Midea Group Co., Ltd.

The 2018 Annual Report

20 April 2019

Section I Important Statements, Contents and Definitions

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

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

The financial statements for 2018 have been audited by PricewaterhouseCoopers China (LLP) and have obtained a standard unqualified audit report.

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

The Board has considered and approved the following dividend payout plan for the year 2018: based on the Company's total shares of 6,585,838,349 that are eligible for profit distribution at the disclosure date of this report, it is proposed that the Company should distribute a cash dividend of RMB13 (tax inclusive) per 10 shares to all the shareholders and should not convert capital reserves into share capital. When the profit distribution plan is implemented, if any change occurs to the total shares eligible for profit distribution, the profit distribution plan shall be based on the total shares eligible for profit distribution at the book closure date of the profit distribution, and the dividend per share shall be adjusted under an unchanged total distribution amount.

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

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

Letter to Shareholders

2018 marks great advancement of the era. Having celebrated the 40th anniversary of the Chinese economic reform, and looking forward to the upcoming 70th anniversary of the establishment of New China, new perspectives, new starting points, and new systems were born as Midea also celebrated its 50th anniversary. When we look back at history, there were hard times and difficulties, glories and achievements, diligence and hard work, as well as reformation and responsibilities. All of these have powered the advancement of our country, ethnic groups, companies, and individuals.

2018 was a time of changes that had not been seen for a century. Chaos amid the great changes have become the norm and the market settled and returned to reality after all the dust has settled. Crises and opportunities come hand-in-hand amid changes and they rise and fall in the turning cycle. In an era of swift and momentous changes, the courage for reforms becomes the purest form of heritage from Midea's fifty years of development.

Despite the hard time we had in 2018, Midea achieved a total revenue of RMB 261.82 billion, which was a year-on-year increase of 8.23%; and achieved RMB 20.23billion in net profit attributable to shareholders of the Company, recording a year-on-year increase of 17.05%. At the same time, we were able to maintain stable operations and raise competitiveness. By expanding R&D investment, launching new products, and leveraging our advantages in channel reforms and synergy, we have obtained great progress and results in terms of Industrial Internet, IoT applications, and the establishment of a multi-brand system. Midea ranked 323rd in Fortune's world Top 500 enterprises in 2018 as it climbed 127 places and took the number one ranking in China's home appliance industry. Midea was ranked 26th among the "Top 100 Most Valuable Chinese Brands" in 2018 by BrandZ™ and its brand value increased by 40%. It has obtained a leading position among domestic high-tech home appliance brands. Midea ranked 138th on the top 500 list of the world's most valuable brands published by the British brand valuation agency Brand Finance.

Midea has always upheld the value of enhancing the Company's level of governance and protecting the interests of our shareholders. By repurchasing our stocks amounting to RMB

4 billion amid the fluctuations on the market, Midea contributed to the largest general repurchase completed in recent years. In addition, Midea continued to maintain a stable dividends policy and the cumulative dividends since its holistic listing will reach RMB 35.7 billion (2018 profit distribution plan included). The stable business performance and outstanding governance makes Midea one of the most popular long-term investments for foreign investors. The shareholding ratio of international investors once approached 28%.

We are now in an unusual era, huge impacts on human work and the skills required in future are being casted by artificial intelligence, machine learning, virtual reality, smart home, Industrial Internet, 5G network and more. Innovation in business models and changes in the structure of the population lead to an endless stream of new competitors and new business models. We are facing higher level of uncertainty like never before. Past advantages are no longer a blessing, while old weaknesses are no longer obstacles for future development. All great companies across the world must face challenges in different cycles. Companies that confine themselves to the concepts and methods of the industrial age face decline. They may have once flourished but they may also turn to dust in this digital age where change no longer waits for anyone.

With “Bring Great Innovations to Life” as our vision，in Midea's 50th anniversary, only through rebirth can we adapt to such a great era and uphold our values and mission. "Change" is our simplest answer in face of complexity.

We will continue to foster changes in business models, truly placing users' demands as our starting point. By adopting a user-centric approach in product development and production and engaging in painful reforms to intensify the transformation in domestic channels, we are going to use the "+ Internet" philosophy and methods for the integration of value chains and system optimization. We shall allocate all resources to areas of concern to end users and continue to improve user experience and optimize our services.

Furthermore, we need to continue to transform our growth and achieve innate inventory reforms by using digital channels to transform sales and retail and establish solid relationships with users. Our systems have to be transformed from traditional marketing to big data marketing, thus providing users with better experience and services. Meanwhile, we shall leverage our scale advantage and expand network effects.

It is important to keep investing resources and increasing the growth of our R&D scale and innovation capacity so as to use products to achieve victory. We shall provide diverse product suites in response to trends for more youthful, high-end and suite designed products, and make all our products smart for advancing into the future. Midea hopes to take advantage of innovation to foster development and invest in robotics, automation, smart logistics, and IoT, so as to harness its advantages in the three key elements of "industrial knowledge, software, and hardware". We shall establish leading industrial Internet platforms and form digitalized solutions for the whole value chain.

We shall continue to advance the digital transformation and establish a "digital Midea" by leveraging the ABC (artificial intelligence, big data, and cloud computing) and the IoT. We shall change Midea's existing business model, reduce cost, and increase efficiency by using smart operations and continue to improve our operational capacity through an efficiency-driven approach.

Once started, changes and rebirth with have no end. In 2018, He Xiangjian, founder of Midea, was awarded the honorary title of "Pioneer of Reform" by the CPC Central Committee and the State Council. In the fifty years since the company’s founding, each step in Midea's growth is characterized by the change of the era. Market competition has never been easy and Midea's fifty years of development was full of hardships and difficulties. In the face of a rising storm of competition and the rapid changes and the huge waves of the era, everyone who strives to step forward can transform themselves into the storms, waves, and changes.

The past is gone and the future is yet far. The greatest act of kindness to the future is to dedicate everything to the present.

Thank you for joining us in our rebirth at 50, let's witness the re-creation of greatness together.

Board of Directors, Midea Group Co., Ltd.

April 2019

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Definitions

Term	Definition
The “Company”, “Midea”, “Midea Group” or the “Group”	Midea Group Co., Ltd.
Midea Holding	Midea Holding Co., Ltd.
Little Swan	Wuxi Little Swan Company Limited
TLSC	Toshiba Lifestyle Products & Services Corporation
KUKA	KUKA Aktiengesellschaft
Reporting Period	1 January 2018 to 31 December 2018

Section II Company Profile and Key Financial Results

1. Corporate Information

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

2. Contact Us

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

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

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

4. Company Registration and Alteration

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

5. Other Relevant Information

Accounting firm engaged by the Company

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

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

□Applicable √N/A

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

√Applicable □N/A

Name of the financial advisor	Business office of the financial advisor	Representative of the financial advisor	Supervisory period
CITIC Securities Co., Ltd.	CITIC Securities Tower, No.8 Zhongxin 3rd Road, Futian District, Shenzhen, 518048, PRC	Wu Renjun and Li Wei	2017.1.6-2018.12.31

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

6. Key Accounting Data and Financial Indicators

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

□Yes √No

	2018	2017	2018-over-2017 change (%)	2016
Operating revenues (RMB'000)	259,664,820	240,712,301	7.87%	159,044,041
Net profits attributable to shareholders of the Company (RMB'000)	20,230,779	17,283,689	17.05%	14,684,357
Net profits attributable to shareholders of the Company before non-recurring gains and losses (RMB'000)	20,058,155	15,614,103	28.46%	13,492,866
Net cash flow from operating activities (RMB'000)	27,861,080	24,442,623	13.99%	26,695,009
Basic earnings per share (RMB/share)	3.08	2.66	15.79%	2.29
Diluted earnings per share (RMB/share)	3.05	2.63	15.97%	2.28
Weighted average ROE (%)	25.66%	25.88%	-0.22%	26.88%
	31 December 2018	31 December 2017	Change of 31 December 2018 over 31 December 2017	31 December 2016
Total assets (RMB'000)	263,701,148	248,106,858	6.29%	170,600,711
Net assets attributable to shareholders of the Company (RMB'000)	83,072,116	73,737,437	12.66%	61,126,923

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

Total share capital of the Company on the last trading session before disclosure (share)	6,585,838,349
Fully diluted earnings per share based on the latest share capital above (RMB/share)	3.07

Note: On the last trading session before the disclosure of this report, the Company’s total share capital was 6,603,422,687 shares. Subtracting the repurchased 17,584,338 shares in 2019, the number was 6,585,838,349 shares.

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

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

□Applicable √N/A

No such differences for the Reporting Period.

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

□Applicable √N/A

No such differences for the Reporting Period.

7.3 Reasons for the differences

□Applicable √N/A

8. Key Financial Results by Quarter

RMB'000

	2018 Q1	2018 Q2	2018 Q3	2018 Q4
Operating revenues	69,737,528	72,886,309	63,132,816	53,908,167
Net profits attributable to shareholders of the Company	5,256,231	7,680,615	4,963,393	2,330,540
Net profits attributable to shareholders of the Company before non-recurring gains and losses	5,077,715	7,422,538	4,751,797	2,806,105
Net cash flow from operating activities	4,429,092	3,184,596	11,975,892	8,271,500

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

□Yes √No

9. Non-recurring Profits and Losses

√Applicable □N/A

RMB'000

Item	2018	2017	2016	Note

Profit or loss from disposal of non-current assets	222,204	1,363,041	-134,258	
Except for effectively hedging business related to normal business operations of the Company, profit or loss arising from the change in the fair value of held-for-trading financial assets and liabilities, as well as investment profit or loss produced from the disposal of held-for-trading financial assets and liabilities and available-for-sale financial assets	-842,408	77,484	-25,408	
Other non-operating income and expenditure except above-mentioned items	1,091,473	1,094,058	1,576,426	
Less: Corporate income tax	207,870	702,139	272,925	
Minority interests (after tax)	90,775	162,858	-47,656	
Total	172,624	1,669,586	1,191,491	--

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

□Applicable √N/A

No such cases for the Reporting Period.

Section III Business Profile

1. Business Scope in the Reporting Period

1.1 Summary of business scope

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

With “Bring Great Innovations to Life” as its corporate vision, “Integrate with the World, to Inspire Your Future” as its mission, and “Embrace what’s next - Aspiration、Dedication、Collaboration、Innovation” as its values, Midea integrates global resources and promotes technological innovation to create a better life for over 300 million users, major customers and strategic partners in different areas worldwide every year with satisfying products and services.

Midea, a global operating company, has now established a global platform with 15 overseas manufacturing bases, around 33,000 overseas employees, 24 operating agencies, covering more than 200 countries and regions with 22 settlement currencies, as well as being the majority shareholder of KUKA, a Germany-based world-leading company in robotics and automation, with a stake of approximately 95%.

1.2 Position in the household appliance industry

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

Midea ranks No. 323 on the *2018 Fortune Global 500* list, a big step forward compared to No. 450 in 2017, and ranks No. 32 on the *2018 Fortune China 500* list, the highest-ranking among home appliance industry in the country. On the *Forbes 2018 Global 2000* list, Midea ranks No. 245, outrunning a significant number of 90 compared to last year. In addition, Midea ranks No. 26 on the *2018 BrandZ™ Top 100 Most Valuable Chinese Brands* list, topping the domestic home appliance brands with its brand value up 40%. Also, Midea takes the lead among domestic home appliance makers by ranking No. 138 and No. 41 respectively on the *2018 Top 500 Most Valuable Brands* list and the *Top 100 Most Valuable Tech Brands* list released by Brand Finance, a British brand assessment institution. Meanwhile, on the second "China Brand Day", Midea is among the *Most Popular Chinese Brands* list announced by *People's Daily*. In addition, Midea is one of the seven newcomers from China on the *2018 BCG Global Challengers* list.

According to data from AVC, the table below shows the offline market shares and rankings of the Company's primary household appliance products (by retail sales) in 2018:

Product category	Market share	Ranking
Air conditioners	25%	2
Laundry appliances	26%	2
Refrigerators	11%	3
Rice cookers	43%	1
Food processors	37%	1
Electric pressure cookers	44%	1
Water purifiers	27%	1
Electric radiators	45%	1
Microwave ovens	43%	2
Water heaters	16%	3
Vacuum cleaners	7%	4
Range hoods	8%	4

Midea's online sales during 2018 exceeded RMB50 billion, up by over 22% YoY, remaining the best-selling household appliance maker on major e-commerce channels such as JD, Tmall and Suning. The table below shows the online market shares and rankings of the Company's primary household appliance products (by retail sales) in 2018:

Product category	Market share	Ranking
Air conditioners	23.3%	2
Laundry appliances	31.0%	2
Refrigerators	16.4%	2

Microwave ovens	48.6%	1
Induction cookers	43.2%	1
Electric pressure cookers	41.5%	1
Electric water heaters	32.4%	1
Rice cookers	31.8%	1
Water dispensers	24.0%	1
Electric fans	21.8%	1
Gas water heaters	18.8%	1
Water purifiers	14.1%	2
Range hoods	14.1%	3
Gas stoves	13.9%	2

1.3 Industry review and outlook

a. The industry of home appliances

According to the data published by China Household Electrical Appliance Association, in 2018, the main business revenue in the household appliances industry was RMB1.49 trillion, up 9.9% YoY; the profit was RMB122.55 billion, up 2.5% YoY. The retail scale of China's household appliances market reached RMB820.4 billion, up 1% YoY, representing a slowed growth rate; the export in the household appliances industry reached USD68.63 billion, up 9.9% YoY, representing a continuously stable growthrate.

According to the *Annual Report of 2018 China's Household Electrical Appliance Industry* published by China Household Electric Appliance Research Institute (CHEARI) and the National Household Electrical Appliance Industry Information Center together, steady growth was seen in air conditioners, refrigerators, washing machines and small home appliances. In 2018, the household appliance market mainly took on the following three characteristics. In terms of product, it was characterized by "Big, Aesthetic, Comfy, Intelligent and Healthy", standing for big dimension and volume, aesthetic design, comfy experience, intelligence and health benefits respectively; from the perspective of channel, it was characterized by online and offline deep integration and the macro trend of full scenario coverage; in terms of brand competition, the concentration of traditional big household appliance brands continued to rise and domestic brands presented strong momentum.

In 2018, the retail sales in the air-conditioning market reached RMB198 billion, with a year-on-year increase of 4.5%. In terms of product, the proportion of high-end products which are energy-efficient, comfortable and smart increased, and particularly the sales turnover proportion of wall-mounted and floor standing air conditioners of Class A energy efficiency increasing to above 23%; consumer demand has developed from primary function of temperature control to health-friendly functions and customers have developed from all-age groups to target groups including children, pregnant women and the elderly. Thus, health awareness has become a substantial driving force for industry growth. The market share of windless comfy air conditioners has increased from 6.6% in 2017 to 10.9% (by retail sales).

In 2018, the retail sales in the laundry appliance market reached RMB70.7 billion, up 3.1% YoY. There was an evident upgrading trend in the laundry appliance industry. Front-loading products, high-capacity products and washer-dryer combo products have already become the mainstream products of laundry market. Analyzing from the type of product, the retail sales proportion of front-loading washing machines in 2018 saw a stable increase to 74%, while the year-on-year increase of the retail sales of washer-dryer combo front-loading ones exceeded 40%; the trend of high capacity continued, with the retail sales proportion of 10KG and 12KG front-loading washing machines increasing to 41.2% and 5.9% respectively.

In 2018, the retail sales in the refrigerator market reached RMB96.9 billion, up 3.4% YoY. Product upgrading was impressive in the refrigerator market, with new highlights emerging on product doors and sustained development and innovation in fresh-keeping techniques. The market share of the total retail sales of multiple-door and side-by-side refrigerators increased to 72%. Under the background of great upgrade in consumption, the fresh-keeping techniques represented by Midea's "week-long freshness " keep developing and the refrigerator market is transforming towards a high-end, high-quality and high-intelligence market. In 2018, the retail sales proportion of intelligent refrigerators rose to nearly 40%.

In 2018, the kitchen appliances industry witnessed the first negative growth. According to the data from All View Cloud (AVC), the retail sales of the kitchen appliances industry was RMB64 billion, -6.4% YoY. Analyzing from the development cycle of this industry, after several decades of growth in popularity at a medium and high speed, it is graudually developing towards "popularity plus replacement". During this stage, market competition became fiercer and the industry was entering a more rapid reshuffle period. Analyzing from the distribution channel, the online market in 2018 remained growing. The monitoring data from AVC shows that the share of retail sales in the online market increased by 6.2% compared to the same period of last year. Although markets and channels at all levels of the offline retail sales terminals were declining at different extents, driven by the policy of "full decoration", offline refined decoration market channels grew against the trend with sustained increased shares.

According to the data of the National Household Electrical Appliance Industry Information Center, in 2018, certain small household appliances grew at a marked speed. The retail sales of cleaing appliances saw an increase of 46% compared to the same period of last year, with the increase of robot vacuum cleaner exceeding 47% and the cordless stick vacuum cleaner being favored. As the awareness of health and well-being is enhanced, in 2018 the blender market grew by over 50% with a retail sales exceeding RMB10 billion and a market scale of more than 10 million units.

In 2018, the share of online retail sales of household appliances in all channels reached 36.3%, up 15.3% YoY. The online market has become an indispensable channel market in the household appliances industry. Currently, the trend of concentration is getting increasingly evident in the online market channel, with the industrial top three accounting for more than 93% of the market shares. In 2018, the retail sales in the offline market decreased by 4.4%. Although the overall offline market scale shrank due to the impact from online market, it remained a mainstream channel for the sales of air conditioners, refrigerators, washing machines and kitchen appliances. Analyzing from long-term development, it is a major trend for online and offline businesses to achieve deep integration. While e-commerce platforms are opening physical stores, traditional offline channels are trying to develop their business using e-commerce. The accelerated integration of online and offline channels has formed a relatively stable channel framework.

b. The industry of robotics and industrial automation

Based on the prediction of the International Federation of Robotics (IFR), the global demand for robotics and automation will further increase. The average annual growth rate between 2018 and 2020 is expected to be at least 15%. In 2017, the scale of the global robotics industry was over USD25 billion, which was an increase of 20.3%, while in 2018, it rose to USD29.82 billion. Since 2013, China’s industrial robots have been the largest application market in the world for six consecutive years. According to the data of Shenzhen Gaogong Industry Research Consulting Co., Ltd. (GGII) and IFR, in 2018, the sales volume of China’s industrial robots reached 156,400 units, up 14.97% YoY, and the market scale reached USD6.23 billion. In 2018, two guidelines, which are the Guidelines for the Construction of National Intelligent Manufacturing Standard System and the Implementation Guide for Construction and Promotion of Industrial Internet Platform, issued by MIIT further specified the development direction of the industrial Internet and intelligent manufacturing. Meanwhile, the emerging of a large number of innovative enterprises in China is driving the increasingly rapid growth of the domestication of core components with the achievement of industrialized production.

Furthermore, the data of GGII shows that in 2018, the global average industrial robot density (unit per 10,000 persons) was 93 while that of China was 96, exceeding the global average level for the first time. The industrial robot density in other countries such as South Korea, Japan, Germany and the U.S. also increased, with South Korea ranking No. 1, which was 728. With the increase of China's aging population, the shortage of labor force and the rising of the labor cost, industrial companies' demand for automation and intelligent equipment, including industrial robots, is rising rapidly, China’s robot industry will experience broad development space; robots will have increasingly wider applications in production; large-scale robot application demands will be seen in general-purpose machinery manufacturing industry, household appliance manufacturing industry, electronic device manufacturing industry as well as rubber and plastic products industry other than automobile manufacturing industry. Such demands are expected to extend to the following industries: textile and logistics industries with intensive labor; national defense and military and civil blasting industries with high risks; pharmaceutical, semiconductor and food industries with high requirements for the sanitation of production environment; and ceramic and brick making industries harming human health. According to the prediction of IFR, domestic market scale of industrial robots will further expand to USD9.35 billion in 2020.

2. Significant Changes in the Main Assets

2.1 Significant changes in the main assets

Main assets	Reasons for any significant change
Construction in progress	Up 136% YoY, primarily driven by the new construction in progress
Cash at bank and on hand	Down 42% YoY, primarily driven by a decrease in deposits from banks and other financial institutions
Other current assets	Up 64% YoY, primarily driven by an increase in structured deposits

2.2 Main assets overseas

□Applicable √N/A

3. Core Competitiveness Analysis

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

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

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

The Group is focused on building a competitive, multi-layered global R&D system centering on user experience and product functions, which represents world-class R&D input and strength. With more than RMB30 billion invested in R&D over the past five years (around 10 billion in 2018), the Group has set up a total of 20 research centers in nine countries including China, with its R&D employees over 10,000 and senior foreign experts over 500. According to Clarivate Analytics, Midea holds the most invention patents in the global home appliance industry for three consecutive years. While establishing its own research centers around the world, the Group has also signed technical cooperation agreements with domestic and foreign scientific research institutions, such as MIT, UC Berkeley, UIUC, Stanford, Purdue University, Tsinghua University and the Chinese Academy of Sciences, in order to establish joint labs and build a global innovation ecosystem. The Group's long-term focus on building technology, marketing, product and open innovation systems, building a cutting-edge research system and building reserves in technology for mid/long term, has provided a solid foundation for the Group to maintain technical superiority across the globe.

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

The success of a series of global acquisitions and new business expansion moves has further solidified Midea's global operations and leading advantages in robotics and automation. With the world's leading production capacity and experience, and a wide variety of products as well as its production bases all over the world, the Group has been able to expand rapidly into the emerging overseas markets and is becoming a stronger competitor in those mature overseas markets. The Group is one of the biggest manufacturers in the world for many product categories, which gives it competitive edges in efficiency improving and cost reducing that its overseas competitors are unable to achieve. Overseas sales of the Group accounts for more than 40% of the total sales revenue. Its products have been exported to over 200 countries and regions, and it owns 15 overseas manufacturing bases and dozens of overseas operating agencies. Midea's global operation system has been further improved through a reform of the international business organizations from a platform unit to a business entity. It also increases investments in overseas business operations, focuses on the needs of the local customers and enhances product competitiveness in a bid to promote growth in its own-branded business. In addition, with a deep knowledge and understanding on product characteristics and product demands in overseas market, Midea is promoting worldwide branding and expanding through global collaboration and cooperation. In this way, the global competitiveness of Midea is increasing steadily.

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

By virtue of years of development and investments, Midea Group has formed an all-dimensional market coverage. In the mature first and second-tier markets, the Company has developed and maintained good partnerships with large home appliance retail chains. While in the broad third and fourth-tier markets, the Company uses flagship stores, specialty shops, traditional channels and new channels as effective supplements. Currently, the Company has already covered the markets at all tiers. Additionally, the Company's dominance in branding, products, offline channels and logistics distribution have also created powerful guarantees for the Company's rapid expansion of its e-commerce business and channels. Achieving the highest online sales among China's household appliance manufacturers, Midea's online sales exceeded RMB50 billion in 2018, up by over 22% YoY, maintaining the highest sales on China's mainstream e-commerce platforms such as JD, Tmall and Suning in various home appliance categories.

With advanced smart equipment technology, Annto Logistics Technology Co., Ltd. (Annto), a subsidiary of Midea, has possessed core competitiveness and advantages in logistics automation. Annto has established an efficient, customer-oriented and quick response nationwide warehouses and direct distribution network, featuring a smooth flow of order data between the manufacturing end and the retail end through the logistics information system, as well as the fast delivery of small orders through the flexible main line transportation capacity. Relying on the 118 logistics centers nationwide, Annto concentrates its resources on urban distribution. It also builds up a network for distribution to towns and villages. It can finish the delivery in 19,956 towns and villages within 24 hours and in 16,511 towns within 24-48 hours, as well as 87.6% of the country's towns and villages within 48 hours.

3.5 A solid foundation for digitalization-driven Industrial Internet operations

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

Upon years of a digitalized reform characterized by "One Midea, One System, One Standard", Midea has successfully materialized operations driven by software and data through its value chain, connecting end to end and covering R&D, PO, scheduling, flexible manufacturing, procurement, follow-up of product quality, logistics, installation & post-sale services, etc. The Group's cloud platform has made come true C2M flexible manufacturing, platform-based, modularized and digitalized production techniques and simulation, intelligent logistics, digital marketing, digital customer service, etc. In October 2018, Midea officially launched "M.IoT", the Midea Industrial Internet Platform, and became China's first complete industrial Internet platform provider covering industrial knowledge, software and hardware. M.IoT focuses on building the SCADA platform, the industrial cloud platform, the industrial big data platform and industrial SaaS service to provide standardized, cloud-based and platform service, including C2M, supply coordination and solutions. It has developed over 20 platform products so far. In addition to applying these industrial Internet platform solutions to its manufacturing bases across the world and tens of thousands of its products, the Group has also provided these solutions for other companies in different areas. Therefore, it is safe to say that Midea has built a solid foundation regarding industrial internet systems.

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

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

At present, the Company has launched five stock option incentive schemes, two restricted share incentive schemes and five “partner” stock ownership schemes for key managerial and technical personnel, marking the establishment of a governance structure aligning the interests of management and shareholders, as well as the formulation of an incentive scheme comprising long and short-term incentives and restrains.

Section IV Performance Discussion and Analysis

1. Overview

In 2018, guided by the three core strategies of “Leading Products, Efficiency Driven and Global Operations” in a complicated political and economic environment at home and abroad, Midea focused on improving products, promoting lean management and high-performance operations in the value chain, continuously optimizing its product mix according to the consumption upgrade trends, and constructing sustainable competitiveness for the future through internal growth. As a result, the business objectives set for 2018 were successfully fulfilled, with higher profitability, further improving indicators such as self-owned capital and channel inventories, better product quality and reputation, as well as strengthened competitiveness in various product categories and global operation synergies. For 2018, Midea achieved, on a consolidated basis, total revenue of RMB261.820 billion, up 8.23% YoY; and net profits attributable to shareholders of the Company of RMB20.231 billion, up 17.05% YoY.

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

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

In 2018, Midea launched a “customer-oriented” product experience improvement program to thoroughly improve the customer’s “seeing, hearing, touching, feeling and smelling” experience in all the links including pre-sales consultation, buying, using and after-sales service. Meanwhile, Midea’s new products are much easier to use in addition to more serialized and delicate exterior design. In product design, Midea won a total of 51 international design awards during 2018, including 16 Red Dot Awards (Germany), 14 iF Awards (Germany) and 21 IDEA Awards (the U.S.). In product quality, Midea was granted the National Business Quality Award at the 2018 National Business and Technology Quality Conference.

——Residential Air Conditioners: Midea New Refrigerant R290 Split Air Conditioner Series, with technical advantages including the extremely low GWP refrigerant, high energy efficiency, low noise and rigorous material safety control, is certified by Der Blaue Engel, with Midea becoming the first A/C maker around the world to obtain this certification, in addition to the recognition and appreciation by the United Nations Environment Programme “for valuable contributions and efforts in protecting the ozone layer”.

Midea's innovative Air Space Station is the first home "Micro-Climate" regulator product in the world, achieving integrated regulation of "temperature, humidity, wind, cleanness and freshness". With a 10.1-inch TFT full-colour screen clearly showing indoor air quality in detail, this product can help the user easily control the indoor air and environment. With 449 patent applications, it has won the 2018 AWE Gold Award and the Product Technical Innovation Award at IFA 2018. Midea Breezeless Wall-Mounted Air Conditioner upgrades on the air distribution technology of the first-generation product featuring "coolness without feeling the wind", integrating the new micro-hole air distribution structure and the multi-mode smart control technology. It provides softer and more pleasant air through thousands of micro-holes. It also carries the most advanced high-resolution infrared sensor to monitor the body and environment temperatures on a real-time basis, which allows user to get the most suitable temperature with just one click. Midea Breezeless Floor-Standing Air Conditioner adopts the air inlet purification module and the PM2.5 sensor to further purify indoor air, as well as carries a HD smart camera so that it can switch to an energy-saving mode when no one is in the room.

——**Commercial Air Conditioners**: As a leading HVAC provider worldwide, Midea Commercial Air Conditioners is a leader in R&D strength, product technology and market performance. In recent years, Midea Commercial Air Conditioners are increasingly being seen in iconic international key programmes. In terms of large complexes, Midea has successively provided integrated product solutions for Dalma Mall, the largest shopping mall in Abu Dhabi; Casa Shopping Mall, the largest home decoration and building material market in Latin America; Grand Comfort, the largest home decoration and building material market in Central Asia; and Vientiane Shopping Center, the landmark shopping center in Laos. In terms of venues for international sports events, Midea won the bids for the commercial A/C projects for the 2018 FIFA World Cup Russia venues, etc. As for international airports, Midea becomes the commercial A/C supplier for Terminal 2 of Guangzhou Baiyun International Airport, Terminal 3 of Beijing Capital International Airport, Singapore Changi Airport, Mauritius Sir Seewoosagur Ramgoolam International Airport, Milan Malpensa Airport, Maputo International Airport, and Soekarno-Hatta International Airport. Concerning "the Belt and Road", Midea successively won the bids for the commercial A/C projects for the Zetas Thermal Power Station, one of the biggest thermal power stations in Turkey; Top Glove, the world's largest rubber gloves manufacturer in Malaysia; the Vinhtan Coal Power Plant, the largest China-invested power plant in Vietnam; the Prince Times Hotel in Cambodia; a cement plant in Angola; a power station in Bali of Indonesia; and a semiconductor factory in Manila of the Philippines, proving that Midea has become a representative of Chinese global brand builders. According to the data from ChinaIOL.com, Midea Commercial Air Conditioners have topped the domestic market for five years in a row with a market share of nearly 20%. Appearing in more and more iconic international key programmes, Midea Commercial Air Conditioners have won increasing recognition from consumers both at home and abroad, including the "Excellent Supplier" recognition by Guangzhou Baiyun International Airport, the "Preferred High-Quality A/C Supplier for Government Procurement in the Past 15 Years" award, and the "China HVAC Technology Award" in 2018. Midea Commercial Air Conditioner has become an icon for "Made in China".

As a leading brand in China's air-source heat pump industry, Midea is leading the technological upgrading in the industry again in 2018. The four major air energy products, including residential water heating products, residential heating products, commercial water heating products and commercial heating products, have all been upgraded into variable frequency products, with the fully variable frequency technology applied to their power units. This marks Midea entering the fully variable frequency era and being the first one industrywide to do so. Meanwhile, in terms of product technology innovation, Midea also develops a heat-pump heating product for the alpine region even Tibetan Plateau— "Climbing Fire" series Air Source Heat Pumps.

——**Laundry Appliances**: Little Swan under Midea has launched an ironing-free clothes dryer, which is of trans-era significance. To solve the pain points of consumers, this product is the first to provide a 15-minute ironing-free steaming function, and a 20-minute fast drying function. This healthy clothes-drying experience featuring "instant drying" has further strengthened the dominant position of Little Swan in the high-end clothes-drying market. Little Swan has also introduced the Water Magic Cube Washing Machine, which is also of trans-era significance. This product is the first to adopt the "black technology" of cold wash, which can effectively solve the problems caused by traditional hot wash, such as fading colour and deformation, providing unprecedented top-quality experience of color and shape protection, as well as time and power saving. This product has passed the Germany VDE certification, which is considered the Nobel Prize in the electrical appliance sector, representing an icon in innovation in the laundry industry. The world's first front 45°-in-elevation loading washing machine launched by Little Swan integrates product technologies from Germany, Switzerland, France, Italy and South Korea. It enables front 45°-in-elevation loading, which solves the pain point of having to bend down for the clothes. It is also the first washing machine that allows vertical rotation, which provides 720° rotation for thorough washing like in a vacuum state. Another worldwide unique feature is the MBS system, which reduces vibration and noise. The basic technology research and application of Midea Top-Loading Washing Machines, as well as the innovation and application of the intelligent sensing technology in washing machines have respectively won the second and third prizes of National Scientific and Technological Progress Awards, with more than 100 domestic and foreign patent applicaitons for these core technologies. Meanwhile, the whole-new Toshiba Front Loading Washing Machine that made its debut on IFA 2018 has passed the Germany VDE certification for being highly energy-saving. Its pioneering “THE GREATWAVES™” technology enables a smart regulation of the washing pace, with multiple innovative water flows working together to go deep into the fabric of clothing and take away stubborn stains.

——**Refrigerators:** In 2018, Midea launched on the market new micro-crystalline freshness series refrigerator with a family appearance, solidifying Midea’s position as “a smart refrigerator leader”. The “week-long freshness” technology can help keep the meat fresh in a non-frozen state for as long as seven days while preserving the nutrition and taste. Equipped with two smart fresh-keeping technologies of intelligent humidity-control and PST intelligent sterilization, as well as technologies including the L-shaped large freezing space, the firstly initiated and new side-by-side magic separated storage design, the i-wake soft lights, and the PST intelligent sterilizing breathing lights, Midea micro-crystalline freshness series refrigerator has been certified by SGS, the world’s leading inspection, verification, testing and certification institution. In addition, Midea micro-crystalline freshness series refrigeratorBCD-535WGPZV was recognized as a “Consumer’s Favorite 2018” at the 2018 China Household Appliance Consumption Behavior Census & the Release of China Household Appliance Consumption Behavior White Paper & the Awarding Ceremony. Midea new AI Refrigerator with a pioneering “3+1” model including 5M remote voice recognition, world leading millisecond-level image recognition, worldwide pioneering 21.5-inch hidden touch screen, and big data supporting users’ control and refrigerator’s operation, has materialized an intelligent machine, intelligent interaction, intelligent scenarios, intelligent ecology and intelligent service, which has opened up a new era of AI refrigerators. At the 2018 China Refrigerator Industry Summit Forum held by cheaa.com under the guidance of the China Household Electrical Appliance Association and the Department of Information Resource Development of the State Information Center, owing to its excellence in product development, Midea was entitled as “2017-2018 Leading Intelligent Refrigerator Brand of China’s Refrigerator Industry”. Besides, another two refrigerators of Midea won the title of “2017-2018 Leading Intelligent Fresh-Keeping Refrigerator of China’s Refrigerator Industry” and “2018 Consumers’ Online Top-Choice Intelligent Odor-Free and Fresh-Keeping Refrigerator of China’s Refrigerator Industry” respectively.

——Kitchen and Bathroom Appliances: Midea Built-in Dishwasher is the only product in this field with an AWE Award. With the global pioneering hot-air drying technology including nine patents, this product dries the dish effectively while removing the steam and mould to keep the dish clean and fresh for 72 hours. Midea’s innovative FUN Smart Oven has a built-in HD camera with the image recognition algorithm adopted that can automatically recognize 60 kinds of different food materials under 8 major categories, as well as with a 5-inch HD TFT touch screen and a 1080P HD camera that can be controlled through an App on the mobile phone and help post real-time videos and open up an oven-based social circle. Midea Variable Frequency Microwave Oven adopts the multi-level pulse-by-pulse and current limiting technology, the low power control technology, and the smart turn-on protection technology to increase the heating speed and sustain the nutritional ingredients. This product also has intelligent diagnosis and systematic health management function. The phase change electric water heater of the Beverly “Future” Series, by disrupting the principle of heating and heat storage and release, has made a new breakthrough in the structure and shape of water heaters. Its size is reduced by 55% and the wall hanging mass is reduced by 30kg, so it is suitable for more usage scenarios. This product has won the AWE Innovation Award. Midea has continued to make breakthroughs and innovations in the zero cold water technology for its gas water heaters. Its half-pipe heating technology saves users’ waiting time effectively, inching cruising technology enables users to control the function of zero cold water easily at the water consumption terminal, and supercharging technology solves conventional heater’s problem of being unable to work due to low water pressure. Midea’s Beverly High-End Series of purification and drinking combination solutions won the 2018 IFA Product Technical Innovation Award. Combining global and industry leading technologies, the solutions offer a number of features, including automatic machine cleaning, independent temperature segment control, instant sterilization of water tank, an easy-to-use touch screen and an ultra-long-lasting filter. Midea’s brand new Zen Series of super integrated core water purifier won the 2018 iF Design Award. Breaking the limitation of conventional water purifiers, the product is able to complete five levels of purification and filtration without water storage tank and with one main body and one filter. It is 136mm thick and easy to be replaced. In addition, it adopts innovative split structure. The little kitchen purifier body coupled with the worktop water kettle substantially optimizes the spatial utilization and user experience in kitchen.

——**Lifestyle Appliances:** As a leading brand in China's rice cooker industry, Midea's rice cookers, which won two 2018 AWE Awards respectively in innovation and product, possess several leading technologies in the industry. With the multi-section IH technology, the pressure and smart control technologies, and the inner tank technology, rice are perfectly cooked. In addition, dual-cooking is made available to satisfy the different needs of children and the elderly. Midea Variable Frequency High-Speed Blender carries four pioneering technologies in the industry—smart frequency, tripod heating, eccentric blending and one-button open, which help greatly improve blending effect and user experience in terms of smart control of taste, high-power even heating and easy control of lid-opening. Midea Fan can send soft wind to a wide space and a long distance (a pinwheel wall ten meters away for example), satisfying user's different needs in the room. Midea heater adopts double-side heating through black crystals to elevate the temperature faster, and its function of avoiding water-splashing in all directions can provide a more comfortable bathing environment. Besides, it has a double-side clothes-drying shelf attached, satisfying the user's needs anytime. Midea's innovative Air Purifier adopts a centrifugal fan with double gravitational forces to increase the pressure and let the air in. By adding a two-fold integrated strainer plus a five-layer specialized strainer, multiple air pollutants including formaldehyde, smog and second-hand smoke can be effectively purified, achieving double air purification efficiency. The "Horizontal Cleaner Low-Noise Technology" that Midea has developed and applied to cleaner products is a unique bionic noise reduction technology inspired by a careful observation of insects in the nature. It was recognized as an "International Leading" technology by China Light Industry Council in 2018. Toshiba Wireless Cleaner, equipped with a high power motor with a maximum gyration rate of 0.12 million times per minute and a "high-capacity lithium battery" with the maximum running time of 60 minutes, has won the "2017 IAUD Award" and the "iF Product Design Award". In addition, the products of Midea won four Red-Top awards at the 10th China High-End Household Appliances Red-Top Award Ceremony, including rice cooker, high-speed blender and electric water heater.

B. Continued to invest in R&D to build a responsive and innovative R&D system and promote product suite design

Midea increased its R&D expense, made innovations with respect to mechanism, and developed more leading products through both premium quality and differentiated technologies. It kept reforming its product development model according to the “Leading Products” strategy. An innovative R&D model of “Three Generations” has been put in place, namely, “Generation I product development, Generation II platform research, Generation III technologies and product concepts research”. Innovation research is carried out on innovative product development, cutting-edge platforms, key components, differentiated selling points and basic product performance improvement, so as to build up the competence of “Leading Products”.

Leading technologies create a high-end product system. Midea launched the COLMO high-end brand on 19 October 2018 synchronously at Mont Blanc, the highest peak in Europe and in China. Its COLMO BLANC products combine a number of leading technologies, including AI technology, interdisciplinary technology and digital simulation and design technology. The innovative application of interdisciplinary technology includes the application of the disrotatory dynamic technology for aero-engines to air conditioners and purifiers in order to enhance comfort and energy efficiency; the application of the noise reduction technology used at the launch of a missile from a submarine to blenders and rice cookers in order to bring a quiet and comfy user experience; and the application of the phase change energy storage technology in solar power to water heaters in order to effectively reduce product volume and achieve the health effect of no scale deposit. The first six products of COLMO BLANC implying “Rational Aesthetics” include refrigerator, washing machine, range hood, stove, dishwasher and full auto rice cooker. All of them have won the German iF design award, the “Oscar” award in the design world, with over 200 utility patents applications.

Capitalizing on the synergies of various product categories, Midea has made efforts to plan for product families and integrated core innovative technologies. It has developed Midea PRO Appliances Collection, Midea Youth Appliances Collection and product suites for Real Estate Market to form a product matrix of family and suite design. Targeting middle and high-end consumers, Midea PRO Appliances Collection is characterized by healthiness, comfort, intelligent interactions and high quality; Midea Youth Appliances Collection is featured with youthful Zen design, easy operation of intelligent household appliances, smart look and minimalism; product suites for real estate market are customized products developed for real estate developers and long-term leasing apartment operators in the real estate, and at the end of 2018, they were launched in the market one after another.

While carrying out the core technology research, Midea has attached great importance to the transformation of R&D achievements. In 2018, 14 scientific and technological achievements made under the leadership of Midea were all certified as “International Leading” upon professional review by authoritative institutions and technical experts (academicians, professors, etc.), including “the Research and Commercialization of the Low-Noise Key Technology of Horizontal Dust-Cup Cleaners”, “the Research and Application of the Energy-Efficient Technology for the Midea Building Management System (M-BMS)”, “the Scenario-Based Dry-Burning Protection Technology and Gas-Leakage Alarm Technology”, “the Research and Application of the Efficient and Even Burning Technology”, “the Research and Commercialization of the Low Harmful-Gas Emission Technology for Gas Water Heaters”, “the Research on the Application of the High-Efficient Phase Change Power Storage Technology in Electric Water Heaters”, “the Research and Application of the Healthy Storage Technology for Dishwashers”, “the Research on High-End Functions of Energy-Efficient Dishwashers”, “the Key Technology for R290 (Propane) Indoor Air Conditioners and Its Application”, “the Research and Application of the Strong Heating Capacity and the High-Level Comfort Key Technology for Air Heaters”, “the Research and Application of the Indoor Micro-Climate Multidimensional Regulation Key Technology”, “the Development and Application of the Ultra-Low-Temperature Gas-Liquid-Mixed Ejection Air-Source Heat Pump System”, “the R&D and Productization of the Smart Moist Control Technology” and “the R&D and Productization of the Week-Long Freshness Technology”. Meanwhile, “the Research and Commercialization of the Key Technology for Highly-Intelligent Indicator-Based Indoor Air Conditioners” won the first prize of the China Light Industry Association (CLIA).

In 2018, Midea filed 15,895 patent applications in total, including 6,102 inventions. At the end of 2018, the number of domestic patent applications of Midea exceeded 94,000 in total and 44,000 patents were granted. In 2018, Midea won two gold awards, two silver awards and 11 excellence awards of Chinese Outstanding Patented Invention, which are high recognition of Midea’s competence in product R&D and technology innovation. The products that won the awards include “Eccentric Turbulence Mixer Blender”, which won the “Chinese Outstanding Patented Invention Gold Award” and “Beverly Qing Series Washing

Machine", which won the "Chinese Outstanding Industrial Design Gold Award". Midea Group has been sticking to the double drivers of "standard innovation + product innovation" and making active steps towards contributing to the standardization of industrial technologies. In 2018, Midea led in the drafting of several national standards, including the *Methods for Assessing the Quality of Rice Cooked in Rice Cooker*, the *Food Blender*, the *Electric Cooker* and the *Energy Efficiency Limits and Levels of Electric Pressure Cooker*, and in the revision of the IEC60335-2-15 international standard. In December 2018, the group standard titled *Technical Specifications of Long-Lasting, Hydrophilic and Corrosion-Resistant Coated Aluminum Foil Used in Air Conditioner Fins*, which had been drafted under the joint leadership of Midea and CHEARI, was selected into the list of "2018 Top 100 Group Standard Demonstration Projects of the Ministry of Industry and Information Technology. In addition, Midea had seven advanced corporate standards which were selected into the 2018 Corporate Standard "Forerunner" Pilot List published by China National Institute of Standardization.

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

Midea continued to promote channel reform and transformation, cut offline channel hierarchies, propelled the optimized integration and empowerment of agencies, firmly continued to reduce inventories, optimize structure and streamline SKU, and substantially improve channel efficiency. It strengthened the synergy of domestic sales of full product categories; in 2018, Midea established over 30 regional market operation centers nationwide; by carrying out more precise joint promotional activities for diverse categories, it drove the synergy of domestic sales towards improvements and upgrading and reinforced the long-term sustainable development capacity of channels. Midea firmly advanced retail transformation. Driven by user experience, the Company provided Midea Smart Life household intelligent solutions. The Group opened 139 Midea Smart Life Experience Centers along the building material and house decoration channel and upgraded 375 flagship stores into Midea Smart Life Experience Centers to build its sales capacity of all household appliances. It built the delivery-installation integration network to provide users with one-stop after sales service solutions in respect of all household appliances. In 2018, Midea completed the layout of more than 2,500 delivery-installation integration service branches nationwide and the authorization and recognition of the delivery-installation integration capacity of 850 flagship stores.

Midea strove to expand the B2B business. In 2018, Midea established long-term strategic cooperation for procurement with the demostic top 20 companies in real estate industry and top 20 long-term leasing apartment operators. Midea aims to provide the customers with one-stop smart product solutions. At the same time, Midea attaches great importance to improving the service quality of strategic procurement projects. Through the systemic management of “Selection, Appointment, Cultivation and Retainment” over regional service providers, Midea uses a digital project management system to conduct 360-degree appraisals in order to build up its core competitiveness for the B2B business.

In terms of online channels, Midea continued to focus on products and users. It built an Internet-based big data platform and launched strategic cooperation programmes with platforms such as JD and Tmall to continuously explore digital precision marketing models. On one hand, it tapped further into customer value and needs, so as to develop more competitive products for the online market. On the other hand, marketing efficiency increased significantly through integrating advertisement putting and applying smart advertisement putting tools, as well as focusing on the promotion of lean and data-based operation. Meanwhile, Midea attached importance to user operation. It concentrated on core users, connected the membership systems of Midea and e-commerce platforms, as well as linked online and offline data. A unified member profile system was put in place with unified member identity, interests and assets. And member identity recognition will be boosted through long-term, fixed member privileges. Furthermore, online channel authorization control was strengthened. Appraisal mechanism has been built for the e-commerce operation and customer service systems. In 2018, Midea carried out a supply chain deep coordination programme with e-commerce platforms, which enabled accurate prediction, smart distribution to warehouses and automatic re-stocking through big data and system connection. Such a smart supply chain can respond quickly to consumer demand and improve shopping experience. As a result, Midea’s online sales exceeded RMB50 billion in 2018, up by over 22% YoY, maintaining the highest sales on China’s mainstream e-commerce platforms such as JD, Tmall and Suning in various household appliance categories.

Importance was placed on the core business of integrated warehousing and distribution services. Supported by a self-developed information technology system and a distribution network across the country, Midea realized fully visualized direct distribution to every corner of the country for various scenarios. It also deepened its unified warehousing and distribution strategy by cutting unnecessary links to speed up all-channel distribution and capital turnover to build a supply chain logistics system featuring "Shared Warehouses, Unified Dispatch, Quick Response and Fast Distribution". Based on the nationwide distribution network established, Midea launched a number of distribution service products, including One-Day Delivery, Timed Delivery and Appointed Delivery, to expand external market on all fronts. In 2018, the city distribution and home distribution business scale of Annto saw a year-on-year increase of 300%. For example, Annto fully deepened cooperation with Cainiao in 2018 to jointly build an efficient logistics service system. During its engagement in the Double 11 project of Tmall, Annto ranked among the top large piece delivery cooperators of Cainiao in the ratings by Tmall buyers. Based on the logistics center network in 118 cities nationwide, Annto is able to deliver to 19,956 towns and villages within 24 hours and to 16,511 towns and villages within 24-48 hours, with a 48-hour distribution coverage ratio of 87.6% in China.

D. Stepped up the industrial internet innovation to thoroughly improve operational efficiency of the entire value chain

To accelerate the transformation towards a world's leading technologies group and further advance digitalization, based on its software advantages, manufacturing experience and robot and automation technologies, Midea built industrial Internet factories and industrial Internet platforms at the production base pilot in Nansha, Guangzhou. It was selected into the list of "2018 Industrial Internet Pilot Demonstration Project of the Ministry of Industry and Information Technology" and won the title of "2018 Guangdong Province Industrial Internet Application Benchmark". In October 2018, Midea officially launched its industrial Internet platform "M.IoT" and became a provider of comprehensive industrial Internet platforms integrating autonomous industrial knowledge, software and hardware. In November 2018, Midea was named as "Unit of Deputy Director-General of Guangdong Province Industrial Internet Alliance" at "China Industrial Internet Conference 2018". M.IoT focuses on building the SCADA platform, the industrial cloud platform, the industrial big data platform and industrial SaaS service to provide standardized, cloud-based and platform service, including C2M, supply coordination and solutions. So far, more than 20 types of platform products have been established. The Group further advanced its Industrial Internet and Digitalization 2.0 Project, and proactively explored and implemented the application of the C2M model in various product categories. Through digital upgrading in the whole value chain of R&D, production and sales and with a focus on key projects such as platform-based and modular development, flexible manufacturing and intelligent marketing, Midea implemented the business model of individualization and customization for household appliances oriented by users' real demands. It took further steps to promote the T+3 model and carried out reforms with a focus on driving the whole supply-demand value chain as an active response to users' demands and sore points. Midea performed in-depth reforms in synergy of production and sales, transparency of delivery time, offline direct delivery and synergy of suppliers, and a complete set of reversed forcing mechanism and a supply-demand model driven by market terminals are established.

Midea continued to explore the artificial intelligence field. It sets up three AI platforms integrating actual business scenarios, including image quality inspection platform, face recognition platform and OCR recognition platform. With the workshops of injection molding, final assembly and electronics as pilots, the image quality inspection platform offers a number of solutions, including electronic PCB quality inspection, air conditioner panel appearance inspection, package appearance inspection and bearing block quality inspection. Based on its industrial chain advantages, Midea built an ecosystem of blockchain application and established blockchain applications under diverse business scenarios jointly with upper and lower-stream cooperators from different fields. Based on the self-developed blockchain technology platform, Midea created an irreversible, encrypted and multithreading algorithm mechanism and performed synergistic contract management in industrial upper and lower streams. The Group established the Midea cloud platform, further strengthened cloud infrastructure construction and cloudified its internal systems to a great extent. In addition, Midea deepened PaaS services, enhanced corporate service supporting capacity, constructed a container platform and a micro service framework, offered component-based services, evolved from resource flexibility to structure flexibility, in order to support the cloud platform of M.IoT industrial APP. Midea founded a new real-time big data processing center and applied it in Midea's industrial Internet factories. The center was connected with the incremental data of all systems in real time to carry out real-time data synchronization and analysis, thus providing powerful data support for operation and management.

Midea continued to optimize and extend the applications of the CCS2.0 System, the MeiCloud Sales System and the RMS system to support and deepen channel reforms. The Company introduced house decoration design software, developed the suite design capacity of household scenario and provided consumers with all household appliance solutions and one-stop shopping experience; in 2018, it launched the WeChat mini program of “Midea Home Delivery” to provide offline stores with an instrument of online channeling, terminal sales and member operation, in order to facilitate the digital transformation of terminal stores; based on inventory transparency and synergy of physical goods on the whole channel, Midea opened up the information flow of synergistic warehouse, established whole-channel inventory sharing and digestion rules, and enabled the automatic adjustment sytem of the channel inventory level, so as to implement shared inventory management and increase inventory turnover ratio.

Through the “International 632 Project”, Midea Group established a global information system. As a result, it is able to coordinate and share global resources with “One Midea, One System, One Standard”, which substantially enhanced business efficiency and standardization, and assisted TLSC to reverse losses through cuting costs and increasing efficiency, as well as promoted the connectivity and expansion of KUKA’s businesses in China.

Through the implementation of its user experience 2.0 project with the customer service system, Midea integrated various customer service businesses, achieved the integration of service platforms and accomplished the upgrading of over 80 service experience points. Midea improved and implemented whole-process visualization and transparency of fee contents for its services to optimize user service experience; by virtue of the reorganization of its user interaction central system, introduced IVP and IVR technologies to enhance user communication quality and efficiency; introduced an intelligent knowledge base to equip front line agents and engineers, increase the rate of solving problems and faults on one call and promote service quality and efficiency.

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

Midea further promoted its global business layout to solidify its global competency. It formulated a global supply cooperative mechanism, strengthened localized operations overseas, and promoted product globalization. Midea established 15 overseas manufacturing bases with around 33,000 employees, which has helped strengthen localized operations overseas and optimize the proportion of localized supply chain. In addition, it has 24 sales operation offices in North America, South America, Europe, Asia, Africa and Oceania, with business covering more than 200 countries and regions. Meanwhile, guided by the market and focusing on users, Midea has also established 20 global R&D centres in 9 countries, including the U.S., Italy, Germany, India and Singapore, to work on future products and technologies with foresight.

In 2018, based on its overseas regional operation offices, Midea established Midea International Business with a reform of the international business organizations from a platform unit to a business entity. Under a unified global macro framework, the three regions continued to advance international corporate governance by adjusting measures to local conditions, reinforced the integration of R&D, production and sales systems in regional markets, and further strengthened cohesion effects. Midea expanded overseas production layout. In 2018, the construction of Midea's Science and Technology Park in India officially commenced and Midea planned to invest 13.5 billion Indian rupees in the next five years to build the Park into a base manufacturing consumer appliances, HVAC products and compressors. Midea continued to expand sales channels. In 2018, the Group achieved a year-on-year double-digit growth calculated in USD for its household appliance export with a stable increase in the proportion of its proprietary brands. It sped up the expansion of overseas e-businesses and made business breakthroughs in key markets and key e-business platforms, such as the expansion of full category household appliances business cooperation with Amazon platform in US and the commencement of business cooperation with AliExpress platform in Russia. Midea explored the product manager policies in overseas branches, intensified localized product management, market investigation and product development which are centered around user demands, reinforced the control over overseas branches, unified regulations and promoted the consistency and synergy of Midea's commercial languages and systems. It set up a global after sales system and a technical support system and promoted them to overseas branch institutions step by step. In 2018, on the basis of the existing North America Call Center, Midea completed the establishment of Mexico Call Center that covers the Latin American region. In 2019, Midea plans to build an overseas online training system and regional call centers that cover Middle East, Africa and Europe to further refine its global after sales system.

In 2018, TLSC continued to focus on the core white goods business, promoted the synergy and unification of value chains with the product divisions of Midea Group on all fronts, optimized product structure to increase gross profits and substantially improved profitability. The profits before tax and operating cash flow of TLSC for 2018 improved considerably compared with the previous year and the goal of reversing losses for the year was smoothly achieved. In particular in the Japanese market with fierce competition, TLSC saw a steady increase in its market share of air conditioners, refrigerators and washing machines.

TLSC strengthened and implemented synergistic effects with relevant business divisions of Midea in brand building, channel layout, R&D and innovation, integration of supply chain and quality improvement. In 2018, 73 synergistic projects were completed. In 2018, while promoting business synergy and integration and deepening reforms, TLSC made structural adjustments mainly in four aspects: (1) Made organizational adjustments targeting users and markets, as well as focused on the core white goods business. Streamlined functional platform departments, established and refined a decentralized management system between Midea Group and TLSC, founded the User Innovation Center and increased investment in the research on Japanese market consumers and product industrial design. (2) Completed the integration of manufacturing platforms of TLSC's factories and Midea's related product divisions, strengthened mutual advantage complementation in production capacity, supply chain, cost and quality, and deepened manufacturing synergy. TLSC and relevant business divisions of Midea shared intellectual property rights and R&D achievements and reinforced technology synergy. TLSC reduced costs substantially by relying on Midea's concentrated procurement platform of bulk raw materials and introducing Midea's excellent supplier bidding system. (3) Transformed the Japanese market sales system, founded 9 sales branches through reorganization to achieve full coverage of the 47 Prefectures in Japan together with 57 sales outlets including the new outlet in Okinawa, unified distribution and retail links so as to improve the terminal sales capabilities; (4) Exerted rigid control over non-operating expenses. In 2018, by improving business models and optimizing supply chain, TLSC cut its selling general and administrative expenses by nearly RMB90 million.

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

The integration of KUKA's robotics business in China was accelerated. Three joint ventures were incorporated by Midea and KUKA (each holding a 50% stake in the joint venture) to undertake the combined KUKA's general industrial business in China and Swisslog's (a subsidiary of KUKA) business in China, which provides advanced automatic solutions for hospitals, warehouses and distribution centres. This joint ventures will further expand three major businesses (industrial robots, medical care and automatic warehousing) in the China market to satisfy China's fast increasing demand in smart manufacturing, smart medical care, smart logistics, new retail, etc. Through developing products and solutions for Chinese customers, the business of robotics and industrial automation systems is expected to see fast growth. Meanwhile, a new manufacturing base is built in the Shunde Technology Park in the Guangdong Province to develop new products, jointly develop feasible “Industry 4.0” business models with various partners, and invest in Human and Robot Collaboration (HRC), mobile robot platforms and other key technologies, so as to solidify KUKA’s leading position in technology. This new manufacturing base is expected to reach an annual production capacity of 75,000 robots by 2024. Together with the existing production capacity, the total production capacity in China will be able to reach around 100,000 robots annually by that year.

KUKA’s business continued to expand with a flood of orders, including an order of tens of millions of euros to provide industrial robots for GAC NE (a subsidiary of GAC Group) in China, an order to provide around 800 industrial robots of various kinds for the white car body production line of Daimler’s C-Series new cars, and an order to expand the automatic warehouses and production capacity of Spritzer, the producer of Malaysia’s best-selling natural spring water.

KUKA continued to make innovations in robotic product development and application. It is the first robotic manufacturer in the world to introduce sensitive lightweight robots into the production plant, as well as the first manufacturer with a product range covering cooperative robots, mobile robots and industrial heavy-duty robots. In the automotive sector, KUKA integrated the robotics, automation, power assembly, power battery and smart logistics technologies, and debuted its one-stop automotive solution at AMTS 2018. In the general industrial sector, KUKA KMR CYBERTECH nano Series Robots and KR CYBERTECH Series Robots made their debut at CIIF 2018. KMR CYBERTECH nano Series Robots are the second mobile robotic units launched by KUKA after KMR iiwa, with great advantages in automatic material loading and unloading for machine tools. And KR CYBERTECH Series Robots feature high load capacity, a large operating range, low space occupation, etc. In the logistics sector, KUKA further improved its warehouse automation solution, CarryPick, and developed the new KMP600 AGV. With a fully integrated system with better performance and reliability, the new CarryPick solution can effectively reduce downtime and provide global service network support for better satisfaction of customer needs. With regard to human-robot collaboration, the LBR iiwa Robot launched by KUKA has laid a foundation for human-robot collaboration by realizing direct human-robot collaboration for the first time. It can accomplish missions requiring high sensitivity, which helps greatly save time and lower costs. The Cloud-based platform KUKA Connect developed by KUKA can enable the customers to access to relevant robotic data for analysis and utilization. KUKA won quite many honours in 2018, including the “Innovation and Entrepreneurship in Robotics and Automation (IERA) Award” granted by the world’s two major robotics institutions for its LBR Medical Care Robot, the World Excellence Award granted by Ford Motor for its HRC application, the Volvo Cars Quality Excellence Award 2018 and a third GM Annual Best Supplier Award.

Midea continued to promote the integration and expansion of its business platforms of industrial automation and motion control. The industrial automation business platform is engaged in the automation of production process, automation of logistics and robot services. It has completed more than 50 automation projects for the product divisions of Midea. It has been widely used in welding, handling, stowing and visual inspection involving over 20 mainstream systems, which has effectively enhanced Midea Group’s intelligent manufacturing level. As at the end of 2018, it had increased the robot density to 200 units per 10,000 persons. In the future, it will further increase it to the level of developed countries at 625 units per 10,000 persons. Midea’s motion control business platform is dedicated to the R&D and innovation of core components and software products. By acquiring and integrating Servotronix, the Israeli hi-tech company with more than thirty years of experience in motion control, the platform now owns a series of comprehensive and industry leading motion control products including multi-axis motion controllers, servo drivers, servo motors and encoders. It has also implemented localization and domestication in R&D and manufacturing. Furthermore, it is capable of providing comprehensive system solutions for the industries of robotics, numerical control, lithium batteries, 3C, semiconductors, packaging and printing. In 2018, the platform carried out the development of multiple products through the concerted efforts of the Chinese and Israeli teams. Those products include softMC series products, the new-generation motion controller integrating Codesys, OPC UA and WEB server technologies; CDHD2 series products, the sixth-generation servo driver with an annual sales volume of over 10,000 units; BDHD2 series products, the bus servo driver with high cost performance; and RM series products, the special servo motor developed specially for SCARA and six-joint robots of below 6kg.

G. Deepened the industrial layout for Smart Home Appliance and promote the implementation of Smart Home Appliance Strategy

In 2018, Midea integrated its Smart Home Appliance business, established an IoT company, continued to optimize the Cloud Platform, Meiju APP, intelligent connection modules, big data and after-sales services, networked the Group's business divisions and operating units, and kept increasing user satisfaction. The Company planned and implemented intelligent scenarios, built the highly usable, strongly interactive and standard IoT platform, promoted the stable connection between users and devices, improved users' experience in using intelligent products, vigorously propelled external cooperation for ecological expansion and the building of developers' platform, and facilitated the development of the Group's Smart Home Appliance business.

Internally, the Company published the standard white paper to specify the production standards for the Smart Home Appliance business within the Group and dedicate to improving the connection experience. In 2018, on one hand, through using and programming on domestic chips, IoT Company further enhanced the application scope and standardization of intelligent connection, reinforced market layout, completed the connection of experience optimization 1.0 version at three terminals, and launched Meiju APP 5.0 after internal integration; on the other hand, it integrated IoT big data, developed the value of intelligent devices and user data to a big depth and drove the intelligence of products. In addition, in the Smart Eyes project, with big data as the penetration point, it inspected user experience in a digital manner and provided visualized data support for production and operation.

Externally, IoT Company continued to strengthen technical development and market layout in intelligent household appliances, improve the market competitiveness of intelligent household appliance products, expand the external ecosystem, enlarge the connection entrance and enhance the value of user services. In 2018, IoT completed the launch of a number of projects in cooperation with the platforms and manufacturers including Alibaba Cloud, Tmall, Huawei, OPPO, VIVO and Skyworth. Furthermore, it involved in the establishment of domestic and international IoT related standards and continued to speed up the connection and integration with external parties to build Midea's Smart Home Appliance ecosystem.

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

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

Midea Group protects its shareholders' interests by ensuring a consistent dividend policy. It shares its growth with shareholders by putting forward cash dividend plans with a total amount of as much as RMB35.7 billion since its holistic listing in 2013. Meanwhile, in response to the internal and external complexities and fluctuations in market value, Midea Group has launched the biggest-ever repurchase plan in the history of China's A-stock market. This plan, with a limit of RMB4 billion, is aimed to maintain a stable market capitalization and protect shareholders' interests. Up to the end of December 2018, Midea has used a total of approximately RMB4 billion for the share repurchase, marking the completion of the execution of the repurchase plan and the fulfillment of its commitment.

2. Analysis of Main Business

2.1 Overview

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

√Yes □No

See "1. Overview" of this section.

2.2 Revenues and Costs

2.2.1 Breakdown of operating revenues

Unit: RMB'000

	2018		2017		YoY Change (%)
	Amount	As a percentage of total operating revenues (%)	Amount	As a percentage of total operating revenues (%)	
Total	259,664,820	100%	240,712,301	100%	7.87%
By business segment					
Manufacturing	238,065,376	91.68%	221,137,529	91.87%	7.65%
By product category					
HVAC	109,394,649	42.13%	95,352,449	39.62%	14.73%
Consumer appliances	102,992,803	39.66%	98,748,018	41.02%	4.30%

Robotics and automation systems	25,677,924	9.89%	27,037,062	11.23%	-5.03%
By geographical segment					
PRC	149,257,311	57.48%	136,756,269	56.81%	9.14%
Outside PRC	110,407,509	42.52%	103,956,032	43.19%	6.21%

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

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

√Applicable □N/A

Unit: RMB'000

	Operating Revenue	Operating cost	Gross profit margin	YoY change of operating revenue (%)	YoY change of operating cost (%)	YoY change of gross profit margin (%)
By business segment						
Manufacturing	238,065,376	168,655,789	29.16%	7.65%	3.78%	2.65%
By product category						
HVAC	109,394,649	75,886,326	30.63%	14.73%	12.15%	1.59%
Consumer appliances	102,992,803	72,959,466	29.16%	4.30%	1.72%	1.79%
Robotics and automation systems	25,677,924	19,809,997	22.85%	-5.03%	-14.33%	8.37%
By geographical segment						
PRC	149,257,311	103,686,121	30.53%	9.14%	6.42%	1.78%
Outside PRC	110,407,509	84,478,436	23.48%	6.21%	1.75%	3.35%

Under the circumstances that the statistical standards for the Company's main business data adjusted in the Reporting Period, the Company's main business data in the recent year is calculated based on adjusted statistical standards at the end of the Reporting Period

□Applicable √N/A

2.2.3 Whether revenue from physical sales is higher than service revenue

√Yes □No

Business segment	Item	Unit	2018	2017	YoY Change (%)
Home appliances	Sales	In thousand	416,926.4	408,024.5	2.18%

		units/sets			
	Output	Ditto	421,938.4	420,739.3	0.28%
	Inventory	Ditto	50,972.2	47,235.0	7.91%

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

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

□Applicable √N/A

2.2.4 Execution of significant sales contracts in the Reporting Period

□Applicable √N/A

2.2.5 Breakdown of operating cost

By business segment

Unit: RMB'000

Business segment	Item	2018		2017		YoY Change (%)
		Amount	As a percentage of total operating cost (%)	Amount	As a percentage of total operating cost (%)	
Home appliances	Raw materials	127,402,508	85.59%	119,259,564	85.56%	6.83%
	Labor costs	9,154,016	6.15%	8,502,610	6.10%	7.66%
	Depreciation	2,599,999	1.75%	2,495,028	1.79%	4.21%
	Energy	2,188,033	1.47%	2,090,806	1.50%	4.65%

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

√Yes □No

For the main subsidiaries included in the consolidated financial statements of the current year, please refer to Note 5 and Note 6 to the Financial Statements herein. For the newly consolidated companies, see Note 5, 5.2, (a), and they primarily include: Miraco International Trading Company、IRT SA Neuchatel Switzerland、Mor-Tech Manufacturing Inc.、Mor-Tech Design Inc.、Midea Home Appliances UK Ltd., Shanghai COLMO Lifestyle Products&Services Co. Ltd. and Guangdong Welling Auto Parts Co. Ltd. For the companies deconsolidated in the current year, see Note 5, 5.2, (b).

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

□Applicable √N/A

2.2.8 Main customers and suppliers

Major customers of the Company

Total sales to top five customers (RMB'000)	25,322,676
Total sales to top five customers as a percentage of the total sales for the year (%)	9.76%
Total sales to related parties among top five customers as a percentage of the total sales for the year (%)	0

Information on top five customers

No.	Customer	Sales revenue (RMB'000)	As a percentage of the total sales revenue (%)
1	Customer A	12,661,370	4.88%
2	Customer B	5,341,516	2.06%
3	Customer C	2,777,376	1.07%
4	Customer D	2,281,235	0.88%
5	Customer E	2,261,179	0.87%
Total	--	25,322,676	9.76%

Major suppliers of the Company

Total purchases from top five suppliers (RMB'000)	8,546,011
Total purchases from top five suppliers as a percentage of the total purchases for the year (%)	4.99%
Total purchases from related parties among top five suppliers as a percentage of the total purchases for the year (%)	0

Information on top five suppliers of the Company

No.	Supplier	Purchase (RMB'000)	As a percentage of the total purchases (%)
1	Supplier A	2,307,458	1.35%
2	Supplier B	1,731,187	1.01%
3	Supplier C	1,645,154	0.96%
4	Supplier D	1,558,351	0.91%
5	Supplier E	1,303,861	0.76%
Total	--	8,546,011	4.99%

2.3 Expense

Unit: RMB'000

	2018	2017	YoY Change (%)	Reason for any significant change
Selling and distribution expenses	31,085,879	26,738,673	16.26%	
General and Administrative expenses	9,571,639	7,510,102	27.45%	
Finance costs	-1,823,040	815,949	-323.43%	Change in exchange gain/loss
R&D expenses	8,377,201	7,270,134	15.23%	

2.4 R&D investment

√Applicable □N/A

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 RMB30 billion invested in R&D over the past five years (close to RMB10 billion in 2018), the Group has set up a total of 20 research centers in nine countries including China, with its R&D employees over 10,000 and senior foreign experts over 500. According to Clarivate Analytics, Midea holds the most invention patents in the global home appliance industry for three consecutive years. While establishing its own research centers around the world, the Group has also signed technical cooperation agreements with domestic and foreign scientific research institutions, such as MIT, UC Berkeley, UIUC, Stanford, Purdue University, Tsinghua University and the Chinese Academy of Sciences, in order to establish joint labs and build a global innovation ecosystem. The Group's long-term focus on building technology, marketing, product and open innovation systems, building a cutting-edge research system and building reserves in technology for mid/long term, has provided a solid foundation for the Group to maintain technical superiority across the globe.

Information about R&D input

	2018	2017	YoY Change (%)
Number of R&D personnel	12,321	10,520	17.12%
R&D personnel as a percentage	10.74%	10.33%	0.41%

of total employees			
R&D input (RMB'000)	9,810,805	8,478,292	15.72%
R&D input as a percentage of operating revenues	3.78%	3.52%	0.26%
Capitalized R&D input (RMB'000)	1,433,604	1,208,158	18.66%
Capitalized R&D input as a percentage of total R&D investment	14.61%	14.25%	0.36%

Note: The data in the table above excludes those of overseas subsidiaries.

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

□Applicable √N/A

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

□Applicable √N/A

2.5 Cash flow

Unit: RMB'000

Item	2018	2017	YoY Change (%)
Subtotal of cash inflows from operating activities	226,341,706	207,315,612	9.18%
Subtotal of cash outflows due to operating activities	198,480,626	182,872,989	8.53%
Net cash flow from operating activities	27,861,080	24,442,623	13.99%
Subtotal of cash inflows from investing activities	67,998,046	89,296,086	-23.85%
Subtotal of cash outflows due to investing activities	86,640,334	124,035,694	-30.15%
Net cash flow from investing activities	-18,642,288	-34,739,608	46.34%
Subtotal of cash inflows from financing activities	5,237,681	63,838,091	-91.80%
Subtotal of cash outflows due to financing activities	18,624,845	44,186,446	-57.85%
Net cash flow from financing activities	-13,387,164	19,651,645	-168.12%
Net increase in cash and cash equivalents	-3,879,371	9,317,923	-141.63%

Explanation of why the data above varied significantly

√Applicable □N/A

a. Primarily driven by the acquisition of subsidiary KUKA last year, net cash flow from investing activities increased 46.34% from last year.

b. Primarily driven by decrease in borrowings obtained, net cash flow from financing activities decreased 168.12% from last year.

c. Primarily driven by decrease in net cash flow from financing activities, net increase in cash and cash equivalents decreased 141.63% from last year.

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

□ Applicable √ N/A

3. Analysis of Non-Core Business

□Applicable √N/A

4. Assets and Liabilities

4.1 Material changes of asset items

Unit: RMB'000

	31 December 2018		31 December 2017		Change in percentage (%)	Explanation about any material change
	Amount	As a percentage of total assets (%)	Amount	As a percentage of total assets (%)		
Cash and cash equivalents	27,888,280	10.58%	48,274,200	19.46%	-8.88%	
Accounts receivable	19,390,174	7.35%	17,528,717	7.06%	0.29%	
Inventories	29,645,018	11.24%	29,444,166	11.87%	-0.63%	
Other current assets	76,473,827	29.00%	46,694,841	18.82%	10.18%	
Investment properties	391,765	0.15%	420,802	0.17%	-0.02%	
Long-term equity investments	2,713,316	1.03%	2,633,698	1.06%	-0.03%	
Fixed assets	22,437,212	8.51%	22,600,724	9.11%	-0.60%	
Construction in	2,077,621	0.79%	879,576	0.35%	0.44%	

progress						
Short-term borrowings	870,390	0.33%	2,584,102	1.04%	-0.71%	
Long-term borrowings	32,091,439	12.17%	32,986,325	13.30%	-1.13%	

4.2 Assets and liabilities measured at fair value

√Applicable □N/A

Unit: RMB'000

Item	Opening balance	Profit or loss from change in fair value during the period	Cumulative fair value change charged to equity	Other	Purchased in the period	Sold in the period	Closing balance
Financial assets							
1. Financial assets with fair value changes included in profit or loss (excluding derivative financial assets)							
2. Derivative financial assets	714,185	-141,646	-322,036	8,516			259,019
3. Financial assets available for sale	22,213,426		-343,741	-9,428	3,529,696	22,684,087	2,705,866
Sub-total of financial assets	22,927,611	-141,646	-665,777	-912	3,529,696	22,684,087	2,964,885
Investment properties							
Productive living assets							
Others							
Sub-total of the above	22,927,611	-141,646	-665,777	-912	3,529,696	22,684,087	2,964,885
Financial liabilities	92,308	668,804	144,619	-2,936			902,795

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

□Yes √No

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

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

5. Investment made

5.1 Total investment amount

√Applicable □N/A

Total investment amount of Reporting Period (RMB'000)	Total investment amount of last year (RMB'000)	YoY Change (%)
86,640,334	124,035,694	-30.15%

5.2 Significant equity investment made in the Reporting Period

□Applicable √N/A

5.3 Significant non-equity investments ongoing in the Reporting Period

□Applicable √N/A

5.4 Financial investments

5.4.1 Securities investments

√Applicable □N/A

Unit: RMB'000

Type of securities	Code of securities	Abbreviation of securities	Initial investment cost	Measurement method	Opening carrying amount	Profit or loss from change in fair value during the period	Cumulative fair value change charged to equity	Purchased in the period	Sold in the period	Profit or loss in the period	Closing carrying amount	Accounting title	Funding source
Domestically/Overseas listed	1810	XIAOMI-W	1,272,584	Fair value method	-	-	-325,952	1,448,561	-	-	1,122,609	Financial assets availabl	Self-funded

stock												e for sale	
Total			1,272,584	--	-	-	-325,952	1,448,561	-	-	1,122,609	-	--

5.4.2 Derivatives investments

√Applicable □N/A

Unit: RMB'000

Operating party	Relationship with the Company	Related transaction	Type of derivative	Initial investment amount	Starting date	Ending date	Opening investment amount	Purchased in Reporting Period	Sold in Reporting Period	Amount provided for impairment (if any)	Closing investment amount	Closing investment amount as a percentage of the Company's closing net assets	Actual gain/loss in Reporting Period
Futures company	No	No	Futures contracts	65,882	01/01/2018	31/12/2018	65,882	-	-	-	276	0.0003%	-236,067
Bank	No	No	Forward forex contracts	555,995	01/01/2018	31/12/2018	555,995	-	-	-	-644,052	-0.7753%	-1,800,548
Total				621,877	--	--	621,877	-	-	-	-643,776	-0.7750%	-2,036,615
Source of derivatives investment funds				All from the Company's own money									
Litigation involved (if applicable)				N/A									
Disclosure date of the announcement about the board's consent for the derivative investment (if any)				31/03/2018									
Disclosure date of the				24/04/2018									

announcement about the general meeting's consent for the derivative investment (if any)	
Risk analysis of positions held in derivatives during the Reporting Period and explanation of control measures (Including but not limited to market risk, liquidity risk, credit risk, operational risk, legal risk, etc.)	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: 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. 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. 2. Operational risk: Imperfect internal process, staff, systems and external issues may cause the Company to suffer from loss during the course of its futures business and forex funds business. Control measures: The Company has not only developed relevant management systems that clearly defined the assignment of responsibility and approval process for the futures business and forex funds business, but also established a comparatively well-developed monitoring mechanism, aiming to effectively reduce operational risk by strengthening risk control over the business, decision-making and trading processes. 3. Market risk: Uncertainties caused by changes in the prices of bulk commodity and exchange rate fluctuations in foreign exchange market could lead to greater market risk in the futures business and forex funds business. Meanwhile, inability to timely raise sufficient funds to establish and maintain hedging positions in futures operations, or the forex funds required for performance in forex funds operations being unable to be credited into account could also result in loss and default risks. Control measures: The futures business and forex funds business of the Company shall always be conducted by adhering to prudent operation principles. For futures business, the futures transaction volume and application have been determined strictly according to the requirements of production & operations, and the stop-loss mechanism has been implemented. Besides, to determine the prepared margin amount which may be required to be supplemented, the futures risk measuring system has been established to measure and calculate the margin amount occupied, floating gains and losses, margin amount available and margin amount required for intended positions. As for forex funds business, a hierarchical management mechanism has been implemented, whereby the operating unit which has submitted application for funds business

	should conduct risk analysis on the conditions and environment affecting operating profit and loss, evaluate the possible greatest revenue and loss, and report the greatest acceptable margin ratio or total margin amount, so that the Company can update operating status of the funds business on a timely basis to ensure proper funds arrangement before the expiry dates.
Changes in market prices or fair value of derivative products during the Reporting Period, specific methods used and relevant assumption and parameter settings shall be disclosed for analysis of fair value of derivatives	1. Loss from futures contracts during the Reporting Period was RMB236,067,000. 2. Loss from forward forex contracts during the Reporting Period was RMB1,800,548,000. 3. Public quotations in futures market or forward forex quotations announced by the Bank of China are used in the analysis of derivatives fair value.
Explanation of significant changes in accounting policies and specific financial accounting principles in respect of the Company's derivatives for the Reporting Period as compared to the previous Reporting Period	No change
Special opinions expressed by independent directors concerning the Company's derivatives investment and risk control	The Company's independent directors are of the view that the futures hedging business is an effective instrument for the Company to eliminate price volatility and implement risk prevention measures through enhanced internal control, thereby improving the operation and management of the Company; the Company's foreign exchange risk management capability can be further improved through the forex funds business, so as to maintain and increase the value of foreign exchange assets and the abovementioned investment in derivatives can help the Company to fully bring out its competitive advantages. Therefore, it is practicable for the Company to carry out derivatives investment business, and the risks are controllable.

5.5 Use of funds raised

□ Applicable √ N/A

No such cases in the Reporting Period.

6. Sale of Major Assets and Equity Interests

6.1 Sale of major assets

□Applicable √N/A

No such cases in the Reporting Period.

6.2 Sale of major equity interests

□ Applicable √ N/A

7. Analysis of Major Subsidiaries

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

Company name	Company type	Business scope	Registered capital	Total assets (in RMB million)	Net assets (in RMB million)	Operating revenue (in RMB million)	Operating profit (in RMB million)	Net profit (in RMB million)
Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.	Subsidiary	Manufacturing of home appliances	USD72 million	10,818.63	2,803.50	13,613.96	1,583.35	1,374.17
GD Midea Air-Conditioning Equipment Co.,Ltd.	Subsidiary	Manufacturing of air conditioners	RMB854 million	32,215.69	4,115.93	46,062.66	855.07	701.75
Foshan Shunde Midea Electrical Heating Appliances Manufacturing Co., Ltd.	Subsidiary	Manufacturing of home appliances	USD42 million	9,392.79	4,714.88	10,383.94	1,655.99	1,425.05
Wuhu Midea Kitchen & Bath Appliances Mfg. Co., Ltd.	Subsidiary	Manufacturing of water heaters	RMB60 million	7,918.37	985.59	9,146.73	1,004.95	794.68

Acquisition and disposal of subsidiaries during the Reporting Period

√Applicable □N/A

For the main subsidiaries included in the consolidated financial statements of the current year, please refer to Note 5 and Note 6 to the Financial Statements herein. For the newly consolidated companies, see Note 5, 5.2, (a), and they primarily include: Miraco International Trading Company、IRT SA Neuchatel Switzerland、Mor-Tech Manufacturing Inc.、Mor-Tech Design Inc.、Midea Home Appliances UK Ltd., Shanghai COLMO Lifestyle Products&Services Co. Ltd. and Guangdong Welling Auto Parts Co. Ltd. For the companies deconsolidated in the current year, see Note 5, 5.2, (b).

8. Structured Bodies Controlled by the Company

□Applicable √N/A

9. Outlook for the Future Development of the Company

9.1 Development strategies of the Company

With “Bring Great Innovations to Life” as its corporate vision, “Integrate with the World, to Inspire your Future” as its mission, and “Embrace What’s Next - Aspiration、Dedication、Collaboration、Innovation” as its values, Midea integrates global resources, deepens its transformation, as well as keeps developing leading products based on the customer’s needs by way of technological innovation, quality improvement and quality product programs. It will promote efficiency driven growth by improving management, manufacturing and asset efficiency to create more cost efficiency. It will also promote global operations and try to lay a solid foundation in this regard through promoting its own branded products and strengthening compliance management. Additionally, it will strengthen its robotics and industrial automation operations to build new business platform and growth points. Meanwhile, it will deepen its Digitalization 2.0 program to improve operation and management through digitalization of the entire value chain, so as to construct its own industrial internet ecosystem.

9.2 Key operation points in 2019

a. Adhering to the three core strategies to increase R&D investments, accelerate product innovation and efficiency improvement, put in place a customer-oriented value chain system, strengthen the capabilities of developing innovative and leading products through adopting the CDOC approach and the R&D model of “Three Generations”, and provide competitive products and services for customers in a highly efficient way;

b. Continuing to enhance the basic systems to set up a unified business language and rules, strengthen “One Midea, One System, One Standard”, make use of the advangtages of synergies, reinforce the result-oriented process control and improve operating efficiency;

c. Promoting transformation in the domestic marketing to improve user-oriented domestic retail marketing, enhance product synergies, focuse on the end market, lower the inventory level, streamline the channel hierarchy, promote better channel efficiency as well as stabilize the channel structure and interests; promoting interactive marketing ways based on scenario and experience to build better recognition of the Midea brand among users; making use of multi-category synergistic advantages to continuously deepen the channel layout, further promote e-commerce channel optimization and integration, and proactively expand and building new retail channels; continuing to increase the efficiency of the supply chain system, enhance the advantage of to Midea's all-channels coverage, rebuild business processes and push forward the construction of a shared inventory system;

d. Further improving the multi-brand system according to different needs from different consumer groups, as well as improving Midea's product suites and families, including the real-estate before-market product suites, to provide integrated home solutions with full categories of the household appliances;

e. Strengthening the building of Midea as a digitalized enterprise by improving the digital operational methods and systems to support the integration of every link of Midea's value chain and optimize efficiency, value creation and the fulfillment of operating objectives, as well as by further building and optimizing digitalized industrial Internet factories; and continuing to promote and optimize the International 632 program to strengthen digital support for the "Global Operations" strategy; and

f. Continuing to improve the global operation and control competence; optimizing the overseas R&D, production and marketing, speeding up the development of the Company's own brands, and strengthening overseas compliance management to control business risks; continuing to improve the profitability of the TLSC and promote localized operations of the China-based joint venture incorporated by Midea and KUKA to offer competitive products and services; promoting the switch to lean management of overseas channels, and significantly increasing the channel coverage in the ASEAN and India; and building a global service system, optimizing the service delivery network and constantly improving the global after-sales system.

9.3 Key capital expenditure plan in future

To adapt to changes in the industry environment, the Company will focus its 2019 investments on technological innovation, product quality improvement, robotics and industrial automation systems, digitalization, e-commerce channel expansion and new retail channels construction, new brand marketing, global operation capability improvement and the smart home strategy. Meanwhile, the Company will strictly control investment in infrastructure and capacity expansion, as well as non-operating expenditures.

The capital expenditures will primarily come from the Company's own capital.

9.4 Main risks in future development

a. Risk of macro economy fluctuation

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

b. Risks in the fluctuation of production factors

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

c. Risk in global asset allocation and overseas market expansion

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

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

As Midea carries on with its overseas expansion plan, its export revenue has accounted for more than 40% of the total revenues. Any sharp exchange rate fluctuation might not only bring negative effects on the export of the Company, but could also lead to exchange losses and increase its finance costs.

e. Market risks brought by trade frictions and tariff barriers

Due to the rise of anti-globalization and trade protectionism, China will see more uncertainties in export in 2019. The trade barriers and frictions of some major markets will affect the export business in the short run, as well as marketing planning and investment in the medium and long run. Political and compliance risks are rising in international trade. These can mainly be seen on compulsory safety certificates, international standards and requirements, and product quality and management systems certification, energy-saving requirements, the call for increasingly strict environmental protection requirements, as well as with rigorous requirements for recycling household appliances waste. Trade frictions caused by anti-dumping measures implemented by some countries and regions aggravate the burden in costs and expenses for household appliance enterprises, and have brought about new challenges to market planning and business expansion for enterprises.

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

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

10.1 In the Reporting Period

√Applicable □N/A

Date of visit	Way of visit	Type of visitor	Index to main inquiry information
25~26 January 2018	One-on-one meeting	Institution	Log Sheet of Investor Relations Activities for 25~26 January 2018 disclosed on www.cninfo.com.cn
28 February~13 March 2018	Ditto	Ditto	Log Sheet of Investor Relations Activities for 28 February~13 March 2018 disclosed on www.cninfo.com.cn
2 April 2018	Ditto	Ditto	Log Sheet of Investor Relations Activities for 2 April 2018 disclosed on www.cninfo.com.cn
10~11 May 2018	Ditto	Ditto	Log Sheet of Investor Relations Activities for 10~11 May 2018 disclosed on www.cninfo.com.cn
16 May 2018	Ditto	Ditto	Log Sheet of Investor Relations Activities for 16 May 2018 disclosed on www.cninfo.com.cn
11~14 June 2018	Ditto	Ditto	Log Sheet of Investor Relations Activities for 11~14 June 2018 disclosed on www.cninfo.com.cn

20~21 June 2018	Ditto	Ditto	Log Sheet of Investor Relations Activities for 20~21 June 2018 disclosed on www.cninfo.com.cn
11~12 July 2018	Ditto	Ditto	Log Sheet of Investor Relations Activities for 11~12 July 2018 disclosed on www.cninfo.com.cn
16~23 July 2018	Ditto	Ditto	Log Sheet of Investor Relations Activities for 16~23 July 2018 disclosed on www.cninfo.com.cn
2~5 September 2018	Ditto	Ditto	Log Sheet of Investor Relations Activities for 2~5 September 2018 disclosed on www.cninfo.com.cn
20~21 September 2018	Ditto	Ditto	Log Sheet of Investor Relations Activities for 20~21 September 2018 disclosed on www.cninfo.com.cn
8~9 November 2018	Ditto	Ditto	Log Sheet of Investor Relations Activities for 8~9 November 2018 disclosed on www.cninfo.com.cn
16 November 2018	Ditto	Ditto	Log Sheet of Investor Relations Activities for 16 November 2018 disclosed on www.cninfo.com.cn
14 December 2018	Ditto	Ditto	Log Sheet of Investor Relations Activities for 14 December 2018 disclosed on www.cninfo.com.cn

Times of visit	221
Number of visiting institutions	2,003
Number of visiting individuals	105
Number of other visitors	0
Significant undisclosed information disclosed, revealed or leaked	No

Section V Significant Events

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

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

□Applicable √N/A

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

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

For 2017, based on its total of 6,584,022,574 shares, the Company distributed a cash dividend of RMB12 (tax inclusive) per 10 shares to all shareholders. The book closure day was 3 May 2018 and the ex-dividend day 4 May 2018.

For 2018, based on the Company's 6,585,838,349 shares at the disclosure date of this report (the total shares minus the 17,584,338 repurchased shares in the repo securities account), it is proposed that the Company should distribute a cash dividend of RMB13 (tax inclusive) per 10 shares to all the shareholders and should not convert capital reserves into share capital. When the profit distribution plan is implemented, if any change occurs to the total shares eligible for profit distribution, the profit distribution plan shall be based on the total shares eligible for profit distribution at the book closure date of the profit distribution, and the dividend per share shall be adjusted under an unchanged total distribution amount. The proposal has been considered and approved by the 10th Meeting of the 3rd Board of the Company and will later be submitted to the 2018 annual general meeting of shareholders for further consideration.

In 2018, the Company repurchased and retired its shares worth as much as RMB4 billion by the end of January 2019. Attaching importance to reasonable return for investors, the Company has reviewed in 2019 its shareholder return planning for the next three years to ensure the sustainability and consistency of the profit distribution policy. During the review process, the requirements and wishes of shareholders, particularly the minority shareholders, were fully taken into account to ensure the sufficient protection of their legal interests.

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

Unit: RMB

Year	Cash dividends (tax included)	Net profit attributable to common shareholders of the Company in the consolidated statement in the year	Ratio of cash dividends to net profit attributable to common shareholders in the consolidated statement in the year	Cash dividends in other forms (such as share repurchase)	Ratio of cash dividends in other forms to net profit attributable to common shareholders in the consolidated statement in the year	Total cash dividends (inclusive of those in other forms)	Ratio of total cash dividends (inclusive of those in other forms) to net profit attributable to common shareholders in the consolidated statement in the year
2018	8,561,589,853.70	20,230,779,000.00	42.32%	4,000,000,000	19.77%	12,561,589,853.70	62.09%
2017	7,900,827,088.80	17,283,689,000.00	45.71%	0.00	0.00	7,900,827,088.80	45.71%
2016	6,465,677,368.00	14,684,357,000.00	44.03%	0.00	0.00	6,465,677,368.00	44.03%

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

□Applicable √N/A

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

√ Applicable □ N/A

Bonus shares for every 10 shares (share)	0
Dividend for every 10 shares (RMB) (tax	13.00

included)	
Additional shares converted from capital reserves for every 10 shares (share)	0
Total shares as the basis for the preliminary plan for profit distribution (share)	6,585,838,349
Cash dividends (RMB) (tax inclusive)	8,561,589,853.70
Cash dividends in other forms (such as share repurchase) (RMB)	4,000,000,000.00
Total cash dividends (inclusive of those in other forms) (RMB) (tax inclusive)	12,561,589,853.70
Distributable profits (RMB)	19,486,212,000.00
Percentage of total cash dividends (inclusive of those in other forms) in the total distributed profit (%)	100%
Details about the preliminary plan for profit distribution and converting capital reserves into share capital	
As audited by PricewaterhouseCoopers China (LLP), the Company realized net profit of RMB11,968,637,000 for 2018. Pursuant to the relevant provisions under the Articles of Association, it provided 10% as statutory surplus reserves, namely RMB1,196,864,000. Plus undistributed profit at the beginning of the year of RMB16,613,224,000 and minus the profit distributed in the year of RMB7,898,785,000, the actual distributable profit would be RMB19,486,212,000. For 2018, based on the Company's 6,585,838,349 shares at the disclosure date of this report (the total shares minus the 17,584,338 repurchased shares in the repo securities account), it is proposed that the Company should distribute a cash dividend of RMB13 (tax inclusive) per 10 shares to all the shareholders and should not convert capital reserves into share capital. When the profit distribution plan is implemented, if any change occurs to the total shares eligible for profit distribution, the profit distribution plan shall be based on the total shares eligible for profit distribution at the book closure date of the profit distribution, and the dividend per share shall be adjusted under an unchanged total distribution amount. The said plan shall be submitted to the Company’s 2018 annual general meeting of shareholders for further consideration.	

3. Performance of Undertakings

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

√ Applicable □ N/A

Undertaking	Undertaking giver	Type of undertaking	Details of undertaking	Details of undertaking	Term	Particulars on the performance
Undertaking made in offering documents or shareholding alternation documents	Controlling shareholder and actual controller	Maintenance of independence	1. Midea Holding and He Xiangjian have undertaken as follows: He Xiangjian, Midea Holding and their controlled enterprises will remain independent from Midea Group in respect of personnel, finance, assets, business and institutions, in accordance with relevant laws and regulations and regulatory documents. They will faithfully fulfill the above undertaking, and assume the corresponding legal liability. If they fail to fulfill their obligations and responsibilities conferred by the undertaking, they will bear the corresponding legal liabilities according to relevant laws, rules, regulations and regulatory documents.	28/03/2013	Long-standing	**1. There has been no violation of this undertaking.**
	Controlling shareholder and actual controller	Avoiding competition within the industry	2. In order to avoid possible competition within the industry between Midea Group and Midea Holding and its controlled enterprises as well as He Xiangjian, his immediate family and his controlled companies, Midea Holding and He Xiangjian have undertaken as follows: (1) None of the entities or individuals mentioned above is or will be engaged in the same or similar business as the existing main business of Midea Group and its controlled companies. They are not or will not be engaged or participate in such business that is	28/03/2013	Long-standing	**2. There has been no violation of this undertaking.**

			competitive to the existing main business of Midea Group and its controlled companies by controlling other economic entities, institutions or economic organizations; (2) If Midea Group and its controlled companies expand their business on the basis of the existing ones to those where the above mentioned related entities or individuals are already performing such production and operations, as long as He Xiangjian is still the actual controller of Midea Group, and Midea Holding the controlling shareholder, they will agree on solving the problem of competition within the industry arising therefrom within a reasonable period; (3) If Midea Group and its controlled companies expand their business scope on the basis of the existing ones to those where the above mentioned related subjects have not gone into production or operation, as long as He Xiangjian is still the actual controller of Midea Group, and Midea Holding the controlling shareholder, they would undertake as not to engage in competitive business to the new ones of Midea Group and its controlled companies; (4) In accordance with effective laws, regulations or other regulatory documents of People's Republic of China, as long as Midea Holding is identified as the controlling shareholder of Midea Group, and He Xiangjian the actual controller, they will not change or terminate this undertaking. (5) Midea Holding and He Xiangjian shall faithfully fulfill the above undertaking, and assume the corresponding legal responsibilities. If they fail to fulfill their obligations and responsibilities conferred by the undertaking, they would bear the corresponding legal responsibilities according to relevant			

			laws, rules, regulations and regulatory documents.			
	Controlling shareholder and actual controller	Regulation of related transactions	3. In order to regulate matters of related transactions that may occur in the future between Midea Group and Midea Holding and its controlled companies as well as He Xiangjian, his immediate family and his controlled companies, Midea Holding and He Xiangjian have undertaken as follows: (1) They will regulate any related transactions with Midea Group and its controlled companies using their utmost efforts to reduce them. For unavoidable related transactions with Midea Group and its controlled companies, including but not limited to commodity trading, providing services to each other or as agent, they will sign legal normative agreements with Midea Group, and go through approval procedures in accordance with related laws, regulations, rules, other regulatory documents, and relevant provisions of the Articles of Association of Midea Group. They guarantee to offer fair prices for related transactions, and fulfill the information disclosure obligations in respect of the related transactions according to related laws, regulations, rules, other regulatory documents, and relevant provisions of the Articles of Association of Midea Group. They also guarantee not to illegally transfer the funds or profits from Midea Group, or damage the interests of its shareholders at their advantages during the related transactions. (2) They shall fulfill the obligation of withdrawing from voting that involves the above mentioned related transactions at the general meeting of Midea Group; (3) The related subject mentioned above shall not require Midea Group to offer more favorable conditions than those to any independent third party in any fair market transactions.	28/03/2013	Long-standing	**3. There has been no violation of this undertaking.**

		(4) In accordance with effective laws, regulations or other regulatory documents of People's Republic of China, as long as Midea Holding is identified as the controlling shareholder of Midea Group, and He Xiangjian the actual controller, they shall not change or terminate this undertaking. (5) Midea Holding and He Xiangjian will faithfully fulfill the above undertaking and assume the corresponding legal liabilities. If they fail to fulfill their obligations and responsibilities conferred by the undertaking, they will bear the corresponding legal responsibilities according to relevant laws, rules, regulations and regulatory documents.			
Controlling shareholder and actual controller	On Midea Trade Union Committee transferring its limited equity of Midea Group	4. On 4 January 2001, the Midea Trade Union Committee signed the "Equity Transfer Contract" with five people, namely He Xiangjian, Chen Dajiang, Feng Jingmei, Chen Kangning and Liang Jieyin, where it transferred all its limited equity of Midea Group (22. 85%) respectively to those five people. According to the confirmation letter issued by members of the Midea Trade Union Committee at that time, the equity transfer price was determined after mutual discussion on the basis of their true opinions, therefore there was no dispute or potential dispute. On 28 June 2013, Foshan Shunde Beijiao General Union, superior department of Midea Trade Union Committee, issued a confirmation letter to the fact that the Midea Trade Union Committee funded the establishment of Midea Group Co., Ltd. In addition the letter also confirmed that the council of Midea Trade Union Committee is entitled to dispose any property of the committee, and such property disposal does not need any agreement from all staff committee members. Midea Holding and He Xiangjian, respectively the controlling	28/03/2013	Long-standing	**4. So far, this shareholding transfer has not brought about any loss caused by any dispute or potential disputes. There has been no violation of this undertaking.**

		shareholder and actual controller of Midea Group Co., Ltd. have undertaken as follows: For any loss to Midea Group caused by any dispute or potential dispute arising from the matters of equity transfer mentioned above, they are willing to assume full liability for such loss.			
Controlling shareholder and actual controller	Issues about Payment of the Staff Social Insurance and the Housing Provident Fund involved in Midea Group's Overall Listing	5. Midea Holding and He Xiangjian have undertaken to be liable for (1) paying such expenses and related expenses on time based on the requirements of relevant state departments if Midea Group is required to be liable for the payment of staff social insurance, housing provident fund and the payment required by relevant state authorities prior to this merger, (2) paying corresponding compensation for all direct and indirect losses incurred by Midea Group and its subsidiaries due to this merger, (3) indemnifying and holding harmless Midea Group and its subsidiaries in time from such expenses when Midea Group and its subsidiaries are required to pay them in advance.	28/03/2013	Long-standing	**5. So far, the payment of the staff social insurance and the housing provident fund has not brought about any controversy or potential disputes. There has been no violation of this undertaking.**
Controlling shareholder and actual controller	Issues about asset alteration, asset flaw and house leasing of	6. Undertakings on issues about asset alteration, asset flaw and house leasing of Midea Group and its subsidiaries Midea Holding and He Xiangjian have undertaken as follows: (1) Midea Holding will do its utmost to assist and urge Midea Group (including its subsidiaries) to complete renaming procedures of related assets, such as land, housing, trademarks, patents and stock rights, declared in the related files of this merger. Midea Holding will be liable for all compensations	28/03/2013	Long-standing	**6. So far, the issues about asset alteration, asset flaw and house leasing of Midea Group and its subsidiaries have not brought about any controversy or potential disputes. There has been no violation of this undertaking. And Midea Holding shall honor this undertaking before its expiration.**

		Midea Group and its subsidiaries	of losses caused by issues about renaming procedures of related assets mentioned above to Midea Group. (2) Midea Holding shall do its utmost to assist Midea Group (including its subsidiaries) to apply for ownership certificates of land and housing or property declared in related files of this merger. (3) Midea Holding shall assist Midea Group (including its subsidiaries) to re-apply for corresponding construction procedures and apply for their ownership certificates for houses without complete procedures, as happened in the past, to apply for the ownership certificate. If the competent authorities requires Midea Group to dismantle buildings that cannot acquire the re-application for real estate registration procedures, Midea Holding shall do its utmost to provide assistance and be liable for any related expenses used in dismantling such buildings by Midea Group (including its subsidiaries). (4) Under any circumstances that Midea Group suffers from losses incurred from no longer using these properties or presently using the land or house above due to failing to obtain or collect in time the ownership certificates of the land or house above or any losses caused by any other reasons, Midea Holding shall compensate any loss for these reasons in time and in full. Midea Holding shall compensate the actual loss Midea Group suffers from any circumstances above resulting in penalties subjected to from competent authorities or through claims from any other third party. (5) Based on issues of defective house leasing declared in related files of this merger, Midea Holding shall provide sufficient compensations for all economic losses incurred by Midea Group (including its subsidiaries) where the leasehold relations above			

			become invalid or other disputes occur, which are caused by rights claims from a third party or by means of an administrative authority exercising a right and therefore results in any economic losses due to eviction from rental houses, or any penalties subjected to by competent government departments or any recourse from related parties. (6) Based on the issues of defective land leasing declared in related files of this merger, when leasehold relations become invalid caused by defects of land leasing or when other disputes occur, resulting in any economic losses to Midea Group (including its subsidiaries) or through any penalties administered by competent government departments. Likewise if the lessor cannot compensate for losses caused by such defective leasing, Midea Holding shall compensate Midea Group for losses caused by such defective land leasing. Midea Holding has further undertaken that where a violation of guarantees and undertakings referred to previously occurs or such guarantees and undertakings are not consistent with the reality and Midea Group has suffered any loss therefrom, Midea Holding shall compensate in cash or make up for Midea Group's loss upon Midea Group's notice in writing within 30 days when the loss occurs and the loss amount is definite.			
Undertakings given in time of IPO or refinancing	Xiaomi Technology	Private issue	Xiaomi Technology has given an undertaking that it shall not transfer the shares that it had subscribed for in this private placement with Midea Group within 36 months from the completion date of this offering (26 June 2015, the listing date for this offering).	26/06/2015	36 months from the listing date of this private placement, i.e. to 26 June 2018	**This undertaking has expired. And there has been no violation of this undertaking.**
Whether	Yes					

the undertaking is fulfilled on time	
Specific reasons for failing to fulfill any undertaking and plan for the next step	N/A

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

□Applicable √N/A

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

□Applicable √N/A

No such cases in the Reporting Period.

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

□Applicable √N/A

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

√ Applicable □ N/A

As per the Notice of the Ministry of Finance on Revising and Issuing the Format of 2018 Annual Financial Statements of General Enterprises (CK [2018] No. 15) issued in 2018, the Company has revised the format of its financial statements as follows: With regard to the balance sheet, the two items of "notes receivable" and "accounts receivable" have been combined into one item, "notes and accounts receivable"; "interest receivable" has excluded from "other current assets" and included into "other receivables"; "notes payable" and "accounts payable" have been combined into "notes and accounts payable"; "interest payable", "dividends payable" and "other payables" have been combined into "other payables"; and "long-term payables" and "payables for specific projects" have been combined into "long-term payables". Regarding the income statement, "R&D expenses" has been separated from "general and administrative expenses"; and two sub-items, "interest expenses" and "interest income" have been added under "finance expenses". The comparative data have been retrospectively adjusted accordingly.

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

□Applicable √N/A

No such cases in the Reporting Period.

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

√ Applicable □ N/A

For the main subsidiaries included in the consolidated financial statements of the current year, please refer to Note 5 and Note 6 to the Financial Statements herein. For the newly consolidated companies, see Note 5, 5.1 and 5, 5.2, (a), and they primarily include: Miraco International Trading Company、IRT SA Neuchatel Switzerland、Mor-Tech Manufacturing Inc.、Mor-Tech Design Inc.、Midea Home Appliances UK Ltd., Shanghai COLMO Lifestyle Products&Services Co. Ltd. and Guangdong Welling Auto Parts Co. Ltd. For the companies deconsolidated in the current year, see Note 5, 5.2, (b).

9. Engagement and Disengagement of CPA Firm

CPA firm at present

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

Whether the CPAs firm was changed in the current period

□Yes √No

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

√ Applicable □ N/A

The Company appointed PricewaterhouseCoopers China (LLP) as the internal control auditor for the current year. The total amount paid by the Company to PricewaterhouseCoopers China (LLP) for its financial statement and internal control audit services for 2018 was RMB8.7 million.

Midea Group appointed CITIC Securities Co., Ltd. to be the independent financial advisor for its merger with Little Swan in a share swap via A-share offering and the related transaction. As per the CSRC Reply on the Approval of the Merger between Midea Group Co., Ltd. and Wuxi Little Swan Company Limited (ZJXK [2019] No. 352) received on 12 March 2019, as well as the authorization of the general meeting of shareholders, the Board will handle the merger as soon as possible.

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

□Applicable √N/A

11. Bankruptcy and Reorganization

□Applicable √N/A

No such cases in the Reporting Period.

12. Material Litigation and Arbitration

□Applicable √N/A

No such cases in the Reporting Period.

13. Punishments and Rectifications

□Applicable √N/A

No such cases in the Reporting Period.

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

□Applicable √N/A

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

√Applicable □N/A

A. Overview of the First Stock Option Incentive Scheme

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

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

B. Overview of the Second Stock Option Incentive Scheme

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

b. The Company convened the 35th Meeting of the 2nd Board of Directors on 4 June 2018, at which the Proposal for the Adjustments to the Incentive Receivers and Their Exercisable Stock Options of the Second Stock Option Incentive Scheme was reviewed and approved. As such, it was agreed to adjust the incentive receivers and their exercisable stock options for the Second Stock Option Incentive Scheme due to the departure, positional changes, low performance appraisals or other factors of some incentive receivers. Upon the adjustments, the number of incentive receivers decreased from 583 to 554, and the number of locked-up stock options granted to them was also reduced from 33,255,000 to 31,470,000.

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

C. Overview of the Third Stock Option Incentive Scheme

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

b. The Company convened the 36th Meeting of the 2nd Board of Directors on 3 July 2018, at which the Proposal for the Adjustments to the Incentive Receivers and Their Exercisable Stock Options of the Third Stock Option Incentive Scheme was reviewed and approved. As such, it was agreed to adjust the incentive receivers and their exercisable stock options for the Third Stock Option Incentive Scheme due to the departure, positional changes, low performance appraisals or other factors of some incentive receivers. Upon the adjustments, the number of incentive receivers decreased from 891 to 850, and the number of locked-up stock options granted to them was also reduced from 81,090,000 to 76,149,557.

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

D. Overview of the Fourth Stock Option Incentive Scheme

a. The Company convened the 33rd Meeting of the 2nd Board of Directors on 7 May 2018, at which the Proposal for the Adjustments to the Exercise Price for the Fourth Stock Option Incentive Scheme was reviewed and approved. As the 2017 Annual Profit Distribution had been carried out, the exercise price for the Fourth Stock Option Incentive Scheme was revised from RMB32.72 to RMB31.52 per share.

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

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

E. Overview of the Fifth Stock Option Incentive Scheme

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

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

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

c. In light of the authorization given at the 2017 Annual General Meeting of Shareholders, the Company convened the 33rd Meeting of the 2nd Board of Directors on 7 May 2018, at which the Proposal for the Adjustments to the Exercise Price for the First Phase, Incentive Receiver List and Number of Stock Options to Be Granted for the Fifth Stock Option Incentive Scheme, the Proposal for the Determination of the Grant Date for the First Phase of the Fifth Stock Option Incentive Scheme and the Proposal for the First-Grant-Related Matters for the Fifth Stock Option Incentive Scheme were reviewed and approved. As such, the Company agreed to grant 54,520,000 stock options to 1,330 incentive receivers on 7 May 2018 for the first phase with the exercise price revised from RMB57.54 per share to RMB56.34 per share. The Company originally intended to grant 54,520,000 stock options to 1,330 incentive receivers for the first phase. However, due to departure from the Company before the registration of the grant, two incentive receivers were no longer eligible for the Fifth Stock Option Incentive Scheme. Therefore, the number of incentive receivers who were registered for the first phase of the Fifth Stock Option Incentive Scheme on 21 June 2018 was 1,328, down from 1,330, with 54,420,000 stock options, down from 54,520,000.

d. In light of the authorization given at the 2017 Annual General Meeting of Shareholders, the Company convened the 8th Meeting of the 3rd Board of Directors on 11 March 2019, at which the Proposal on Grant of the Reserved Stock Options of the Fifth Stock Option Incentive Scheme to Incentive Receivers was reviewed and approved. As such, the Company agreed to grant 5,540,000 reserved stock options to 100 incentive receivers on 11 March 2019 at the exercise price of RMB47.17 per share.

F. Overview of the 2017 Restricted Share Incentive Scheme

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

b. The Company had intended to grant 5,475,000 reserved restricted shares to 55 incentive receivers. However, after the date of grant, one incentive receiver left the Company and the 90,000 reserved restricted shares that had been granted to this incentive receiver were cancelled. As such, the Company actually granted 5,385,000 reserved restricted shares to 54 incentive receivers. PricewaterhouseCoopers China (LLP) issued on 26 January 2018 the Capital Verification Report PwC China CV (2018) No. 0061, verifying the corresponding increase in the Company's registered capital and the payment thereof as of 24 January 2018. As verified, as of 24 January 2018, the Company had received RMB150,726,150 from 54 incentive receivers for reserved restricted share subscription, representing an increase of RMB5,385,000 in share capital and an increase of RMB145,341,150 in capital reserves.

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

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

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

Also, the Proposal on the Satisfaction of the Conditions for the First Unlocking Period for the First Phase of the 2017 Restricted Share Incentive Scheme was approved at the aforesaid meeting. A total of 131 personnel were eligible for this unlocking, with 7,198,166 restricted shares unlocked and allowed for public trading on 31 May 2018, accounting for 0.11% of the Company's existing total shares.

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

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

G. Overview of the 2018 Restricted Share Incentive Scheme

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

b. On 23 April 2018, the Company convened the 2017 Annual General Meeting of Shareholders, at which the Proposal on the 2018 Restricted Share Incentive Scheme (Draft) and Its Abstract, the Proposal on the Implementation and Appraisal Measures for the 2018 Restricted Share Incentive Scheme, the Proposal for Asking the Meeting of Shareholders to Authorize the Board to Handle Mattes Related to the 2018 Restricted Share Incentive Scheme and other relevant proposals were reviewed and approved. For this scheme, the Company intended to grant 25,010,000 restricted shares, including 22,210,000 restricted shares (88.80% of the total grant) to 344 incentive receivers for the first phase with the price being RMB28.77/share, and 2,800,000 reserved restricted shares (11.20% of the total grant).

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

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

e. As per the CSRC's Measures for the Administration of Equity Incentives of Listed Companies, and as confirmed by the Shenzhen Stock Exchange and China Securities Depository and Clearing Co., Ltd. (Shenzhen branch), the shares in the first phase of the Company's 2018 Restricted Share Incentive Scheme had been registered and were to go public on 21 June 2018.

H. Overview of the First Partner Stock Ownership Scheme

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

I. Overview of the Second Partner Stock Ownership Scheme

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

J. Overview of the Third Partner Stock Ownership Scheme

a. According to the Announcement on the Share Allocation and the Vesting of the First Installment under the Third Partner Stock Ownership Scheme disclosed on 22 May 2018, the Company's performance requirement for the Third Partner Stock Ownership Scheme is a weighted average ROE not lower than 20% for 2017. According to the 2017 Annual Auditor's Report for Midea Group Co., Ltd. issued by PricewaterhouseCoopers China (LLP), this ROE requirement has been met at 25.88%.

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

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

K. Overview of the Fourth Global Partner Stock Ownership Scheme

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

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

L. Overview of the First Business Partner Stock Ownership Scheme

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

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

16. Significant Related Transactions

16.1 Related transactions arising from routine operation

√Applicable □N/A

Related transaction party	Relation	Type of the transaction	Contents of the transaction	Pricing principle	Transaction price	Transaction amount (RMB'000)	Proportion in the total amounts of transaction of the same	Approved transaction line (RMB'000)	Over approved line	Mode of settlement	Obtainable market price for the transaction of the same kind	Disclosure date	Index to the disclosed information

							kind (%)						
Infore Environment Technology Group Co., Ltd.	Controlled by family member of Company's actual controller	Procurement	Procurement of goods	Market price	-	1,129,760	0.66%	1,550,000	Yes	Payment after delivery	-	2018-3-31	www.cninfo.com.cn
Orinko Plastics Group	Controlled by family member of Company's actual controller	Procurement	Procurement of goods	Market price	-	332,990	0.19%	450,000	Yes	Payment after delivery	-	2018-3-31	www.cninfo.com.cn
Total				--	--	1,462,750	--	2,000,000	--	--	--	--	--
Details of any sales return of a large amount				Zero									
Give the actual situation in the Reporting Period (if any) where a forecast had been made for the total amounts of routine related-party transactions by type to occur in the current period				In the year, the actual routine transaction amount between the Company and the related parties and its subsidiaries did not exceed the total amount of routine related transactions estimated by the Company by type.									
Reason for any significant difference between the transaction price and the market reference price (if applicable)				N/A									

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

□Applicable √N/A

No such cases in the Reporting Period.

16.3 Related transitions arising from joint investments in external parties

√Applicable □N/A

Joint investor	Relationship with the Company	Investee	Core business of investee	Registered capital of investee	Total assets of investee (RMB'000)	Net assets of investee (RMB'000)	Net profit of investee (RMB'000)
Guangdong Smart Investment Co. Ltd.	Controlled by Mr. Li Feide, a former director of the Company	Midea Capital Corporation Limited	Equity investment and management, asset management	RMB20 million	19,540	19,540	-460
Progress of any major ongoing construction of the investee (if any)		N/A					

16.4 Credits and liabilities with related parties

□Applicable √N/A

No such cases in the Reporting Period.

16.5 Other significant related transactions

√Applicable □N/A

The *Proposal for Related Transactions Regarding Making Deposits in and Obtaining Loans from Shunde Rural Commercial Bank in 2018* was reviewed and approved at the 30th Meeting of the 2nd Board of Directors held on 29 March 2018 and later at the 2017 Annual General Meeting of Shareholders held on 23 April 2018.

In 2018, the deposit balance of the Company in Shunde Rural Commercial Bank shall not exceed RMB5 billion and neither shall the credit balance provided by the bank to the Company exceed RMB5 billion.

Index to the announcement about the said related transactions disclosed

Title of announcement	Disclosure date	Disclosure website
Announcement on Related Transactions Regarding Making Deposits in and Obtaining Loans from Shunde Rural Commercial Bank in 2018	31/03/2018	www.cninfo.com.cn

17. Significant Contracts and Their Execution

17.1 Trusteeship, contracting and leasing

17.1.1 Trusteeship

□Applicable √N/A

No such cases in the Reporting Period.

17.1.2 Contracting

□Applicable √N/A

No such cases in the Reporting Period.

17.1.3 Leasing

□Applicable √N/A

No such cases in the Reporting Period.

17.2 Major Guarantees

√Applicable □N/A

17.2.1 Guarantees provided

Unit: RMB'000

Guarantees provided by the Company and its subsidiaries for external parties (excluding those for subsidiaries)								
Guaranteed party	Disclosure date of the guarantee line announcement	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
Misr Regrigeration and Air Conditioning Manufacturing Co.	2018-3-31	11,000	-	0	Joint liability	One year	No	No
Total external guarantee line approved during the Reporting Period (A1)		11,000		Total actual external guarantee amount during the Reporting Period (A2)		0		
Total approved external guarantee line at the end of		11,000		Total actual external		0		

the Reporting Period (A3)				guarantee balance at the end of the Reporting Period (A4)				
Guarantees provided by the Company for its subsidiaries								
Guaranteed party	Disclosure date of the guarantee line announcement	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
Midea Group Finance Co., Ltd.	2018-3-31	8,380,000	2018-2-28	0	Joint liability	One year	No	No
GD Midea Air-Conditioning Equipment Co.,Ltd.	2018-3-31	11,886,000	2018-1-11	9,550	Joint liability	One year	No	No
Guangzhou Hualing Refrigerating Equipment Co.,ltd.	2018-3-31	1,196,000	2018-2-9	10	Joint liability	One year	No	No
Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.	2018-3-31	3,960,000	2018-1-8	257,020	Joint liability	One year	No	No
Foshan Shunde Midea Washing Appliances Manufacturing Co., Ltd.	2018-3-31	2,070,000	2018-1-12	77,700	Joint liability	One year	No	No
Guangdong Witol Vacuum Electronic Manufacture Co.,Ltd	2018-3-31	180,000	2018-1-12	2,380	Joint liability	One year	No	No
Guangdong Midea Precision Molding Technology Co., Ltd.	2018-3-31	114,000	-	0	Joint liability	One year	No	No
Guangdong De Yi Jie Appliances Co., Ltd.	2018-3-31	360,000	-	0	Joint liability	One year	No	No
GD Midea Heating & Ventilating Equipment Co., Ltd.	2018-3-31	1,332,000	2018-1-2	92,880	Joint liability	One year	No	No
Guangdong Midea-SIIX Electronics Co., Ltd.	2018-3-31	151,200	2018-1-8	20	Joint liability	One year	No	No
Guangdong Midea Consumer Electric Manufacturing Co., Ltd.	2018-3-31	50,000	2018-1-16	520	Joint liability	One year	No	No
Foshan Shunde Midea Electrical Heating Appliances Manufacturing Co., Ltd.	2018-3-31	100,000	2018-1-10	220	Joint liability	One year	No	No
Guangdong Midea Kitchen & Bath Appliances Manufacturing Co., Ltd.	2018-3-31	30,000	-	0	Joint liability	One year	No	No
Foshan Shunde Midea Water Dispenser Manufacturing Company Limited	2018-3-31	456,000	2018-1-9	0	Joint liability	One year	No	No

Foshan Midea Chungho Water Purification Equipment. Co., Ltd.	2018-3-31	36,000	-	0	Joint liability	One year	No	No
GD Midea Environment Appliances Mfg. Co.,Ltd.	2018-3-31	352,000	2018-4-27	810	Joint liability	One year	No	No
Guangdong Meizhi Compressor Limited	2018-3-31	140,000	2018-1-9	90	Joint liability	One year	No	No
Guangdong Meizhi Precision-Manufacturing Co., Ltd	2018-3-31	90,000	2018-3-13	30	Joint liability	One year	No	No
Guangdong Welling Motor Manufacturing Co., Ltd.	2018-3-31	116,000	2018-1-9	1,330	Joint liability	One year	No	No
Foshan Welling Washer Motor Manufacturing Co., Ltd.	2018-3-31	362,000	2018-1-2	19,250	Joint liability	One year	No	No
Guangdong Midea Environmental Technologies Co., Ltd.	2018-3-31	48,000	2018-7-1	10	Joint liability	One year	No	No
Ningbo Midea United Materials Supply Co. Ltd.	2018-3-31	448,800	2018-1-9	1,100	Joint liability	One year	No	No
Foshan Welling Materials Supply Co., Ltd.	2018-3-31	30,000	2018-1-26	0	Joint liability	One year	No	No
Guangzhou Kaizhao Commercial and Trading Co.,Ltd	2018-3-31	7,200	2018-1-12	0	Joint liability	One year	No	No
Guangdong Midea Intelligent Robotics Co., Ltd.	2018-3-31	24,000	-	0	Joint liability	One year	No	No
Midea Group E-Commerce Co., Ltd.	2018-3-31	60,000	-	0	Joint liability	One year	No	No
Annto Logistics Technology Co., Ltd.	2018-3-31	40,000	2018-3-9	3,140	Joint liability	One year	No	No
GD Midea Group Wuhu Air-Conditioning Equipment Co.,Ltd.	2018-3-31	1,720,000	-	0	Joint liability	One year	No	No
Wuhu Maty Air-Conditioning Equipment Co., Ltd	2018-3-31	110,000	-	0	Joint liability	One year	No	No
Wuhu Midea Kitchen Appliances Manufacturing Co., Ltd.	2018-3-31	146,000	-	0	Joint liability	One year	No	No
Hefei Hualing Co., Ltd.	2018-3-31	60,000	2018-4-13	40	Joint liability	One year	No	No
Hubei Midea Refrigerator Co., Ltd.	2018-3-31	480,000	2018-2-5	60	Joint liability	One year	No	No
Hefei Midea Refrigerator Co., Ltd.	2018-3-31	886,600	2018-4-10	0	Joint liability	One year	No	No

Guangzhou Midea Hualing Refrigerator Co., Ltd.	2018-3-31	400,000	-	0	Joint liability	One year	No	No
Hefei Midea Heating & Ventilating Equipment Co., Ltd.	2018-3-31	90,000	2018-1-1	170	Joint liability	One year	No	No
Hefei Midea -SIIX Electronics Co., Ltd.	2018-3-31	105,000	2018-1-1	180	Joint liability	One year	No	No
Hefei M&B Air Conditioning Equipment Co., Ltd.	2018-3-31	10,000	-	0	Joint liability	One year	No	No
Wuhu Midea Kitchen & Bath Appliances Mfg. Co., Ltd.	2018-3-31	384,000	2018-1-12	9,260	Joint liability	One year	No	No
Anhui Meizhi Compressor Co., Ltd.	2018-3-31	30,000	2018-2-27	0	Joint liability	One year	No	No
Anhui Meizhi Precision Manufacturing Co., Ltd.	2018-3-31	36,000	2018-3-1	10	Joint liability	One year	No	No
Welling (Wuhu) Motor Manufacturing Co., Ltd.	2018-3-31	24,000	-	0	Joint liability	One year	No	No
Hefei Midea Laundry Appliance Co., Ltd.	2018-3-31	1,270,000	2018-1-18	0	Joint liability	One year	No	No
Jiangsu Midea Cleaning Appliances Co., Ltd.	2018-3-31	335,000	2018-1-10	3,000	Joint liability	One year	No	No
Chongqing Midea General Refrigeration Equipment Co., Ltd.	2018-3-31	40,000	-	0	Joint liability	One year	No	No
Jiangxi Midea Guiya Lighting Co., Ltd.	2018-3-31	197,000	2018-6-8	590	Joint liability	One year	No	No
Changzhou Welling Motor Manufacturing Co., Ltd.	2018-3-31	24,000	-	0	Joint liability	One year	No	No
Huaian Welling Motor Manufacturing Co., Ltd.	2018-3-31	20,000	2018-7-1	1,380	Joint liability	One year	No	No
Zhejiang Meizhi Compressor Co., Ltd.	2018-3-31	1,800,000	-	0	Joint liability	One year	No	No
Midea International Corporation Company Limited	2018-3-31	6,678,440	2018-1-1	2,115,040	Joint liability	One year	No	No
Midea International Trading Company Limited	2018-3-31	833,500	2018-1-1	279,670	Joint liability	One year	No	No
Midea Investment Development Company Limited	2018-3-31	7,000,000	2018-1-1	4,575,160	Joint liability	One year	No	No
Main Power Electrical Factory Ltd	2018-3-31	348,060	-	0	Joint liability	One year	No	No

Midea Electric Investment (BVI) Limited	2018-3-31	807,800	-	0	Joint liability	One year	No	No
Midea Refrigeration (Hong Kong) Limited	2018-3-31	35,000	-	0	Joint liability	One year	No	No
Welling International Hong Kong Limited	2018-3-31	321,000	-	0	Joint liability	One year	No	No
Midea Electric Trading (Singapore) Co., Pte. Ltd.	2018-3-31	5,384,000	2018-1-5	90,660	Joint liability	One year	No	No
Toshiba Lifestyle Products & Services Corporation and its subsidiaries	2018-3-31	4,197,600	2018-1-15	541,060	Joint liability	One year	No	No
Midea Consumer Electric (Vietnam) Co., Ltd.	2018-3-31	130,000	-	0	Joint liability	One year	No	No
Springer Carrier Ltda.	2018-3-31	1,261,000	2018-1-4	0	Joint liability	One year	No	No
Climazon Industrial Ltda.	2018-3-31				Joint liability	One year	No	No
Midea India private limited	2018-3-31	69,000	-	0	Joint liability	One year	No	No
Carrier(Chile) S.A.	2018-3-31	35,000	2018-1-30	0	Joint liability	One year	No	No
Midea Middle East	2018-3-31	103,000	-	0	Joint liability	One year	No	No
Midea America (Canada) Corp.	2018-3-31	55,000	-	0	Joint liability	One year	No	No
Midea Austria GmbH	2018-3-31	34,000	-	0	Joint liability	One year	No	No
Midea Electric Trading (Thailand) Limited	2018-3-31	103,000	2018-2-15	0	Joint liability	One year	No	No
Midea America Corp.	2018-3-31	182,000	-	0	Joint liability	One year	No	No
PT. Midea Planet Indonesia	2018-3-31	151,000	-	0	Joint liability	One year	No	No
Midea Europe GmbH	2018-3-31	69,000	-	0	Joint liability	One year	No	No
Midea México, S. De R.L. De C.V.	2018-3-31	138,000	-	0	Joint liability	One year	No	No
Midea Electric Netherlands（Ｉ）B.V.	2018-3-31	29,600,000	2018-1-1	28,855,280	Joint liability	One year	No	No

Foshan Midea Carrier Air-Conditioning Equipment Co., Ltd.	2018-8-31	1,000,000		0	Joint liability	One year	No	No
Guangdong Midea Smart Link Technologies Co., Ltd.	2018-8-31	50,000		0	Joint liability	One year	No	No
Total guarantee line for subsidiaries approved during the Reporting Period (B1)		98,772,200		Total actual guarantee amount for subsidiaries during the Reporting Period (B2)		53,962,070		
Total approved guarantee line for subsidiaries at the end of the Reporting Period (B3)		98,772,200		Total actual guarantee balance for subsidiaries at the end of the Reporting Period (B4)		36,937,620		
Guarantees between subsidiaries								
Guaranteed party	Disclosure date of the guarantee line announcement	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
No such cases								
Total guarantee amount (total of the above-mentioned three kinds of guarantees)								
Total guarantee line approved during the Reporting Period (A1+B1+C1)		98,783,200		Total actual guarantee amount during the Reporting Period (A2+B2+C2)		53,962,070		
Total approved guarantee line at the end of the Reporting Period (A3+B3+C3)		98,783,200		Total actual guarantee balance at the end of the Reporting Period (A4+B4+C4)		36,937,620		
Proportion of the total actual guarantee amount (A4+B4+C4) in net assets of the Company				44.46%				
Of which:								
Amount of guarantees provided for shareholders, the actual controller and their related parties (D)				0				
Amount of debt guarantees provided directly or indirectly for entities with a liability-to-asset ratio over 70% (E)				34,714,240				
Portion of the total guarantee amount in excess of 50% of net assets (F)				0				
Total amount of the three kinds of guarantees above (D+E+F)				34,714,240				

Joint responsibilities possibly borne for undue guarantees (if any)	N/A
Provision of external guarantees in breach of the prescribed procedures (if any)	N/A

17.2.2 Illegal provision of guarantees for external parties

□ Applicable √ N/A

No such cases in the Reporting Period.

17.3 Entrusted cash management

17.3.1 Entrusted asset management

√Applicable □N/A

Overview of wealth management entrustment

Unit: RMB'000

Type	Source of capital	Amount	Undue amount	Unrecovered overdue amount
Bank's wealth management products	The Company's own money	1,550,000	1,521,000	0
Total		1,550,000	1,521,000	0

17.3.2 Entrusted loans

□Applicable √N/A

No such cases in the Reporting Period.

17.4 Other significant contracts

□Applicable √N/A

No such cases in the Reporting Period.

18. Social Responsibility (CSR)

18.1 Measures taken to fulfill CSR commitment

The Company has voluntarily disclosed its CSR work. Attaching great importance to protecting the legal rights and interests of its shareholders, employees, consumers and business partners, as well as the government, the community and other stakeholders, the Company sticks to harmonious common growth with them, honors its commitments, abides by law and moral principles, and continue to contribute to the sustainable development of the society and the environment. For further information, see the Company's *Corporate Social Responsibility Report 2018* released on www.cninfo.com.cn.

18.2 Measures taken for targeted poverty alleviation

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

As an enterprise growing up in China's reform and opening up, Midea Group has been dedicated to various work for the public good and proactively shouldering social responsibility.

In January 2018, Midea donated RMB10 million to the Beijiao Charity Federation for the ninth consecutive year, with a cumulative amount of RMB90 million, which were used for poverty alleviation, education and other charity activities in the local community. At the Guangdong Poverty Alleviation Day & Rural Revitalization "Enterprises Helping Villages" Ceremony held in June 2018, Midea made another donation of RMB10 million. This was the ninth consecutive year of Midea's participation in this ceremony, with the cumulative amount donated reaching RMB155 million, helping people in Foshan, Shunde, Beijiao, Yingde, Liannan and other regions. The donations were primarily used to help the orderly, the poor, those in need, education, new village building and other social welfare activities. With the donation receiving institutions knowing exactly their responsibilities and how to use the donated money properly, all the donated money has been made good use of and produced positive effects in the society.

At the Midea Strategy Conference held on 19 October 2018, Midea Group announced a donation of RMB16.70 million to the Huanglong Village to promote rural revitalization in Shunde, and another RMB100 million to support the local government to achieve the poverty alleviation goal by 2020 through improving health, education and industry.

B. Targeted poverty alleviation plans for the coming future

In 2019, Midea will continue to attach great importance to helping those in need as a way to meet its social responsibility and give back to society. In response to the call of the Guangdong provincial government and the government's office, Midea has been trying to help reduce poverty through industrial development, creating more jobs and giving donations for public welfare. It has continued to donate RMB10 million to the Beijiao Charity Federation for poverty alleviation and public welfare. And another

RMB10 million has been given on the Guangdong Poverty Alleviation Day to improve education, medical care and housing in poor villages of the province.

18.3 Environmental protection

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

Name of the Company or subsidiary	Major pollutants	Discharge method	Number of discharge outlets	Distribution of discharge outlets	Concentration of the discharge	Pollutant discharge standards	Total discharge (kg)	Approved total discharge (kg)	Excess discharge
Hubei Midea Refrigerator Co., Ltd.	COD	Discharge after being treated by wastewater treatment system and reaching the standard	1	The western side of wastewater treatment in freezer base	130 mg/L	Regulations of Hubei Province on prevention and control of water pollution	2,530	4,320	No
	Ammonia nitrogen	Discharge after being treated by wastewater treatment system and reaching the standard			12.7 mg/L		24.40	700	No
	NMHC	15m high altitude discharge	36	16 refrigerator foams, 12 squeeze plates, 4 freezer foams, 4 freezer paintings	1.56 mg/m³	Emission standard of air pollutants for industrial kiln and furnace GB-9078-1996	395.97	648	No
	Particles	15m high altitude discharge			15 mg/m³		308.16	7,660	No
Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.	COD	Discharge after being treated by wastewater treatment system and reaching the standard	1	The eastern side of wastewater treatment in Malong base	110 mg/L	The discharge limits of water pollutants in Guangdong DB-44/26-2001	41,964.97	47,520	No
	Ammonia nitrogen				15 mg/L		11,005.89	6,480	No
	Soot	20m high altitude discharge	15	4 outlets at A1 plant, 7 outlets at A2 plant,4 outlets at C2 plant	200 mg/m³	Emission standard of air pollutants for industrial kiln and furnace (GB-9078-1996) /The emission limit of gas pollutants in Guangdong	8,753.85	40,480	No
	Sulfur dioxide				22 mg/m³		3,162,64	10,120	No
	Nitrogen oxide				98.2mg/m³		19,213	/	No

	Benzene	High altitude discharge after being treated by waste gas treatment station			12 mg/m³	(DB-44/27-2007)	0.00	/	No
	Toluene				40 mg/m³		132.73	/	No
	Xylene				70 mg/m³		79.99	/	No
	NMHC				120 mg/m³		1,213.04	/	No
Hefei Midea Laundry Appliance Co., Ltd.	COD	Discharge after being treated by wastewater treatment station	1	The eastern side of wastewater treatment station	75mg/m³	COD emission standard 380mg/L, Ammonia nitrogen emission standard 35mg/L	52,500	58,150	No
	Ammonia nitrogen			The eastern side of wastewater treatment station	16.5mg/m³		11,550	/	No
	Particles	15m high altitude discharge after being treated by cyclone + filter cartridge dust collector	2	1 outlet at #2 plant, 1 outlet at #6 plant	less than 20mg/m³	Integrated emission standards for atmospheric pollutants GB16297-1996 second-level	4,320	/	No
	Particles	15m high altitude discharge after being treated by water spraying + UV photolysis + activated carbon	1	1 outlet at #3 plant	less than 20mg/m³	Integrated emission standards for atmospheric pollutants GB16297-1996 second-level	5,040	/	No
	NMHC				3mg/m³		756	/	No
	NMHC	15m high altitude discharge after being treated by spray tower + activated carbon	12	3 outlets at #2 plant, 6 outlets at #6 plant, 1 outlet at #1 plant, 1 outlet at #5 plant, 1 outlet at #3 plant	2mg/m³	Emission control standard for industrial enterprises volatile organic compounds DB12/524-2014	12,960	/	No
Anhui Meizhi Precision Manufacturing Co., Ltd.	COD	Discharge after being treated by wastewater treatment system and reaching the standard	1	At the southern side of No.6 shift building at the northern side of plant	61 mg/L	Integrated wastewater discharge standard (GB8978-1996) chart 4 third-level	20,115	33,000	No
	Ammonia nitrogen				0.052 mg/L		2,987	3,300	No
	BOD				15.5 mg/L		8,874	16,500	No
	SS				14mg/L		4,616	16,500	No
	Petroleum				0.14 mg/L		1,895	6,600	No

	products								
	Particles	Collected by gas trap hood+21m high exhaust cylinder	9	1-8# discharge outlet for the welding waste gas	<20mg/m³	120(Integrated emission standards for atmospheric pollutants GB16297-1996 chart 2 second-level)	22,660	36,000	No
				9#-10# discharge outlet for the welding waste gas	<20mg/m³				
				Stator + rotor heat-treating furnace 2# discharge outlet	<20mg/m³	200(Emission standard of air pollutants for industrial kiln and furnace GB9078-1996 chart 2 second-level)	5,512		No
				2# stator heat-treating furnace 3# discharge outlet	<20mg/m³				
				Stator + rotor heat-treating furnace 1# discharge outlet	<20mg/m³				
				The head of discharge outlet of 3# stator furnace	<20 mg/m³				
				The head of discharge outlet of 2# stator furnace and 4# rotor furnace	<20 mg/m³				
				The tail of 3# and 4# stator furnace and the general discharge outlet of four melting aluminum furnace	<20 mg/m³				
				The discharge outlet for the waste gas of melting aluminum furnace	<20mg/m³				
	Sulfur dioxide	Collected by gas trap hood+21m high exhaust cylinder	7	Stator + rotor heat-treating furnace 2# discharge outlet	28 mg/m³	850(Emission standard of air pollutants for industrial kiln and furnace GB9078-1996 chart 2 second-level)	12,941	20,000	No
				2#stator heat-treating furnace 3# discharge outlet	40 mg/m³				

				Stator + rotor heat-treating furnace 1# discharge outlet	ND				
				The head of discharge outlet of 3# stator furnace	128 mg/m³				
				The head of discharge outlet of 2# stator furnace and 4# rotor furnace	35 mg/m³				
				The tail of 3# and 4# stator furnace and the general discharge outlet of four melting aluminum furnace	24 mg/m³				
				The discharge outlet for the waste gas of melting aluminum furnace	34 mg/m³				
	Nitrogen oxide	Collected by gas trap hood+21m high exhaust cylinder	3	Stator + rotor heat-treating furnace 2# discharge outlet	154 mg/m³	/	8,553	18,000	No
				2#stator heat-treating furnace 3# discharge outlet	95 mg/m³				
				Stator + rotor heat-treating furnace 1# discharge outlet	206 mg/m³				
	VOCs	Direct-fired waste gas incinerator+21m high exhaust cylinder	2	1-4# discharge outlet for drying waste gas	13.09 mg/m³	120(Integrated emission standards for atmospheric pollutants GB16297-1996 chart 2 second-level)	3,033	5,000	No
				5-10# discharge outlet for drying waste gas	30.36 mg/m³				
Guangdong Meizhi Precision-	COD	Discharge after being treated by wastewater treatment station	1	Near the northern side of wastewater treatment station	19.88 mg/m³	The discharge limits of water pollutants in Guangdong DB-44/26-2001 the second time	6,138	19,880	No

Manufacturing Co., Ltd.						period first-level			
	Ammonia nitrogen	Discharge after being treated by wastewater treatment station	1	Near the northern side of wastewater treatment station		The discharge limits of water pollutants in Guangdong DB-44/26-2001 the second time period first-level	40	-	No
Anhui Meizhi Compressor Co., Ltd.	COD	Discharge after being treated by wastewater treatment system and reaching the standard	1	The western side of integrated wastewater treatment station	148 mg/L	Implementation of the takeover standards of the Western Hefei Group wastewater treatment plant and integrated wastewater discharge standard (GB8978-1996) third-level	10.20	15.1	No
	Ammonia nitrogen				5.99mg/L		0.51	1.77	No
	Particles	Collected by gas trap hood+15m high exhaust cylinder	12	1. No. 1 workshop welding soot 1#~6# discharge outlet for waste gas 2. No. 3 workshop welding 1#-8# discharge outlet for the welding waste gas 3. No. 4 workshop 3# Chugai furnace discharge outlet for waste gas and die-casting molten aluminum I/J/F discharge outlet for waste gas combined with a discharge outlet	<20mg/m³	Integrated emission standards for atmospheric pollutants (GB16297-1996)	10.20	12.82	No
				4. No.2 workshop 1#Chugai furnace and 2#Chugai furnace discharge outlet for waste gas 5. No.4 workshop 4#Chugai	<20mg/m³	Emission standard of air pollutants for industrial kiln and furnace (GB9078-1996)			

				furnace and Samchully furnace discharge outlet for waste gas	<20mg/m^3	Emission standard of air pollutants for industrial kiln and furnace (GB9078-1996)			
					<20mg/m^3				
				6. No.4 workshop BAB boiler discharge outlet for waste gas	<20mg/m^3				
					<20mg/m^3				
				7. No.2 workshop die-casting molten aluminum A/B/E discharge outlet for waste gas	<20mg/m^3				
					<20mg/m^3				
				8. No.2 workshop die-casting molten aluminum C/D discharge outlet for waste gas 9. No.4 workshop die-casting molten aluminum I/J/F discharge outlet for waste gas 10. No. 4 workshop centrifugal pouring G/H and rotor furnace combined with a discharge outlet 11. The tail of 3# and 4# stator furnace and the general discharge outlet of four melting aluminum furnace 12. Furnace 1#-3# discharge outlet for waste gas	<20mg/m^3	Emission standard of air pollutants for boiler (GB13271-2014)			
	Sulfur dioxide	Collected by gas trap hood+15m high exhaust cylinder	3	Furnace 1#-3# discharge outlet for waste gas	ND	Emission standard of air pollutants for boiler (GB13271-2014)	3.53	4.12	No
	Nitrogen oxide	Collected by gas trap hood+15m high exhaust cylinder		Furnace 1#-3# discharge outlet for waste gas	99 mg/m^3		7.62	9	No
	VOCs	Direct-fired waste gas	3	No.1 workshop of discharge	5.79 mg/m^3	Integrated emission	3.21	5.74	No

		incinerator+15m high exhaust cylinder		outlet for drying waste gas		standards for atmospheric pollutants (GB16297-1996)			
				No.3 workshop 1# discharge outlet for drying waste gas	2.46 mg/m³				
				No.3 workshop 2# discharge outlet for drying waste gas	3.75 mg/m³				
GD Midea Air-Conditioning Equipment Co.,Ltd.	COD	Discharge after being treated by wastewater treatment station	1	4# southeastern plant	46 mg/L	The discharge standard of water pollutants for electroplating (DB441597-2015) chart 2 PRD standard	9,072	9,590	No
	Ammonia nitrogen				0.22 mg/L		1,126	1,510	No
	SS				28 mg/L		6,050	Not required	No
	Petroleum products				1.55 mg/L		330	Not required	No
	COD	Discharge after being treated by wastewater treatment station	1	2# eastern plant	87 mg/L	The discharge limits of water pollutants in Guangdong (DB44/26-2001)	2,845	9,590	No
	SS				25 mg/L		900	Not required	No
	LAS				0.18 mg/L		60	Not required	No
	Petroleum products				1.84 mg/L		610	Not required	No
	VOCs(dusting)	15m high altitude discharge after being treated by spray tower + activated carbon	3	4# plant	20 mg/m³	Emission standard of volatile organic compounds for furniture manufacturing (DB44/814-2010) the second time period	1,440	5,930.00	No
	VOCs(scre	15m high altitude discharge after	4	1#, 5#, 9#, 11# plant	4.6 mg/m³	Emission standard of volatile organic compounds for	1,324.80	5,930.00	No

	en printing)	being treated by green facilities				printing industry (DB44/815-2010)			
	NMHC(evaporator & condenser)	15m high altitude discharge after being treated by green facilities	6	2#, 5# plant	10 mg/m³	Emission limits of air pollutants (DB44/27-2001) the second time period	43,200	Not required	No
	NMHC (electronic)	15m high altitude discharge after being treated by catalytic combustion	2	10# plant	6.2 mg/m³	Emission limits of air pollutants (DB44/27-2001) the second time period	267.84	Not required	No

The construction of pollution prevention facilities and their operation

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

A. Waste water treatments: The waste water from subsidiaries is classified as household waste water and industrial waste water. Household waste water is discharged to the municipal waste water treatment network and waste water treatment plants after being pre-treated in septic tanks, etc. And industrial waste water is discharged to the municipal waste water treatment network and waste water treatment plants after being pre-treated in the subsidiaries' waste water treatment stations. Meanwhile, the rain sewage diversion system is promoted in old factories and the existing production processes are improved to reduce waste water.

B. Waste gas treatments: The waste gas from the subsidiaries is mainly the industrial waste gas and dust produced in the production process. Corresponding waste gas treatment systems have been set up for different types of waste gas. For example, waste gas from screen printing line is treated with spraying, defogging, UV photolysis and activated carbon adsorption devices, and organic waste gas from oil spray lines for metal working and plastic injection is treated with molecular sieve wheel adsorption and RCO catalytic combustion devices. Waste gas is discharged at a high altitude after emission concentration of benzene, toluene, xylene and VOCs in it is up to the Emission Limits of Air Pollutants, a local standard. Dust producing equipment operates in a closed environment, with a fully automatic dust sucker or powder dust collector treating powder dust without discharging it outwards.

C. Prevention and control of noise pollution: Noise produced in the operating process of the main noise equipment in the production processes of various factories including punching machines, powder spray coating line, oil spray line, plastic injection machine, wire winding machine, waste water and gas treatment facilities is 60～90dB (A). The company has taken the following preventive and control measures: 1) Select environmentally friendly low noise equipment, deploy various equipment in the workshop rationally and take basic shock absorption and enclosed sound insulation measures for the equipment; 2) Ensure sound insulation by making use of factory buildings and doors and windows, and especially in the air fan room with big noise, doors and windows with good sound insulation effect are recommended being set; 3) Forestation in the factory area and on the border of projects is strengthened and green plants are set rationally there, which both beautify the environment and assist in noise adsorption and sound insulation. After taking the above noise prevention and control measures, noise in the factory area can be up to third-level standard in the Emission Standard for Industrial Enterprises noise at Boundary(GB12348-2008): ≤65dB（A）at daytime and ≤55dB（A）at nighttime.

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

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

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

Contingency plans for environmental accidents

All subsidiaries have finished the compilation and approval of their contingency plans for environmental accidents. Emergency mechanisms for environmental pollution accidents have been established and improved, and the subsidiaries' ability to deal with environmental pollution accidents has been enhanced, so as to maintain social stability, protect the lives, health and properties of the public, protect the environment, and promote a comprehensive, coordinated and sustainable development of the society. According to the subsidiaries' contingency plans, new contingency pools have been built and block valves have been put at the master rain discharge outlets to avoid the spread of accidents.

According to the accident levels, subsidiaries have formulated rules covering working principles, contingency plans, risk prevention measures, commanding departments, responsibilities and labor division, and have filed these contingency plans with the government.

Environment self-monitoring plans

All the subsidiaries have formulated their own environment self-monitoring plans according to China's relevant laws and regulations, , which include: 1) Waste gas pollution source monitoring: Sampling points are set at various discharge ports of waste gas for monitoring on a quarterly basis; 2) Waste water pollution source monitoring: Samples are fetched at intake and outlet ports of waste water treatment stations to monitor changes of pollution source of waste water and up-to-standard emission of waste water after being treated at the waste water treatment stations. Monitoring items include CODcr, SS and petroleum products, etc. The data is uploaded to the governmental monitoring authority online and the government authority conducts real-time monitoring; 3) Noise monitoring: Noise monitoring points are set at noise sensitive points and on the border of factories. Noise is monitored once in spring and summer respectively and at daytime and at nighttime respectively each time; 4) Solid waste pollution source monitoring: Hazardous waste produced from the subsidiaries is handed over to the units with qualifications for treatment, monitoring systems are established, and related management forms and accounts are set up.

Other environment-related information that should be made public

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

19. Other Significant Events

√Applicable □N/A

Midea's merger with Little Swan in a share swap via A-share offering and the related transaction

A. On 10 September 2018, the Company disclosed the Announcement on the Board's Review of an Asset Restructuring and the Trading Suspension of the Company Stock. Since the Company was planning an asset restructuring involving controlled subsidiary Wuxi Little Swan Company Limited, upon the Company's application to the Shenzhen Stock Exchange, trading of the Company stock was suspended since the opening of the morning trading session on 10 September 2018.

B. On 23 October 2018, the Proposal on the Plan of Midea Group Co., Ltd. to Merge with Wuxi Little Swan Company Limited in a Share Swap via A-share Offering and other relevant proposals were considered and approved at the 2nd Meeting of the 3rd Board, and the Plan of Midea Group Co., Ltd. to Merge with Wuxi Little Swan Company Limited in a Share Swap via A-share Offering and the Related Transaction, together with other relevant documents were later disclosed. Upon a post review by the Shenzhen Stock Exchange of the merger documents, the Company received on 25 October 2018 the Enquiry Letter on the Restructuring Involving Midea Group Co., Ltd. Merging with Wuxi Little Swan Company Limited in a Share Swap via A-share Offering (〔2018〕No. 31) (hereinafter referred to as the "Enquiry Letter") issued by the stock exchange. On 29 October 2018, the Company disclosed the Announcement on the Reply to the Restructuring Enquiry Letter of the Shenzhen Stock Exchange, revised and supplemented to the Plan of Midea Group Co., Ltd. to Merge with Wuxi Little Swan Company Limited in a Share Swap via A-share Offering and the Related Transaction and other relevant documents according to the requirements of the Enquiry Letter, as well as disclosed the Plan of Midea Group Co., Ltd. to Merge with Wuxi Little Swan Company Limited in a Share Swap via A-share Offering and the Related Transaction (Revised) and other relevant documents. As per the applicable laws, regulations and disciplinary documents and upon application to the stock exchange, trading of the Company stock resumed on 29 October 2018.

C. On 21 November 2018, the Proposal on the Review of the Report of Midea Group Co., Ltd. on Merging with Wuxi Little Swan Company Limited in a Share Swap via A-share Offering and the Related Transaction (Draft) and Its Summary, together with other relevant proposals, were considered and approved at the 4th Meeting of the 3rd Board. And the draft report and other relevant documents were later disclosed. On

21 December 2018, the Proposal on the Plan of Midea Group Co., Ltd. to Merge with Wuxi Little Swan Company Limited in a Share Swap via A-share Offering, together with other relevant proposals, were considered and approved at the 3rd Special Meeting of Shareholders of 2018.

D. On 2 January 2019, the Company received the CSRC Administrative Permission Application Acceptance Form (Case No. 182251). Upon an examination of the administrative permission application materials submitted by the Company—the Application of Merger or Split of Midea Group Co., Ltd. as a Listed Company, the CSRC decided to accept the application on the ground that the application materials were complete and in compliance with the legal form.

E. On 25 January 2019, the Company received the CSRC's First Feedback on Administrative Permission Application (No. 182251). The Company then replied to the questions asked in the feedback and disclosed the Reply to the No. 182251 Feedback, the revised Report of Midea Group Co., Ltd. on Merging with Wuxi Little Swan Company Limited in a Share Swap via A-share Offering and the Related Transaction and other relevant documents on 11 February 2019. Within two working days after the disclosure of the reply to the feedback, the Company submitted the reply materials to the CSRC.

F. On 20 February 2019, the CSRC's Review Committee for Mergers, Acquisitions and Restructurings of Listed Company convened the 4th work conference of 2019 to review the Company's merger with Little Swan in a share swap via A-share offering and the related transaction. As a result, the merger was approved unconditionally.

G. On 12 March 2019, the Company received the CSRC Reply on the Approval of the Merger of Midea Group Co., Ltd. with Wuxi Little Swan Company Limited (ZJXK [2019] No. 352). According to the requirements of the aforesaid approve document and the authorization of the meeting of shareholders, the Board of the Company will handle the merger with Wuxi Little Swan Company Limited in a share swap via A-share offering and the related transaction as soon as possible, as well as perform the duty of information disclosure in a timely manner.

20. Significant Events of Subsidiaries

□Applicable √N/A

Section VI Changes in Shares and Information about Shareholders

1. Changes in Shares

1.1 Changes in shares

Unit: share

	Before		Increase/decrease in Reporting Period (+/-)					After	
	Shares	Percentage (%)	New issue	Shares as dividend converted from retained earnings	Shares as dividend converted from capital reserves	Other	Subtotal	Shares	Percentage (%)
1.Restricted shares	212,022,910	3.23	25,955,000			-90,803,150	-64,848,150	147,174,760	2.22
1.1 Shares held by the state									
1.2 Shares held by state-owned corporations									
1.3 Shares held by other domestic investors	211,272,910	3.22	24,645,000			-90,493,150	-65,848,150	145,424,760	2.19
Among which: Shares held by domestic corporations	82,500,000	1.26				-82,500,000	-82,500,000	0	0
Shares held by domestic individuals	128,772,910	1.96	24,645,000			-7,993,150	16,651,850	145,424,760	2.19
1.4 Shares held by	750,000	0.01	1,310,000			-310,000	1,000,000	1,750,000	0.03

foreign investors									
Among which: Shares held by foreign corporations									
Shares held by foreign individuals	750,000	0.01	1,310,000			-310,000	1,000,000	1,750,000	0.03
2. Non-restricted shares	6,349,030,409	96.77	77,724,021			89,101,316	166,825,337	6,515,855,746	97.79
2.1 RMB common shares	6,349,030,409	96.77	77,724,021			89,101,316	166,825,337	6,515,855,746	97.79
2.2 Domestically listed shares for foreign investors									
2.3 Overseas listed shares for foreign investors									
2.4 Other									
3. Total shares	6,561,053,319	100	103,679,021			-1,701,834	101,977,187	6,663,030,506	100

Reasons for the changes in shares

√Applicable □N/A

a. 5,385,000 reserved restricted shares were granted to 54 employees for the Company's 2017 Restricted Share Incentive Scheme, of which 240,000 were granted to foreign employees who work in China. These shares would be allowed for public trading on 7 February 2018.

b. As the conditions for the first unlocking period for the first phase of the 2017 Restricted Share Incentive Scheme had been satisfied, the 7,198,166 restricted shares of a total of 131 eligible employees were unlocked and allowed for public trading, including 250,000 restricted shares of foreign employees who work in China. These shares would be allowed for public trading on 31 May 2018.

c. 20,570,000 restricted shares were granted to 319 employees for the first phase of the Company's 2018 Restricted Share Incentive Scheme, of which 1,070,000 were granted to foreign employees who work in China. These shares would be allowed for public trading on 21 June 2018.

d. The 82,500,000 restricted shares held by Xiaomi Technology Co., Ltd. were unlocked and allowed for public trading on 29 June 2018.

e. For the reason of certain incentive receivers' departure, violation of company rules, business unit's 2017 performance appraisal result being "just so-so", positional change or other factors, the Company repurchased and retired 1,701,834 shares under the 2017 Restricted Share Incentive Scheme on 30 July 2018.

f. In 2018, the incentive receivers of stock options chose to exercise 77,724,021 shares, which have been registered into the Company's share capital.

g. In 2018, locked-up shares held by senior management increased by 596,850 shares.

Approval of share changes

□Applicable √N/A

Transfer of share ownership

□Applicable √N/A

Progress of any share repurchase

√Applicable □N/A

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

The Company repurchased 95,105,015 shares (1.4274% of the Company's total shares on 28 December 2018) during the period from 26 July 2018 to 28 December 2018, with a total payment of around RMB4 billion (to be specific, RMB3,999,655,845, exclusive of transaction charges), with the highest trading price being RMB48.40/share and the lowest being RMB36.49/share. The amount used in the repurchase has reached the ceiling, marking the end of the repurchase plan. And the 95,105,015 repurchased shares have been retired with the Shenzhen branch of China Securities Depository and Clearing Corporation Limited.

Progress of any repurchased share reduction through bidding at the stock exchange

□ Applicable √ N/A

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

□Applicable √N/A

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

□Applicable √N/A

1.2 Changes in restricted shares

√Applicable □N/A

Unit: share

Name of shareholder	Opening restricted shares	Unlocked in current period	Increased in current period	Closing restricted shares	Reason for change	Date of unlocking
Incentive receivers of reserved restricted shares under 2017 Restricted Share Incentive Scheme①	0	0	5,385,000	5,235,000	Lockup according to the Scheme	20 February 2019
Incentive receivers of 2018 Restricted Share Incentive Scheme	0	0	20,570,000	20,570,000	Lockup according to the Scheme	7 May 2020
Incentive receivers of 2017 Restricted Share Incentive Scheme (first phase)②	23,130,000	7,198,166	0	14,380,000	Lockup according to the Scheme	12 May 2018
Xiaomi Technology Co., Ltd.	82,500,000	82,500,000	0	0	Promised lockup of privately issued shares	29 June 2018
Li Feide	843,750	0	351,250	1,195,000	Lockup for senior management departure	26 March 2019
Zhang Xiaoyi	0	0	138,100	138,100	Lockup of new shares for senior management position	-
Jiang Peng	458,750	27,500	135,000	566,250	Lockup for senior management position	-
Total	106,932,500	89,725,666	26,579,350	42,084,350	--	--

Notes: ① 150,000 reserved restricted shares under the 2017 Restricted Share Incentive Scheme that had been granted but were still in lockup were retired on 30 July 2018, reducing the closing restricted shares by 150,000 shares.

② 1,551,834 restricted shares for the first phase of the 2017 Restricted Share Incentive Scheme that had been granted but were still in lockup were retired on 30 July 2018, reducing the closing restricted shares by 1,551,834 shares.

2. Issuance and Listing of Securities

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

□ Applicable √ N/A

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

√ Applicable □ N/A

The total shares of the Company were 6,561,053,319 at the beginning of the Reporting Period. During the Reporting Period, 77,724,021 awarded stock options were exercised and registered, 5,385,000 reserved restricted shares were granted under the 2017 Restricted Share Incentive Scheme, 20,570,000 restricted shares were granted in the first phase of the 2018 Restricted Share Incentive Scheme, and 1,701,834 restricted shares under the 2017 Restricted Share Incentive Scheme were repurchased and retired. As such, the total shares rose to 6,663,030,506 at the end of the Reporting Period.

2.3 Existing staff-held shares

□Applicable √N/A

3. Shareholders and Actual Controller

3.1 Total number of shareholders and their shareholdings

Unit: share

Total number of common shareholders at the end of the Reporting Period	228,273	Total number of common shareholders at the prior month-end before the disclosure date of the annual report	188,843	Total number of preference shareholders with resumed voting rights at the period-end (if any)	0	Total number of preference shareholders with resumed voting rights at the prior month-end before the disclosure date of the annual report (if any)	0

5% or greater shareholders or top 10 shareholders								
Name of shareholder	Nature of shareholder	Shareholding perce	Total shares held at the period-end	Increase/decrease during the Reporting	Increase/decrease during the Reporting	Number of non-restricted shares held	Pledged or frozen shares	
							Stat	Shares

		ntage (%)		Period	Period		us	
Midea Holding Co., Ltd.	Domestic non-state-owned corporation	33.20	2,212,046,613	0	0	2,212,046,613	Pledged	666,065,000
Hong Kong Exchanges and Clearing Limited	Foreign corporation	13.51	900,120,167	273,172,672	0	900,120,167		
China Securities Finance Co., Ltd.	State-owned corporation	2.97	198,145,134	-24,532,521	0	198,145,134		
Fang Hongbo	Domestic individual	2.06	136,990,492	0	102,742,869	34,247,623		
Canada Pension Plan Investment Board — self-owned capital (stock exchange)	Foreign corporation	1.52	101,007,256	75,842,645	0	101,007,256		
The securities account for repurchase of Midea Group Co., Ltd.	Domestic non-state-owned corporation	1.43	95,105,015	95,105,015	0	95,105,015		
Huang Jian	Domestic individual	1.32	88,007,100	27,100	0	88,007,100		
Xiaomi Technology Co., Ltd.	Domestic non-state-owned corporation	1.24	82,500,000	0	0	82,500,000		
Central Huijin Asset Management Ltd.	State-owned corporation	1.18	78,474,900	0	0	78,474,900		
Hillhouse Capital Management Limited — HCM China Fund	Foreign corporation	1.07	71,464,600	-42,426,538	0	71,464,600		
Strategic investors or general corporations becoming top-ten shareholders due to placing of new shares (if any)		N/A						
Related-parties or acting-in-concert parties among the shareholders above		N/A						
Top 10 non-restricted shareholders								

Name of shareholder	Number of non-restricted shares held at the period-end	Type of shares	
		Type	Shares
Midea Holding Co., Ltd.	2,212,046,613	RMB common stock	2,212,046,613
Hong Kong Exchanges and Clearing Limited	900,120,167	RMB common stock	900,120,167
China Securities Finance Co., Ltd.	198,145,134	RMB common stock	198,145,134
Canada Pension Plan Investment Board－ self-owned capital (stock exchange)	101,007,256	RMB common stock	101,007,256
The securities account for repurchase of Midea Group Co., Ltd.	95,105,015	RMB common stock	95,105,015
Huang Jian	88,007,100	RMB common stock	88,007,100
Xiaomi Technology Co., Ltd.	82,500,000	RMB common stock	82,500,000
Central Huijin Asset Management Ltd.	78,474,900	RMB common stock	78,474,900
Hillhouse Capital Management Limited － HCM China Fund	71,464,600	RMB common stock	71,464,600
Yuan Liqun	52,619,300	RMB common stock	52,619,300
Related-parties or acting-in-concert parties among the top ten non-restricted shareholders and between the top ten non-restricted shareholders and the top ten shareholders	N/A		
Explanation on the top 10 common shareholders participating in securities margin trading (if any)	N/A		

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

□Yes √No

No such cases in the Reporting Period.

3.2 Controlling shareholder

Name of controlling shareholder	Legal representative / company principal	Date of establishment	Credibility code	Main business scope
Midea Holding Co., Ltd.	He Xiangjian	2002-08-05	914406067429989733	Manufacture and commerce investment; domestic commerce and materials supply and marketing industry (excluding state-designated monopoly); CP software and hardware development; industrial product

				design; information technology consulting services, providing investment consultant and consulting services; installation, maintenance and after-sales service of electric appliances; real estate intermediary service and forwarding agent service.
Shareholdings of the controlling shareholder in other controlled or non-controlled listed companies at home or abroad during the Reporting Period	Apart from a direct control over the Company, Midea Holding does not directly control or have shares in other listed companies at home or abroad.			

Change of the controlling shareholder during the Reporting Period

□Applicable √N/A

No such cases in the Reporting Period.

3.3 Actual controller and acting-in-concert parties thereof

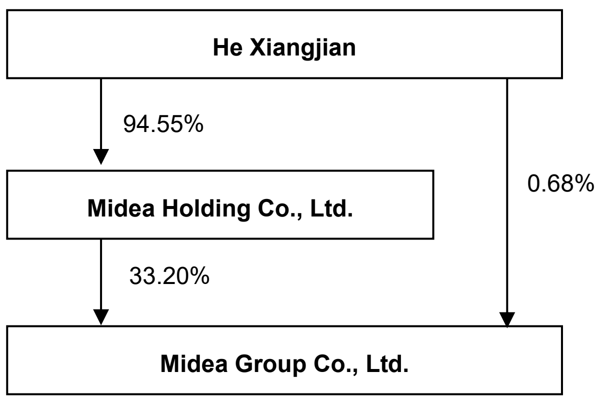
Name of the actual controller	Nationality	Right of residence in other countries or regions
He Xiangjian	The People's Republic of China	No
Main occupation and duty	Incumbent board chairman of Midea Holding	
Used-to-be-holding listed companies home and abroad in the last 10 years	Midea Group (000333.SZ),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

Change of the actual controller during the Reporting Period

□Applicable √N/A

No such cases in the Reporting Period.

Ownership and control relations between the actual controller and the Company



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

□Applicable √N/A

3.4 Other corporate shareholders with a shareholding percentage above 10%

□Applicable √N/A

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

□Applicable √N/A

Section VII Preference Shares

□Applicable √N/A

No such cases in the Reporting Period.

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

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

Name	Office title	Incumbent/ Former	Gender	Age	Starting date of tenure	Ending date of tenure	Shares held at the year-begin (share)	Shares increased at the Reporting Period (share)	Shares decreased at the Reporting Period (share)	Other increase/ decrease (share)	Shares held at the period-end (share)
Fang Hongbo	Chairman of the Board and President	Incumbent	Male	52	2012-8-25	2021-9-25	136,990,492	0	0	0	136,990,492
He Jianfeng	Director	Incumbent	Male	52	2012-8-25	2021-9-25	0	0	0	0	0
Yin Bitong	Director and Vice President	Incumbent	Male	51	2016-12-16	2021-9-25	2,109,655	0	0	0	2,109,655
Gu Yanmin	Director and Vice President	Incumbent	Male	56	2014-4-21	2021-9-25	0	0	0	0	0
Yu Gang	Director	Incumbent	Male	60	2018-9-26	2021-9-25	0	0	0	0	0
Xue Yunkui	Independent Director	Incumbent	Male	55	2018-9-26	2021-9-25	0	0	0	0	0
Guan Qingyou	Independent Director	Incumbent	Male	42	2018-9-26	2021-9-25	0	0	0	0	0
Han Jian	Independent Director	Incumbent	Female	47	2018-9-26	2021-9-25	0	0	0	0	0
Liu Min	Chairman of the Supervisory	Incumbent	Female	42	2016-2-1	2021-9-25	0	0	0	0	0

	Committee										
Zhao Jun	Supervisor	Incumbent	Male	44	2014-4-21	2021-9-25	0	0	0	0	0
Liang Huiming	Employee Supervisor	Incumbent	Female	36	2017-3-30	2021-9-25	0	0	0	0	0
Wang Jianguo	Vice President	Incumbent	Male	43	2017-12-15	2021-9-25	0	0	0	0	0
Zhang Xiaoyi	Vice President	Incumbent	Male	46	2018-4-23	2021-9-25	0	0	0	470,800	470,800
Xiao Mingguang	Vice President	Incumbent	Male	49	2019-3-22	2021-9-25	0	0	0	280,000	280,000
Hu Ziqiang	Vice President	Incumbent	Male	62	2014-8-18	2021-9-25	0	0	0	0	0
Wang Jinliang	Vice President	Incumbent	Male	52	2014-8-18	2021-9-25	0	0	0	0	0
Zhong Zheng	Director of Finance	Incumbent	Female	37	2019-3-22	2021-9-25	0	0	0	0	0
Jiang Peng	Company Secretary	Incumbent	Male	46	2013-10-30	2021-9-25	575,000	0	143,700	180,000	611,300
Zhu Fengtao	Director and Vice President	Former	Male	51	2014-4-21	2019-3-22	1,020,400	0	0	0	1,020,400
Li Feide	Director and Vice President	Former	Male	42	2012-8-31	2018-9-25	1,335,000	0	0	100,000	1,435,000
Wu Shinong	Independent Director	Former	Male	63	2013-3-4	2018-9-25	0	0	0	0	0
Rui Meng	Independent Director	Former	Male	52	2015-9-18	2018-9-25	0	0	0	0	0
Guo Xuejin	Independent Director	Former	Male	60	2013-3-4	2018-9-25	0	0	0	0	0

Li Wenjing	Independent Director	Former	Male	40	2013-3-4	2018-9-25	0	0	0	0	0
Xiang Weimin	Vice President	Former	Male	53	2017-7-20	2018-12-26	0	0	0	0	0
Xiao Mingguang	Director of Finance	Former	Male	49	2016-7-16	2019-3-22	0	0	0	280,000	280,000
Total	--	--	--	--	--	--	142,030,547	0	143,700	1,310,800	143,197,647

2. Changes in Directors, Supervisors and Senior Management

√Applicable □N/A

Name	Office title	Type of change	Date	Reason
Li Feide	Director and Vice President	Left upon expiry of tenure	2018-9-25	Left upon expiry of tenure
Wu Shinong	Independent Director	Left upon expiry of tenure	2018-9-25	Left upon expiry of tenure
Rui Meng	Independent Director	Left upon expiry of tenure	2018-9-25	Left upon expiry of tenure
Guo Xuejin	Independent Director	Left upon expiry of tenure	2018-9-25	Left upon expiry of tenure
Li Wenjing	Independent Director	Left upon expiry of tenure	2018-9-25	Left upon expiry of tenure
Xiang Weimin	Vice President	Resigned	2018-12-26	Personal reason
Zhu Fengtao	Director and Vice President	Resigned	2019-3-22	Personal reason

3. Brief Biographies

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

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

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

Mr. Yin Bitong, male, a Master's graduate, joined Midea in 1999 and served as GM Assistant and Marketing Director of the Residential Air Conditioning Division as well as GM and Executive Director of Wuxi Little Swan Co. Ltd. He is now an Executive Director and Vice President of Midea Group and the President of Midea Residential Air Conditioning Division.

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

Mr. Yu Gang, male, holder of a Doctoral degree given by the Wharton School of the University of Pennsylvania, is the Honorary Chairman and a co-founder of YHD.COM. He once served as the Global Supply Chain Vice President of Amazon and the Global Procurement Vice President of Dell. He is now the Executive Chairman of the Board of Directors and a co-founder of 111, Inc., as well as a Director of Midea Group.

Mr. Xue Yunkui, male, is a holder of a Doctoral degree given by the Southwest University and a holder of a Post-Doctoral degree given by the Shanghai University of Finance and Economics. He used to be the associate dean and a doctoral supervisor at the School of Accountancy of Shanghai University of Finance and Economics, a Founding Vice President of Shanghai National Accounting Institute and Cheung Kong Graduate School of Business, the Secretary-General of China Association of Accounting Professors, a Vice Chairman of the Steering Committee of the National Accounting Institute under the Ministry of Finance, etc. He is now an accounting professor of Cheung Kong Graduate School of Business, an Independent Director of Midea Group and an Independent Director of several other listed companies.

Mr. Guan Qingyou, male, is a holder of a Doctoral degree in economics given by the Chinese Academy of Social Sciences and a holder of a Post-Doctoral degree given by the Tsinghua University. He once worked as a Vice President and the Director of the Research Institute of Minsheng Securities. Currently, he serves as the President and Chief Economist of the Reality Institute of Advanced Finance (an independent research institute), an Independent Director of Midea Group, a senior researcher at China Society of Economic Reform, a special expert in the Fiscal Reform and Development Think Tank under the Ministry of Finance, a member of the Expert Advisory Committee on Industrial Economic Operation under the Ministry of Industry and Information Technology, a member of the Think Tank Committee of the All-China Federation of Industry and Commerce, etc.

Ms. Han Jian, female, holder of a Doctoral degree given by the Cornell University, is an associate professor of management in China Europe International Business School, a co-director of the Sino European Innovation Institute in China and the Sino European Digital Economy and Intelligent Enterprise Research Center, as well as an Independent Director of Midea Group.

Ms. Liu Min, female, a Master's degree graduate, joined Midea in 1998. She used to be the General Manager of the Overseas Marketing Company under Midea's Residential Air-Conditioning Division and the Director of Midea Executive Office. She is now the Chairman of the Supervisory Committee, the Chief HR Officer of Midea as well as a member of KUKA's Supervisory Board.

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

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

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

Mr. Zhang Xiaoyi, male, is a holder of a Master's degree. Joining Midea Group in 2010, he used to serve as the head of the overseas process IT system, the head of the supply chain system of Midea Group, etc. He is now a Vice President, the Chief Information Officer and the IT Director of Midea Group.

Mr. Xiao Mingguang, male, a holder of a Master's degree, joined Midea in 2000. He once was the Deputy Director of the Financial Management Department and the Director of the Operational Management Department of Midea Group, the Director of the Audit and Supervision Department and a Director of GD Midea Holding Co., Ltd., as well as the Director of Finance of Midea Group, etc. He is now a Vice

President of Midea Group and a Director of Wuxi Little Swan Company Limited.

Mr. Hu Ziqiang, male, holder of a Doctoral degree, joined Midea in 2012, and has formerly worked for GE and Samsung and as a Vice GM in Wuxi Little Swan Co., Ltd. At present he is a Vice President and the CTO of the Company.

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

Ms. Zhong Zheng, female, a holder of a Master's degree, joined Midea in 2002. She once was the Financial Manager of the factory in Guangzhou of the Residential Air Conditioner Division and of domestic and overseas marketing subsidiaries, the Director of Finance of the Financial Center and the Component Division, as well as the Audit Director of Midea Group, etc. She is now the Director of Finance of Midea Group.

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

Posts held in shareholding entities

√Applicable □N/A

Name	Shareholding entity	Position	Beginning date of office term	Ending date of office term	Allowance from the shareholding entity
He Jianfeng	Midea Holding Co., Ltd.	President	2016-01	-	No
Zhao Jun	Midea Holding Co., Ltd.	Vice President and CFO	2013-01-01	-	Yes
Note	N/A				

Posts held in other entities

√Applicable □N/A

Name	Other entity	Position	Beginning date of office term	Ending date of office term	Allowance from the entity
Fang Hongbo	Wuxi Little Swan Co., Ltd.	Chairman of the Board	2008-05	2021-08	No
	KUKA	Member of the Supervisory Committee	2017-03	2024-06	Yes
He Jianfeng	Infore Investments Holding Group Co., Ltd.	Chairman of the Board and President	1995-06	-	Yes
Gu Yanmin	KUKA	Chairman of the Supervisory Committee	2017-01	2024-06	Yes
Yu Gang	111, Inc.	Executive Chairman of the Board	2011-04	-	Yes
Xue Yunkui	Shanghai Baosight Software Co., Ltd.	Independent Director	2016-04	2019-04	Yes
	DAZZLE Fashion Co., Ltd.	Independent Director	2016-04	2019-04	Yes
Guan Qingyou	Beijing Rushi Research Information Consulting Service Co., Ltd.	Chairman of the Board	2017-12	-	Yes
Liu Min	KUKA	Member of the Supervisory Committee	2017-01	2024-06	Yes
Xiao Mingguang	Wuxi Little Swan Co., Ltd.	Director	2010-01	2021-08	No
Jiang Peng	Wuxi Little Swan Co., Ltd.	Director	2017-04	2021-08	No
Note	N/A				

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

□Applicable √N/A

4. Remuneration of Directors, Supervisors and Senior Executives

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

The decision-making remuneration procedure for directors, supervisors and senior executives: The remuneration is proposed by the Board Compensation Committee and approved by the Board. Decisions are made finally after the deliberation of shareholders' meeting.

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

a. Wage growth in the industry

b. Inflation

c. Corporate earnings

d. Organizational structure adjustment

e. Individual adjustment due to a change in position

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

Unit: RMB'000

Name	Position	Gender	Age	Incumbent/ Former	Total before-tax remuneration from the Company	Remuneration from related parties of the Company
Fang Hongbo	Chairman of the Board and President	Male	52	Incumbent	8,080	
He Jianfeng	Director	Male	52	Incumbent	-	Yes
Yin Bitong	Director and Vice President	Male	51	Incumbent	5,310	
Gu Yanmin	Director and Vice President	Male	56	Incumbent	2,840	
Yu Gang	Independent Director	Male	60	Incumbent	-	

Xue Yunkui	Independent Director	Male	55	Incumbent	-	
Guan Qingyou	Independent Director	Male	42	Incumbent	-	
Han Jian	Independent Director	Female	47	Incumbent	-	
Liu Min	Chairman of the Supervisory Committee	Female	42	Incumbent	1,580	
Zhao Jun	Supervisor	Male	44	Incumbent	-	Yes
Liang Huiming	Employee Supervisor	Female	36	Incumbent	170	
Wang Jianguo	Vice President	Male	43	Incumbent	2,960	
Zhang Xiaoyi	Vice President	Male	46	Incumbent	3,850	
Hu Ziqiang	Vice President	Male	62	Incumbent	3,200	
Wang Jinliang	Vice President	Male	52	Incumbent	2,170	
Jiang Peng	Company Secretary	Male	46	Incumbent	1,700	
Zhu Fengtao	Director and Vice President	Male	51	Former	3,740	
Li Feide	Director and Vice President	Male	42	Former	2,280	
Wu Shinong	Independent Director	Male	63	Former	150	
Rui Meng	Independent Director	Male	52	Former	150	
Guo Xuejin	Independent Director	Male	60	Former	150	
Li Wenjing	Independent Director	Male	40	Former	150	
Xiang Weimin	Vice President	Male	53	Former	1,010	
Xiao Mingguang	Director of Finance	Male	49	Incumbent	2,100	
Total	--	--	--	--	41,590	--

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

√Applicable □N/A

Unit: share

Name	Office title	Exercisable share options for the Reporting Period	Exercised share options in the Reporting Period	Exercise price for exercised share options in the Reporting Period (RMB / share)	Market price at the end of the Reporting Period (RMB / share)	Restricted shares held at the beginning of the Reporting Period	Unlocked shares in the Reporting Period	Restricted shares granted in the Reporting Period	Grant price of the restricted shares (RMB/share)	Restricted shares held at the end of the Reporting Period

Li Feide	Director and Vice President	0	0	-	36.86	210,000	70,000	100,000	27.57	240,000
Hu Ziqiang	Vice President	0	0	-	36.86	300,000	100,000	100,000	27.57	300,000
Xiao Mingguang	Director of Finance	210,000	70,000	19.15	36.86	150,000	0	100,000	27.57	250,000
Jiang Peng	Company Secretary	180,000	180,000	17.36	36.86	0	0	0	0	0
Zhang Xiaoyi	Vice President	112,500	112,500	8.81	36.86	210,000	70,000	100,000	27.57	240,000
		230,000	50,000	18.56	36.86					
Total	--	732,500	412,500	--	--	870,000	240,000	400,000	--	1,030,000
Note (if any)		105,000 stock options of Mr. Xiao Mingguang under the Third Stock Option Incentive Scheme were unlocked during the Reporting Period, leaving 105,000 stock options in lockup under the Third Stock Option Incentive Scheme. 90,000 stock options of Mr. Jiang Peng under the Second Stock Option Incentive Scheme were unlocked during the Reporting Period, leaving no stock options in lockup under the Second Stock Option Incentive Scheme. 90,000 stock options of Mr. Zhang Xiaoyi under the Second Stock Option Incentive Scheme were unlocked during the Reporting Period, leaving no stock options in lockup under the Second Stock Option Incentive Scheme. Mr. Li Feide, Mr. Hu Ziqiang, Xiao Mingguang and Mr. Zhang Xiaoyi were awarded 100,000 restricted shares respectively during the Reporting Period, which were allowed for public trading on 21 June 2018.								

5. Staff in the Company

5.1 Number, functions and educational backgrounds of the staff

Number of in-service staff of the Company	1,339
Number of in-service staff of main subsidiaries	113,426
Total number of in-service staff	114,765
Total number of staff with remuneration in the period	114,765
Number of retirees to whom the Company or its main subsidiaries need to pay retirement pension	1,913
Functions	
Function	Number of staff
Production	96,149
Sales	4,106
Technical/R&D	12,321

Financial	1,328
Administrative	861
Total	114,765
Educational backgrounds	
Educational background	Number of staff
Master and doctor	3,750
Bachelor	21,708
College, technical secondary school	46,793
Others	42,514
Total	114,765

Note: The data above have not yet included the staff of overseas subsidiaries, which are around 33,000.

5.2 Staff remuneration policy

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

5.3 Staff trainings

The attendances at internal training sessions were 571,476 in the Reporting Period, of which 14,641 were management personnel, 166,017 technical and marketing personnel and 173,404 operational personnel. The trainings included:

a. Building a pilot Leadership Development Program and a High-Potential Leaders Training system to facilitate talent management and training. 48 talent training programs were carried out, where 3,386 highly skilled managerial staff were trained for a total of 41,415.5 man-hours.

b. Building a professionalism promotion system. 603 such programs were carried out, where 301,871 staff were trained for a total of 1,970,508.95 man-hours.

c. Providing channels for common skill improvement. 620 such programs such as the Lecture for Staff and language trainings were carried out, where 60,239 staff were trained for a total of 217,628.7 man-hours.

d. Improving individual comprehensive ability. 81 external trainings for individuals at junior, middle and senior levels were organized, where 513 staff were trained for a total of 11,161 man-hours.

e. In order to help new graduates develop themselves fast and foster a new power for the Company, 61 relevant programs such as the Re-Education of New Graduates and the Training Camp for New Graduates were organized, where 8,025 new graduates were trained for a total of 200,091.5 man-hours.

f. 18,000 staff visited Meike, a mobile app developed by Midea for online training, for a total of 518,000 times in 2018.

g. Facilitating organizational learning by developing 744 internal trainers. Their annual teaching time was 8,912.3 hours in total. And a total of 829 courses were designed in the year.

h. 14,161 key technical staff and working team leaders were trained for a total of 274,534 hours.

5.4 Labor outsourcing

□Applicable √N/A

Section IX Corporate Governance

1. Basic Situation of Corporate Governance

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

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

In 2018, the Company won the following honors for its corporate governance:

No. 26 on the “2018 BrandZ™ Top 100 Most Valuable Chinese Brands” list jointly released by WPP and Kantar Millward Brown; No. 138 on the “2018 Top 500 Most Valuable Brands” list released by Brand Finance; the “Listed Company Most Respected by Investors 2017” by the China Association for Public Companies; “China’s Top 10 Listed Companies in 2018” by CCTV; “2018 National Brand Plan Top Brand” by CCTV; No. 323 on the “Global Top 500” list by the *Fortune*; No. 245 on the “Global Top 2,000 Listed

Companies" by the *Forbes*; "2018 Jinzhi Award—Mostly Socially Responsible" by JRJ.com; and "The Enterprise with Excellent Governance" at "The Golden Round Table Awards 2018" presented by the *Directors & Boards* magazine.

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

□Yes √No

No such cases in the Reporting Period.

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

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

2.1 Business independence:

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

2.2 Personnel independence:

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

2.3 Asset integrity:

The Company has its own independent production system as well as ancillary production systems and facilities. Intangible assets such as industrial rights, trademark ownership and non-patent technology are held by the Company.

2.4 Organization independence:

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

2.5 Financial independence:

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

3. Horizontal Competition

□Applicable √N/A

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

4.1 Meetings of shareholders convened during the Reporting Period

Meeting	Type	Investor participation ratio	Convened date	Disclosure Date	Disclosure Index
2017 Annual Meeting of Shareholders	Annual meeting of shareholders	48.2203%	23 April 2018	24 April 2018	Announcement No. 2018-016, disclosed on www.cninfo.com.cn
2018 First Special Meeting of Shareholders	Special meeting of shareholders	50.0866%	23 July 2018	24 July 2018	Announcement No. 2018-063, disclosed on www.cninfo.com.cn
2018 Second Special Meeting of Shareholders	Special meeting of shareholders	50.5496%	25 September 2018	26 September 2018	Announcement No. 2018-080, disclosed on www.cninfo.com.cn
2018 Third Special Meeting of Shareholders	Special meeting of shareholders	60.7965%	21 December 2018	22 December 2018	Announcement No. 2018-105, disclosed on www.cninfo.com.cn

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

□Applicable √N/A

5. Performance of Independent Directors during the Reporting Period

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

Attendance of independent directors in Board meetings						
Independent director	Presence due in the	Presence on site (times)	Presence by telecommunicat	Presence through a proxy	Absence (times)	Absence for two

	Reporting Period (times)		ion (times)	(times)		consecutive times
Wu Shinong	9	1	8	0	0	No
Rui Meng	9	1	8	0	0	No
Guo Xuejin	9	1	8	0	0	No
Li Wenjing	9	1	8	0	0	No
Xue Yunkui	4	1	3	0	0	No
Guan Qingyou	4	1	3	0	0	No
Han Jian	4	1	3	0	0	No
Presence of independent directors in meetings of shareholders (times)				1		

5.2 Objections from independent directors on related issues of the Company

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

□Yes √No

No such cases in the Reporting Period.

5.3 Other details about the performance of duties by independent directors

Were there any suggestions from independent directors adopted by the Company

√Yes □No

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

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

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

6.1 The Audit Committee under the Board convened four meetings in the Reporting Period, at which the following proposals were considered and approved: *The 2017 Final Account Report, The 2017 Annual Report & Its Abstract, The Report of the Audit Committee on Concluding and Appraising the 2017 Annual*

Audit Work, The Proposal for Appointing an Auditor for the 2018 Annual Result, The Proposal for Appointing an Auditor for the Internal Control in 2018, The Proposal for Writing off Asset Impairment Provisions, The Report on the First Quarter of 2018, The 2018 Semi-Annual Report and The Report on the Third Quarter of 2018.

6.2 The Remuneration and Appraisal Committee under the Board convened one meeting in the Reporting Period, at which *The Proposal for the Remuneration Standards for Independent Directors and External Directors* was considered and approved.

6.3 The Nomination Committee under the Board convened two meetings in the Reporting Period, at which the following proposals were considered and approved: *The Proposal for Vice President Appointment, The Proposal for the Re-Election of the Board and the Nomination of Non-Independent Director Candidates and The Proposal for the Re-Election of the Board and the Nomination of Independent Director Candidates.*

7. Performance of Duties by the Supervisory Committee

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

□Yes √No

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

8. Assessment and Incentive Mechanism for the Senior Management

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

9. Internal Control

9.1 Serious internal control defects found in the Reporting Period

□Yes √No

9.2 Self-evaluation report on internal control

Disclosure date of the internal control self-evaluation report	20 April 2019	
Index to the disclosed internal control self-evaluation report	For details, please refer to the 2018 Self-Evaluation Report on Internal Control, which has been disclosed on www.cninfo.com.cn	
Ratio of the total assets of the appraised entities to the consolidated total assets	70%	
Ratio of the operating revenues of the appraised entities to the consolidated operating revenues	70%	
Defect identification standards		
Type	Financial-report related	Non-financial-report related
Nature standard	For details, please refer to "(c) Basis for internal control evaluation and identification standards for internal control defects" under Section III of The 2018 Self-Evaluation Report on Internal Control disclosed on www.cninfo.com.cn dated 20 April 2019.	For details, please refer to "(c) Basis for internal control evaluation and identification standards for internal control defects" under Section III of The 2018 Self-Evaluation Report on Internal Control disclosed on www.cninfo.com.cn dated 20 April 2019.
Quantitative standard	For details, please refer to "(c) Basis for internal control evaluation and identification standards for internal control defects" under Section III of The 2018 Self-Evaluation Report on Internal Control disclosed on www.cninfo.com.cn dated 20 April 2019.	For details, please refer to "(c) Basis for internal control evaluation and identification standards for internal control defects" under Section III of The 2018 Self-Evaluation Report on Internal Control disclosed on www.cninfo.com.cn dated 20 April 2019.
Number of serious financial-report-related defects	0	
Number of serious non-financial-report-related defects	0	
Number of important financial-report-related defects	0	
Number of important non-financial-report-related defects	0	

10. Auditor's Report on Internal Control

√Applicable □N/A

Opinion paragraph in the auditor's report on internal control	
The internal control auditor holds the view that on 31 December 2018, Midea Group maintained an effective internal control of a financial report in all significant aspects based on the General Specifications of Company Internal Control and relevant specifications.	
Auditor's report on internal control disclosed or not	Disclosed on www.cninfo.com.cn
Date of disclosing the full text of the auditor's report on internal control	20 April 2019
Index to the disclosed full text of the auditor's report on internal control	For details, please refer to the 2018 Auditor's Report on Internal Control, which has been disclosed on www.cninfo.com.cn
Type of the auditor's opinion	Unmodified unqualified opinion
Serious non-financial-report-related defects	No

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

□ Yes √ No

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

√ Yes □ No

Section X Financial Report

1. Auditor’s report

Type of auditor’s opinion	Standard & unqualified
Signing date of auditor’s report	18 April 2019
Name of auditor	PricewaterhouseCoopers China (LLP)
No. of auditor’s report	PwC ZT Shen Zi (2019) No. 10017
Names of certified public accountants	Huang Meimei, Qiu Xiaoying

Auditor's Report

PwC ZT Shen Zi (2019) No. 10017
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To the shareholders of Midea Group Co., Ltd.,

Opinion

What we have audited

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

- the consolidated and company balance sheets as at 31 December 2018;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Group as at 31 December 2018, and their financial performance and cash flows for the year then ended in accordance with the requirements of the Accounting Standards for Business Enterprises ("CASs").

Basis for Opinion

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

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

Key Audit Matters

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

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

- Recognition of revenue from sales of household appliances
- Impairment testing of goodwill

<table>
<tr><th>Key Audit Matters (Cont'd)</th><th>How our audit addressed the Key Audit Matter</th></tr>
<tr><td>

Recognition of revenue from sales of household appliances

Refer to Note 2(28)(a) "Revenue - sales of goods" and Note 4(35) "Operating income" to the financial statements.

Revenue is recognised when it's probable that the economic benefits associated with the transaction will flow to the Group, the related revenue can be reliably measured, and the specific criteria of revenue recognition have been met for each type of the Group's activities. In 2018, the Group's consolidated operating income was RMB259,664,820,000, and the revenue from sales of household appliances accounted for over 80% of the consolidated operating income.

We focused on recognition of revenue from sales of household appliances mainly due to the Group's numerous clients and big sales volume at home and abroad achieved by its varied distribution channels.

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Regarding the Group's revenue from sales of household appliances, we performed procedures as follows:

We interviewed management from operation and financial departments in terms of sales processes of all distribution channels to understand and evaluate the internal control of processes relating to the revenue from sale of household appliances designed by management and tested the operating effectiveness of key controls;

We checked the household appliance sales contract template entered into by and between the Group and the clients from all distribution channels, and analysed and evaluated the Group's accounting policies on the revenue from sales of household appliances based on our interview with management, understanding of the Group's selling operation and audit experience.

Regarding the sales of household appliances through all distribution channels, we performed the procedures as follows:

- We performed such risk assessment procedures as analysis of fluctuation in revenue from sales of household appliances on a monthly basis and analysis of fluctuation in gross profit rates;
- We checked supporting documents relevant to recognition of revenue from sales of household appliances on sample basis, including sales contracts, orders, sales invoices, shipping orders, acknowledgement of goods receipts signed by customers, billing agreements with customers, etc.;
- We checked the amount of revenue by sending confirmations to customers on a sampling basis;
- We checked revenue from sales of household appliances recognised around the balance sheet date against acknowledgement of goods receipts signed by customers, billing agreements with customers or other supporting documents to evaluate if the revenue was recognised over appropriate period.

We concluded that the Group's recognition of revenue from sales of household appliances complied with its applicable accounting policies based on the audit procedures performed.

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</table>

Key Audit Matters (Cont'd)	How our audit addressed the Key Audit Matters
Impairment testing of goodwill Please refer to Note 4(13) "Goodwill" to the financial statements. As at 31 December 2018, the goodwill recorded in the consolidated balance sheet of the Group amounted to RMB29,100,390,000, including RMB22,330,623,000 and RMB2,881,760,000 arising from business acquisition of KUKA Aktiengesellschaft ("KUKA Group") and Toshiba Lifestyle Products & Services Corporation ("TLSC"), respectively. Management believed that it was not necessary to make impairment provision for the goodwill based on the impairment testing prepared in accordance with the accounting policies stated in Note 2(20) to the consolidated financial statements. The impairment testing is performed by assessing the recoverable amount of the groups of assets containing the relevant goodwill, based on the present value of cash flows forecasts. Key assumptions adopted in the impairment testing of goodwill included expected revenue growth rates, EBITDA margins, perpetual annual growth rates, discount rates, etc. which required key accounting estimates and judgement. We focused on the impairment risk of the goodwill totalling RMB25,212,383,000 arising from the business acquisition of KUKA Group and TLSC because the amount is significant and the impairment testing of goodwill involved key accounting estimates and judgements.	Regarding the impairment testing of goodwill arising from the acquisition of KUKA Group and TLSC, we performed the procedures as followings: 1. We understood and evaluated the internal controls relevant to the impairment testing of goodwill, and tested the operating effectiveness of key control, including review and approval of key assumptions applied and internal control of calculation of the recoverable amounts of the asset groups containing the allocated goodwill. 2. We evaluated the appropriateness of methodologies of impairment testing of goodwill adopted by management with the assistance of internal valuers, and evaluated and recalculated the discount rates adopted in the test by comparing industry or market data; 3. We tested the accuracy of arithmetic applied in the calculating process during the impairment testing of goodwill; 4. We evaluated the accuracy of historical estimates on future cash flows by comparing the actual financial performance of current year with the forecasts of prior year, so as to check whether there was any bias from management during the evaluation of the impairment testing of goodwill; 5. We evaluated the reasonableness of key assumptions on expected revenue growth rates, EBITDA margins, perpetual annual growth rates, discount rates, etc. adopted in the impairment testing of goodwill by interviewing with management and considering the market developments. We concluded that the audit evidence we have obtained could support the accounting estimates and judgement applied by management in the evaluation of impairment testing of goodwill based on the audit procedures performed.

Other Information

Management of the Group is responsible for the other information. Other information comprises all the information included in the 2018 annual report of the Group other than the financial statements and our auditor's report thereon.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers Zhong Tian LLP	Signing CPA	Huang MeiMei (Engagement Partner)
Shanghai, the People's Republic of China 18 April 2019	Signing CPA	Qiu XiaoYing

MIDEA GROUP CO., LTD.

CONSOLIDATED AND COMPANY BALANCE SHEETS
31 DECEMBER 2018

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

ASSETS	Note	31 December 2018 Consolidated	31 December 2017 Consolidated	31 December 2018 Company	31 December 2017 Company
Current assets					
Cash at bank and on hand	4(1)	27,888,280	48,274,200	15,361,626	29,349,926
Derivative financial assets		220,197	353,327	-	-
Notes and accounts receivable	4(2)	31,946,468	28,382,943	-	-
Advances to suppliers	4(4)	2,215,888	1,672,248	55,069	23,877
Loans and advances	4(5)	11,328,392	12,178,953	-	-
Other receivables	4(3), 18(1)	2,971,368	2,809,998	11,593,020	9,385,663
Inventories	4(6)	29,645,018	29,444,166	-	-
Other current assets	4(7)	76,473,827	46,694,841	55,052,256	27,226,405
Total current assets		182,689,438	169,810,676	82,061,971	65,985,871
Non-current assets					
Available-for-sale financial assets	4(8)	1,906,878	1,831,051	56,579	56,868
Long-term receivables		34,815	362,248	-	-
Long-term equity investments	4(9), 18(2)	2,713,316	2,633,698	28,236,295	24,540,601
Investment properties		391,765	420,802	560,954	597,200
Fixed assets	4(10)	22,437,212	22,600,724	1,056,790	1,245,998
Construction in progress	4(11)	2,077,621	879,576	51,872	36,313
Intangible assets	4(12)	16,186,675	15,167,036	712,454	231,154
Goodwill	4(13)	29,100,390	28,903,785	-	-
Long-term prepaid expenses	4(14)	1,191,373	859,106	174,684	121,452
Deferred tax assets	4(15)	4,421,313	4,023,334	202,703	152,069
Other non-current assets		550,352	614,822	4,576	9,700
Total non-current assets		81,011,710	78,296,182	31,056,907	26,991,355
TOTAL ASSETS		263,701,148	248,106,858	113,118,878	92,977,226

MIDEA GROUP CO., LTD.

CONSOLIDATED AND COMPANY BALANCE SHEETS (CONT'D)
31 DECEMBER 2018

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

LIABILITIES AND OWNERS' EQUITY	Note	31 December 2018 Consolidated	31 December 2017 Consolidated	31 December 2018 Company	31 December 2017 Company
Current liabilities					
Short-term borrowings		870,390	2,584,102	575,000	-
Borrowings from the Central Bank		99,754	-	-	-
Customer deposits and deposits from banks and other financial institutions		44,386	108,926	-	-
Derivative financial liabilities		756,299	90,432	-	-
Notes and accounts payable	4(18)	60,226,741	60,352,562	-	-
Advances from customers	4(19)	16,781,666	17,409,063	-	-
Employee benefits payable	4(20)	5,788,004	5,247,500	573,632	427,806
Taxes payable	4(21)	3,875,298	3,544,154	280,499	45,179
Other payables	4(22)	3,346,129	3,360,523	74,714,012	58,014,048
Current portion of non-current liabilities	4(23)	7,122,712	136,605	-	-
Other current liabilities	4(24)	31,319,709	26,257,990	44,414	40,830
Total current liabilities		130,231,088	119,091,857	76,187,557	58,527,863
Non-current liabilities					
Long-term borrowings	4(25)	32,091,439	32,986,325	-	-
Bonds payable		-	4,553,054	-	-
Long-term payables		88,890	250,536	-	-
Provisions		268,887	330,736	-	-
Deferred income		647,583	536,443	-	-
Long-term employee benefits payable	4(26)	2,480,318	2,465,854	-	-
Deferred tax liabilities	4(15)	4,422,074	3,972,823	-	-
Other non-current liabilities	4(27)	1,016,352	994,059	-	-
Total non-current liabilities		41,015,543	46,089,830	-	-
Total liabilities		171,246,631	165,181,687	76,187,557	58,527,863
Shareholders' equity:					
Share capital	4(28)	6,663,031	6,561,053	6,663,031	6,561,053
Capital surplus	4(30)	18,451,307	15,911,504	10,615,389	7,726,237
Less: Treasury stock	4(29)	(4,918,427)	(366,842)	(4,918,427)	(366,842)
Other comprehensive income	4(31)	(1,332,153)	(244,692)	6,020	33,459
General risk reserve		366,947	366,947	-	-
Surplus reserve	4(32)	5,079,096	3,882,232	5,079,096	3,882,232
Undistributed profits	4(33)	58,762,315	47,627,235	19,486,212	16,613,224
Total equity attributable to shareholders of the Company		83,072,116	73,737,437	36,931,321	34,449,363
Minority interests		9,382,401	9,187,734	-	-
Total shareholders' equity		92,454,517	82,925,171	36,931,321	34,449,363
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		263,701,148	248,106,858	113,118,878	92,977,226

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Fang Hongbo	Zhong Zheng	Chen Lihong

MIDEA GROUP CO., LTD.

CONSOLIDATED AND COMPANY INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

Item	Note	2018 Consolidated	2017 Consolidated	2018 Company	2017 Company
Total revenue		261,819,635	241,918,896	1,767,161	1,565,670
Including: Operating revenue	4(35),18(3)	259,664,820	240,712,301	1,767,161	1,565,670
Interest income	4(36)	2,154,392	1,206,582	-	-
Fee and commission income		423	13	-	-
Less: Cost of sales	4(35)	(188,164,557)	(180,460,552)	(39,632)	(38,819)
Interest costs	4(36)	(189,490)	(250,925)	-	-
Fee and commission expenses		(3,214)	(2,717)	-	-
Taxes and surcharges	4(37)	(1,617,566)	(1,416,428)	(40,601)	(26,607)
Selling and distribution expenses	4(38)	(31,085,879)	(26,738,673)	-	-
General and administrative expenses	4(39)	(9,571,639)	(7,510,102)	(879,563)	(694,314)
Research and development expenses	4(40)	(8,377,201)	(7,270,134)	-	-
Financial income/(expenses)	4(41)	1,823,040	(815,949)	975,062	(328,000)
Including: Interest expenses		(703,991)	(967,208)	(758,024)	(750,290)
Interest income		2,155,862	1,143,837	1,780,258	405,523
Asset impairment losses	4(42)	(447,864)	(269,112)	(6,051)	(50)
Add: Other income	4(46)	1,316,904	1,311,123	421,377	9,996
Losses on changes in fair value	4(43)	(810,450)	(25,045)	-	-
Investment income	4(44),18(4)	907,326	1,830,221	9,720,094	10,214,403
Including: Investment income from associates		349,321	310,016	239,418	209,908
(Losses)/gains on disposal of assets	4(45)	(34,934)	1,327,251	45,614	(95)
Operating profit		25,564,111	21,627,854	11,963,461	10,702,184
Add: Non-operating income		434,756	467,204	6,419	1,961
Less: Non-operating expenses		(225,809)	(240,284)	(4,124)	(1,216)
Total profit		25,773,058	21,854,774	11,965,756	10,702,929
Less: Income tax expenses	4(47)	(4,122,639)	(3,243,584)	2,881	74,702
Net profit		21,650,419	18,611,190	11,968,637	10,777,631
(1) Classified by continuity of operations					
Net profit from continuing operations		21,650,419	18,611,190	11,968,637	10,777,631
Net profit from discontinued operations		-	-	-	-
(2) Classified by ownership of the equity					
Attributable to equity owners of the Company		20,230,779	17,283,689	11,968,637	10,777,631
Minority interests		1,419,640	1,327,501	-	-

MIDEA GROUP CO., LTD.

CONSOLIDATED AND COMPANY INCOME STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2018

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

Item	Note	2018 Consolidated	2017 Consolidated	2018 Company	2017 Company
Other comprehensive income, net of tax		(1,215,825)	(310,628)	(27,439)	42,528
Other comprehensive income attributable to shareholders of the Company, net of tax		(1,087,461)	(257,817)	(27,439)	42,528
(1) Other comprehensive income items which will not be reclassified subsequently to profit or loss		(1,023)	(31,132)	-	-
1) Changes arising from remeasurement of defined benefit plan		(1,023)	(31,132)	-	-
(2) Other comprehensive income items which will be reclassified subsequently to profit or loss		(1,086,438)	(226,685)	(27,439)	42,528
1) Other comprehensive income that will be transferred subsequently to profit or loss under the equity method		51,924	(36,017)	39,520	(24,431)
2) Changes in fair value of available-for-sale financial assets		(489,228)	(240,597)	(66,959)	66,959
3) Effective portion of cash flow hedging gains or losses		(424,417)	318,553	-	-
4) Translation of foreign currency financial statements		(224,717)	(268,624)	-	-
Other comprehensive income attributable to minority shareholders, net of tax		(128,364)	(52,811)	-	-
Total comprehensive income		20,434,594	18,300,562	11,941,198	10,820,159
Attributable to shareholders of the Company		19,143,318	17,025,872	11,941,198	10,820,159
Minority interests		1,291,276	1,274,690	-	-
Earnings per share					
Basic earnings per share (RMB Yuan)	4(48)	3.08	2.66	Not applicable	Not applicable
Diluted earnings per share (RMB Yuan)	4(48)	3.05	2.63	Not applicable	Not applicable

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Fang Hongbo	Zhong Zheng	Chen Lihong

MIDEA GROUP CO., LTD.

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

Item	Note	2018 Consolidated	2017 Consolidated	2018 Company	2017 Company
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		211,230,723	195,820,338	-	-
Net decrease in loans and advances		864,209	-	-	-
Net increase in customer deposits from and from banks and other financial institutions		-	72,218	-	-
Net decrease in deposits with the Central Bank		708,879	-	-	-
Net increase in borrowings from the Central Bank		99,754	-	-	-
Cash received for interest, fee and commission		2,174,661	1,175,477	-	-
Refund of taxes and surcharges		5,705,259	5,476,543	-	-
Cash received relating to other operating activities	4(49)(a)	5,558,221	4,771,036	19,248,174	9,432,057
Sub-total of cash inflows		226,341,706	207,315,612	19,248,174	9,432,057
Cash paid for goods and services		(127,367,813)	(116,508,042)	-	-
Net increase in loans and advances		-	(1,933,348)	-	-
Net decrease in customer deposits and deposits from banks and other financial institutions		(64,540)	-	-	-
Net increase in deposits with the Central Bank		-	(1,158,040)	-	-
Cash paid for interest, fee and commission		(198,761)	(253,650)	-	-
Cash paid to and on behalf of employees		(24,709,578)	(22,740,541)	(298,323)	(117,436)
Payments of taxes and surcharges		(13,739,262)	(11,139,448)	(102,575)	(104,073)
Cash paid relating to other operating activities	4(49)(b)	(32,400,672)	(29,139,920)	(2,986,732)	(276,406)
Sub-total of cash outflows		(198,480,626)	(182,872,989)	(3,387,630)	(497,915)
Net cash flows from operating activities	4(49)(c)	27,861,080	24,442,623	15,860,544	8,934,142
2. Cash flows from investing activities					
Cash received from disposal of investments		65,711,622	85,127,382	27,315,231	49,824,940
Cash received from returns on investments		2,097,948	2,727,603	11,075,864	10,054,584
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		164,070	1,441,101	1,825	12,049
Net cash received from disposal of subsidiaries and other business units		24,406	-	-	-
Sub-total of cash inflows		67,998,046	89,296,086	38,392,920	59,891,573
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(5,611,851)	(3,218,402)	(715,778)	(246,073)
Cash paid to acquire investments		(80,713,830)	(94,967,122)	(59,593,512)	(45,264,526)
Net cash paid to acquire subsidiaries and other business units		(314,653)	(25,850,170)	-	-
Sub-total of cash outflows		(86,640,334)	(124,035,694)	(60,309,290)	(45,510,599)
Net cash flows from investing activities		(18,642,288)	(34,739,608)	(21,916,370)	14,380,974
3. Cash flows from financing activities					
Cash received from capital contributions		2,713,366	1,668,205	2,098,273	1,625,153
Including: Cash received from capital contributions by minority shareholders of subsidiaries		615,092	43,052	-	-
Cash received from borrowings		2,524,315	62,169,886	1,000,000	1,600,000
Sub-total of cash inflows		5,237,681	63,838,091	3,098,273	3,225,153
Cash repayments of borrowings		(3,378,492)	(36,074,251)	(425,000)	(1,600,000)
Cash payments for interest expenses and distribution of dividends or profits		(9,303,222)	(7,908,056)	(8,385,248)	(7,136,641)
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		(815,998)	(815,164)	-	-
Cash payments relating to other financing activities		(5,943,131)	(204,139)	(4,028,808)	-
Sub-total of cash outflows		(18,624,845)	(44,186,446)	(12,839,056)	(8,736,641)
Net cash flows from financing activities		(13,387,164)	19,651,645	(9,740,783)	(5,511,488)
4. Effect of foreign exchange rate changes on cash and cash equivalents		289,001	(36,737)	-	-
5. Net (decrease)/increase in cash and cash equivalents		(3,879,371)	9,317,923	(15,796,609)	17,803,628
Add: Cash and cash equivalents at the beginning of the year		21,831,653	12,513,730	25,978,543	8,174,915
6. Cash and cash equivalents at the end of the year	4(49)(d)	17,952,282	21,831,653	10,181,934	25,978,543

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Fang Hongbo	Zhong Zheng	Chen Lihong

MIDEA GROUP CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

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

Item	Equity attributable to the Company								
	Share capital (Note 4(28))	Capital reserve (Note 4(30))	Less: Treasury stock (Note 4(29))	Other comprehensive income	General reserve	Surplus reserve	Undistributed profits	Minority interests	Total shareholders' equity
Balance at 1 January 2017	6,458,767	13,596,569	-	13,125	148,602	2,804,469	38,105,391	7,849,773	68,976,696
Movements for the year ended 31 December 2017									
Total comprehensive income									
Net profit	-	-	-	-	-	-	17,283,689	1,327,501	18,611,190
Other comprehensive income, net of tax	-	-	-	(257,817)	-	-	-	(52,811)	(310,628)
Total comprehensive income	-	-	-	(257,817)	-	-	17,283,689	1,274,690	18,300,562
Capital contribution and withdrawal by shareholders									
Ordinary shares invested by shareholders	102,286	1,947,025	(366,842)	-	-	-	-	43,052	1,725,521
Business combinations	-	-	-	-	-	-	-	647,230	647,230
Share-based payment included in shareholders' equity	-	326,005	-	-	-	-	-	106,263	432,268
Profit distribution									
Appropriations to general risk reserve	-	-	-	-	218,345	-	(218,345)	-	-
Appropriation to surplus reserve	-	-	-	-	-	1,077,763	(1,077,763)	-	-
Profit distribution to shareholders	-	-	-	-	-	-	(6,465,677)	(733,274)	(7,198,951)
Transfer from capital surplus to paid-in capital	-	-	-	-	-	-	-	-	-
Others	-	41,905	-	-	-	-	(60)	-	41,845
Balance at 31 December 2017	6,561,053	15,911,504	(366,842)	(244,692)	366,947	3,882,232	47,627,235	9,187,734	82,925,171

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2018

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

Item	Equity attributable to the Company							Minority interests	Total shareholders' equity
	Share capital (Note 4(28))	Capital reserve (Note 4(30))	Less: Treasury stock (Note 4(29))	Other comprehensive income	General reserve	Surplus reserve	Undistributed profits		
Balance at 1 January 2018	6,561,053	15,911,504	(366,842)	(244,692)	366,947	3,882,232	47,627,235	9,187,734	82,925,171
Movements for the year ended 31 December 2018									
Total comprehensive income									
Net profit	-	-	-	-	-	-	20,230,779	1,419,640	21,650,419
Other comprehensive income, net of tax	-	-	-	(1,087,461)	-	-	-	(128,364)	(1,215,825)
Total comprehensive income	-	-	-	(1,087,461)	-	-	20,230,779	1,291,276	20,434,594
Capital contribution and withdrawal by shareholders									
Ordinary shares invested by shareholders	103,679	2,596,878	(717,841)	-	-	-	-	615,092	2,597,808
Business combinations	-	-	-	-	-	-	-	345,657	345,657
Share-based payment included in shareholders' equity	-	356,412	-	-	-	-	-	117,423	473,835
Others	(1,701)	(397,777)	(3,833,744)	-	-	-	-	(1,450,682)	(5,683,904)
Profit distribution									
Appropriations to general risk reserve	-	-	-	-	-	-	-	-	-
Appropriation to surplus reserve	-	-	-	-	-	1,196,864	(1,196,864)	-	-
Profit distribution to shareholders	-	-	-	-	-	-	(7,898,785)	(819,804)	(8,718,589)
Transfer from capital surplus to paid-in capital	-	-	-	-	-	-	-	-	-
Others	-	(15,710)	-	-	-	-	(50)	95,705	79,945
Balance at 31 December 2018	6,663,031	18,451,307	(4,918,427)	(1,332,153)	366,947	5,079,096	58,762,315	9,382,401	92,454,517

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

Legal representative: Fang Hongbo

Principal in charge of accounting: Zhong Zheng

Head of accounting department: Chen Lihong

MIDEA GROUP CO., LTD.

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

MIDEA GROUP CO., LTD.

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2018

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

Item	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Surplus reserve	Undistributed profits	Total shareholders' equity
Balance at 1 January 2018	6,561,053	7,726,237	(366,842)	33,459	3,882,232	16,613,224	34,449,363
Movements for the year ended 31 December 2018							
Total comprehensive income							
Net profit	-	-	-	-	-	11,968,637	11,968,637
Other comprehensive income, net of tax	-	-	-	(27,439)	-	-	(27,439)
Total comprehensive income	-	-	-	(27,439)	-	11,968,637	11,941,198
Capital contribution and withdrawal by shareholders							
Ordinary shares invested by shareholders	103,679	2,596,878	(717,841)	-	-	-	1,982,716
Share-based payment included in shareholders' equity	-	312,656	-	-	-	-	312,656
Others	(1,701)	(27,109)	(3,833,744)	-	-	-	(3,862,554)
Profit distribution							
Appropriation to surplus reserves	-	-	-	-	1,196,864	(1,196,864)	-
Profit distribution to shareholders	-	-	-	-	-	(7,898,785)	(7,898,785)
Transfer from capital surplus to paid-in capital	-	-	-	-	-	-	-
Others	-	6,727	-	-	-	-	6,727
Balance at 31 December 2018	6,663,031	10,615,389	(4,918,427)	6,020	5,079,096	19,486,212	36,931,321

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

Legal representative: Fang Hongbo

Principal in charge of accounting: Zhong Zheng

Head of accounting department: Chen Lihong

1 General information

The principal business activities of Midea Group Co., Ltd. (hereafter referred to as "the Company") and its subsidiaries (hereafter collectively referred to as "the Group") include heating & ventilation, as well as air-conditioner (hereinafter referred to as "HVAC") centred on household air-conditioner, central air-conditioner, heating and ventilation systems; consumer appliances centred on kitchen appliances, refrigerators, washing machines and various small appliances; robots and automation systems centred on KUKA Aktiengesellschaft (hereafter referred to as "KUKA") and its subsidiaries (hereinafter referred to as "KUKA Group") and other robots corporations of Midea Group. Other services include service platform with Annto Technology providing the smart supply chain integrated solutions; sale, wholesale and processing of raw materials of household electrical appliances; and financial business involved in customer deposits, interbank lendings and borrowings, consumption credit, buyer's credit and finance lease.

The Company was 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 Foshan, Guangdong. On 30 August 2012, the Company was transformed into a limited liability company. On 29 July 2013, the Company was approved to merge and acquire Guangdong Midea Electric Co., Ltd., which was listed on Shenzhen Stock Exchange. On 18 September 2013, the Company's shares listed on Shenzhen Stock Exchange.

As at 31 December 2018, the Company's registered capital is RMB 6,663,030,506 with the share capital of RMB 6,663,030,506, and the total number of shares in issue is 6,663,030,506, of which 147,174,760 shares are restricted tradable A shares and 6,515,855,746 shares are unrestricted tradable A shares.

The detailed information of major subsidiaries included in the consolidation scope in current period is set out in Notes 5 and 6. Entities newly included in the consolidation scope in the current year include Miraco International Trading Company、IRT SA Neuchatel Switzerland、Mor-Tech Manufacturing Inc. 、Mor-Tech Design Inc.、Midea Home Appliances UK Ltd., Shanghai COLMO Lifestyle Products&Services Co. Ltd. and Guangdong Welling Automotive Parts Co., Ltd. etc.. Please refer to Note 5(1) and (2)(a) for details. The detailed information of subsidiaries no longer included in the consolidation scope in the current year is set out in 5(2) (b).
These financial statements were authorised for issue by the Company's Board of Directors on 18 April 2019.

2 Summary of significant accounting policies and accounting estimates

The Group determines specific accounting policies and accounting estimates based on the features of production and operation, mainly including the recognition method of provision for bad debts of accounts receivable (Note 2(10)), valuation method of inventory (Note 2(12)), depreciation of fixed assets and amortisation of intangible assets (Note 2(15), (18)), impairment of goodwill (Note 2(20)) and recognition time of revenue (Note 2(28)).

Critical judgements applied by the Group in determining significant accounting policies are set out in Note 2(34).

(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 ("CSRC").

The financial statements are prepared on a going concern basis.

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 year ended 31 December 2018 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and the Company's financial position of the Company as at 31 December 2018 and their financial performance, cash flows and other information for the year then ended.

(3) Accounting period

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

(4) Functional currency

The functional currency of the Company is Renminbi ("RMB"). The subsidiaries determine their functional currency based on the primary economic environment in which the business is operated, mainly including EUR, JPY, USD and HKD. The financial statements are presented in RMB.

(5) Business combinations

(a) Business combinations involving enterprises under common control

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

(b) Business combinations involving enterprises not under common control

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

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 belong, excluding those arising from changes in the investee's remeasurements of net liability or net asset related to the defined benefit plan. The excess of the sum of fair value of the previously-held equity and fair value of the consideration paid at the acquisition dates over share of fair value of identifiable net assets acquired from the subsidiary is recognised as goodwill.

(6) Preparation of consolidated financial statements

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

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

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

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity and the portion of a subsidiaries' net profits and losses and comprehensive income for the period not attributable to Company are recognised as minority interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent and minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and minority interests in accordance with the allocation proportion of the parent in the subsidiary. If the accounting treatment of a transaction which considers the Group as an accounting entity is different from that considers the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

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

(7) Recognition criteria of cash and cash equivalents

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

(8) Foreign currency translation

(a) Foreign currency transaction

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

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

(b) Translation of foreign currency financial statements

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

(9) Financial 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.

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

(9) Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

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

Loans and receivables

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

Available-for-sale financial assets

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

(ii) Derivative financial instruments

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

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

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

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

(9) Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(ii) Derivative financial instruments (Cont'd)

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.

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

Accumulated profits or loss originally included in equities of shareholders are reclassified to the profit or loss in the same periods when the hedged item affects the profit or loss.

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

(iii) Recognition and measurement

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

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

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

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

(9) Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(iii) Recognition and measurement (Cont'd)

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.

(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 one year (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.

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

(9) Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

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

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

If available-for-sale financial asset, which is measured at cost model, is impaired, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are recognised in profit or loss for the current period. The previously recognised impairment loss will not be reversed in subsequent periods.

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

(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.

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

(9) Financial instruments (Cont'd)

(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, payables, notes payable, borrowings, customer deposits and deposits from banks and other financial institutions, financial assets sold under repurchase agreements and interest payable.

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

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

Other financial liabilities of which the period is within one year (inclusive) are classified as the current liabilities; the period is over one year while will be due within one year (inclusive) since the balance sheet date are classified as current portion of non-current liabilities; and the others are classified as non-current liabilities.

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

(c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. During valuation, the Group uses valuation technique appropriate in the current situation with sufficient available data and other supporting information, and select input with the same feature of assets or liabilities which are taken into consideration by market participants in transactions of related assets and liabilities, and observable inputs are preferential. When relevant observable inputs are impossible or not practicable be obtained, unobservable inputs are used.

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

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

(10) Receivables

Receivables comprise notes and 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 RMB 5,000,000 for accounts receivable and RMB 500,000 for other receivables.

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

(b) Receivables that are subject to provision for bad debts on the grouping basis

Accounts receivable and other 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.

Notes receivable of the Group are bank acceptance notes, for which the Company believes there is relatively low risk due to non-performance of financial institutions; therefore, no provision for bad debts is recorded on the grouping basis.

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 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years
HVAC	5%	10%	30%	50%	100%
Consumer appliances	5%	10%	30%	50%	100%
Robots and automatic system	5%	10%	30%	50%	100%
Others	5%	10%	30%	50%	100%

The Company's subsidiaries in Japan classify the credit risk groupings by taking whether receivables are overdue 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.

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

(10) Receivables (Cont'd)

(b) Receivables that are subject to provision for bad debts on the grouping basis (Cont'd)

The Company's subsidiaries in Hong Kong, Macau, Singapore and Italy make bad debts provision for receivables on an individual basis. For those receivables that have been assessed for impairment on an individual basis and have not been found impaired, the Company's subsidiaries classify the credit risk groupings by taking the ageing of receivables as the risk characteristics.

The Company's subsidiaries in Brazil make no bad debts provision for receivables with the ageing within one year and adopt 100% provision ratio for those with the ageing over one 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) Receivables with amounts that are not individually significant but subject to separate assessment for provision for bad debts

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

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

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

(11) Provision for bad debts of loans and advances

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

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

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

(12) Inventories

(a) Classification of inventories

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

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

(b) Costing of inventories

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

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

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

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

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

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

(d) Inventory system

The Group adopts the perpetual inventory system.

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

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

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

(13) Long-term equity investments

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

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

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

(a) Determination of investment cost

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

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

For investment in previously-held equity accounted for using the recognition and measurement standards of financial instruments, the initial investment cost accounted for using the cost method is the sum of carrying amount of previously-held equity investment and additional investment cost. The difference between the fair value and carrying amount for investment in previously-held equity and the accumulated changes in fair value previously included in other comprehensive income are transferred to profit or loss for the current period accounted for using the cost method.

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.

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

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.

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.

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

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

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

(d) Impairment of long-term equity investments

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

(14) Investment properties

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

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

	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.

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

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 net 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 net residual values expressed as a percentage of cost and the annual depreciation rates of the Group's fixed assets are as follows:

Categories	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	15 to 60 years	0% to 10%	6.7% to 1.5%
Machinery and equipment	2 to 18 years	0% to 10%	50% to 5.0%
Motor vehicles	2 to 20 years	0% to 10%	50% to 4.5%
Electronic equipment and other equipment	2 to 20 years	0% to 10%	50% to 4.5%
Land	Permanent	N/A	N/A

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

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

(15) Fixed assets (Cont'd)

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

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

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

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

(e) Disposal of fixed assets

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

(16) Construction in progress

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

(17) Borrowing costs

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

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

(17) Borrowing costs (Cont'd)

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

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

(18) Intangible assets

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

(a) Land use rights

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

(b) Patents and non-patent technologies

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

(c) Trademark rights

The trademark rights is measured at cost when acquired and is amortised over the estimated useful life of 30 years. The cost of trademark rights obtained in the business combinations involving enterprises not under common control is measured at fair value. As some of the trademarks are expected to attract net cash inflows injected into the Group, the management considers that these trademarks have an indefinite useful lives and are presented based upon the carrying amounts after deducting the provision for impairment (Note 4(12)).

(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.

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 amounts of intangible assets are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (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.

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 groups or a 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 groups or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or group 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.

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

(21) Employee benefits (Cont'd)

(b) Post-employment benefits

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

Basic pensions

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

Supplementary retirement benefits

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method at the interest rate of treasury bonds with similar obligation term and currency. The charges related to the 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.

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 the normal retirement date. The Group accounts for the early retirement benefits in accordance with the treatment for 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 settled within one year since the balance sheet date are classified as current liabilities.

(22) Financial assets sold under agreements to repurchase

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.

(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.

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

(25) Provisions (Cont'd)

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

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

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

(26) Share-based payments

(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 equity-settled share-based payment contains share option incentive plan, restricted share plan and employee stock ownership plan. These plans are measured at the fair value of the equity instruments at grant date and the equity instruments are tradable or exercisable when services in vesting period are completed or specified performance conditions are met. In the vesting period, the services obtained in current period are included in relevant cost and expenses at the fair value of the equity instruments at grant date based on the best estimate of the number of tradable or exercisable equity instruments, and capital surplus is increased accordingly. If the subsequent information indicates the number of tradable or exercisable equity instruments differs from the previous estimate, an adjustment is made and, on the exercise date, the estimate is revised to equal to the number of actual vested equity instruments.

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

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

(b) Determination of the fair value of equity instruments

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

The fair value of other equity instruments are based on the share prices, the price that incentive objects pay and the number of the shares on the grant date, taking into account the effects of clause of the Group's relevant plans.

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

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

(27) Treasury stock

The Group's treasury stock mainly comes from the repurchase of equity instruments and the issuance of restricted shares and so on.

Consideration and transaction costs paid by the Group for repurchasing equity instruments are deducted from equity and not recognised as financial assets. The considerations paid by the Group for repurchasing equity instruments are measured as treasury stock and the related transaction costs are included into owners' equity.

On the grant day of restricted shares, the Group recognise bank deposits and share capital and capital reserves (share premium) when receiving subscription from the employees. In the meanwhile, the Group measure the repurchase obligation as treasury stocks and liability. On the day of release of restricted shares, relevant treasury stocks, liabilities and capital surplus recognised in the vesting period are reverse based on the actual vesting results.

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

(28) 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 stated net of discounts, rebates and returns.

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

(a) Sales of products

The Group are principally engaged in the manufacturing and sales of home appliances (mainly comprises HVAC and consumer appliances), and robots and automatic system (mainly comprises robots and automatic system)

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 been declared to the customs and shipped out of the port; 2) the amount of revenue is confirmed; 3) payments for goods are collected or obtain related receipts; and 4) the related economic benefits will flow to the Group and the related costs can be measured reliably.

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

(b) Rendering of services

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

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

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

(28) 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.

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

(28) 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.

(29) 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.

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

(29) Government grants (Cont'd)

Government grants related to assets are recorded as deferred income 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 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 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.

(30) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred income tax asset is recognised for the tax losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred 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 deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible 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, deductible tax losses and tax credits can be utilised.

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

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

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and joint ventures, 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 joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

- the deferred 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.

(31) Leases

(a) Operating leases

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

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

(b) Finance leases

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

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

(32) Held for sale and discontinued operations

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

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

Such non-current assets and assets and liabilities included in disposal groups classified as held for sale are classified as current assets and current liabilities respectively, and are separately presented in the balance sheet.

A discontinued operation is a component of the Group that either has been disposed of or is classified as held for sale, and is separately identifiable and satisfies one of the following conditions: (1) it represents a separate major line of business or geographical area of operations; (2) it is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; and (3) it is a subsidiary acquired exclusively with a view to resale.

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

(33) 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. Two or more operating segments that have similar economic characteristics and satisfy certain conditions can be aggregated into one single operating segment.

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

(34) Critical accounting estimates and judgements

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

Critical accounting estimates and key assumptions

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

(i) Provision for impairment of goodwill

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

(ii) Income tax

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 tax provisions in the period in which such determination is made.

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

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

(35) Significant changes in accounting policies

In 2018, the Ministry of Finance issued the *Circular on the Amendment to the Formats of Corporate Financial Statements for the Year of 2018* (Cai Kuai [2018] No. 15) and its interpretation. The financial statements are prepared in accordance with the above circular with restating comparative figures of 2017, and impacts are as follows:

(a) Impacts on consolidated balance sheet and income statement are as follows:

The nature and the reasons of the changes in accounting policies	The line items affected	31 December 2017			1 January 2017		
		Before adjustment	The amounts affected	After adjustment	Before adjustment	The amounts affected	After adjustment
The Group grouped notes receivable and accounts receivable as notes and accounts receivable.	Accounts receivable	17,528,717	(17,528,717)	-	13,454,511	(13,454,511)	-
	Notes receivable	10,854,226	(10,854,226)	-	7,427,488	(7,427,488)	-
	Notes and accounts receivable	-	28,382,943	28,382,943	-	20,881,999	20,881,999
The Group recorded interests receivable in other receivables.	Other current assets	46,847,271	(152,430)	46,694,841	43,529,597	(46,390)	43,483,207
	Other receivables	2,657,568	152,430	2,809,998	1,140,133	46,390	1,186,523
The Group grouped notes payable and accounts payable in notes and accounts payable.	Accounts payable	35,144,777	(35,144,777)	-	25,356,960	(25,356,960)	-
	Notes payable	25,207,785	(25,207,785)	-	18,484,939	(18,484,939)	-
	Notes and accounts payable	-	60,352,562	60,352,562	-	43,841,899	43,841,899
The Group grouped interests payable, dividends payable and other payables as other payables.	Interests payable	94,801	(94,801)	-	21,343	(21,343)	-
	Dividends payable	95,317	(95,317)	-	105,641	(105,641)	-
	Other payables	3,170,405	190,118	3,360,523	1,571,422	126,984	1,698,406
The Group grouped long-term payables and payables for specific projects as long-term payables.	Payables for specific projects	2,500	(2,500)	-	2,405	(2,405)	-
	Long-term payables	248,036	2,500	250,536	366,881	2,405	369,286

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

(35) Significant changes in accounting policies (Cont'd)

(a) Impacts on consolidated balance sheet and income statement are as follows (Cont'd):

The nature and the reasons of the changes in accounting policies	The line items affected	The amounts affected
		2017
The Group presented research and development expenses separately from general and administrative expenses.	Research and development expenses	Increase by 7,270,134
	General and administrative expenses	Decrease by 7,270,134

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

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

(35) Significant changes in accounting policies (Cont'd)

(b) Impacts on company balance sheet and income statement are as follows:

The nature and the reasons of the changes in accounting policies	The line items affected	31 December 2017			1 January 2017		
		Before adjustment	The amounts affected	After adjustment	Before adjustment	The amounts affected	After adjustment
The Company grouped interests receivable, dividends receivable and other receivables as other receivables.	Other current assets	27,311,464	(85,059)	27,226,405	24,165,141	(34,318)	24,130,823
	Dividends receivable	897,040	(897,040)	-	285,916	(285,916)	-
	Other receivables	8,403,564	982,099	9,385,663	12,644,592	320,234	12,964,826
The Company recorded interests payable in other payables.	Interests payable	146,513	(146,513)	-	76,776	(76,776)	-
	Other payables	57,867,535	146,513	58,014,048	54,461,578	76,776	54,538,354

Except for the above items, amounts of other items as at 31 December 2017 and 1 January 2017 were not affected.

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

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%, 20%-31.4%, 32% or 34.25%
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%, 10%, 11%, 16%, 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 educational surcharge	The amount of VAT paid	2%
Property tax	Price-based property is subject to a 1.2% tax rate after a 30% cut in the original price of property; rental-based is subject to 12% tax rate for the rental income.	1.2% or 12%

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

(a-1) The following subsidiaries of the Company are subject to a corporate income tax rate of 15% in 2018 as they qualified as high-tech enterprises and obtained the *High-tech Enterprise Certificate*:

Name of tax payer	No. of the *High-tech Enterprise Certificate*	Dates of issuance	Term of validity
Jiangsu Midea Cleaning Appliance Company Limited	GR201732001675	17 November 2017	3 years
GD Midea Environment Appliances Mfg. Co.,Ltd.	GR201644002286	30 November 2016	3 years
Meizhi Guangdian Technology Co., Ltd.	GR201736000187	23 August 2017	3 years
Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.	GR201844000250	28 November 2018	3 years
Guangdong Witol Vacuum Electronic Manufacture Co.,Ltd	GR201744000489	9 November 2017	3 years
Foshan Shunde Midea Washing Appliance Manufacturing Co., Ltd.	GR201744002837	9 November 2017	3 years
Foshan Shunde Midea Electrical Heating Appliances Manufacturing Co., Ltd.	GR201844010373	28 November 2018	3 years
Guangdong Midea Precision Molding Technology Co., Ltd.	GR201644000331	30 November 2016	3 years
Foshan Shunde Midea Electric Science and Techonology Co., Ltd.	GR201644000358	30 November 2016	3 years
GD Midea Heating & Ventilating Equipment Co., Ltd.	GR201844008219	28 November 2018	3 years
Hefei Midea Heating & Ventilation Equipment Co., Ltd.	GR201634000207	21 October 2016	3 years
Anhui Meizhi Precision Manufacturing Co., Ltd.	GR201834000890	24 July 2018	3 years
Guangzhou Midea Hualing Refrigerator Co., Ltd.	GR201644002925	30 November 2016	3 years
Guangdong Welling Motor Manufacturing Co., Ltd.	GR201744002062	9 November 2017	3 years
Foshan Welling Washer Motor Manufacturing Co., Ltd.	GR201744001025	9 November 2017	3 years
Huaian Weiling Motor Manufacturing Co., Ltd.	GR201632004278	30 November 2016	3 years
Annto Logistics Technology Co., Ltd.	GR201834001306	24 July 2018	3 years
Wuxi Little Swan Company Limited	GR201832001394	24 October 2018	3 years
Wuxi Filin Electronics Co., Ltd.	GR201832001053	24 October 2018	3 years
Wuxi Little Swan General Appliance Co., Ltd.	GR201832001100	24 October 2018	3 years

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

3 Taxation (Cont'd)

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

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

(a-1) The following subsidiaries of the Company are subject to a corporate income tax rate of 15% in 2018 as they qualified as high-tech enterprises and obtained the *High-tech Enterprise Certificate* (Cont'd):

Name of tax payer	No. of the *High-tech Enterprise Certificate*	Dates of issuance	Term of validity
GD Midea Air-Conditioning Equipment Co.,Ltd.	GR201744000337	9 November 2017	3 years
Handan Midea Air-Conditioning Equipment Co.,Ltd.	GR201713000957	27 October 2017	3 years
Midea Group Wuhan Refrigeration Equipment Co., Ltd.	GR201742002075	30 November 2017	3 years
Guangzhou Hualing Refrigerating Equipment Co.,ltd.	GR201744010610	11 December 2017	3 years
Wuhu Maty Air-Conditioning Equipment Co., Ltd	GR201734001246	7 November 2017	3 years
Chongqing Midea General Refrigeration Equipment Co., Ltd.	GR201751100113	28 December 2017	3 years
Guangdong Meizhi Compressor Limited	GR201744000895	9 November 2017	3 years
Hubei Midea Refrigerator Co., Ltd.	GR201742001255	28 November 2017	3 years
Guangdong Midea Consumer Electric Manufacturing Co., Ltd.	GR201744006141	11 December 2017	3 years
Anhui Meizhi Compressor Co., Ltd.	GR201634000994	5 December 2016	3 years
Foshan Shunde Midea Water Dispenser Manufacturing Co., Ltd.	GR201744008471	11 December 2017	3 years
Midea Welling Motor Technology (Shanghai) Co., Ltd.	GR201731001731	23 November 2017	3 years
Welling (Wuhu) Motor Manufacturing Co., Ltd.	GR201834001144	24 July 2018	3 years
Hefei Midea Laundry Appliance Co., Ltd.	GR201834000882	24 July 2018	3 years
Hefei Hualing Co., Ltd.	GR201834000552	24 July 2018	3 years
Foshan Midea Chungho Water Purification Equipment. Co., Ltd.	GR201844007089	28 November 2018	3 years
Toshiba HA Manufacturing (Nanhai) Co., Ltd.	GR201844007107	28 November 2018	3 years
Guangdong Meizhi Precision-Manufacturing Co., Ltd	GR201844006181	28 November 2018	3 years
Wuhu Midea Kitchen & Bath Appliances Mfg. Co., Ltd.	GR201834000818	24 July 2018	3 years

(a-2) The application for corporate income tax preferential treatment by Chongqing Midea Refrigeration Equipment Co., Ltd., the Company's subsidiary, was approved by the State Administration of Taxation of Chongqing Economical and Technological Development Zone on 3 June 2014. The subsidiary is subject to corporate income tax at the rate of 15% in 2018.

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

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-4) In August 2008, Midea Electric Appliance (Singapore) Co., Ltd., the Company's subsidiary, was awarded with the Certificate of Honour for Development and Expansion (No. 587) by the Singapore Economic Development Board, which approves that qualified income exceeding a certain amount is subject to corporate income tax at the rate of 5% while the unqualified income is subject to the corporate income tax at the rate of 17%. Midea Electric Appliance (Singapore) Co., Ltd. and Little Swan International (Singapore) Co., Ltd., the Company's subsidiaries, are subject to corporate income tax at the rate of 17%.

(a-5) The Company's subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5%. Such subsidiaries include Midea International Trading Company Limited, Midea International Corporation Company Limited, Midea Home Appliances Investments (Hong Kong) Co., Limited, Century Carrier Residential Air-conditioning Equipment Co., Limited, Midea Refrigeration (Hong Kong) Limited, Welling Holding Limited (Hong Kong), Welling International Hong Kong Ltd, and Midea Investment (Asia) Company Limited.

(a-6) The Company's subsidiaries in BVI and Cayman Islands are exempted from corporate income tax. Such subsidiaries include Mecca International (BVI) Limited, Titoni Investments Development Ltd., Midea Investment Holding (BVI) Limited, Midea Electric Investment (BVI) Limited, Welling Holding (BVI) Ltd., Midea Holding (Cayman Islands) Ltd. and Midea Investment Development Company Limited.

(a-7) Springer Carrier Ltda., the Company's subsidiary in Brazil, is subject to Brazil corporate income tax at the rate of 34.25%.

(a-8) TLSC, the Company's subsidiary in Japan, and its subsidiaries, are subject to Japan corporate income tax at the rate of 30.58%.

(a-9) Clivet S.P.A and Clivet España S.A.U. (“Clivet”), the Company's subsidiaries in Italy, are subject to Italy corporate income tax at the rate between 20% and 31.4%.

(a-10) KUKA Group, the Company's subsidiary in Germany, is subject to Germany corporate income tax at the rate of 32%.

(a-11) SMC, the Company's subsidiary in Israel, is subject to Israel corporate income tax at the rate of 23%.

(a-12) Miraco, the Company's subsidiary in Egypt, is subject to Egyptian corporate income tax at the rate of 23.5%.

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

(b-1) Pursuant to the *Circular on Adjustment of Tax Rate of Value Added Tax* (Cai Shui [2018] No. 32) and related regulations jointly issued by the Ministry of Finance and the State Administration of Taxation, the applicable tax rate of revenue arising from sales of goods and rendering of repairing and replacement services of the Company's certain subsidiaries is 16% from 1 May 2018, while it was 17% before then.

(b-2) Pursuant to the *Circular on Adjustment of Tax Rate of Value Added Tax* (Cai Shui [2018] No. 32) and relevant regulations jointly issued by the Ministry of Finance and the State Administration of Taxation, the applicable tax rate of revenue arising from rendering of real estate leasing and transportation services of the Company's certain subsidiaries is 10% from 1 May 2018, while it was 11% before then.

(b-3) Financial services, consulting services and storage services provided by the Company and certain subsidiaries are subject to VAT at the rate of 6%.

(b-4) Rental revenue of Hefei Midea Laundry Appliance Co., Ltd., which is a subsidiary of the Company, is subject to easy levy of VAT at the rate of 5%.

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

4 Notes to the consolidated financial statements

(1) Cash at bank and on hand

	31 December 2018	31 December 2017
Cash on hand	3,803	4,589
Cash at bank (a)	15,857,413	21,954,206
Other cash balances (b)	123,197	267,259
Statutory reserve deposits with the Central Bank (c)	1,126,172	1,835,051
Surplus reserve with the Central Bank	204,073	305,963
Deposits with banks and other financial institutions (d)	10,573,622	23,907,132
	27,888,280	48,274,200
Including: Total amounts deposited with foreign banks (including Hong Kong, Macau, Singapore, Japan, Italy, Brazil and Germany, etc.)	6,316,807	10,685,588

(a) As at 31 December 2018, cash at bank included fixed deposits with the term of over three months, amounting to RMB 5,686,629,000 (31 December 2017: RMB 3,540,237,000).

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

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

(d) As at 31 December 2018, deposits with banks and other financial institutions included time deposits with the term of over three months, amounting to RMB 3,000,000,000 (31 December 2017: RMB 20,800,000,000).

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

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

(2) Notes and accounts receivable

	31 December 2018	31 December 2017
Notes receivable (a)	12,556,294	10,854,226
Accounts receivable (b)	19,390,174	17,528,717
	31,946,468	28,382,943

(a) Notes receivable

	31 December 2018	31 December 2017
Bank acceptance notes	12,556,294	10,854,226

(i) As at 31 December 2018, the Group's notes receivable endorsed or discounted but not matured were as follows:

	Derecognised	Recognised
Bank acceptance notes	22,747,532	117,604

(b) Accounts receivable

	31 December 2018	31 December 2017
Accounts receivable	20,372,283	18,410,114
Less: Provision for bad debts	(982,109)	(881,397)
	19,390,174	17,528,717

The ageing of accounts receivable is analysed as follows:

	31 December 2018	31 December 2017
Within 1 year	19,990,263	17,932,715
1 to 2 years	187,071	266,896
2 to 3 years	88,294	103,978
3 to 5 years	84,069	64,300
Over 5 years	22,586	42,225
	20,372,283	18,410,114

As at 31 December 2018, the Group had no significant overdue accounts receivable.

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

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

(2) Notes and accounts receivable (Cont'd)

(b) Accounts receivable

Accounts receivable are analysed by categories as follows:

	31 December 2018				31 December 2017			
	Carrying amount		Provision for bad debts		Carrying amount		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	53,583	0.26%	18,445	34.42%	32,448	0.18%	6,960	21.45%
Provision for bad debts on the grouping basis	19,958,647	97.97%	919,356	4.61%	18,079,721	98.20%	867,797	4.80%
With amounts that are not individually significant but that the related provision for bad debts is provided on the individual basis	360,053	1.77%	44,308	12.31%	297,945	1.62%	6,640	2.23%
	20,372,283	100.00%	982,109	4.82%	18,410,114	100.00%	881,397	4.79%

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

	31 December 2018			31 December 2017		
	Carrying amount	Provision for bad debts		Carrying amount	Provision for bad debts	
	Amount	Amount	Ratio	Amount	Amount	Ratio
Within1 year	19,635,342	730,461	3.72%	17,693,549	673,853	3.81%
1 to 2 years	138,902	45,975	33.10%	191,494	59,250	30.94%
2 to 3 years	81,137	51,370	63.31%	101,994	61,313	60.11%
3 to 5 years	82,116	70,400	85.73%	57,889	38,586	66.66%
Over 5 years	21,150	21,150	100.00%	34,795	34,795	100.00%
	19,958,647	919,356	4.61%	18,079,721	867,797	4.80%

The provision for bad debts in the current year amounted to RMB 334,946,000 (31 December 2017: RMB 315,515,000). The provision for bad debts reversed in the current year amounted to RMB 137,346,000 (31 December 2017: RMB 160,811,000).

The accounts receivable written off by the Group for the current year were arising from transactions with third parties and there were no written-off accounts receivable that are individually significant.

As at 31 December 2018, the five largest accounts receivable aggregated by debtors were summarised and analysed as follows:

	Amount	Provision for bad debts	% of total balance
Total amount of the five largest accounts receivable	1,585,163	79,258	8%

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

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

(3) Other receivables

	31 December 2018	31 December 2017
Other receivables	2,838,170	2,706,912
Interests receivable	175,928	152,430
	3,014,098	2,859,342
Less: Provision for bad debts	(42,730)	(49,344)
	2,971,368	2,809,998

Other receivables mainly include current accounts, petty cash to staff and deposits, and interests receivable mainly include interests receivable from fixed deposits.

The ageing of other receivables is analysed as follows:

	31 December 2018	31 December 2017
Within 1 year	2,629,558	2,596,908
1 to 2 years	118,049	64,118
2 to 3 years	60,259	35,284
3 to 5 years	20,900	6,907
Over 5 years	9,404	3,695
	2,838,170	2,706,912

Other receivables are analysed by categories as follows:

	31 December 2018				31 December 2017			
	Carrying amount		Provision for bad debts		Carrying amount		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	169,315	5.97%	-	-	64,760	2.39%	-	-
Provision for bad debts on the age grouping basis	2,668,855	94.03%	42,730	1.60%	2,642,152	97.61%	49,344	1.87%
	2,838,170	100.00%	42,730	1.51%	2,706,912	100.00%	49,344	1.82%

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

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

(3) Other receivables (Cont'd)

As at 31 December 2018, other receivables with amounts that were individually significant but that the related provision for bad debts was provided on the individual basis were analysed as follows:

	Carrying amount	Provision for bad debts	Ratio	Reasons
China Securities Depository and Clearing Corporation Limited Shenzhen Branch	169,315	-	-	Receivables related to share options without bad debt risks

As at 31 December 2018, the ageing of the Group's interests receivable was within one year.

The provision for bad debts in the current year amounted to RMB 13,508,000 (31 December 2017: RMB 31,393,000). The provision for bad debts reversed in the current year amounted to RMB 21,166,000 (31 December 2017: RMB 3,505,000).

No other receivables were written off for the Group in the current year.

As at 31 December 2018, the five largest other receivables aggregated by debtors were summarised and analysed as follows:

	Amount	Provision for bad debts	% of total balance
Total amount of the five largest other receivables	540,554	7,185	19%

As at 31 December 2018, the Group did not recognise significant government grants at amounts receivable.

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

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

(4) Advances to suppliers

	31 December 2018	31 December 2017
Prepayments for raw materials and others	2,215,888	1,672,248

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

	31 December 2018		31 December 2017	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	2,112,343	95.33%	1,620,207	96.89%
1 to 2 years	78,764	3.55%	36,689	2.19%
2 to 3 years	11,870	0.54%	5,662	0.34%
Over 3 years	12,911	0.58%	9,690	0.58%
	2,215,888	100.00%	1,672,248	100.00%

As at 31 December 2018, advances to suppliers over 1 year with a carrying amount of RMB 103,545,000 (31 December 2017: RMB 52,041,000) were mainly unsettled prepayment for raw materials.

As at 31 December 2018, the five largest advances to suppliers aggregated by debtors were analysed as follows:

	Amount	% of total balance
Total amount of the five largest advances to suppliers	696,819	31%

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

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

(5) Loans and advances to customers

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

	31 December 2018	31 December 2017
Loans and advances to individuals	894,392	567,998
Loans and advances to corporations	10,588,006	11,778,609
Including: Loans	4,702,308	2,599,038
Discounted bills	5,885,698	9,179,571
	11,482,398	12,346,607
Less: Provision for loan losses	(154,006)	(167,654)
	11,328,392	12,178,953

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

	31 December 2018	31 December 2017
Unsecured loans	814,657	389,057
Guaranteed loans	614,688	256,112
Loans secured by monetary assets	10,053,053	11,701,438
	11,482,398	12,346,607
Less: Provision for loan losses	(154,006)	(167,654)
	11,328,392	12,178,953

(6) Inventories

(a) Inventories are summarised by categories as follows:

	31 December 2018			31 December 2017		
	Carrying amount	Provision for declines in the value of inventories	Carrying amount	Carrying amount	Provision for declines in the value of inventories	Carrying amount
Finished goods	18,600,407	(320,022)	18,280,385	17,625,714	(160,843)	17,464,871
Raw materials	5,181,916	(60,822)	5,121,094	5,680,125	(46,139)	5,633,986
Work in progress	2,040,228	-	2,040,228	2,040,630	-	2,040,630
Consigned processing materials	239,741	-	239,741	221,842	-	221,842
Low value consumables	38,763	-	38,763	59,370	-	59,370
Projects completed but unsettled	3,924,807	-	3,924,807	4,023,467	-	4,023,467
	30,025,862	(380,844)	29,645,018	29,651,148	(206,982)	29,444,166

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

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:

	31 December 2017	Increase in the current year	Decrease in the current year	Differences on translation of foreign currency	31 December 2018
		Provision	Reversal or written-off	financial statements	
Finished goods	160,843	587,243	(418,695)	(9,369)	320,022
Raw materials	46,139	44,972	(30,720)	431	60,822
	206,982	632,215	(449,415)	(8,938)	380,844

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

	Specific basis for determining net realisable value	Reason for the write-off of provision for decline in the value of inventories in the current year
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

(7) Other current assets

	31 December 2018	31 December 2017
Available-for-sale financial assets - wealth management products (a)	1,521,007	22,094,715
Structural deposits and swap deposits	70,402,509	19,252,086
VAT input to be deducted	2,803,315	2,988,800
Prepaid expenses	647,648	639,409
Others	1,099,348	1,719,831
	76,473,827	46,694,841

(a) As at 31 December 2018, wealth management products presented non-principal-guaranteed wealth management products with floating earnings due within one year (Note 16(1)).

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

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

(8) Available-for-sale financial assets

	31 December 2018	31 December 2017
Measured at fair value		
- Available-for-sale equity instruments (a)	1,187,146	120,965
Measured at cost		
- Available-for-sale equity instruments (b)	722,019	1,712,340
	1,909,165	1,833,305
Less: Provision for impairment of available-for-sale financial assets	(2,287)	(2,254)
	1,906,878	1,831,051

(a) As at 31 December 2018, available-for-sale equity instruments measured at fair value mainly included an investment in Xiaomi Group, a listed company. The investment was designated as available-for-sale financial assets measured at cost as at 31 December 2017 (31 December 2017: mainly included an investment in Jiangsu Bank, a listed company).

(b) The available-for-sale financial assets measured at cost mainly include the unlisted equity investments held by the Group which are not quoted in an active market and whose fair value cannot be reliably measured as the variability in the range of reasonable fair value measurements is significant and the probabilities of the various estimates used to determine the fair value cannot be reasonably determined. The Group has no plan to dispose these investments.

(9) Long-term equity investments

Long-term equity investments are classified as follows:

	31 December 2018	31 December 2017
Investment in associates (a)	2,713,316	2,633,698
Less: Provision for impairment of long-term equity investments	-	-
	2,713,316	2,633,698

(a) Investment in associates mainly refers to the investments in Foshan Shunde Rural Commercial Bank Co., Ltd. and Hefei Royalstar Motor Co., Ltd. and other companies by the Group.

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

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

(10) Fixed assets

	Buildings	Land	Machinery and equipment	Motor vehicles	Electronic equipment and others	Total
Cost						
31 December 2017	16,760,157	1,090,527	17,892,971	779,279	3,635,383	40,158,317
Increase in the current year						
Purchase	192,594	33,518	1,425,828	27,442	833,155	2,512,537
Transfers from construction in progress	152,490	-	161,321	-	81,840	395,651
Increase by business combinations	65,286	107,999	23,259	1,297	3,925	201,766
Others	289,241	-	7,857	-	-	297,098
Decrease in the current year						
Disposal and retirement	(92,870)	(227)	(627,648)	(62,513)	(421,790)	(1,205,048)
Differences on translation of foreign currency financial statements	29,493	57,434	51,526	1,936	19,206	159,595
31 December 2018	17,396,391	1,289,251	18,935,114	747,441	4,151,719	42,519,916
Accumulated depreciation						
31 December 2017	5,734,279	-	8,932,987	434,515	2,429,550	17,531,331
Increase in the current year						
Provision	845,679	-	1,746,527	98,235	671,634	3,362,075
Others	32,804	-	275	-	-	33,079
Decrease in the current year						
Disposal and retirement	(52,600)	-	(451,614)	(55,991)	(337,223)	(897,428)
Differences on translation of foreign currency financial statements	1,747	-	7,587	313	10,719	20,366
31 December 2018	6,561,909	-	10,235,762	477,072	2,774,680	20,049,423
Provision for impairment loss						
31 December 2017	3,925	-	21,846	218	273	26,262
Increase in the current year						
Provision	2,974	5,681	2,688	-	196	11,539
Decrease in the current year						
Disposal and retirement	(304)	-	(4,802)	(19)	(28)	(5,153)
Differences on translation of foreign currency financial statements	79	168	375	7	4	633
31 December 2018	6,674	5,849	20,107	206	445	33,281
Carrying amount						
31 December 2018	10,827,808	1,283,402	8,679,245	270,163	1,376,594	22,437,212
31 December 2017	11,021,953	1,090,527	8,938,138	344,546	1,205,560	22,600,724

(i) In 2018, the depreciation of fixed assets amounted to RMB 3,362,075,000 (2017: RMB 3,331,231,000) and was included in income statement in full amount.

(ii) As at 31 December 2018, the Company was still in the course of obtaining the ownership certificate for the fixed asset with a carrying amount of RMB 503,717,000 (31 December 2017: RMB 549,431,000).

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

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

(11) Construction in progress

(a) Movement of significant projects of construction in progress

	31 December 2017 Carrying amount	Increase in the current year	Transfer to fixed assets	Transfer to Intangible assets	Other decreases	Difference on translation of foreign currency financial statements	31 December 2018 Carrying amount	Accumulative amount of capitalised borrowing costs	Including: Borrowing costs capitalised in the current year	Capitalisation rate of borrowing costs for the current year	Source of funds
Kuka Toledo Production Operations	281,355	865,853	-	-	-	5,612	1,152,820	-	-	-	Self-financing
Other projects	598,221	858,882	(395,651)	(108,013)	(35,312)	6,674	924,801	-	-	-	Self-financing
	879,576	1,724,735	(395,651)	(108,013)	(35,312)	12,286	2,077,621	-	-	-	

As at 31 December 2018, there was no provision for impairment of construction in progress with the ending balance consistent with the carrying amount; and the cost of construction in progress matched the budget amount. The projects were carried out on schedule.

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

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

(12) Intangible assets

	Land use rights	Patents and non-patent technologies	Trademark rights	Trademark use rights	Others	Total
Cost						
31 December 2017	3,862,449	2,039,958	4,948,967	2,433,542	5,653,312	18,938,228
Increase in the current year						
Purchase	824,464	39,442	12,531	-	467,985	1,344,422
Increase by business combinations	16,978	24,300	-	-	445,361	486,639
Transfers from construction in progress	-	-	-	-	108,013	108,013
Decrease in the current year						
Disposal	(117,037)	(50,167)	-	-	(2,013,692)	(2,180,896)
Others	(603)	-	-	-	-	(603)
Differences on translation of foreign currency financial statements	606	8,316	43,905	168,338	60,786	281,951
31 December 2018	4,586,857	2,061,849	5,005,403	2,601,880	4,721,765	18,977,754
Accumulated amortisation						
31 December 2017	752,029	418,260	40,199	99,960	2,448,693	3,759,141
Increase in the current year						
Provision	95,276	105,559	34,011	59,453	740,646	1,034,945
Decrease in the current year						
Disposal	(28,529)	(38,676)	-	-	(1,984,309)	(2,051,514)
Others	(219)	-	-	-	-	(219)
Differences on translation of foreign currency financial statements	473	3,269	966	8,675	23,205	36,588
31 December 2018	819,030	488,412	75,176	168,088	1,228,235	2,778,941
Provision for impairment loss						
31 December 2017	-	10,738	-	-	1,313	12,051
Increase in the current year						
Provision	-	-	-	-	-	-
Decrease in the current year						
Disposal	-	(126)	-	-	(143)	(269)
Differences on translation of foreign currency financial statements	-	339	-	-	17	356
31 December 2018	-	10,951	-	-	1,187	12,138
Carrying amount						
31 December 2018	3,767,827	1,562,486	4,930,227	2,433,792	3,492,343	16,186,675
31 December 2017	3,110,420	1,610,960	4,908,768	2,333,582	3,203,306	15,167,036

(a) In 2018, the amortisation of intangible assets amounted to RMB 1,034,945,000 (2017: RMB 2,943,945,000) and was included in income statement in full amount.

(b) As at 31 December 2018, the disposal of intangible assets-others mainly represented the written-off of fully amortised order backlog.

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

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

(13) Goodwill

The Group's goodwill had been allocated to the asset groups and groups of asset groups at the acquisition date, and the allocation is as follows:

	31 December 2018	31 December 2017
Goodwill-		
Wuxi Little Swan Company Limited	1,361,306	1,361,306
TLSC	2,881,760	2,695,355
KUKA Group	22,330,623	22,202,569
Others	2,526,701	2,644,555
	29,100,390	28,903,785
Less: Provision for impairment	-	-
	29,100,390	28,903,785

(a) Impairment

When making an impairment testing of goodwill for assets, the Group compares the carrying amounts of related assets or groups of asset groups (including goodwill) with their recoverable amounts. If the recoverable amount is lower than the carrying amount, the difference is recognised in profit or loss for the current period. The Group's goodwill allocation was unchanged in 2018.

As at 31 December 2018, the Group tested whether goodwill has suffered any impairment. The recoverable amount of asset groups with goodwill is calculated using discounted future cash flows determined according to budget approved by management (the budget period is 5 to 6 years). The future cash flows beyond the budget period are calculated based on the estimated perpetual annual growth rates. The perpetual annual growth rates (mainly 1%-2%) applied by management are consistent with the estimates of the industry, and do not exceed the long-term average growth rates of each product. Management determines expected revenue growth rates (mainly 1.5%-13.9%) and EBITDA margins (mainly 0.5%-11.2%) based on past experience and forecast on future market development. The discount rates(mainly 9.7%-20.9%) used by management are the pre-tax rates that are able to reflect the risks specific to the related asset groups. The management analyses the recoverable amount of each asset groups based on these assumptions and considers that no provision for impairment is necessary for the goodwill.

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

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

(14) Long-term prepaid expenses

Long-term prepaid expenses mainly include expenses prepaid for software, consulting and project reconstruction.

(15) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offsetting

	31 December 2018		31 December 2017	
	Deductible temporary differences and deductible losses	Deferred tax assets	Deductible temporary differences and deductible losses	Deferred tax assets
Deductible losses	1,844,308	558,896	1,482,569	442,219
Provision for asset impairments	1,332,124	272,227	1,121,334	249,163
Employee benefits payable	1,371,756	330,923	1,294,431	291,511
Other current liabilities	16,549,427	3,572,039	15,398,407	3,279,340
Others	5,201,746	1,087,280	3,544,103	894,981
	26,299,361	5,821,365	22,840,844	5,157,214
Including:				
Expected to be recovered within one year (inclusive)		4,755,720		4,442,885
Expected to be recovered after one year		1,065,645		714,329
		5,821,365		5,157,214

(b) Deferred tax liabilities before offsetting

	31 December 2018		31 December 2017	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Changes in fair value	49,939	11,131	482,092	46,086
Business combination involving enterprise not under common control	12,533,188	3,663,691	12,152,077	3,595,258
Others	8,308,900	2,147,304	4,723,128	1,465,359
	20,892,027	5,822,126	17,357,297	5,106,703
Including:				
Expected to be recovered within one year (inclusive)		1,194,871		1,001,770
Expected to be recovered after one year		4,627,255		4,104,933
		5,822,126		5,106,703

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

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

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

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

	31 December 2018	31 December 2017
	Balance after offsetting	Balance after offsetting
Deferred tax assets	4,421,313	4,023,334
Deferred tax liabilities	4,422,074	3,972,823

(16) Details of provision for asset impairments

	31 December 2017	Increase in the current year	Decrease in the current year		Difference on translation of foreign currency financial statements	31 December 2018
			Reversal	Write-off		
Provision for bad debts	1,098,395	348,454	(172,160)	(123,274)	27,430	1,178,845
Including: Provision for bad debts of accounts receivable	881,397	334,946	(137,346)	(123,274)	26,386	982,109
Provision for impairment of loans	167,654	-	(13,648)	-	-	154,006
Provision for bad debts of other receivables	49,344	13,508	(21,166)	-	1,044	42,730
Provision for decline in the value of inventories	206,982	632,215	(372,184)	(77,231)	(8,938)	380,844
Provision for impairment of available-for-sale financial assets	2,254	-	-	-	33	2,287
Provision for impairment of fixed assets	26,262	11,539	-	(5,153)	633	33,281
Provision for impairment of intangible assets	12,051	-	-	(269)	356	12,138
Provision for impairment of investment properties	12,576	-	-	-	-	12,576
	1,358,520	992,208	(544,344)	(205,927)	19,514	1,619,971

(17) Assets with ownership or use rights restricted

As at 31 December 2018, assets with ownership restricted were as follows:

	31 December 2018	31 December 2017
Cash at bank and on hand		
Including: Cash at bank (Note4 (1))	5,686,629	3,540,237
Other cash balances (Note 4(1))	123,197	267,259
Legal reserves with the Central Bank (Note 4(1))	1,126,172	1,835,051
Deposits with banks and other financial institutions (Note 4(1))	3,000,000	20,800,000
	9,935,998	26,442,547

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

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

(18) Notes and accounts payable

	31 December 2018	31 December 2017
Notes payable (a)	23,325,115	25,207,785
Accounts payable (b)	36,901,626	35,144,777
	60,226,741	60,352,562

(a) Notes payable

	31 December 2018	31 December 2017
Bank acceptance notes	23,325,115	25,207,785

(b) Accounts payable

	31 December 2018	31 December 2017
Materials cost payable	32,605,437	31,009,375
Others	4,296,189	4,135,402
	36,901,626	35,144,777

(i) As at 31 December 2018, accounts payable with ageing over 1 year with a carrying amount of RMB 803,286,000 (31 December 2017: RMB 978,692,000) were mainly unsettled accounts payable for materials.

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

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

(19) Advances from customers

	31 December 2018	31 December 2017
Advances on sales	14,521,809	15,738,208
Settled but not completed	2,259,857	1,670,855
	16,781,666	17,409,063

(a) As at 31 December 2018, advances from customers with ageing over 1 year with a carrying amount of RMB 410,800,000 (31 December 2017: RMB 202,302,000) were mainly unsettled advances on sales.

(20) Employee benefits payable

	31 December 2018	31 December 2017
Short-term employee benefits payable (a)	5,624,918	5,063,266
Others	163,086	184,234
	5,788,004	5,247,500

(a) Short-term employee benefits

	31 December 2017	Increase in current year	Decrease in current year	31 December 2018
Wages and salaries, bonus, allowances and subsidies	4,622,447	21,291,809	(20,857,237)	5,057,019
Staff welfare	264,274	1,495,358	(1,352,227)	407,405
Social security contributions	107,013	1,597,142	(1,602,863)	101,292
Including: Medical insurance	103,801	1,531,135	(1,536,284)	98,652
Work injury insurance	2,278	37,017	(37,362)	1,933
Maternity insurance	934	28,990	(29,217)	707
Housing funds	22,129	373,888	(365,386)	30,631
Labour union funds and employee education funds	18,821	119,534	(119,045)	19,310
Other short-term employee benefits	28,582	113,448	(132,769)	9,261
	5,063,266	24,991,179	(24,429,527)	5,624,918

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

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

(21) Taxes payable

	31 December 2018	31 December 2017
Corporate income tax payable	2,530,018	2,277,595
Unpaid VAT	853,187	664,196
Others	492,093	602,363
	3,875,298	3,544,154

(22) Other payables

	31 December 2018	31 December 2017
Other payables	3,140,082	3,170,405
Interest payable	94,852	94,801
Dividends payable	111,195	95,317
	3,346,129	3,360,523

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

(b) As at 31 December 2018, other payables with ageing over 1 year with a carrying amount of RMB 821,240,000 (31 December 2017: RMB 405,709,000) are mainly those recognised for performing equity incentive plan and restricted share repurchase obligation, which are unlocked for shares that are not written off, and deposit and security deposit payable, which are unsettled for related projects that are uncompleted.

(23) Current portion of non-current liabilities

	31 December 2018	31 December 2017
Current portion of debentures payable (a)	4,797,644	-
Current portion of long-term borrowings (Note 4(25))	2,166,041	-
Current portion of long-term payables	159,027	136,605
	7,122,712	136,605

(a) The Group issued three-year corporate debentures of USD 0.7 billion (equivalent to RMB 4,804,240,000) on 3 June 2016, which is calculated by adopting the simple interest method on an annual basis at a fixed annual interest rate of 2.375%. Interest is paid on a semi-annual basis, for which the Company provides guarantee.

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

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

(24) Other current liabilities

	31 December 2018	31 December 2017
Accrued sales rebate	19,583,366	17,240,015
Accrued installation and maintenance expenses	5,634,323	4,171,520
Accrued sales promotion expenses	1,780,246	1,288,509
Accrued transportation expenses	688,536	596,877
Others	3,633,238	2,961,069
	31,319,709	26,257,990

(25) Long-term borrowings

	31 December 2018	31 December 2017
Mortgage borrowings (a)	29,049,580	28,922,008
Guaranteed borrowings (b)	2,126,618	2,114,423
Unsecured	3,081,282	1,949,894
	34,257,480	32,986,325
Less: Current portion of mortgage borrowings (Note 4(23))	(39,236)	-
Current portion of guaranteed borrowings (Note 4(23))	(2,126,618)	
Current portion of unsecured (Note 4(23))	(187)	-
	32,091,439	32,986,325

(a) As at 31 December 2018, a cost of mortgage borrowings of EUR 3,701,857,000, equivalent to RMB 29,049,580,000 (31 December 2017: a cost of EUR 3,706,857,000, equivalent to RMB 28,922,008,000) was pledged by 81.04% equity of KUKA Group, which was acquired by the subsidiary of the Company. Interest is paid on a semi-annual basis, and the borrowings is due on August 2022.

(b) The Group provided three-year long-term borrowings of EUR 271 million to ANZ Bank Singapore on 23 April 2016, which was guaranteed by the Company.

(c) As at 31 December 2018, the annual interest rate range of the long-term borrowings was 0.4% to 5.5% (31 December 2017: 0.4% to 6%).

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

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

(26) Long-term employee benefits payable

	31 December 2018	31 December 2017
Supplementary retirement benefits (a)	2,329,652	2,330,599
Others	150,666	135,255
	2,480,318	2,465,854

(a) Supplementary retirement benefits

Supplementary retirement benefits obligation of the Group recognised in the balance sheet date is calculated using the projected unit credit method, and reviewed by external independent actuary institution.

(i) The Group's supplementary retirement benefits liabilities

	31 December 2018	31 December 2017
Defined benefit obligation	4,034,998	3,963,809
Less: Fair value of planned assets	(1,705,346)	(1,633,210)
Liabilities of defined benefit obligation	2,329,652	2,330,599

(ii) The actuarial assumptions used to determine the present value of defined benefit obligation

	31 December 2018
Discount rate	0.04%-9.60%
Inflation rate	1.13%
Expected return on assets	0.85%-9.60%
Salary growth rate	0.5%-6.0%
Benefit growth rate	0.0%-5.83%

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

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

(27) Other non-current liabilities

Other non-current liabilities are mainly payable for equity acquisition.

(28) Share capital

	31 December 2017	Movements in current year: Share-based payment incentive plan (a)	Desterilisation	Repurchases and write-offs	Sub-total	31 December 2018
RMB-denominated ordinary shares -						
RMB-denominated ordinary shares subject to trading restriction	212,023	25,955	(89,102)	(1,701)	(64,848)	147,175
RMB-denominated ordinary shares not subject to trading restriction	6,349,030	77,724	89,102	-	166,826	6,515,856
	6,561,053	103,679	-	(1,701)	101,978	6,663,031

	31 December 2016	Movements in current year: Share-based payment incentive plan (a)	Desterilisation	Sub-total	31 December 2017
RMB-denominated ordinary shares -					
RMB-denominated ordinary shares subject to trading restriction	279,045	23,130	(90,152)	(67,022)	212,023
RMB-denominated ordinary shares not subject to trading restriction	6,179,722	79,156	90,152	169,308	6,349,030
	6,458,767	102,286	-	102,286	6,561,053

(a) In 2018, the share-based payment incentive plan increased the share capital to 103,679,000 shares (2017: 102,286,000 shares). Some of the restricted shares have not met unlock condition at end of year, and the Company regarded them as treasury stock and recognised related liabilities for repurchase obligation.

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

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

(29) Treasury stock

	31 December 2017	Increase in current year	Decrease in current year	31 December 2018
Restricted stocks locked	366,842	717,841	(166,512)	918,171
Repurchased shares that have not yet written off	-	4,000,256	-	4,000,256
	366,842	4,718,097	(166,512)	4,918,427

On 31 December 2018, treasury stock mainly comprised restricted shares of RMB 918,171,000 that have not met unlock condition and repurchased treasury stocks of RMB 4,000,256,000, pursuant to the *Proposal on the Pre-arranged Planning of Repurchase of Some Public Shares* as approved at the 37th meeting of the 2nd Board of Directors' meeting dated 4 July 2018 and the first extraordinary general meeting dated 23 July 2018, which is RMB 4,918,427,000 in total. (As at 31 December 2017, treasury stock mainly represents restricted shares of RMB 366,842,000 that have not met unlock condition).

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

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

(30) Capital surplus

	31 December 2017	Increase in current year	Decrease in current year	31 December 2018
Share premium (a)	11,908,475	2,596,878	(27,109)	14,478,244
Share-based payment incentive plan (b)	943,243	825,330	(468,918)	1,299,655
Others (c)	3,059,786	21,902	(408,280)	2,673,408
	15,911,504	3,444,110	(904,307)	18,451,307

	31 December 2016	Increase in current year	Decrease in current year	31 December 2017
Share premium	9,961,450	1,947,025	-	11,908,475
Share-based payment incentive plan	617,238	735,326	(409,321)	943,243
Others	3,017,881	41,905	-	3,059,786
	13,596,569	2,724,256	(409,321)	15,911,504

(a) The movements in share premium arose from the exercise and subscription of share-based payment incentive plan with the amount of RMB 1,904,991,000 (among which RMB 468,918,000 was transferred from capital surplus (Share-based payment incentive plan)) and RMB 691,887,000 respectively, and the decrease in share premium arose from the repurchased restricted shares with the amount of RMB 27,109,000.

(b) The increase of share-based payment incentive plan arose from expenses attributable to shareholders' equity of the Company in the share-based payment incentive plan with the amount of RMB 825,330,000, while the decrease arose from the transfer of RMB 468,918,000 to share premium due to exercise of share-based payment incentive plan.

(c) Other decrease in capital reserve for the year mainly arose from the acquisition of minority interests in Welling Holding Limited ("Welling Holding") and Chongqing Midea General Refrigeration Equipment Co., Ltd. ("Chongqing Midea General").

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

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

(31) Other comprehensive income

	Other comprehensive income in the balance sheet			Other comprehensive income in the income statement for the year ended 31 December 2018				
	31 December 2017	Attributable to the Company after tax	31 December 2018	Amount arising before income tax	Less: Reclassification of previous other comprehensive income to profit or loss	Less: Income tax expenses	Attributable to the Company after tax	Attributable to minority shareholders after tax
Other comprehensive income items which will not be reclassified to profit or loss								
Changes arising from remeasurement of net liability or net asset of defined benefit plan	51,091	(1,023)	50,068	(8,397)	-	5,194	(1,023)	(2,180)
Other comprehensive income items which will be reclassified to profit or loss								
Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified to profit and loss	(111,070)	51,924	(59,146)	51,701	-	-	51,924	(223)
Gains or losses arising from changes in fair value of available-for-sale financial assets	151,781	(489,228)	(337,447)	(343,741)	(175,256)	9,287	(489,228)	(20,482)
Effective portion of gains or losses on hedging instruments in a cash flow hedge	323,147	(424,417)	(101,270)	(107,675)	(358,980)	31,750	(424,417)	(10,488)
Difference on translation of foreign currency financial statement	(659,641)	(224,717)	(884,358)	(319,708)	-	-	(224,717)	(94,991)
	(244,692)	(1,087,461)	(1,332,153)	(727,820)	(534,236)	46,231	(1,087,461)	(128,364)

	Other comprehensive income in the balance sheet			Other comprehensive income in the income statement for the year ended 31 December 2017				
	31 December 2016	Attributable to the Company after tax	31 December 2017	Amount arising before income tax	Less: Reclassification of previous other comprehensive income to profit or loss	Less: Income tax expenses	Attributable to the Company after tax	Attributable to minority shareholders after tax
Other comprehensive income items which will not be reclassified to profit or loss								
Changes arising from remeasurement of net liability or net asset of defined benefit plan	82,223	(31,132)	51,091	(15,317)	-	(15,584)	(31,132)	231
Other comprehensive income items which will be reclassified to profit or loss								
Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified to profit and loss	(75,053)	(36,017)	(111,070)	(36,017)	-	-	(36,017)	-
Gains or losses arising from changes in fair value of available-for-sale financial assets	392,378	(240,597)	151,781	147,634	(408,968)	6,197	(240,597)	(14,540)
Effective portion of gains or losses on hedging instruments in a cash flow hedge	4,594	318,553	323,147	358,980	(5,086)	(24,870)	318,553	10,471
Difference on translation of foreign currency financial statement	(391,017)	(268,624)	(659,641)	(317,597)	-	-	(268,624)	(48,973)
	13,125	(257,817)	(244,692)	137,683	(414,054)	(34,257)	(257,817)	(52,811)

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

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

(32) Surplus reserve

	31 December 2017	Increase in current year	31 December 2018
Statutory surplus reserve	3,882,232	1,196,864	5,079,096

	31 December 2016	Increase in current year	31 December 2017
Statutory surplus reserve	2,804,469	1,077,763	3,882,232

In accordance with the *Company Law* and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. According to a resolution at the Board of Directors' meeting, the Company appropriated 10% of net profit, amounting to RMB 1,196,864,000 in 2018 (2017: 10% of net profit, amounting to RMB 1,077,763,000) to the statutory surplus reserve.

(33) Undistributed profits

	2018	2017
Undistributed profits at beginning of year	47,627,235	38,105,391
Add: Net profit attributable to shareholders of the Company for current year	20,230,779	17,283,689
Less: Ordinary share dividends payable (a)	(7,898,785)	(6,465,677)
Appropriation to general reserve (b)	-	(218,345)
Others	(50)	(60)
Appropriation to statutory surplus reserve (Note 4(32))	(1,196,864)	(1,077,763)
Undistributed profit at end of year	58,762,315	47,627,235

(a) Ordinary share dividends distributed in current year

In accordance with the resolution at the Board of Shareholders' meeting, dated on 21 April 2018, the Company distributed a cash dividend to the shareholders at RMB 12.00 per 10 shares, amounting to RMB 7,900,827,000 calculated by 6,584,023,000 issued shares. In 2017, 1,701,000 incentive shares (Note 4(28)) in the restricted shares incentive plan were repurchased and written off, cash dividends of RMB 2,042,000 were revoked, with the total cash dividends of RMB 7,898,785,000 actually distributed this year.

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

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

(33) Undistributed profits (Cont'd)

(b) General reserve

In 2018, according to the *Administrative Measures for the Provision of Reserves of Financial Enterprises* issued by the Ministry of Finance (MOF), no provision for general reserve was required (2017: RMB 218,345,000) at 1.5% of the balance of financial enterprise risk assets net of recognised loan impairment provision.

(34) Transactions with minority shareholders

The Group acquired the interest from minority shareholders of Welling Holding and Chongqing Midea General with cash consideration of RMB 1,806,430,000. The difference between the cash consideration paid at the acquisition date and the carrying amount of the minority interests was recorded as capital reserve.

	Welling Holding and Chongqing Midea General
Cash consideration	1,806,430
Less: Carrying amount of minority interests at the acquisition date	(1,440,998)
	365,432

(35) Revenue and cost of sales

	2018	2017
Revenue from main operations	240,980,548	223,489,906
Other operating income	18,684,272	17,222,395
	259,664,820	240,712,301

	2018	2017
Cost of sales from main operations	171,493,579	164,794,821
Cost of sales from other operations	16,670,978	15,665,731
	188,164,557	180,460,552

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

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

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

(a) Revenue and cost of sales from main operations

	2018		2017	
	Revenue	Cost of sales	Revenue	Cost of sales
Heating & ventilation, as well as air-conditioner	109,394,649	75,886,326	95,352,449	67,664,335
Consumer appliances	102,992,803	72,959,466	98,748,018	71,722,720
Robots and automatic system	25,677,924	19,809,997	27,037,062	23,123,363
Others	2,915,172	2,837,790	2,352,377	2,284,403
	240,980,548	171,493,579	223,489,906	164,794,821

For the year ended 31 December 2018, cost of sales from main operations was mainly material costs and labour costs, which accounted for over 80% of total cost of sales from main operations (31 December 2017: over 80%).

(b) Revenue and cost of sales from other operations

	2018		2017	
	Revenue	Cost of sales	Revenue	Cost
Revenue from sales of material	16,573,666	16,130,032	15,446,559	15,065,383
Others	2,110,606	540,946	1,775,836	600,348
	18,684,272	16,670,978	17,222,395	15,665,731

For the year ended 31 December 2018, cost of sales from other operations is mainly material costs, which accounts for over 80% of total cost of sales from other operations (31 December 2017: over 80%).

(36) Interest income and interest expense

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

	2018	2017
Interest income from loans and advances	844,382	788,262
Including: Interest income from loans and advances to corporations and individuals	403,407	301,819
Interest income from note discounting	440,975	486,443
Interest income from deposits with banks, other financial institutions and Central Bank	1,310,010	418,320
Interest income	2,154,392	1,206,582
Interest expenses	(189,490)	(250,925)
	1,964,902	955,657

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

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

(37) Taxes and surcharges

	2018	2017
City maintenance and construction tax	695,858	588,019
Educational surcharge	505,347	427,182
Others	416,361	401,227
	1,617,566	1,416,428

(38) Selling and distribution expenses

	2018	2017
Selling and distribution expenses	31,085,879	26,738,673

For the year ended 31 December 2018, selling and distribution expenses were mainly maintenance and installation expenses, advertisement and promotion fee, transportation and storage fee, employee benefits and rental expenses, which accounted for over 80% of total selling and distribution expenses (31 December 2017: over 80%).

(39) General and administrative expenses

	2018	2017
General and administrative expenses	9,571,639	7,510,102

For the year ended 31 December 2018, general and administrative expenses were mainly employee benefits, expenses of depreciation and amortisation, technical maintenance expenses and administrative office expenses, which accounted for over 70% of total general and administrative expenses (31 December 2017: over 70%).

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

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

(40) Research and development expenses

	2018	2017
Research and development expenses	8,377,201	7,270,134

For the year ended 31 December 2018, research and development expenses were mainly employee benefits, expenses of depreciation and amortisation, trial products and material inputs expenses, which accounted for over 80% of total research and development expenses (31 December 2017: over 80%).

(41) Financial (income)/expense

The Group's financial (income)/expense, other than those arising from financial business (Note 4(36)), are presented as follows:

	2018	2017
Interest costs	703,991	967,208
Less: Interest income	(2,155,862)	(1,143,837)
Exchange gains or losses	(485,298)	863,185
Others	114,129	129,393
	(1,823,040)	815,949

(42) Asset impairment losses

	2018	2017
Losses on bad debts (Note 4(2))	189,942	182,592
Losses on decline in the value of inventories (Note 4(6))	260,031	41,811
Impairment loss on fixed assets (Note 4(10))	11,539	8,937
Impairment loss on intangible assets (Note 4(12))	-	5,866
Impairment loss on available-for-sale financial assets (Note 4(8))	-	2,114
(Reversal)/Loss of impairment of loans (Note 4(5))	(13,648)	27,792
	447,864	269,112

(43) Losses on changes in fair value

	2018	2017
Financial instruments at fair value through profit or loss - derivative financial instruments	(810,450)	(25,045)

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

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

(44) Investment income

	2018	2017
Investment income from wealth management products	504,556	977,648
Investment (loss)/income from disposal of financial assets at fair value through profit or loss	(31,958)	102,530
Income from long-term equity investments under equity method	349,321	310,016
Others	85,407	440,027
	907,326	1,830,221

There is no significant restriction on recovery of investment income of the Group.

(45) (Losses)/Gains on disposal of assets

	2018	2017
Gains on disposal of non-current assets	82,425	1,472,191
Losses on disposal of non-current assets	(117,359)	(144,940)
	(34,934)	1,327,251

(46) Other income

	2018	2017	Asset related/ Income related
Special subsidy	1,316,904	1,283,160	Income related
Special subsidy	-	27,963	Assets related
	1,316,904	1,311,123	

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

(47) Income tax expenses

	2018	2017
Current income tax calculated based on tax law and related regulations	4,096,331	5,077,050
Deferred income tax	26,308	(1,833,466)
	4,122,639	3,243,584

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

	2018	2017
Total profit	25,773,058	21,854,774
Income tax calculated at tax rate of 25%	6,443,265	5,463,694
Effect of different tax rates applicable to subsidiaries	(1,792,394)	(1,448,532)
Effect of income tax annual filing for prior periods	(91,527)	(119,749)
Income not subject to tax	(189,499)	(208,481)
Costs, expenses and losses not deductible for tax purposes	385,662	200,729
Utilisation of previous temporary differences not realised as deferred tax assets	(2,255)	(31,620)
Others	(630,613)	(612,457)
Income tax expenses	4,122,639	3,243,584

(48) Calculation of basic and diluted earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing consolidated net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

	Unit	2018	2017
Consolidated net profit attributable to ordinary shareholders of the Company	RMB'000	20,230,779	17,283,689
Less: Dividends payable to restricted shares	RMB'000	(23,538)	-
		20,207,241	17,283,689
Weighted average number of outstanding ordinary shares	Thousands shares	6,561,297	6,492,259
Basic earnings per share	RMB Yuan/share	3.08	2.66
Including:			
- Basic earnings per share from continuing operations:		3.08	2.66
- Basic earnings per share for discontinued operations:		-	-

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

(48) Calculation of basic and diluted earnings per share (Cont'd)

(b) Diluted earnings per share are calculated by dividing consolidated net profit attributable to ordinary shareholders of the Company by the diluted weighted average number of outstanding ordinary shares:

	Unit	2018	2017
Consolidated net profit attributable to ordinary shareholders of the Company	RMB'000	20,230,779	17,283,689
Weighted average number of outstanding ordinary shares	Thousands shares	6,561,297	6,492,259
Weighted average number of ordinary shares increased from share-based payment	Thousands shares	69,395	73,658
Weighted average number of diluted outstanding ordinary shares	Thousands shares	6,630,692	6,565,917
Diluted earnings per share	RMB Yuan/share	3.05	2.63

(49) Notes to the cash flow statement

(a) Cash received relating to other operating activities

	2018	2017
Other income	1,327,455	1,224,953
Other operating income	2,284,317	1,666,452
Non-operating income	418,984	497,376
Financial expenses - interest income	323,352	252,002
Others	1,204,113	1,130,253
	5,558,221	4,771,036

(b) Cash paid relating to other operating activities

	2018	2017
Selling and distribution expenses (excluding employee benefits and taxes and surcharges)	22,942,704	21,351,785
General and administrative expenses and research and development expenses (excluding employee benefits and taxes and surcharges)	8,971,922	7,204,414
Others	486,046	583,721
	32,400,672	29,139,920

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

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

(49) Notes to the cash flow statement (Cont'd)

(c) Supplementary information to the cash flow statement

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

	2018	2017
Net profit	21,650,419	18,611,190
Add: Provisions for asset impairment	447,864	269,112
Depreciation and amortisation	4,817,456	6,695,877
Net gains on disposal of non-current assets	(34,934)	(1,327,251)
Losses on changes in fair value	810,450	25,045
Financial (income)/losses	(1,265,831)	32,845
Investment income	(907,326)	(1,830,221)
Share options expenses	942,753	841,566
Increase in deferred tax assets	(360,724)	(635,894)
Decrease/(Increase) in deferred tax liabilities	478,982	(1,055,005)
Increase in inventories	(77,387)	(7,730,304)
Increase in operating receivables	(17,867,374)	(10,314,517)
Increase in operating payables	19,226,732	20,860,180
Net cash flows from operating activities	27,861,080	24,442,623
Net increase/(decrease) in cash and cash equivalents:		
Cash and cash equivalents at end of year	17,952,282	21,831,653
Less: Cash and cash equivalents at beginning of year	(21,831,653)	(12,513,730)
Net decrease in cash and cash equivalents	(3,879,371)	9,317,923

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

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

(49) Notes to the cash flow statement (Cont'd)

(d) Composition of cash and cash equivalents

	31 December 2018	31 December 2017
Cash on hand	3,803	4,589
Cash at bank that can be readily drawn on demand	10,170,784	18,413,969
Deposits with the Central Bank that can be readily drawn on demand	204,073	305,963
Deposits with banks and other financial institutions that can be readily drawn on demand	7,573,622	3,107,132
Cash and cash equivalents at end of year	17,952,282	21,831,653

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

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

(50) Monetary items denominated in foreign currencies

	31 December 2018		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand			
USD	1,395,190	6.8632	9,575,470
JPY	2,338,433	0.0619	144,749
HKD	260,111	0.8762	227,909
EURO	120,307	7.8473	944,084
BRL	209,297	1.7714	370,748
VND	123,516,667	0.0003	37,055
Other currencies	Not applicable	Not applicable	1,010,028
Sub-total			12,310,043
Notes and accounts receivable			
USD	932,695	6.8632	6,401,272
JPY	24,107,916	0.0619	1,492,280
HKD	16,236	0.8762	14,226
EURO	336,710	7.8473	2,642,265
BRL	524,032	1.7714	928,271
VND	1,148,340,000	0.0003	344,502
Other currencies	Not applicable	Not applicable	1,477,430
Sub-total			13,300,246
Other receivables			
USD	124,888	6.8632	857,132
JPY	2,067,932	0.0619	128,005
HKD	18,648	0.8762	16,339
EURO	74,408	7.8473	583,899
BRL	15,827	1.7714	28,036
Other currencies	Not applicable	Not applicable	156,264
Sub-total			1,769,675
Total			27,379,964

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

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

(50) Monetary items dominated in foreign currency (Cont'd)

	31 December 2018		
	Foreign currency balance	Exchange rate	RMB balance
Short-term borrowings			
USD	22,169	6.8632	152,148
EURO	27,744	7.8473	217,714
BRL	92,000	1.7714	162,969
Other currencies	Not applicable	Not applicable	219,956
Sub-total			752,787
Notes and accounts payable			
USD	300,761	6.8632	2,064,186
JPY	24,045,751	0.0619	1,488,432
HKD	57,062	0.8762	49,998
EURO	213,116	7.8473	1,672,382
BRL	106,504	1.7714	188,662
Other currencies	Not applicable	Not applicable	664,097
Sub-total			6,127,757
Other payables			
USD	21,765	6.8632	149,379
JPY	5,035,719	0.0619	311,711
HKD	153,811	0.8762	134,769
EURO	21,064	7.8473	165,293
Other currencies	Not applicable	Not applicable	70,231
Sub-total			831,383
Current portion of non-current liabilities			
USD	699,039	6.8632	4,797,644
EURO	276,024	7.8473	2,166,041
Other currencies	Not applicable	Not applicable	159,027
Sub-total			7,122,712
Long-term borrowings			
USD	162,918	6.8632	1,118,139
EURO	3,946,464	7.8473	30,969,089
BRL	846	1.7714	1,499
Other currencies	Not applicable	Not applicable	2,712
Sub-total			32,091,439
Total			46,926,078

Monetary items denominated in foreign currencies above present all foreign currencies except RMB.

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

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

(50) Monetary items dominated in foreign currency (Cont'd)

	31 December 2017		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand			
USD	1,601,324	6.5342	10,463,372
JPY	2,292,090	0.0579	132,712
HKD	167,138	0.8359	139,711
EURO	181,609	7.8023	1,416,970
BRL	173,113	1.9755	341,985
VND	329,843,333	0.0003	98,953
Other currencies	Not applicable	Not applicable	789,665
Sub-total			13,383,368
Notes and accounts receivable			
USD	969,755	6.5342	6,336,575
JPY	26,231,623	0.0579	1,518,811
HKD	52,543	0.8359	43,921
EURO	283,715	7.8023	2,213,627
BRL	480,808	1.9755	949,836
VND	1,441,706,667	0.0003	432,512
Other currencies	Not applicable	Not applicable	1,452,927
Sub-total			12,948,209
Other receivables			
USD	48,777	6.5342	318,717
JPY	2,234,111	0.0579	129,355
HKD	723	0.8359	604
EURO	50,804	7.8023	396,390
BRL	44,134	1.9755	87,187
Other currencies	Not applicable	Not applicable	208,022
Sub-total			1,140,275
Total			27,471,852

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

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

(50) Monetary items dominated in foreign currency (Cont'd)

	31 December 2017		
	Foreign currency balance	Exchange rate	RMB balance
Short-term borrowings			
USD	258,328	6.5342	1,687,965
HKD	59,554	0.8359	49,781
EURO	30,233	7.8023	235,885
BRL	135,206	1.9755	267,100
Other currencies	Not applicable	Not applicable	343,371
Sub-total			2,584,102
Notes and accounts payable			
USD	350,735	6.5342	2,291,771
JPY	18,175,112	0.0579	1,052,339
HKD	53,468	0.8359	44,694
EURO	259,337	7.8023	2,023,424
BRL	208,088	1.9755	411,078
Other currencies	Not applicable	Not applicable	1,013,751
Sub-total			6,837,057
Other payables			
USD	54,810	6.5342	358,138
JPY	8,281,744	0.0579	479,513
HKD	96,625	0.8359	80,769
EURO	33,701	7.8023	262,945
Other currencies	Not applicable	Not applicable	51,418
Sub-total			1,232,783
Long-term borrowings			
EURO	4,227,267	7.8023	32,982,403
BRL	933	1.9755	1,843
Other currencies	Not applicable	Not applicable	2,079
Sub-total			32,986,325
Debentures payable			
USD	696,804	6.5342	4,553,054
Total			48,193,321

Monetary items denominated in foreign currencies above present all foreign currencies except RMB.

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

5 Changes of consolidation scope

(1) Business combinations involving enterprises not under common control

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

The Group acquired Miraco International Trading Company, IRT SA Neuchatel Switzerland, Mor-Tech Manufacturing Inc. and Mor-Tech Design Inc. etc., with total consideration of RMB 587,950,000. Such acquisitions do not have significant impact on the financial statement of the Group.

The Group mainly uses valuation techniques such as market method, income method, cost method and royalty savings method to determine the fair value of identifiable net assets obtained from the above acquisitions.

(2) Changes in consolidation scope due to other reasons

(a) Increase of consolidation scope

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

In August 2018, the Company invested an amount of RMB 50,000,000 by cash in the establishment of Shanghai Chemours Electric Co., Ltd.

In October 2018, the Company invested an amount of RMB 190,000,000 by cash in the establishment of Guangdong Welling Automotive Parts Co., Ltd.

(b) Decrease of consolidation scope

Decrease of consolidation scope mainly includes deregistration of subsidiaries. For the twelve months ended 31 December 2018, details are as follows:

Name of company	Disposal method of the equity	Disposal time-point of the equity
Wuhan Midea Material Supplies Co., Ltd.	Deregistration	March 2018
Changzhou Annto Logistics Company Limited	Deregistration	August 2018
Weifang Meian Logistics Company Limited	Deregistration	December 2018
Clivet Aircon Limited	Deregistration	December 2018

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

6 Interests in other entities

(1) Interests in subsidiaries

(a) Composition of significant subsidiaries

Subsidiaries	Major business location	Place of registration	Nature of business	Shareholding (%)		Acquisition method
				Direct	Indirect	
GD Midea Air-Conditioning Equipment Co.,Ltd..	Foshan, PRC	Foshan, PRC	Manufacture and sales of air conditioner	73%	7%	Business combinations involving enterprises not under common control
GD Midea Group Wuhu Air-Conditioning Equipment Co.,Ltd.	Wuhu, PRC	Wuhu, PRC	Manufacture and sales of air conditioner	73%	7%	Business combinations involving enterprises not under common control
Midea Group Wuhan Refrigeration Equipment Co.,Ltd..	Wuhan, PRC	Wuhan, PRC	Manufacture of air conditioner	73%	7%	Establishment
Wuhu Maty Air-Conditioning Equipment Co., Ltd	Wuhu, PRC	Wuhu, PRC	Manufacture of air conditioner	88%	12%	Establishment
GD Midea Heating & Ventilating Equipment Co., Ltd.	Foshan, PRC	Foshan, PRC	Manufacture of air conditioner	90%	10%	Establishment
Zhejiang Meizhi Compressor Co., Ltd.	Ningbo, PRC	Ningbo, PRC	Manufacture of air conditioner	100%	-	Establishment
Hefei Midea Refrigerator Co., Ltd.	Hefei, PRC	Hefei, PRC	Manufacture of refrigerator	75%	25%	Business combinations involving enterprises not under common control
Ningbo Midea United Material Supply Co., Ltd.	Ningbo, PRC	Ningbo, PRC	Manufacture of air conditioner	100%	-	Business combinations involving enterprises under common control
Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.	Foshan, PRC	Foshan, PRC	Manufacture of small household appliances	-	100%	Establishment
Foshan Shunde Midea Electrical Heating Appliances Manufacturing Co., Ltd.	Foshan, PRC	Foshan, PRC	Manufacture of small household appliances	-	100%	Establishment
Wuxi Little Swan Company Limited	Wuxi, PRC	Wuxi, PRC	Manufacture of washing machine	38%	15%	Business combinations involving enterprises not under common control
Midea Electric Trading (Singapore) Co.,Pte. Ltd.	Singapore	Singapore	Export trade	-	100%	Establishment

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

6 Interests in other entities (Cont'd)

(1) Interest in subsidiaries (Cont'd)

(a) Composition of significant subsidiaries (Cont'd)

Subsidiaries	Major business location	Place of registration	Nature of business	Shareholding (%)		Acquisition method
				Direct	Indirect	
Midea Group Finance Co., Ltd.	Foshan, PRC	Foshan, PRC	Financial industry	95%	5%	Establishment
Midea Microfinance Co., Ltd.	Wuhu, PRC	Wuhu, PRC	Petty loan	5%	95%	Business combinations involving enterprises not under common control
Mecca International (BVI) Limited	British Virgin Islands	British Virgin Islands	Investment holding	-	100%	Establishment
Midea International Corporation Company Limited	Hong Kong	Hong Kong	Investment holding	100%	-	Establishment
Midea Investment Development Company Limited	British Virgin Islands	British Virgin Islands	Investment holding	-	100%	Establishment
Wuhu Midea Life Appliances Mfg Co., Ltd.	Wuhu, PRC	Wuhu, PRC	Manufacture of small household appliances	100%	-	Establishment
Midea Electric Netherlands (I) B.V.	Netherlands	Netherlands	Investment holding	-	100%	Establishment
Toshiba Consumer Marketing Corporation	Japan	Japan	Manufacture of home appliances	-	100%	Business combinations involving enterprises not under common control
TLSC	Japan	Japan	Manufacture of home appliances	-	100%	Business combinations involving enterprises not under common control
KUKA	Germany	Germany	Manufacture and sales of robots	-	94.55%	Business combinations involving enterprises not under common control

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

6 Interests in other entities (Cont'd)

(1) Interest in subsidiaries (Cont'd)

(b) Subsidiaries that have significant minority interests

Subsidiaries	Shareholding of minority shareholders	Total profit or loss attributable to minority shareholders for the year ended 31 December 2018	Dividends paid to minority shareholders for the year 2018	Minority interests as at 31 December 2018
Wuxi Little Swan Company Limited	47.33%	880,771	299,335	3,824,250

(2) Composition of enterprise group

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

	31 December 2018						31 December 2017					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Wuxi Little Swan Company Limited	21,693,351	1,868,548	23,561,899	13,762,119	51,218	13,813,337	19,564,974	1,773,447	21,338,421	13,103,359	16,764	13,120,123

	2018				2017			
	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Wuxi Little Swan Company Limited	23,636,929	2,130,995	2,081,814	2,624,893	21,384,699	1,708,420	1,669,074	2,015,754

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

6 Interests in other entities (Cont'd)

(3) Interest in associates

The Group's associates have no significant influence on the Group and are summarised as follows:

	2018	2017
Aggregated carrying amount of investments	2,713,316	2,633,698
Aggregate of the following items in proportion		
Net profit (i)	349,321	310,016
Other comprehensive income (i)	51,924	(36,017)
Total comprehensive income	401,245	273,999

(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 in joint ventures and associates and the unification of accounting policies adopted by the joint ventures and the associates to those adopted by the Company.

7 Segment information

The reportable segments of the Group are the business units that provide different products or service, or operate in the different areas. Different businesses or areas require different technologies and marketing strategies, the Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance.

The Group identified 4 reportable segments as follows:

- Heating & ventilation, as well as air-conditioner
- Consumer appliances
- Robots and automatic system
- Others

Inter-segment transfer prices are measured by reference to selling prices to third parties.

The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

Operating expenses include cost of sales, interest expenses, fee and commission expenses, taxes and surcharges, selling and distribution expenses, general and administrative expenses, research and development expenses, financial income/(expenses) and asset impairment losses.

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

8 Segment reporting

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

Segment information as at and for the year ended 31 December 2018 is as follows:

	Heating & ventilation, as well as air-conditioner segment	Consumer appliances segment	Robots and automatic system segment	Other segmentsand unallocated	Elimination	Total
Revenue from external customers	123,750,494	106,076,743	25,767,137	6,225,261	-	261,819,635
Inter-segment revenue	1,517,400	637,021	70,421	6,496,010	(8,720,852)	-
Operating expenses	(113,945,146)	(95,343,482)	(26,280,261)	(10,969,939)	8,904,458	(237,634,370)
Segment profit	11,322,748	11,370,282	(442,703)	1,751,332	183,606	24,185,265
Other profit or loss						1,587,793
Total profit						25,773,058
Total assets	107,186,255	104,567,409	32,248,141	94,734,450	(75,035,107)	263,701,148
Total liabilities	71,901,268	71,644,039	26,081,586	86,771,167	(85,151,429)	171,246,631
Long-term equity investments in associates	130,668	82,038	111,212	2,389,398	-	2,713,316
Investment income from associates	72,022	(13,897)	(18,003)	309,199	-	349,321
Increase in non-current assets (excluding available-for-sale financial assets, long-term equity investments, goodwill and deferred tax assets)	2,172,033	1,734,086	2,226,302	899,271	-	7,031,692
Asset impairment losses	126,987	166,013	203,390	122,744	(171,270)	447,864
Depreciation and amortisation	1,554,330	1,719,693	1,019,462	523,971	-	4,817,456

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

8 Segment reporting (Cont'd)

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

Segment information as at and for the year ended 31 December 2017 is as follows:

	Heating & ventilation, as well as air-conditioner segment	Consumer appliances segment	Robots and automatic system segment	Other segments and unallocated	Elimination	Total
Revenue from external customers	107,940,343	102,986,131	27,150,059	3,842,363	-	241,918,896
Inter-segment revenue	1,869,629	416,770	31,254	5,340,194	(7,657,847)	-
Operating expenses	(101,012,749)	(94,204,422)	(28,891,893)	(8,204,099)	7,578,571	(224,734,592)
Segment profit	8,797,223	9,198,479	(1,710,580)	978,458	(79,276)	17,184,304
Other profit or loss						4,670,470
Total profit						21,854,774
Total assets	94,875,871	93,312,430	27,285,063	82,745,760	(50,112,266)	248,106,858
Total liabilities	63,251,582	67,792,173	17,308,941	89,409,279	(72,580,288)	165,181,687
Long-term equity investments in associates	289,324	73,785	125,213	2,145,376	-	2,633,698
Investment income from associates	59,498	1,730	(17,649)	266,437	-	310,016
Increase in non-current assets (excluding available-for-sale financial assets, long-term equity investments, goodwill and deferred tax assets)	1,376,838	1,852,293	13,551,833	224,150	-	17,005,114
Asset impairment losses	106,267	2,690	33,293	33,940	92,922	269,112
Depreciation and amortisation	1,580,020	1,859,972	2,832,389	423,496	-	6,695,877

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

8 Segment reporting (Cont'd)

(b) Geographical area information

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

Revenue from external customers	2018	2017
Domestic	151,412,126	137,962,864
In other countries/geographical areas	110,407,509	103,956,032
	261,819,635	241,918,896

Total non-current assets	31 December 2018	31 December 2017
Domestic	22,966,699	22,684,099
In other countries/geographical areas	19,903,114	18,181,111
	42,869,813	40,865,210

9 Related parties and significant related party transactions

(1) Information of the parent company

(a) General information of the parent company

Name of the parent company	Relationship	Place of registration	Nature of business
Midea Holding Co., Ltd.	Controlling shareholder	Shunde District, Foshan	Commercial

The Company's ultimate controlling person is Mr. He Xiangjian.

(b) Registered capital and changes in registered capital of the parent company

	31 December 2018 and 31 December 2017
Midea Holding Co., Ltd.	330,000

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

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

(1) Information of the parent company (Cont'd)

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

	31 December 2018			31 December 2017		
	Shareholding (%)		Voting rights	Shareholding (%)		Voting rights
	Direct	Indirect	(%)	Direct	Indirect	(%)
Midea Holding Co., Ltd.	33.20%	-	33.20%	33.71%	-	33.71%

(2) Information of the Company's subsidiaries

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

(3) Information of other related parties

Name of other related parties	Relationship
Guangdong Wellkey Electrician Material Co., Ltd.	Under the common control of the direct relatives of the Company's ultimate controlling shareholders
Anhui Wellkey Electrician Material Co., Ltd.	Under the common control of the direct relatives of the Company's ultimate controlling shareholders
Orinko New Material Co., Ltd	Under the common control of the direct relatives of the Company's ultimate controlling shareholders
Foshan Micro Midea Filter MFG Co., Ltd.	Associates of the Company
Foshan Shunde Rural Commercial Bank Co., Ltd.	Associates of the Company

(4) Information of related party transactions

The following related party transactions are conducted in accordance with normal commercial terms or relevant agreements.

(a) Purchase of goods:

Related parties	Content of related party transactions	Pricing policies of related party transactions	2018	2017
Guangdong Wellkey Electrician Material Co., Ltd.	Purchase of goods	Agreed price	813,655	864,886
Foshan Micro Midea Filter MFG Co., Ltd.	Purchase of goods	Agreed price	227,593	198,499
Anhui Wellkey Electrician Material Co., Ltd.	Purchase of goods	Agreed price	316,102	290,512
Orinko New Material Co., Ltd	Purchase of goods	Agreed price	332,991	463,245
			1,690,341	1,817,142

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

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

(4) Information of related party transactions (Cont'd)

(b) Remuneration of key management

	31 December 2018	31 December 2017
Remuneration of key management	41,590	41,330

(5) Receivables from and payables to related parties

Receivables from related parties:

Items	Related parties	31 December 2018	31 December 2017
Cash at bank and on hand	Foshan Shunde Rural Commercial Bank Co., Ltd.	88,084	459,297

Payables to related parties:

Items	Related parties	31 December 2018	31 December 2017
Notes and accounts payable	Guangdong Wellkey Electrician Material Co., Ltd.	169,592	195,860
	Anhui Wellkey Electrician Material Co., Ltd.	60,885	73,897
	Foshan Micro Midea Filter MFG Co., Ltd.	59,011	27,554
	Orinko New Material Co., Ltd	25,321	16,152
		314,809	313,463

10 Share-based payment

(1) Share option incentive plan

(a) Pursuant to the fifth share option incentive plan (the “Fifth Share Option Incentive Plan”) approved at the shareholders' meeting for the year ended 31 December 2017 held during the year 2018, the Company granted 54,420,000 share options with exercise price of RMB 56.34 to 1328 employees. Under the circumstance that the Company meets expected performance, 1/4 of the total share options granted will become effective after 2 years, 3 years, 4 years and 5 years respectively since 7 May 2018.

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

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

The fair value of the Fifth Share Option Incentive Plan calculated pursuant to the above parameters is: RMB 667,756,000.

(b) Movements in share options during the year

	2018 (share options in thousands)	2017 (share options in thousands)
Share options issued at beginning of year	253,541	250,797
Share options granted during the year	54,420	98,274
Share options exercised during the year	(77,724)	(79,156)
Share options lapsed during the year	(401)	(16,374)
Share options issued at end of year	229,836	253,541

As at 31 December 2018, the maturity date of the First Share 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 27 June 2021. The residual contractual maturity date of the Fourth Share Option Incentive Plan is on 11 May 2021. The residual contractual maturity date of the Fifth Share Option Incentive Plan is on 6 May 2024.

10 Share-based payment (Cont'd)

(1) Share option incentive plan (Cont'd)

(c) Impact of share option transactions on financial position and financial performance

The total share option expenses recognised for the year ended 31 December 2018 were RMB 586,934,000 (2017: RMB 677,565,000). As at 31 December 2018, the balance relating to the option incentive plan and accrued from capital surplus was RMB 845,670,000 (31 December 2017: RMB 800,424,000).

(2) Restricted share plan

(a) Pursuant to the restricted share incentive plan for 2018 approved at the shareholders' meeting held during the year 2018 (the "Restricted Share Incentive Plan for 2018"), the Company granted 20,570,000 restricted shares with an exercise price of RMB 27.57 to 319 employees. Under the circumstance that the Company meets expected performance, one fourth of the total share options granted will become effective after 2 years, 3 years, 4 years and 5 years, respectively, since 7 May 2018.

(b) Movements in restricted shares during the year

	2018 (shares in thousands)	2017 (shares in thousands)
Restricted shares issued at beginning of year	28,605	-
Restricted shares granted during the year	20,570	28,605
Restricted shares exercised during the year	(7,198)	-
Restricted shares lapsed during the year	(1,792)	-
Restricted shares issued at end of year	40,185	28,605

(c) Impact of restricted share plan on financial position and financial performance

The total restricted share expenses recognised for the year ended 31 December 2018 were RMB 355,819,000 (2017: RMB 164,001,000). As at 31 December 2018, the balance relating to the restricted share plan and accrued from capital surplus was RMB 453,985,000 (31 December 2017: RMB 142,819,000).

10 Share-based payment (Cont'd)

(3) Employee stock ownership plan

Pursuant to the fourth stock ownership plan of the Midea Global Partner Plan (the "Fourth Global Partner Plan") approved at the shareholders' meeting for the year ended 31 December 2017 held during the year 2018, the Company entrusted China International Capital Corporation Limited ("CICC") to provide an asset management plan. The Company would purchase a total of 3,319,000 shares of Midea Group from the secondary market, with an average purchase price of RMB 54.98 per share and the purchase fund is the special fund of RMB 182,500,000 accrued by the Company. The lock-up period of shares under this plan is from 16 May 2018 to 15 May 2019.

Pursuant to the first stock ownership plan of the Midea Business Partner Plan (the "First Business Partner Plan") approved at the shareholders' meeting for the year ended 31 December 2017 held during the year 2018, the Company entrusted CICC to provide an asset management plan. The Company would purchase a total of 1,779,000 shares of Midea Group from the secondary market, with an average purchase price of RMB 54.98 per share. The purchase fund was the special fund and part of performance bonus for management of RMB 97,850,000 in total accrued by the Company. The lock-up period of shares under this plan is from 16 May 2018 to 15 May 2019.

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

11 Contingencies

As at 31 December 2018, the amount in tax disputes involving Brazilian subsidiary with 51% interests held by the Company is about BRL 669 million (equivalent to RMB 1,186 million) (Some cases have lasted for more than 10 years. The above amount includes the principal and interest). As at 31 December 2018, relevant cases are still at court. Original shareholders of Brazilian subsidiary have agreed to compensate the Company according to verdict results of the above tax disputes. The maximum compensation amount is about BRL 157 million (equivalent to RMB 278 million). With reference to judgements of third-party attorneys, management believes that the probability of losing lawsuits and making compensation is small, and expects no significant risk of debt default, therefore, no provisions are made and appropriate disclosures are made in the financial statements.

12 Commitments

(1) Capital commitments

Capital expenditures contracted for by the Group but are not yet necessary to be recognised on the balance sheet as at the balance sheet date are as follows:

	31 December 2018	31 December 2017
Buildings, machinery and equipment	639,689	735,928

(2) Operating lease commitments

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

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

13 Events after the balance sheet date

(1) Significant non-adjusting events

Pursuant to the *Proposal on the plan for Midea Group Co.,Ltd. To issue a-share share for share exchange and incorporate Wuxi Little Swan Company Limited* and other relevant proposals approved at the 2nd meeting by the 3rd Board of Directors of the Company dated on 23 October 2018, the Company intends to merge Little Swan Company through A-shares issuance and swap. The merger do not constitute a significant asset restructuring event of the Company, and was approved at the shareholders' meeting of the Company and Little Swan Company on 21 December 2018 and unconditionally reviewed and approved by the China Securities Regulatory Commission on 20 February 2019. On 12 March 2019, the Company received the approval document promulgated by the China Securities Regulatory Commission.

(2) Overview of profit distribution

On 18 April 2019, on the basis of the total existing 6,585,838,349 shares of the Company, the Board of Directors proposed a distribution of cash dividends of approximately RMB 8,561,589,854 at RMB 13 every 10 shares (including tax). Such proposal is pending for approval at the shareholders' meeting. The distribution of cash dividends proposed after the balance sheet date is not recognised as liabilities at the balance sheet date.

14 Finance leases

The future leases payable of fixed assets held under finance leases are as follows:

	31 December 2018	31 December 2017
Within 1 year	159,254	135,972
Over 1 year	92,896	250,493
	252,150	386,465

As at 31 December 2018, the unrecognised financing charge amounted to RMB 6,739,000 (31 December 2017: RMB 10,459,000).

15 Financial risk

The Group is exposed to various financial risks in the ordinary course of business, mainly including:

- Market risk (mainly including foreign exchange risk, interest rate risk and price 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 mainly operates in Mainland China, Europe, America, Asia, Brazil and Africa for the manufacturing, sales, investments and financing activities. Any foreign currency denominated monetary assets and liabilities other than in RMB would subject the Group to foreign exchange exposure.

The Group's finance department at its headquarters has a professional team to manage foreign exchange risk, with approach of the natural hedge for settling currencies, signing forward foreign exchange hedging contracts and controlling the scale of foreign currency assets and liabilities, to minimise foreign exchange risk, and to reduce the impact of exchange rate fluctuations on business performance.

(b) Interest rate risk

The Group's interest rate risk arises from interest bearing borrowings including long-term borrowings and debentures payable. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2018, the Group had no long-term interest bearing borrowings at floating rates (31 December 2017: nil) (Note 4(25)).

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial performance. 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.

15 Financial risk (Cont'd)

(1) Market risk (Cont'd)

(c) Other price risk

The Group's other price risk arises mainly from available-for-sale financial assets at fair value (Note 4(8)). As at 31 December 2018, if expected price of the investments held by the Group fluctuates, the Group's other comprehensive income will be affected accordingly.

(2) Credit risk

Credit risk is managed on the grouping basis. Credit risk mainly arises from cash at bank, deposits with the Central Bank, deposits with banks and other financial institutions, notes and accounts 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 the 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 and accounts 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.

As at 31 December 2018, the Group has no significant collateral or other credit enhancements held as a result of the debtor's mortgage.

(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. As at the balance sheet date, monetary assets held by the Group, including cash at bank and on hand, notes assets, discounted assets and wealth management funds in other current assets and available-for-sale financial assets, amounted to RMB 118,253,788,000.

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

15 Financial risk (Cont'd)

(3) Liquidity risk (Cont'd)

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

	31 December 2018				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Short-term borrowings (including interest)	897,699	-	-	-	897,699
Borrowings from the Central Bank (including interest)	100,260	-	-	-	100,260
Customer deposits and deposits from banks and other financial institutions	44,386	-	-	-	44,386
Notes and accounts payable	60,226,741	-	-	-	60,226,741
Other payables	3,346,129	-	-	-	3,346,129
Derivative financial liabilities	756,299	-	-	-	756,299
Others	11,736,343	-	-	-	11,736,343
Current portion of non-current liabilities (including interest)	6,967,940	-	-	-	6,967,940
Long-term borrowings (including interest)	390,253	1,609,425	31,453,442	-	33,453,120
Other non-current liabilities	-	190,496	159,844	666,012	1,016,352
	84,466,050	1,799,921	31,613,286	666,012	118,545,269

	31 December 2017				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Short-term borrowings (including interest)	2,602,067	-	-	-	2,602,067
Customer deposits and deposits from banks and other financial institutions	108,926	-	-	-	108,926
Notes and accounts payable	60,352,562	-	-	-	60,352,562
Other payables	3,360,523	-	-	-	3,360,523
Derivative financial liabilities	90,432	-	-	-	90,432
Others	9,017,975	-	-	-	9,017,975
Debentures payable (including interest)	108,631	4,682,571	-	-	4,791,202
Long-term borrowings (including interest)	306,723	2,415,508	31,643,935	2,087	34,368,253
Other non-current liabilities	-	189,404	138,643	666,012	994,059
	75,947,839	7,287,483	31,782,578	668,099	115,685,999

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

16 Fair value estimates

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

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

As at 31 December 2018, the assets and liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss -				
Derivative financial assets	-	220,197	-	220,197
Other current assets – hedging instruments	-	38,822	-	38,822
Available-for-sale financial assets -				
Other current assets – wealth management products	-	-	1,521,007	1,521,007
Available-for-sale financial assets	1,122,609	-	62,250	1,184,859
Total assets	1,122,609	259,019	1,583,257	2,964,885
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	756,299	-	756,299
Other financial liabilities – hedging instruments	-	146,496	-	146,496
Total liabilities	-	902,795	-	902,795

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

16 Fair value estimates (Cont'd)

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

As at 31 December 2017, the assets and liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss -				
Derivative financial assets	-	353,327	-	353,327
Other current assets – hedging instruments	-	360,858	-	360,858
Available-for-sale financial assets -				
Other current assets – wealth management products	-	-	22,094,715	22,094,715
Available-for-sale financial assets	38,460	-	80,251	118,711
Total assets	38,460	714,185	22,174,966	22,927,611
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	90,432	-	90,432
Other financial liabilities – hedging instruments	-	1,877	-	1,877
Total liabilities	-	92,309	-	92,309

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

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

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

The changes in Level 3 financial assets are analysed below:

	Available-for-sale financial assets
1 January 2018	22,174,966
Increase	1,576,579
Decrease	(22,660,142)
Total gains of current period	
Investment income recognised in the income statement	519,042
Gains recognised in other comprehensive income	(27,188)
31 December 2018	1,583,257

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

16 Fair value estimates (Cont'd)

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

	Available-for-sale financial assets
1 January 2017	30,109,067
Increase	26,513,177
Decrease	(35,571,427)
Total gains of current period	
Investment income recognised in the income statement	975,534
Gains recognised in other comprehensive income	148,615
31 December 2017	22,174,966

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

	Fair value as at 31 December 2018	Valuation technique	Inputs: Name	Inputs: Range	Inputs: Relationship with fair value	Inputs: Observable/ Unobservable
Available-for-sale financial assets						
Other current assets	1,521,007	Discounted cash flows	Estimated annual yield	4.05%~4.95%	Positive	Unobservable
Available-for-sale financial assets(a)	62,250					
Total	1,583,257					

	Fair value as at 31 December 2017	Valuation technique	Inputs: Name	Inputs: Range	Inputs: Relationship with fair value	Inputs: Observable/ Unobservable
Available-for-sale financial assets						
Other current assets	22,094,715	Discounted cash flows	Estimated annual yield	2.2%~7.2%	Positive	Unobservable
Available-for-sale financial assets(a)	80,251					
Total	22,174,966					

(a) The Fair value of this part of available-for-sale financial assets is measured using discounted cash flows approach. The judgement of Level 3 of the fair value hierarchy is based on the materiality of unobservable inputs towards calculation of whole fair value. Significant unobservable inputs mainly include the financial data of targeted company and risk adjusted discount rates.

Assets and liabilities subject to the Level 2 fair value measurement are mainly forward exchange contracts and are evaluated by income approach.

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

16 Fair value estimates (Cont'd)

(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 the Central Bank, deposits with banks and other financial institutions, notes and accounts receivable, loans and advances, other receivables, other current assets (excluding those mentioned in Note 16(1)), notes and accounts payable, short-term borrowings, borrowings from the Central Bank, long-term borrowings, current portion of non-current liabilities, customer deposits and deposits from banks and other financial institutions, other payables and other current liabilities, etc.

Carrying amounts of the Group's financial assets and financial liabilities as at 31 December 2018 and 31 December 2017 approximated to their fair value.

17 Capital management

The Group's capital management policies aim to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce debts.

The Group is not subject to external mandatory capital requirements, and monitors capital structure on the basis of gearing ratio (total assets divide total liabilities).

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

	31 December 2018	31 December 2017
Total liabilities	171,246,631	165,181,687
Total assets	263,701,148	248,106,858
Gearing ratio	64.94%	66.58%

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

18 Notes to the parent company's financial statements

(1) Other receivables

	31 December 2018	31 December 2017
Other receivables	11,171,833	8,404,353
Interests receivable	117,138	85,059
Dividends receivable	310,889	897,040
	11,599,860	9,386,452
Less: Provision for bad debts	(6,840)	(789)
	11,593,020	9,385,663

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

	31 December 2018	31 December 2017
Within 1 year	11,146,053	5,150,753
1 to 2 years	21,110	3,253,600
2 to 3 years	4,670	-
	11,171,833	8,404,353
Less: Provision for bad debts	(6,840)	(789)
	11,164,993	8,403,564

As at 31 December 2018, the ageing of the Company's dividends receivable was within one year.

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

	31 December 2018				31 December 2017			
	Carrying amount		Provision for bad debts		Carrying amount		Provision for bad debts	
	Amount	% of total balance	Amount	Ratio	Amount	% of total balance	Amount	Ratio
Provision for bad debts on the individual basis	11,042,465	98.84%	-	-	8,392,449	99.86%	-	-
Provision for bad debts on the grouping basis	129,368	1.16%	6,840	5.29%	11,904	0.14%	789	6.63%
	11,171,833	100.00%	6,840	0.06%	8,404,353	100.00%	789	0.01%

(c) Other receivables that the related provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

	31 December 2018			31 December 2017		
	Carrying amount	Provision for bad debts		Carrying amount	Provision for bad debts	
	Amount	Amount	Ratio	Amount	Amount	Ratio
Within 1 year	126,405	6,319	5.00%	8,020	401	5.00%
1 to 2 years	1,840	184	10.00%	3,884	388	10.00%
2 to 3 years	1,123	337	30.00%	-	-	-
	129,368	6,840	5.29%	11,904	789	6.63%

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

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

(1) Other receivables (Cont'd)

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

	Nature	Balance	Ageing	% of total balance	Provision for bad debts
Company A	Current accounts	5,741,389	Within 1 year	51.39%	-
Company B	Current accounts	3,700,000	Within 1 year	33.12%	-
Company C	Current accounts	462,515	Within 1 year	4.14%	-
Company D	Current accounts	230,000	Within 1 year	2.06%	-
Company E	Current accounts	230,000	Within 1 year	2.06%	-
		10,363,904		92.77%	-

(2) Long-term equity investments

Long-term equity investments are classified as follows:

	31 December 2018	31 December 2017
Subsidiaries (a)	26,586,165	23,099,672
Associates (b)	1,650,130	1,440,929
	28,236,295	24,540,601
Less: Provision for impairment	-	-
	28,236,295	24,540,601

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

18 Notes to the Company's financial statements (Cont'd)

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

(a) Subsidiary

	31 December 2017	Movements in the current year: Increase in investment	Movements in stock option	Decrease in investment	Provision for impairment	Others	31 December 2018	Provision for impairment loss Ending balance	Cash dividends declared in the current year
Midea Group Finance Co., Ltd.	1,442,479	1,900,000	11,530	-	-	-	3,354,009	-	-
Foshan Shunde Midea Household Appliances Industry Co.,Ltd.	2,949,000	-	-	-	-	-	2,949,000	-	-
Wuxi Little Swan Company Limited	2,754,240	-	68,331	-	-	-	2,822,571	-	238,948
Guangdong Midea Microwave Oven Manufacturing Co., Ltd.	1,880,041	-	-	-	-	-	1,880,041	-	1,049,906
GD Midea Air-Conditioning Equipment Co.,Ltd.	1,180,664	-	255,842	-	-	-	1,436,506	-	434,758
Guangdong Midea Consumer Electric Manufacturing Co., Ltd.	1,034,420	-	39,028	-	-	-	1,073,448	-	-
Hefei Midea Heating & Ventilation Equipment Co., Ltd.	1,058,887	-	7,054	-	-	-	1,065,941	-	1,016,699
Hubei Midea Refrigerator Co., Ltd.	839,749	-	4,179	-	-	-	843,928	-	389,495
Anhui Meizhi Precision Manufacturing Co., Ltd.	817,266	-	4,650	-	-	-	821,916	-	475,564
Wuhu Maty Air-Conditioning Equipment Co., Ltd.	745,841	-	7,384	-	-	-	753,225	-	1,130,461
GD Midea Heating & Ventilating Equipment Co., Ltd.	402,829	180,000	62,735	-	-	-	645,564	-	802,445
Hefei Midea Refrigerator Co., Ltd.	484,312	-	15,935	-	-	-	500,247	-	-
Ningbo Midea United Material Supply Co., Ltd.	486,738	-	4,612	-	-	-	491,350	-	596,686
GD Midea Group Wuhu Air-Conditioning Equipment Co.,Ltd.	352,041	-	-	-	-	-	352,041	-	-
Midea International Corporation Company Limited	176,974	-	-	-	-	-	176,974	-	-
Midea Group Wuhan Refrigeration Equipment Co.,Ltd.	89,275	-	8,327	-	-	-	97,602	-	222,260
Zhejiang Meizhi Compressor Co., Ltd.	56,302	-	6,728	-	-	-	63,030	-	455,445
Wuhu Midea Life Appliances Mfg Co., Ltd.	56,223	-	-	-	-	-	56,223	-	41,325
Midea Microfinance Co., Ltd.	55,381	-	213	-	-	-	55,594	-	-
Others	6,237,010	688,967	301,523	(80,545)	-	-	7,146,955	-	2,314,307
	23,099,672	2,768,967	798,071	(80,545)	-	-	26,586,165	-	9,168,299

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

18 Notes to the Company's financial statements (Cont'd)

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

(b) Associates

Investments in associates are mainly the investments in Foshan Shunde Rural Commercial Bank Co., Ltd. and Hefei Royalstar Motor Co., Ltd. and other companies.

(3) Revenue

Revenue mainly comprises other operating income including the brand royalty income, rental income and management fee income, etc. obtained by the Company from the subsidiaries.

(4) Investment income

	2018	2017
Income from long-term equity investment under cost method	9,168,299	9,022,867
Investment income from wealth management products purchased from financial institutions	388,942	980,845
Investment income from long-term equity investment under equity method	239,418	209,908
Others	(76,565)	783
	9,720,094	10,214,403

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

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

1 Details of non-recurring profit or loss

	2018	2017
Disposal gains of non-current assets	222,204	1,363,041
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	(842,408)	77,484
Others (mainly including government grants, compensation income, penalty income and other non-operating income and expenses)	1,091,473	1,094,058
	471,269	2,534,583
Less: Effect of income tax	(207,870)	(702,139)
Effect of minority interests (after tax)	(90,775)	(162,858)
	172,624	1,669,586

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

Under the requirements in the *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.

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

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:

	Weighted average Return on net assets (%)		Earnings per share (in RMB Yuan)			
			Basic earnings per share		Diluted earnings per share	
	2018	2017	2018	2017	2018	2017
Net profit attributable to shareholders of the Company	25.66%	25.88%	3.08	2.66	3.05	2.63
Net profit attributable to shareholders of the Company net of non-recurring profit or loss	25.44%	23.38%	3.05	2.41	3.03	2.38

Section XI Documents Available for Reference

1. The original of *The 2018 Annual Report of Midea Group Co., Ltd.* signed by the legal representative;

2. The financial statements signed and stamped by the legal representative, the Chief Financial Officer and the accounting supervisor;

3. The original of the auditor's report with the seal of the accounting firm, and signed and stamped by CPAs;

4. The originals of all company documents and announcements that are disclosed to the public via newspaper designated for information disclosure during the Reporting Period; and

5. The electronic version of *The 2018 Annual Report* that is released on http://www.cninfo.com.cn.

Midea Group Co., Ltd.

Legal Representative: Fang Hongbo

20 April 2019