreciation and amortisation, technical maintenance expenses and administrative office expenses, which account for over 80% of total general and administrative expenses (For the six months ended 30 June 2016: over 80%).

(38) Financial expenses

The Group's finance expenses, other than those arising from financial business (Note 4(34)), are presented as follows:

| Item | Current figure | Comparative figure |
|-------------------------------|----------------|--------------------|
| Interest expenses | 467,895 | 264,840 |
| Less: Interest income | (533,217) | (570,745) |
| Add: Exchange gains or losses | 336,092 | (692,672) |
| Add: Others | 75,844 | 93,316 |
| Total | 346,614 | (905,261) |

MIDEA GROUP CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
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4 Notes to the consolidated financial statements (Cont'd)**(39) Asset impairment loss**

| Item | Current figure | Comparative figure |
|--|----------------|--------------------|
| Loss/(Reversal) of bad debts (Note 4(3)) | 248,471 | 130,371 |
| Loss on decline in the value of inventories (Note 4(6)) | 114,783 | 25,210 |
| Impairment loss on available-for-sale financial assets (Note 4(8)) | - | - |
| Impairment loss on fixed assets (Note 4(10)) | 5,779 | 2,349 |
| Impairment loss on intangible assets (Note 4(12)) | 9,477 | - |
| (Reversal)/Loss of impairment of loans (Note 4(5)) | 27,587 | 93,880 |
| Total | 406,097 | 251,810 |

(40) Gains/(Losses) on changes in fair value

| Item | Current figure | Comparative figure |
|---|----------------|--------------------|
| Financial instruments at fair value through profit or loss - derivative financial instruments | (9,523) | (525,089) |

(41) Investment income

| Source of investment income | Current figure | Comparative figure |
|--|----------------|--------------------|
| Investment income from wealth management products purchased from financial institutions | 628,641 | 493,198 |
| Investment income from disposal of financial assets at fair value through profit or loss | (125,508) | (14,501) |
| Investment income from long-term equity investment under equity method | 287,134 | 200,742 |
| Others | 409,185 | 34,643 |
| Total | 1,199,452 | 714,082 |

There is no restriction on recovery of investment income.

(42) Other income

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

According to the requirements of CAS 16 *Government Grants* issued by MOF in May 2017, the Group presented some of the government grants satisfying the requirements of rules under other income in the income statement.

MIDEA GROUP CO., LTD.

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

(43) Non-operating income

| Item | Current figure | Comparative figure | Amount recognised in non-recurring profit or loss in current period |
|---|----------------|--------------------|---|
| Total gains on disposal of non-current assets | 781,229 | 3,548 | 781,229 |
| Including: Gains on disposal of fixed assets | 24,832 | 3,548 | 24,832 |
| Gains on disposal of intangible assets | 756,397 | - | 756,397 |
| Government grants | 12,778 | 762,724 | 12,778 |
| Other income | 196,907 | 137,000 | 196,907 |
| Total | 990,914 | 903,272 | 990,914 |

(44) Details of government grants

| Item | Current figure | Comparative figure | Amount recognised in non-recurring profit or loss in current period |
|--|----------------|--------------------|---|
| Total losses on disposal of non-current assets | 37,127 | 32,149 | 37,127 |
| Including: Losses on disposal of fixed assets | 37,127 | 32,123 | 37,127 |
| Losses on disposal of intangible assets | - | 26 | - |
| Donations | 12,549 | 10,264 | 12,549 |
| Other expenses | 370,267 | 61,386 | 370,267 |
| Total | 419,943 | 103,799 | 419,943 |

(45) Income tax expenses

| Item | Current figure | Comparative figure |
|---------------------|----------------|--------------------|
| Current income tax | 2,741,646 | 2,233,781 |
| Deferred income tax | (682,593) | (287,110) |
| Total | 2,059,053 | 1,946,671 |

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 | 13,607,124 | 12,177,569 |
| Income tax calculated at tax rate of 25% | 3,401,781 | 3,044,392 |
| Effect of different tax rates applicable to subsidiaries | (1,105,403) | (1,029,606) |
| Adjustment of income tax annual filing for prior periods | (102,064) | (55,800) |
| Effect of income not subject to tax | (113,664) | (53,257) |
| Effect of costs, expenses and losses not deductible for tax purposes | 128,859 | 60,369 |
| Effect of usage of deductible losses for which no deferred income tax asset was recognised in prior periods | (186,000) | (6,571) |
| Effect of deductible temporary differences or deductible losses that are not recognised as deferred income tax assets in current period | 17,446 | 5,894 |
| Others | 18,098 | (18,750) |
| Income tax expenses | 2,059,053 | 1,946,671 |

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

(46) 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 | 10,811,322 | 9,496,493 |
| Weighted average number of outstanding ordinary shares | Thousand shares | 6,464,909 | 6,400,970 |
| Basic earnings per share | RMB per share | 1.67 | 1.48 |

(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 | 10,811,322 | 9,496,493 |
| Weighted average number of ordinary shares of the Company outstanding | Thousand shares | 6,464,909 | 6,400,970 |
| Weighted average number of ordinary shares increased due to share options | Thousand shares | 39,541 | 18,074 |
| Weighted average number of diluted outstanding ordinary shares | Thousand shares | 6,504,450 | 6,419,044 |
| Diluted earnings per share | RMB per share | 1.66 | 1.48 |

(47) Notes to cash flow statement

(a) Cash received relating to other operating activities

| Item | Current figure | Comparative figure |
|---------------------------|----------------|--------------------|
| Non-operating income | 148,188 | 879,790 |
| Other income | 823,350 | - |
| Other operating income | 568,021 | 423,739 |
| Financial interest income | 87,473 | 116,164 |
| Others | 858,815 | 118,297 |
| Total | 2,485,847 | 1,537,990 |

(b) Cash paid relating to other operating activities

| Item | Current figure | Comparative figure |
|--|----------------|--------------------|
| General and administrative expenses (excluding employee benefits and taxes and surcharges) | 3,778,202 | 1,872,868 |
| Selling and distribution expenses (excluding employee benefits and taxes and surcharges) | 9,577,762 | 6,707,172 |
| Others | 46,281 | 886,013 |
| Total | 13,402,245 | 9,466,053 |

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

(47) Notes to cash flow statement (Cont'd)

(c) Supplementary information to 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 | 11,548,071 | 10,230,898 |
| Add: Provision for assets impairment | 406,097 | 251,810 |
| Depreciation and amortisation | 3,406,392 | 1,572,255 |
| Net loss on disposal of non-current assets | (744,102) | 28,601 |
| Losses on changes in fair value | 9,523 | 525,089 |
| Financial expenses | 56,225 | (273,692) |
| Investment income | (1,199,452) | (714,082) |
| Share options expenses | 340,262 | 229,551 |
| Decrease in deferred income tax assets | (196,587) | (356,685) |
| Increase in Deferred income tax liabilities | (466,590) | (1,391) |
| Decrease in inventories | 1,152,072 | 2,264,446 |
| Decrease in operating receivables | (11,272,631) | (10,458,499) |
| Increase in operating payables | 10,856,652 | 4,830,862 |
| Net cash flows from operating activities | 13,895,932 | 8,129,163 |
| 2) Net movement in cash and cash equivalents | | |
| Cash at the end of period | 20,786,431 | 10,296,816 |
| Less: Cash at the beginning of period | 12,513,730 | 5,187,317 |
| Add: Cash equivalents at the end of period | - | - |
| Less: Cash equivalents at the beginning of period | - | - |
| Net increase in cash and cash equivalents | 8,272,701 | 5,109,499 |

(d) Acquisition of subsidiaries

| Item | Current figure |
|---|----------------|
| Cash and cash equivalents paid in current period for business combinations occurred in current period | 28,013,229 |
| Including: KUKA | 27,001,856 |
| SMC | 901,794 |
| Others | 109,579 |
| Less: Cash and cash equivalents held by the subsidiaries at the acquisition dates | 2,681,683 |
| Including: KUKA | 2,653,544 |
| SMC | 28,139 |
| Net cash outflow on acquisition of the subsidiaries | 25,331,546 |

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4 Notes to the consolidated financial statements (Cont'd)**(47) Notes to cash flow statement (Cont'd)**

(d) Acquisition of subsidiaries (Cont'd)

Net assets of the subsidiaries acquired

| Item | As at the acquisition dates in 2017 |
|--------------------------|-------------------------------------|
| Current assets | 12,584,560 |
| Non-current assets | 13,454,708 |
| Current liabilities | (9,167,719) |
| Non-current liabilities | (6,011,327) |
| Less: Minority interests | 2,248 |
| | 10,862,470 |

(e) Composition of cash and cash equivalents

| Item | Current figure | Comparative figure |
|--|----------------|--------------------|
| Cash on hand | 4,456 | 2,930 |
| Cash at bank that can be readily drawn on demand | 9,486,925 | 5,169,912 |
| Other monetary fund that can be readily drawn on demand | 81,937 | 138,939 |
| Deposits with central bank that can be readily drawn on demand | 32,528 | 226,563 |
| Deposits with banks and other financial institutions | 11,180,585 | 4,758,472 |
| Cash and cash equivalent at the end of period | 20,786,431 | 10,296,816 |

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

(48) Monetary items denominated in foreign currencies

| Item | Foreign currency balance at the end of period | Exchange rate | RMB balance at the end of period |
|---|---|---------------|----------------------------------|
| Cash at bank and on hand | | | |
| USD | 2,138,606 | 6.7744 | 14,487,770 |
| JPY | 4,215,913 | 0.0605 | 254,999 |
| HKD | 356,453 | 0.8679 | 309,372 |
| EUR | 194,211 | 7.7496 | 1,505,058 |
| BRL | 118,337 | 2.0479 | 242,347 |
| Other currencies | N/A | N/A | 773,912 |
| Sub-total | | | 17,573,458 |
| Deposits with the central bank | | | |
| USD | 18,682 | 6.7744 | 126,559 |
| Deposits with banks and other financial institutions | | | |
| USD | 326,258 | 6.7744 | 2,210,201 |
| EUR | 9,641 | 7.7496 | 74,717 |
| Sub-total | | | 2,284,918 |
| Accounts receivable | | | |
| USD | 1,175,475 | 6.7744 | 7,963,139 |
| JPY | 26,203,605 | 0.0605 | 1,584,925 |
| HKD | 93,544 | 0.8679 | 81,188 |
| EUR | 306,737 | 7.7496 | 2,377,087 |
| BRL | 368,281 | 2.0479 | 754,219 |
| Other currencies | N/A | N/A | 1,557,964 |
| Sub-total | | | 14,318,522 |
| Other receivables | | | |
| USD | 36,832 | 6.7744 | 249,516 |
| JPY | 1,495,012 | 0.0605 | 90,426 |
| HKD | 2,124 | 0.8679 | 1,843 |
| EUR | 45,512 | 7.7496 | 352,702 |
| BRL | 44,613 | 2.0479 | 91,365 |
| Other currencies | N/A | N/A | 104,469 |
| Sub-total | | | 890,321 |
| Total | | | 35,193,778 |

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

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

| Item | Foreign currency balance at the end of period | Exchange rate | RMB balance at the end of period |
|------------------------------|---|---------------|----------------------------------|
| Short-term borrowings | | | |
| USD | 293,478 | 6.7744 | 1,988,137 |
| HKD | 841,889 | 0.8679 | 730,692 |
| EUR | 3,714,390 | 7.7496 | 28,785,039 |
| Other currencies | N/A | N/A | 668,082 |
| Sub-total | | | 32,171,950 |
| Accounts payable | | | |
| USD | 348,901 | 6.7744 | 2,363,593 |
| JPY | 13,361,311 | 0.0605 | 808,159 |
| HKD | 103,264 | 0.8679 | 89,625 |
| EUR | 235,248 | 7.7496 | 1,823,075 |
| BRL | 171,802 | 2.0479 | 351,842 |
| Other currencies | N/A | N/A | 1,213,255 |
| Sub-total | | | 6,649,549 |
| Other payables | | | |
| USD | 32,786 | 6.7744 | 222,106 |
| JPY | 5,073,671 | 0.0605 | 306,881 |
| HKD | 107,829 | 0.8679 | 93,587 |
| EUR | 1,594 | 7.7496 | 12,353 |
| BRL | 2,852 | 2.0479 | 5,841 |
| Other currencies | N/A | N/A | 93,322 |
| Sub-total | | | 734,090 |
| Long-term borrowings | | | |
| EUR | 520,248 | 7.7496 | 4,031,712 |
| BRL | 1,035 | 2.0479 | 2,120 |
| Other currencies | N/A | N/A | 2,882 |
| Sub-total | | | 4,036,714 |
| Debentures payable | | | |
| USD | 695,729 | 6.7744 | 4,713,144 |
| Total | | | 48,305,447 |

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5 Changes in consolidation scope

(1) Business combinations involving enterprises not under common control

(a) Business combinations involving enterprises not under common control incurred in current year.

| Acquirees | Nature of business | Time of acquisition | | Acquisition cost | | % interest acquired | |
|-----------|------------------------|---------------------|----------------|-------------------|--------------------|---------------------|--------|
| KUKA | intelligent automation | 2015 - 2016 | 6 January 2017 | RMB 2,956,118,887 | RMB 27,001,855,823 | 13.51% | 81.04% |
| SMC | motion control system | 9 February 2017 | | RMB 901,793,616 | | 79.37% | |

| Acquisition method | Acquisition date | Recognition basis of acquisition dates | Revenues of acquirees from the acquisition dates to the period-end | Net profit of acquirees from the acquisition dates to the period-end | Cash flows from operating activities of acquirees from the acquisition dates to the period-end | Net cash flows of acquirees from the acquisition dates to the period-end |
|--------------------|------------------|--|--|--|--|--|
| Cash consideration | 6 January 2017 | Effective acquisition of control right | 13,512,870 | 451,080 | (992,726) | (1,601,170) |
| Cash consideration | 9 February 2017 | Effective acquisition of control right | 168,934 | (4,137) | 29,256 | 27,590 |

Apart from above business combination, the Group's subsidiary KUKA acquired Easy Conveyors B.V. in April 2017, which is mainly engaged in logistics. The consideration was RMB23,311,874 and the goodwill was RMB13,787,000. The business combination did not have significant impact on the Group's overall performance.

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5 Changes in consolidation scope (Cont'd)**(1) Business combinations involving enterprises not under common control (Cont'd)**

(b) Details of costs of combination and good will are as follows:

| Item | KUKA | SMC |
|---|-------------|-----------|
| Costs of combination - | | |
| Cash consideration | 27,001,856 | 901,794 |
| Fair value of previously held equity at acquisition dates | 3,540,726 | N/A |
| Future payment of consideration | N/A | N/A |
| Total cost of combination | 30,542,582 | 901,794 |
| Less: Share of fair value of the identifiable net assets obtained | (9,844,370) | (357,239) |
| Goodwill | 20,698,212 | 544,555 |

The Group mainly uses valuation techniques such as market approach, income approach and cost approach to determine the fair value of non-cash assets transferred and liabilities incurred.

The Group recognises the differences between costs of combination and the share of fair value of the identifiable net assets of KUKA and SMC obtained in the combination as goodwill for the period in which the combination incurs.

(c) Assets and liabilities of acquirees at acquisition dates are as follows:

(i) KUKA

| KUKA | Fair value at the acquisition date | Carrying amount at the acquisition date |
|--------------------------|------------------------------------|---|
| Current assets | 12,468,388 | 12,468,388 |
| Non-current assets | 12,925,644 | 6,119,034 |
| Current liabilities | (9,092,126) | (9,092,126) |
| Non-current liabilities | (5,891,794) | (3,355,987) |
| Less: Minority interests | 2,248 | 2,248 |
| Net assets obtained | 10,412,360 | 6,141,556 |

The Group uses valuation techniques to determine the fair value of KUKA's assets and liabilities at the acquisition date. The valuation method and critical assumptions applied to the major assets are as follows:

The fair value of land was estimated by applying the market value approach. To evaluate the fair value of the assets, it compared the transaction price and desired selling price of similar assets in the active market and adjusted the actual difference between the evaluated assets and similar assets.

The fair value of building and machine was estimated by applying cost approach, which considered the current replacement cost of fixed assets after deduction of the loss value. The current replacement cost was calculated at full price multiplied by the new comprehensive rate of equipment.

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5 Changes in consolidation scope (Cont'd)

(1) Business combinations involving enterprises not under common control (Cont'd)

(c) Assets and liabilities of acquirees at acquisition dates are as follows (Cont'd):

(i) KUKA (Cont'd)

The fair value of trademarks and patents was estimated by applying income approach, which considered present value of royalty fees discounted at a proper rate that were saved annually by using the relevant assets during the remaining useful life of trademarks and patents.

Relationship with customers and orders were estimated by multi-period excess income general method. The present value on the assessment date was discounted at a proper rate on the basis of the sum of present value of excess income arising from economic benefits net of tax after deducting assets contributed during future useful years of customer relationship or orders.

(ii) SMC

| SMC | Fair value at the acquisition date | Carrying amount at the acquisition date |
|-------------------------|------------------------------------|---|
| Current assets | 116,172 | 116,172 |
| Non-current assets | 529,064 | 38,630 |
| Current liabilities | (75,593) | (75,593) |
| Non-current liabilities | (119,533) | (6,733) |
| Net assets obtained | 450,110 | 72,476 |

(d) Cash flows for the period from the acquisition date to 30 June 2017 are as follows:

| Item | For the period from the acquisition dates to 31 December 2016 | |
|--|---|---------|
| | KUKA | SMC |
| Net cash flows from operating activities | (992,726) | 29,256 |
| Net cash flows from investing activities | (447,133) | - |
| Net cash flows from financing activities | (161,311) | (1,666) |
| | (1,601,170) | 27,590 |

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5 Changes in consolidation scope (Cont'd)

(2) Changes in consolidation scope due to other reasons

(a) Increase of consolidation scope

In January 2017, the Company invested an amount of RMB50,000,000 by cash in the establishment of Guangdong Midea Advanced Technologies Co., Ltd., a fully-owned subsidiary.

In February 2017, the Company invested an amount of RMB30,000,000 by cash in the establishment of Guangdong Midea Intelligent Robotics Co., Ltd, a fully-owned subsidiary.

In February 2017, Hefei Hualing Co., Ltd. (subsidiary of the Company) invested an amount of RMB1,000,000 by cash in the establishment of Hefei Midea Advanced Technologies Co., Ltd., a fully-owned subsidiary.

In March 2017, the Company invested an amount of RMB1,000,000 by cash in the establishment of Guangdong Midea Electric Co., Ltd., a fully-owned subsidiary.

In March 2017, Guangdong Midea Electric Co., Ltd. (subsidiary of the Company) established Midea Electric Netherlands (I) B.V, a fully-owned subsidiary.

In May 2017, Guangdong Midea Life Electric Appliance Manufacturing Co., Ltd. (subsidiary of the Company) established the subsidiary Guangdong Midea Kafei Coffee Machine Manufacturing Co., Ltd. jointly with ALBA Investment Limited, with shareholding of 70% and 30%, respectively.

In June 2017, Shunde Home Appliance Industrial Co., Ltd. (subsidiary of the Company) invested of RMB300,000,000 by cash in the establishment of Chongqing Midea Microfinance Loan Co., Ltd.

(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 |
|---|-------------------------------|-----------------------------------|
| Beijing Beichuan Technology development Co., Ltd. | Deregistration | February 2017 |

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6 Interests in other entities

(1) Interests in subsidiaries

(a) Information of significant subsidiaries

| | Major business location | Place of registration | Nature of business | Shareholding (%) | | Acquisition method |
|--|-------------------------|------------------------|---|------------------|----------|--|
| | | | | Direct | Indirect | |
| Guangdong Midea Heating & Ventilation Equipment Co., Ltd. | Foshan, PRC | Foshan, PRC | Manufacture of air conditioner | 90% | 10% | Establishment |
| Hefei Hualing Co., Ltd. | Hefei, PRC | Hefei, PRC | Manufacture of refrigerator | 75% | 25% | Business combinations involving enterprises not under common control |
| Foshan Shunde Home Appliance Industrial Co., Ltd., | Foshan, PRC | Foshan, PRC | Investment holding | 100% | - | Establishment |
| Midea Wuhan Refrigeration Equipments Co., Ltd. | Wuhan, PRC | Wuhan, PRC | Manufacture of air conditioner | 73% | 7% | Establishment |
| Foshan Shunde Midea Electric Appliance Manufacturing Co., Ltd. | Foshan, PRC | Foshan, PRC | Manufacture of small household appliances | - | 100% | Establishment |
| Hefei Midea Refrigerator Co., Ltd. | Hefei, PRC | Hefei, PRC | Manufacture of refrigerator | 75% | 25% | Business combinations involving enterprises not under common control |
| Welling Holding Co., Ltd. | Foshan, PRC | Hong Kong | Manufacture of motors | 68.63% | - | 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 involving enterprises under common control |
| Annto Logistics Co., Ltd. | Wuhu, PRC | Wuhu, PRC | Cargo storage and transportation | 55% | 25% | Business combination involving enterprises under common control |
| Wuxi Little Swan Company Limited | Wuxi, PRC | Wuxi, PRC | Manufacture of washing machine | 38% | 15% | Business combinations involving enterprises not under common control |
| 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 Kitchen Electric Manufacturing Co., Ltd. | Foshan, PRC | Foshan, PRC | Manufacture of small household appliances | - | 100% | Establishment |
| 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 |
| Wuhu Meizhi Air-Conditioning Equipment Co., Ltd. | Wuhu, PRC | Wuhu, PRC | Manufacture of air conditioner | 88% | 12% | Establishment |
| Wuhu Midea Kitchen & Bathroom Electric Manufacturing | Wuhu, PRC | Wuhu, PRC | Manufacture of small household appliances | 90% | 10% | Business combination involving enterprises under common control |
| Wuhu Midea Electric Appliance Manufacturing Co., Ltd. | Wuhu, PRC | Wuhu, PRC | Manufacture of small household appliances | - | 100% | Establishment |
| MECCA INTERNATIONAL (BVI) LIMITED | British Virgin Islands | British Virgin Islands | Investment holding | - | 100% | Establishment |
| Midea International Holding Co., Ltd. | Hong Kong | Hong Kong | Investment holding | 100% | - | Establishment |
| Midea Investment & Development Corporation | British Virgin Islands | British Virgin Islands | Investment holding | - | 100% | Establishment |
| TLSC | Japan | Japan | Manufacture of household appliances | - | 80% | Business combinations involving enterprises not under common control |
| KUKA | Germany | Germany | intelligent automation | - | 94.55% | Business combinations involving enterprises not under common control |

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6 Interests in other entities (Cont'd)

(1) Interests in subsidiary (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 the end of period |
|---|---------------------------------------|---|--|---|
| Guangdong Midea Refrigeration Equipment Co., Ltd. | 20% | 81,167 | 122,225 | 669,332 |
| Wuxi Little Swan Company Limited | 47% | 345,870 | 224,501 | 2,843,923 |
| Guangdong GMCC Refrigeration Equipment Co., Ltd. | 40% | 53,514 | 48,705 | 755,181 |
| KUKA | 5% | (20,587) | 8,316 | 567,010 |
| Welling Holding Co., Ltd. | 31% | 103,715 | - | 1,430,973 |

(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 |
| Guangdong Midea Refrigeration Equipment Co., Ltd. | 32,712,681 | 2,206,014 | 34,918,695 | 31,550,114 | 21,922 | 31,572,036 | 26,783,871 | 2,330,584 | 29,114,455 | 25,652,465 | 7,972 | 25,660,437 |
| Wuxi Little Swan Company Limited | 17,005,259 | 1,650,029 | 18,655,288 | 11,327,752 | 18,085 | 11,345,837 | 17,327,867 | 1,558,120 | 18,885,987 | 11,906,121 | 20,771 | 11,926,892 |
| Guangdong GMCC Refrigeration Equipment Co., Ltd. | 3,205,217 | 635,759 | 3,840,976 | 1,927,369 | 25,655 | 1,953,024 | 3,217,419 | 671,471 | 3,888,890 | 1,991,784 | 33,821 | 2,025,605 |
| KUKA | 13,849,598 | 6,464,216 | 20,313,814 | 10,161,725 | 3,435,508 | 13,597,233 | N/A | N/A | N/A | N/A | N/A | N/A |
| Welling Holding Co., Ltd. | 5,703,174 | 1,273,970 | 6,977,144 | 2,469,610 | 26,925 | 2,496,535 | 5,327,043 | 1,302,187 | 6,629,230 | 2,417,136 | 63,782 | 2,480,918 |

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6 Interests in other entities (Cont'd)

(2) Information of enterprise group (Cont'd)

| 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 |
| Guangdong Midea Refrigeration Equipment Co., Ltd. | 19,448,635 | 405,834 | 405,834 | 1,780,834 | 15,100,437 | 818,125 | 818,125 | (5,107,950) |
| Wuxi Little Swan Company Limited | 10,568,061 | 832,760 | 800,344 | (142,411) | 7,984,787 | 664,923 | 701,188 | 1,607,097 |
| Guangdong GMCC Refrigeration Equipment Co., Ltd. | 4,196,850 | 133,785 | 135,814 | 413,802 | 3,509,078 | 125,483 | 120,769 | (72,374) |
| KUKA | 13,512,870 | 451,080 | 729,093 | (992,726) | N/A | N/A | N/A | N/A |
| Welling Holding Co., Ltd. | 4,849,629 | 328,540 | 328,540 | 215,898 | 3,943,392 | 386,836 | 386,836 | (344,511) |

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6 Interests in other entities (Cont'd)

(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 | 2,586,329 | 3,108,646 |
| Aggregate of the following items calculated in proportion to shareholding (i) | 287,134 | 200,742 |
| Other comprehensive income (i) | (8,069) | (65,706) |
| Total comprehensive income | 279,065 | 135,036 |

- (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.

In 2016 and early of 2017, the Group finished a series of overseas merges, such as TLSC and KUKA(Germany robot enterprises), and carried out integration on the existing business and newly acquired business. On the basis of new management mode, the segment reporting was adjusted accordingly, and the comparative figures were presented accordingly too. 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.

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8 Segment reporting

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

Segment information as at and for the six months ended 30 June 2017 is as follows:

| Item | Current 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 income 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 expenses | 794,475 | 947,541 | 1,462,109 | 202,267 | - | 3,406,392 |

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8 Segment report (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 2016 is as follows:

| Item | Comparative figure | | | | | Total |
|---|---|---------------------|-----------------------------|--------------------------------|---------------|--------------|
| | Heating & ventilation, as well as air-conditioner | Consumer appliances | Robots and automatic system | Other segments and unallocated | Elimination | |
| Revenue from external customers | 39,629,469 | 36,981,287 | - | 1,396,760 | - | 78,007,516 |
| Inter-segment revenue | 185,483 | 96,123 | - | 1,904,893 | (2,186,499) | - |
| Operating expenses | (33,557,545) | (32,172,808) | - | (3,270,777) | 2,182,717 | (66,818,413) |
| Segment profit | 6,257,407 | 4,904,602 | - | 30,876 | (3,782) | 11,189,103 |
| Other profit or loss | | | | | | 988,466 |
| Total profit | | | | | | 12,177,569 |
| Total assets | 90,473,297 | 101,109,587 | - | 73,283,606 | (97,363,743) | 167,502,747 |
| Total liabilities | 66,788,913 | 70,938,523 | - | 71,061,413 | (103,945,230) | 104,843,619 |
| Long-term equity investments in associates and joint ventures | 617,369 | 2,700 | - | 2,488,577 | - | 3,108,646 |
| Investment income from associates and joint ventures | 32,339 | - | - | 168,403 | - | 200,742 |
| Increase in non-current assets (excluding available-for-sale financial assets, long-term equity investments and deferred income tax assets) | 566,527 | 8,256,262 | - | 483,029 | - | 9,305,818 |
| Asset impairment losses/(reversal) | 123,937 | 32,502 | - | 94,472 | 899 | 251,810 |
| Depreciation and amortisation expenses | 767,432 | 675,610 | - | 129,213 | - | 1,572,255 |

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8 Segment report (Cont'd)**(b) Geographical area information**

The Group's revenue from external customers domestically and in foreign countries or geographical areas, and the total non-current assets other than available-for-sale financial assets, long-term equity investments, goodwill and deferred income tax assets located domestically and in foreign countries or geographical areas (including Germany, Japan, Hong Kong, Macau, Singapore, and Brazil, etc.) are as follows:

| Revenue from external customers | Current figure | Comparative figure |
|---------------------------------------|----------------|--------------------|
| Domestic | 69,364,700 | 46,668,922 |
| In other countries/geographical areas | 55,598,916 | 31,338,594 |
| Total | 124,963,616 | 78,007,516 |

| Total non-current assets | Current figure | Comparative figure |
|---------------------------------------|----------------|--------------------|
| Domestic | 23,250,191 | 28,960,862 |
| In other countries/geographical areas | 19,155,011 | 8,751,634 |
| Total | 42,405,202 | 37,712,496 |

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. | 33.93% | - | 33.93% | 34.75% | - | 34.75% |

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

(2) Information of the Company's subsidiaries

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

(3) Information of other related parties

| Name of other related parties | Relationship |
|--|---|
| Guangzhou Wellkey Electrician Material Co., Ltd. | Under common control of the direct relatives of the Company's ultimate controlling shareholders |
| Anhui Wellkey Electrician Material Co., Ltd. | Under common control of the direct relatives of the Company's ultimate controlling shareholders |
| Infore Investment Holding Group Co., Ltd. | Under common control of the direct relatives of the Company's ultimate controlling shareholders |
| Hefei Orinko Plastics Group. | Under common control of the direct relatives of the Company's ultimate controlling shareholders |
| Foshan Midea Real Estate Development Co., Ltd. | Under common control of the Company's actual controlling persons |
| 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 | 241,380 | 104,024 |
| Guangzhou Wellkey Electrician Material Co., Ltd. | Purchase of goods | Agreed price | 417,827 | 476,574 |
| Foshan Micro Midea Filter MFG Co., Ltd. | Purchase of goods | Agreed price | 93,705 | 82,158 |
| Guangdong Infore Electronics Co., Ltd. | Purchase of goods | Agreed price | 714 | - |
| Anhui Wellkey Electrician Material Co., Ltd. | Purchase of goods | Agreed price | 123,049 | 117,679 |
| Total | | | 876,675 | 780,435 |

(b) Investment income

| Related parties | Content | Current figure | Comparative figure |
|---|----------------------------|----------------|--------------------|
| Foshan Shunde Rural Commercial Bank Co., Ltd. | Wealth management products | 28,287 | 44,400 |

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

(5) Receivables from and payables to related parties

Receivables from related parties

| Items | Related parties | Ending balance | Opening balance |
|-----------------------|------------------------------|----------------|-----------------|
| Advances to suppliers | Hefei Orinko Plastics Group. | 126,893 | 41,161 |

| Items | Related parties | Ending balance | Opening balance |
|----------------------|---|----------------|-----------------|
| Other current assets | Foshan Shunde Rural Commercial Bank Co., Ltd. | 800,000 | 1,500,000 |

| Items | Related parties | Ending balance | Opening balance |
|--------------------------|---|----------------|-----------------|
| Cash at bank and on hand | Foshan Shunde Rural Commercial Bank Co., Ltd. | 437,104 | 1,201,929 |

Payables to related parties:

| Items | Related parties | Ending balance | Opening balance |
|------------------|--|----------------|-----------------|
| Accounts payable | Guangzhou Wellkey Electrician Material Co., Ltd. | 168,610 | 43,132 |
| | Foshan Micro Midea Filter MFG Co., Ltd. | 29,701 | 15,985 |
| | Hefei Orinko Plastics Group. | 19,145 | 12,269 |
| | Anhui Wellkey Electrician Material Co., Ltd. | 44,490 | 55,962 |
| | Guangdong Infore Electronics Co., Ltd. | 201 | - |
| Sub-total | | 262,147 | 127,348 |

10 Share-based payment and restricted shares

(1) Share-based payment

- (a) Pursuant to the forth share option incentive plan (the "Forth Share Option Incentive Plan") approved at the shareholders' meeting for the year ended 31 December 2016 dated 21 April 2017, the Company granted 98,274,000 share options with exercise price of RMB32.72 to 1463 employees. Under the circumstance that the Company meets expected performance, 1/3 of the total share options granted will become effective after 1 year, 2 years and 3 years respectively since 12 May 2017.

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

| | |
|---|-----------|
| Exercise price of options: | RMB 32.72 |
| Effective period of options: | 4 years |
| Current price of underlying shares | RMB 35.75 |
| Estimated fluctuation rate of share price: | 38.13% |
| Estimated dividend rate: | 4.40% |
| Risk-free interest rate within effective period of options: | 2.83% |

The fair value of the Forth Share Option Incentive Plan calculated pursuant to the above parameters is: RMB835,743,000.

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10 Share-based payment and restricted shares (Cont'd)

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

(b) Movements of share options during the six months

| Item | For the six months ended 30 June 2017 (share options in thousands) | For the six months ended 30 June 2016 (share options in thousands) |
|---|--|--|
| Share options issued at the beginning of year | 250,797 | 203,595 |
| Share options granted during current period | 98,274 | 127,290 |
| Share options exercised during current period | (37,740) | (24,675) |
| Share options lapsed during current period | - | - |
| Share options issued at the end of year | 311,331 | 306,210 |

As at 31 December 2016, 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.

- (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 2017 were RMB333,931,000. As at 30 June 2017, the balance relating to the option incentive plan and provided for in capital surplus was RMB722,979,000.

(2) Restricted shares

- (a) Pursuant to the Restricted Share Incentive Plan for 2017 as approved at the shareholders' meeting dated 21 April 2017 (the "Restricted Share Incentive Plan for 2017"), the Company granted 23,130,000 restricted shares with an exercise price of RMB15.86 to 133 employees. 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 and 3 years, respectively, since 12 May 2017.

For the six months ended 30 June 2017, expenses recognised for the Restricted Share Incentive Plan was RMB6,331,000. As at 30 June 2017, balance related to the Restricted Share Incentive Plan provided in the share capital was RMB6,055,000.

11 Contingencies

The amount in tax disputes involving Brazilian subsidiary with 51% interests held by the Company is about BRL629 million (equivalent to RMB1,288 million) (Some cases have lasted for more than 10 years. The above amount includes the principal and interest). As at 30 June 2017, relevant cases are still at court. Original shareholders of Brazilian subsidiary have agreed to compensate the Company according to verdict results of the above tax disputes. The maximum compensation amount is about BRL157 million (equivalent to RMB322 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.

MIDEA GROUP CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

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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.

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's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars. The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. Therefore, the Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk.

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14 Financial risk (Cont'd)

(1) Market risk (cont'd)

(b) Interest rate risk

The Group's interest rate risk arises from interest bearing borrowings including long-term borrowings and debentures payable. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 30 June 2017, the long-term interest bearing borrowings at floating rates of the Group are RMB0.

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.

As at 30 June 2017, if interest rates on the floating rate borrowings had risen/fallen by 50 basis points while all other variables had been held constant, the Group's net profit would have decreased/increased by approximately RMB0.

(2) Credit risk

Credit risk is managed on the grouping basis. Credit risk mainly arise from cash at bank, deposits with central bank, deposits with banks and other financial institutions, notes receivable, accounts receivable, interest receivable, loans and advances, other receivables and other structural deposits in current assets.

The Group expects that there is no significant credit risk associated with cash at bank, deposits with central bank and deposits with banks and other financial institutions since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on notes receivable, accounts receivable, interest receivable, loans and advances, other receivables and other structural deposits in current assets. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

(3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

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14 Financial risk (Cont'd)**(3) Liquidity risk (Cont'd)**

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

| Ending balance | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total |
|--|---------------|--------------|--------------|--------------|-------------|
| Short-term borrowings (including interest) | 32,393,436 | - | - | - | 32,393,436 |
| Notes payable | 22,034,312 | - | - | - | 22,034,312 |
| Accounts payable | 32,298,812 | - | - | - | 32,298,812 |
| Interest payable | 35,564 | - | - | - | 35,564 |
| Dividends payable | 277,840 | - | - | - | 277,840 |
| Other payables | 2,262,085 | - | - | - | 2,262,085 |
| Borrowings from central bank | - | - | - | - | - |
| Customer deposits and deposits from banks and other financial institutions | 110,016 | - | - | - | 110,016 |
| Derivative financial liabilities | 43,734 | - | - | - | 43,734 |
| Financial assets sold under repurchase agreements | - | - | - | - | - |
| Current portion of non-current liabilities | 77,711 | - | - | - | 77,711 |
| Other current liabilities | 26,604,521 | - | - | - | 26,604,521 |
| Long-term borrowings (including interest) | 35,310 | 2,134,041 | 2,018,847 | 2,125 | 4,190,323 |
| Debentures payable | 113,492 | 4,818,240 | - | - | 4,931,732 |
| Sub-total | 116,286,833 | 6,952,281 | 2,018,847 | 2,125 | 125,260,086 |

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.

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15 Fair value estimates (Cont'd)

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

As at 30 June 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 the end of period | | | |
|--|---------------------------------|----------------|-------------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through profit or loss - derivative financial assets | - | 518,481 | - | 518,481 |
| Available-for-sale financial assets - other current assets - wealth management products | - | - | 30,514,012 | 30,514,012 |
| Available-for-sale financial assets - other non-current assets - wealth management products and asset management plans | - | - | 500,000 | 500,000 |
| Available-for-sale financial assets | 42,790 | - | 25,025 | 67,815 |
| Total assets | 42,790 | 518,481 | 31,039,037 | 31,600,308 |
| Financial liabilities at fair value through profit or loss - derivative financial liabilities | - | 43,975 | - | 43,975 |
| Total liabilities | - | 43,975 | - | 43,975 |

The Group takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. There was no significant transfer of fair value measurement level of the above financial instruments.

The fair value of financial instruments traded in an active market is determined at the quoted market price; and the fair value of those not traded in an active market is determined by the Group using valuation technique. The valuation models used mainly primarily comprise discounted cash flow model and market comparable corporate model. Inputs of valuation technique mainly comprise risk-free interest rate, estimated interest rate and estimated annual yield.

There was no change in the valuation technique for the fair value of the Group's financial instruments in current year.

| Item | - Available-for-sale equity instruments |
|--|---|
| Opening balance | 30,109,067 |
| Purchases | 17,396,174 |
| Sales | (17,163,908) |
| Total gains of current period | |
| Investment income recognised in the income statement | 628,641 |
| Gains recognised in other comprehensive income | 69,063 |
| Ending balance | 31,039,037 |

There was no change in the valuation technique for the fair value of the Group's financial instruments in current year.

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15 Fair value estimates (Cont'd)

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

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

| | 30 June 2017 Fair value | Valuation technique | Inputs | | | Observable/un- observable |
|--|----------------------------|--------------------------|---------------------------|--------------|---------------------------------|------------------------------|
| | | | Name | Range | Relationship with fair value | |
| Available-for-sale financial assets - | | | | | | |
| Other current assets | 30,514,012 | Discounted cash flows | Estimated annual yield | 2.2% to 7.2% | Positive | Unobservable |
| Other non-current assets | 500,000 | Discounted cash flows | Estimated annual yield | 4% to 7.35% | Positive | Unobservable |
| Available-for-sale financial assets | 25,025 | Income approach | - | - | - | - |
| | <u>31,039,037</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 2017 and 31 December 2016 approximated 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 2017 and 31 December 2016, the Group's gearing ratio is as follows:

| Item | Ending balance | Opening balance |
|-------------------|----------------|-----------------|
| Total liabilities | 156,021,600 | 101,624,015 |
| Total assets | 231,016,492 | 170,600,711 |
| Gearing ratio | 67.54% | 59.57% |

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17 Notes to the parent company's financial statements

(1) Other receivables

| Item | Ending balance | Opening balance |
|-------------------------------|----------------|-----------------|
| Current accounts | 14,686,555 | 12,584,623 |
| Guaranty | 1,124 | 60,707 |
| Sub-total | 14,687,679 | 12,645,330 |
| Less: Provision for bad debts | (884) | (738) |
| Total | 14,686,795 | 12,644,592 |

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

| Ageing | Ending balance | Opening balance |
|-------------------------------|----------------|-----------------|
| Within 1 year (inclusive) | 8,524,117 | 6,088,475 |
| 1 to 2 years (inclusive) | 6,163,562 | 6,556,855 |
| Sub-total | 14,687,679 | 12,645,330 |
| Less: Provision for bad debts | (884) | (738) |
| Total | 14,686,795 | 12,644,592 |

(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 provided on the individual basis | 14,682,836 | 99.97% | - | - | 12,633,325 | 99.91% | - | - |
| Provision for bad debts provided on the grouping basis | 4,843 | 0.03% | 884 | 18.25% | 12,005 | 0.09% | 738 | 6.15% |
| Total | 14,687,679 | 100.00% | 884 | 0.01% | 12,645,330 | 100.00% | 738 | 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 | 1,361 | 67 | 5.00% | 9,245 | 462 | 5.00% |
| 1 to 2 years | 1,140 | 114 | 10.00% | 2,760 | 276 | 10.00% |
| 2 to 3 years | 2,342 | 703 | 30.00% | - | - | - |
| Sub-total | 4,843 | 884 | 18.25% | 12,005 | 738 | 6.15% |

MIDEA GROUP CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
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17 Notes to the parent company's financial statements (Cont'd)**(1) Other receivables (Cont'd)**

(d) As at 30 June 2017, 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 | Temporary payments receivable | 6,157,095 | Within 2 year | 42% | - |
| 2nd | Temporary payments receivable | 1,864,680 | Within 1 year | 13% | - |
| 3rd | Temporary payments receivable | 88,946 | Within 1 year | 1% | - |
| 4th | Temporary payments receivable | 75,544 | Within 1 year | 1% | - |
| 5th | Temporary payments receivable | 62,759 | Within 1 year | 0% | - |
| Sub-total | | 8,249,024 | | 56% | - |

(2) Long-term equity investments

Long-term equity investments are classified as follows:

| Item | Ending balance | Opening balance |
|--------------------------------|----------------|-----------------|
| Subsidiaries (a) | 22,476,789 | 21,716,662 |
| Associates (b) | 1,470,881 | 1,342,318 |
| Sub-total | 23,947,670 | 23,058,980 |
| Less: Provision for impairment | - | - |
| Total | 23,947,670 | 23,058,980 |

MIDEA GROUP CO., LTD.

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

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

(a) Subsidiaries

| Investee | Opening balance | Movements in the current year | | | | | Ending balance | Cash dividends declared in the current year |
|---|-----------------|-------------------------------|--|------------------------|-----------------------|--------|----------------|---|
| | | Additional investment | Changes arising from share-based payment | Decrease in investment | Absorption and merger | Others | | |
| Wuxi Little Swan Company Limited | 2,699,321 | - | 21,150 | - | - | - | 2,720,471 | 179,211 |
| Midea Group Finance Co., Ltd. | 1,431,886 | - | 2,783 | - | - | - | 1,434,669 | 312,545 |
| Hefei Midea Heating & Ventilation Equipment Co., Ltd. | 1,052,268 | - | 2,198 | - | - | - | 1,054,466 | 872,573 |
| Hubei Midea Refrigerator Co., Ltd. | 835,994 | - | 1,482 | - | - | - | 837,476 | - |
| Anhui GMCC Precision Manufacturing Co., Ltd. | 808,032 | - | 3,336 | - | - | - | 811,368 | 336,128 |
| Foshan Shunde Home Appliance Industrial Co., Ltd. | 2,449,000 | 500,000 | - | - | - | - | 2,949,000 | - |
| Wuhu Meizhi Air-Conditioning Equipment Co., Ltd. | 736,448 | - | 3,670 | - | - | - | 740,118 | - |
| Guangdong Midea Refrigeration Equipment Co., Ltd. | 955,245 | - | 97,935 | - | - | - | 1,053,180 | 446,123 |
| Annto Logistics Co., Ltd. | 474,391 | - | 3,241 | - | - | - | 477,632 | 168,513 |
| Guangdong Midea Commercial Air Conditioning Equipment Co., Ltd. | 569,430 | - | - | - | - | - | 569,430 | 22,162 |
| Ningbo Midea United Material Supply Co., Ltd. | 484,506 | - | 1,539 | - | - | - | 486,045 | 486,961 |
| Guangzhou Hualing Refrigeration Equipment Co., Ltd. | 496,014 | - | 3,775 | - | - | - | 499,789 | - |
| Guangzhou Midea Hualing Refrigerator Co., Ltd. | 423,948 | - | 1,062 | - | - | - | 425,010 | - |
| Hefei Midea Refrigerator Co., Ltd. | 453,337 | - | 10,928 | - | - | - | 464,265 | - |
| Guangdong Midea Wuhu Refrigeration Equipment Co., Ltd. | 350,092 | - | 1,266 | - | - | - | 351,358 | 88,740 |
| Anhui GMCC Refrigeration Equipment Co., Ltd. | 316,871 | - | 2,405 | - | - | - | 319,276 | - |
| Guangdong Midea Heating & Ventilation Equipment Co., Ltd. | 344,730 | - | 22,851 | - | - | - | 367,581 | 736,698 |
| Midea Electric Investment (BVI) Limited | 236,543 | - | - | - | - | - | 236,543 | - |
| Midea International Holding Co., Ltd. | 176,974 | - | - | - | - | - | 176,974 | - |
| Guangzhou Hualing Refrigeration Equipment Co., Ltd. | 136,745 | - | - | - | - | - | 136,745 | - |
| Foshan Midea Carrier Refrigeration Equipment Co., Ltd. | 128,733 | - | 2,633 | - | - | - | 131,366 | - |
| Hefei Midea Material Supplies Co., Ltd. | 117,000 | - | - | - | - | - | 117,000 | 58 |
| Midea Group E-commerce Co., Ltd. | 115,984 | - | 6,599 | - | - | - | 122,583 | - |

MIDEA GROUP CO., LTD.

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

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

(a) Subsidiaries (Cont'd)

| Investee | Opening balance | Movements in the current year | | | | | Ending balance | Cash dividends declared in the current year |
|--|-----------------|-------------------------------|--|------------------------|-----------------------|--------|----------------|---|
| | | Additional investment | Changes arising from share-based payment | Decrease in investment | Absorption and merger | Others | | |
| Midea Smart Home Technology Co., Ltd. | 20,000 | - | - | - | - | - | 20,000 | - |
| Guangdong GMCC Refrigeration Equipment Co., Ltd. | 135,332 | - | 10,615 | - | - | - | 145,947 | 73,057 |
| Hefei Hualing Co., Ltd. | 107,996 | - | 7,975 | - | - | - | 115,971 | - |
| Midea Wuhan Refrigeration Equipments Co., Ltd. | 79,331 | - | 4,090 | - | - | - | 83,421 | 189,988 |
| Foshan City Midea Material Supplies Co., Ltd. | 54,000 | - | - | - | - | - | 54,000 | 5,204 |
| Zhejiang GMCC Compressor Co., Ltd. | 52,820 | - | 1,588 | - | - | - | 54,408 | 380,457 |
| Chongqing Midea Refrigeration Equipment Co., Ltd. | 59,614 | - | 3,324 | - | - | - | 62,938 | - |
| Wuhu Little Swan Refrigeration Equipment Co., Ltd. | 47,500 | - | - | - | - | - | 47,500 | - |
| Guangdong GMCC Precision Manufacturing Co., Ltd. | 38,438 | - | 45 | - | - | - | 38,483 | 34,928 |
| Foshan City Midea Air-conditioners Industrial Investment Co., Ltd. | 36,062 | - | - | - | - | - | 36,062 | - |
| Chongqing Midea General Refrigeration Equipment Co., Ltd. | 40,588 | - | 3,534 | - | - | - | 44,122 | - |
| Midea Finance Holding (Shenzhen) Co., Ltd. | 50,000 | - | - | - | - | - | 50,000 | - |
| Foshan City Shunde District Midea Electronic Technology Co., Ltd. | 16,303 | - | 1,920 | - | - | - | 18,223 | - |
| Midea Holdings (BVI) Ltd. | 82 | - | - | - | - | - | 82 | - |
| Handan Midea Refrigeration Equipment Co., Ltd. | 131,079 | - | 3,310 | - | - | - | 134,389 | - |
| Midea Group Payment Technology Co., Ltd. | 100,213 | - | 106 | (100,319) | - | - | - | 41 |
| Midea Innovation Investment Co., Ltd. | 35,000 | - | - | - | - | - | 35,000 | - |
| Guangdong Midea Microwave Electric Manufacturing Co., Ltd. | 1,880,041 | - | - | - | - | - | 1,880,041 | - |
| Wuhu Midea Kitchen Appliances Manufacturing Co., Ltd. | 20,000 | - | 120 | - | - | - | 20,120 | - |
| Jiangsu Midea Chunhua Electric Co., Ltd. | 96,900 | - | 2,629 | - | - | - | 99,529 | - |
| Guangdong Witt Vacuum Electronics Manufacturing Co., Ltd. | 196,427 | - | 308 | - | - | - | 196,735 | 104,603 |
| Guangdong Midea Life Electric Appliance Manufacturing Co., Ltd. | 1,003,673 | - | 11,382 | - | - | - | 1,015,055 | - |
| Wuhu Midea Electric Appliance Manufacturing Co., Ltd. | 56,223 | - | - | - | - | - | 56,223 | 89,832 |

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

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

(a) Subsidiaries (Cont'd)

| Investee | Opening balance | Movements in the current year | | | | | Ending balance | Cash dividends declared in the current year |
|--|-------------------|-------------------------------|--|------------------------|-----------------------|----------|-------------------|---|
| | | Additional investment | Changes arising from share-based payment | Decrease in investment | Absorption and merger | Others | | |
| Foshan Shunde Water machine manufacturing Co., Ltd. | 36,658 | - | 2,078 | - | - | - | 38,736 | - |
| Foshan Midea Qinghu purification equipment Co., Ltd. | 59,386 | - | 1,908 | - | - | - | 61,294 | 12,000 |
| Guangdong Midea Intelligent Technology Co., Ltd. | 10,000 | - | - | - | - | - | 10,000 | - |
| Wuhan Midea electric appliance manufacturing co., LTD | 80,000 | - | - | - | - | - | 80,000 | - |
| Guangdong Midea Environmental Electric Appliance Manufacturing Co., Ltd. | 307,689 | - | 11,144 | - | - | - | 318,833 | - |
| Foshan Shunde Midea Washing Appliance Manufacturing Co., Ltd. | 414,887 | - | 5,474 | - | - | - | 420,361 | 297,734 |
| Guangdong Midea Kitchen & Bathroom Electric Manufacturing | 80,664 | - | 438 | - | - | - | 81,102 | 34,295 |
| Wuhu Midea Kitchen & Bathroom Electric Manufacturing | 79,319 | - | 12,382 | - | - | - | 91,701 | 611,481 |
| Foshan Shunde Meiyong Enterprise Management Services Co., Ltd. | 13,000 | - | - | - | - | - | 13,000 | - |
| Jiangxi Midea Guiya lighting co., LTD | 164,830 | - | 2,592 | - | - | - | 167,422 | - |
| Guangdong Midea Household Appliances Import and Export Trade Co., Ltd. | 53,207 | - | - | - | - | - | 53,207 | - |
| JV MIDEA-HORIZONT Co., Ltd. | 41,357 | - | - | - | - | - | 41,357 | 877 |
| Guangdong MIDEA-YASKAWA Service Robotics Ltd. | 12,020 | - | - | - | - | - | 12,020 | - |
| Foshan Shunde District Midea Petty Loan Co., Ltd. | 68,344 | - | 772 | - | - | - | 69,116 | - |
| Guangdong Midea Electric Co., Ltd. | - | 1,000 | - | - | - | - | 1,000 | - |
| Guangdong Midea Intelligent Robotics Co., Ltd. | - | 30,000 | - | - | - | - | 30,000 | - |
| Guangdong Midea Advanced Technologies Co., Ltd. | - | 50,000 | - | - | - | - | 50,000 | - |
| Midea Petty Loan Co., Ltd. | 55,173 | - | 142 | - | - | - | 55,315 | - |
| Midea Robotics Industry Development Co., Ltd. | 7,000 | - | - | - | - | - | 7,000 | - |
| Wuhu Midea Household Consultation Service Co., Ltd. | 101,542 | - | 106 | - | - | - | 101,648 | - |
| Hefei Midea Washing Machine Co., Ltd. | 78,042 | - | 2,611 | - | - | - | 80,653 | - |
| Chinese Refrigerator Industry Co., Ltd. | 2,430 | - | - | - | - | - | 2,430 | - |
| Total | 21,716,662 | 581,000 | 279,446 | (100,319) | - | - | 22,476,789 | 5,484,209 |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

(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

| Investee | Opening balance | Current year movement | | | | | | | | Ending balance | Provision for impairment loss at the end of year |
|---|------------------|-----------------------|------------------------|--|---|-------------------------|------------------------------------|-------------------------------|----------|------------------|--|
| | | Additional investment | Decrease in investment | Share of net profit/(loss) under equity method | Adjustments of other comprehensive income | Other changes in equity | Cash dividends or profits declared | Provision for impairment loss | Others | | |
| Associates - | | | | | | | | | | | |
| Foshan Shunde Rural Commercial Bank Co., Ltd. | 971,931 | - | - | 207,822 | (6,624) | - | (74,383) | - | - | 1,098,746 | - |
| Hefei Royalstar Motor Co., Ltd. | 102,576 | - | - | 551 | - | - | - | - | - | 103,127 | - |
| GE Fund Management Co., Ltd. | 43,035 | - | - | 7,371 | - | - | - | - | - | 50,406 | - |
| Foshan Micro Midea Filter MFG Co., Ltd. | 36,779 | - | - | 2,552 | - | - | (8,000) | - | - | 31,331 | - |
| Anhui Efort Intelligent Equipment Co., Ltd. | 178,558 | - | - | (2,833) | 3,198 | (61) | - | - | - | 178,862 | - |
| Guangdong YASKAWA-MIDEA Industrial Robotics System Ltd. | 9,439 | - | - | (1,030) | - | - | - | - | - | 8,409 | - |
| Total | 1,342,318 | - | - | 214,433 | (3,426) | (61) | (82,383) | - | - | 1,470,881 | - |

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

(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)

(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 | 5,484,209 | 7,105,789 |
| Investment income from wealth management products purchased from financial institutions | 426,915 | 425,882 |
| Investment income from long-term equity investment under equity method | 214,433 | 131,111 |
| Losses on disposal of long-term equity investment | (319) | (104,071) |
| Income earned during the holding period of available-for-sale financial assets | - | - |
| Total | 6,125,238 | 7,558,711 |

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

MIDEA GROUP CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

(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 | 759,055 | 6,042 |
| 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) | 843,198 | 762,724 |
| Income arising from investment cost of enterprises' acquisition of subsidiaries, associates and joint venture which is less than the share of the fair value of the investee's identifiable net assets at the time of acquisition of investment | - | - |
| 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. | (135,031) | (539,590) |
| Reversal of impairment provision for receivables individually assessed for impairment | - | - |
| Other operating income and expenses other than those above mentioned | (185,909) | 67,147 |
| Sub-total | 1,281,313 | 296,323 |
| Less: Corporate Income tax effect (of which the decrease is represented by "-") | (297,237) | (30,545) |
| Minority interests effect (after tax) | (64,520) | 130,471 |
| Net non-recurring profit or loss attributable to shareholders of the parent company | 919,556 | 396,249 |

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 | 16.46% | 17.64% | 1.67 | 1.48 | 1.66 | 1.48 |
| Net profit attributable to shareholders of the Company net of non-recurring profit or loss | 15.06% | 16.90% | 1.53 | 1.42 | 1.52 | 1.42 |

Section 10 Catalog of reference documentation

1. Original copy of *Interim Report of Midea Group Co., Ltd. for the six months ended 30 June 2017* with signature of legal representative of the Company;
2. Financial statements with signature and stamp of legal representative, financial principal and person in charge of accounting department;
3. Original copy of all the Company documentation and announcements publicly disclosed in assigned information disclosure journals during the reporting period.
4. Electronic document of interim report of the Company for the six months ended 30 June 2017 on <http://www.cninfo.com.cn>

MIDEA GROUP CO., LTD.

**Legal representative:
Fang hongbo**

31 August 2017