Midea Group Co., Ltd.

Semi-Annual Report 2018

August 2018

Section I Important Statements, Contents and Definitions

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

All directors of the Company attended the Board meeting to review this report.

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

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

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

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

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

Contents

Definitions

Term	Definition
The “Company”, “Midea”, “Midea Group” or the “Group”	Midea Group Co., Ltd.
Midea Holding	Midea Holding Co., Ltd.
Little Swan	Wuxi Little Swan Company Limited
Toshiba	Toshiba Corporation
TLSC	Toshiba Lifestyle Products & Services Corporation
KUKA	KUKA Aktiengesellschaft
Reporting Period	1 January 2018 to 30 June 2018

Section II Company Profile and Key Financial Results

1. Corporate Information

Stock abbreviation	Midea Group	Stock code	000333
Stock exchange where the shares of the Company are listed	Shenzhen Stock Exchange		
Name of the Company in Chinese	美的集团股份有限公司		
Abbr. of the Company name in Chinese	美的集团		
Name of the Company in English (if any)	Midea Group Co., Ltd.		
Abbr. of the Company name in English (if any)	Midea Group		
Legal representative	Fang Hongbo		

2. Contact Us

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

3. Other Information

3.1 Ways to Contact the Company

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

□ Applicable √ N/A

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

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

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

□ Applicable √ N/A

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

3.3 Other Information

Changes to other information in the Reporting Period:

□ Applicable √ N/A

4. Key Accounting Data and Financial Indicators

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

□ Yes √ No

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

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

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

Total share capital of the Company on the last trading session before disclosure (share)	6,603,643,690
Fully diluted earnings per share based on the latest share capital above (RMB/share)	1.96

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

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

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

□ Applicable √ N/A

No such differences for the Reporting Period.

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

□ Applicable √ N/A

No such differences for the Reporting Period.

5.3 Reasons for the differences

□ Applicable √ N/A

6. Non-recurring Profits and Losses

RMB'000

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

Except for effectively hedging business related to normal business operations of the Company, profit or loss arising from the change in the fair value of held-for-trading financial assets and liabilities, as well as investment profit or loss produced from the disposal of held-for-trading financial assets and liabilities and available-for-sale financial assets	-521,715	
Other	1,065,178	
Less: Corporate income tax	253,535	
Minority interests (after tax)	120,230	
Total	436,593	--

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

□ Applicable √ N/A

No such cases for the Reporting Period.

Section III Business Profile

1. Business Scope in the Reporting Period

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

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

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

Midea ranks No. 323 on the *2018 Fortune Global 500* list, a big step forward compared to No. 450 in 2017, and ranks No. 32 on the *2018 Fortune China 500* list, the highest-ranking among home appliance industry in the country. On the *Forbes 2018 Global 2000* list, Midea ranks No. 245, outrunning a significant number of 90 compared to last year. In addition, Midea ranks No. 26 on the *2018 BrandZ™ Top 100 Most Valuable Chinese Brands* list, topping the domestic home appliance brands with its brand value up 40%. Also, Midea takes the lead among domestic home appliance makers by ranking No. 244 and No. 41 respectively on the *Top 500 Most Valuable Brands* list and the *Top 100 Most Valuable Tech Brands* list released by Brand Finance, a British brand assessment institution. Meanwhile, on the second "China Brand Day", Midea is among the *Most Popular Chinese Brands* list announced by *People's Daily*.

2. Significant Changes in the Main Assets

2.1 Significant changes in the main assets

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

2.2 Main assets overseas

□ Applicable √ N/A

3. Core Competitiveness Analysis

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

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

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

The Group is focused on building a competitive, multi-layered global R&D system centering on user experience and product functions, which represents world-class R&D input and strength. With more than RMB20 billion invested in R&D over the past five years, the Group has set up a total of 20 research centers in nine countries including China, with its R&D employees over 10,000 and senior foreign experts over 500. While establishing its own research centers around the world, the Group has also signed technical cooperation agreements with domestic and foreign scientific research institutions, such as MIT, UC Berkeley, UIUC, Stanford, Purdue University, Tsinghua University and the Chinese Academy of Sciences, in order to establish joint labs and build a global innovation ecosystem. The Group's long-term focus on building technology, marketing, product and open innovation systems, building a cutting-edge research system and building reserves in technology for mid/long term, has provided a solid foundation for the Group to maintain technical superiority across the globe.

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

The success of a series of global acquisitions and new business expansion moves has further solidified Midea's global operations and leading advantages in robotics and automation. With the world's leading production capacity and experience, and a wide variety of products as well as its production bases all over the world, the Group has been able to expand rapidly into the emerging overseas markets and is becoming a stronger competitor in those mature overseas markets. The Group is one of the biggest manufacturers in the world for many product categories, which gives it competitive edges in efficiency improving and cost reducing that its overseas competitors are unable to achieve. Overseas sales of the Group's accounts for close to 50% of the total sales revenue. Its products have been exported to over 200 countries and it owns 15 overseas manufacturing bases and dozens of overseas operating agencies. In addition, with a deep knowledge and understanding on product characteristics and product demands in overseas market, Midea is promoting world-wild branding and expanding through global collaboration and cooperation. In this way, the global competitiveness of Midea is increasing steadily.

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

By virtue of years of development and investments, Midea Group has formed an all-dimensional market coverage. In the mature first and second-tier markets, the Company has developed and maintained good partnerships with large home appliance retail chains. While in the broad third and fourth-tier markets, the Company uses flagship stores, specialty shops, traditional channels and new channels as effective supplements. Currently, the Company has already covered the markets at all tiers. Additionally, the Company's dominance in branding, products, offline channels and logistics distribution have also created powerful guarantees for the Company's rapid expansion of its e-commerce business and channels. Achieving the highest online sales among China’s household appliance manufacturers, Midea’s online sales exceeded RMB25 billion in the first half of 2018, up 33% year-on-year. Market share of the Company exceeds 20% and the ratio is growing steadily, in addition to maintaining the highest sales on China’s mainstream e-commerce platforms such as JD.com, Tmall and Suning.com in various home appliance categories.

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

3.5 A solid foundation for digitalization-driven Industrial Internet operations

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

Upon years of a digitalized reform characterized by “One Midea, One System, One Standard”, Midea has successfully materialized operations driven by software and data through its value chain, connecting end to end and covering R&D, PO, scheduling, flexible manufacturing, procurement, follow-up of product quality, logistics, installation & post-sale services, etc. The Group’s cloud platform has made come true

C2M flexible manufacturing, platform-based, modularized and digitalized production techniques and simulation, intelligent logistics, digital marketing, digital customer service, etc. In addition to applying these cloud platform solutions to its manufacturing bases across the world and tens of thousands of its products, the Group also markets these solutions to other companies and sectors. Therefore, it is safe to say that Midea has built a solid foundation regarding industrial internet systems.

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

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

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

Section IV Performance Discussion and Analysis

1. Overview

1.1 Industry Overview

A. Home Appliance Industry

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

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

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

In the first half of 2018, the retail sales in the laundry appliance market was 19.6 million units, generating RMB34.9 billion, and the growth year on year was 4% and 11.8% respectively. Analyzing from the type of products, the volume and revenue growth of retail sales of top-loading washing machines was 0.6% and 2.8% year on year respectively. Meanwhile, the volume and revenue growth of retail sales of front-loading washing machines was 13.5% and 18.3% year on year respectively. There was an evident upgrading trend in the laundry appliance industry. Front-loading products, high-capacity products, health products and smart products have already become the main trend of market development. In the first 6 months, the share of the retail sales volume of front-loading products reached nearly 50%, in which the washer-dryer combo machine was 15.8%, pushing front-loading washer production forward.

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

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

In 2017, the share of online sales of major appliances reached 30.4% in all channels. In the first half of 2018, the online sales of home appliances reached RMB140.9 billion, increasing 32.8% year on year. The online market maintained a high-speed growth, playing an important role in the steady market growth in the first six months. Meanwhile, along with the exploration and development of new retail and the O2O model, offline experience is increasingly important. More interactive, scenario-based marketing are seen, and companies are paying more attention to improving user loyalty and experience. In this whole new market, chain business giants in this industry are actively exploring online and offline collaboration, and building smart retail models. Through integrating advantageous resources both online and offline, giants are seeking to break the bottleneck of the downturn in market demand.

B. Robotics Industry

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

1.2 Analysis of the Company's Main Business

In the first half of 2018, guided by the three core strategies of "Leading Products, Operational Efficiency and Global Operations" in a complicated political and economic environment at home and abroad, Midea focused on improving products, promoting lean management and high-performance operations in the value chain, continuously optimizing its product mix according to the consumption upgrade trends, and constructing sustainable competitiveness for the future through internal growth. As a result, the business objectives set for H1 2018 were successfully fulfilled, with higher profitability, further improving indicators such as self-owned capital and channel inventories, better product quality and reputation, as well as strengthened competitiveness in various product categories and global operation synergies. For H1 2018, Midea achieved, on a consolidated basis, total revenue of RMB143.7 billion, up 15.02% YoY; and net profits attributable to Midea Group shareholders of RMB12.9 billion, up 19.66% year-on-year.

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

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

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

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

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

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

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

——**Laundry Appliances**: Little Swan under Midea has launched an ironing-free clothes dryer, which is of trans-era significance. To solve the pain points of the industry and consumers, this product is the first to provide a 15-minute ironing-free steaming function, and a 20-minute fast drying function. This healthy clothes-drying experience featuring “instant drying” has further strengthened the top position of Little Swan in the clothes-drying market. Little Swan has also introduced the Water Magic Cube Washing Machine, which is also of trans-era significance. This product is the first to adopt the “black technology” of cold wash, which can effectively solve the problems caused by traditional hot wash, such as fading colour and deformation, providing unprecedented top-quality experience of color and shape protection, as well as time and power saving. This product has passed the Germany VDE certification, which is considered the Nobel Prize in the electrical appliance sector, representing an icon in innovation in the laundry industry. The basic technology research and application of Midea Top-Loading Washing Machines, as well as the innovation and application of the intelligent sensing technology in washing machines have respectively won the second and third prizes of National Scientific and Technological Progress Awards, with more than 100 domestic and foreign patents applied for these core technologies.

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

——**Small Household Appliances**: Thanks to continuous technological innovations, Midea's small household appliances have won various authoritative awards at home and abroad for consecutive years, manifesting the international first-class product competitiveness of Midea. As a leading brand in China's rice cooker industry, Midea's rice cookers, which won two 2018 AWE Awards respectively in innovation and product, possess several leading technologies in the industry. With the multi-section IH technology, the pressure and smart control technologies, and the inner tank technology, rice are perfectly cooked. Midea's innovative FUN Smart Oven has a built-in HD camera with the image recognition algorithm adopted that can automatically recognize 60 kinds of different food materials under 8 major categories, as well as with a 5-inch HD TFT touch screen and a 1080P HD camera that can be controlled through an App on the mobile phone and help post real-time videos and open up an oven-based social circle. Midea Variable Frequency Microwave Oven adopts the multi-level pulse-by-pulse and current limiting technology, the low power control technology, and the smart turn-on protection technology to increase the heating speed and sustain the nutritional ingredients. This product also has intelligent diagnosis and systematic health management capacity. Midea Radiator adopts double-side heating through black crystals to elevate the temperature faster, and its function of avoiding water-splashing in all directions can provide a more comfortable bathing environment. Besides, it has a double-side clothes-drying shelf attached, satisfying the user’s needs anytime. Midea’s innovative Air Purifier adopts a centrifugal fan with double gravitational forces to increase the pressure and let the air in. By adding a two-fold integrated strainer plus a five-layer specialized strainer, multiple air pollutants including formaldehyde, smog and second-hand smoke can be effectively purified, achieving double air purification effects. Midea Built-in Dishwasher is the only product in this field with an AWE Award. With the global pioneering hot-air drying technology carrying nine patents, this product dries the dish effectively while removing the steam and mould to keep the dish clean and fresh for 72 hours. Midea Installation-Free Dishwasher not only has a pioneering function of sterilizing under 75 degrees Celsius and a voice broadcast system, but also has specific washing procedures for baby’s products like baby bottles and toys, in order to protect baby’s health. The Variable Power Storage Electric Water Heater in the Beverly “Future” Series launched by Midea’s Water Heater Division, by disrupting the principle of heating and heat storage and release, has made a new breakthrough in the structure and shape of water heaters. Its size is reduced by 55% and the wall hanging burden is reduced by 30kg, so it is suitable for more places. This product has won the AWE Innovation Award. Toshiba Wireless Cleaner, equipped with a high power motor with a maximum gyration rate of 0.12 million times per minute and a “high-capacity lithium battery” with the maximum running time of 60 minutes, has won the “2017 IAUD Award” and the “iF Product Design Award”.

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

Midea continued to invest in R&D, made innovations with respect to mechanism, developed more advanced products through both premium quality and differentiated technologies, built a value chain system featuring driving growth with product development based on the CDOC approach, and developed standard work flows to launch best-selling products to the market. In addition, it continued to improve its global R&D centre network by deepening its technological research and localized development and strengthening in-depth cooperation with top R&D institutions at home and abroad, aiming to build a global innovation ecosystem.

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

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

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

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

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

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

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

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

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

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

Based on consumers' real needs, a digital planning platform has been established, in which way, all data from the value chain throughout the process will be collected and analyzed by means of the big data platform. The product concept database is also built to complete the analysis of the product life cycle data and accordingly support the product digitalization planning; in terms of the product development, Midea propelled the product design of parameterization, standardization, modularization and platformization, and by implementing the super BOM, sales stimulated and determined the platform architecture, the module division, and the solidification and optimization of the modular interface; the digital process management system would be established to realize the electronization and structuralization of the process management data, improving efficiency by over 40%.

With the C2M system, the customers can directly customize their products on the selection and matching platform, which means that Midea has entered into the age of customization. Under the digitalization planning, a whole new Internet-based CCS system was built to strengthen the integrated manufacturer coordination system, further improve customer experience and coordination efficiency, optimize the construction of the channel hierarchy, and support linking management of the purchase- sell-stock systems for various channel levels. As part of the domestic marketing reform, the Midea Cloud Sales System was constructed to provide shopping-mall-like, mobile platform experience for customers and improve the overall order placing and information transmission efficiency of distributors. Meanwhile, coordinated efforts were made to flatten the channel hierarchy, including overall digital management through the purchase-sell-stock process in Midea's 2,200 flagship stores across the country, a business order model featuring direct supply from a business division to the stores, and digital application at the shopping guide level at the retail end with clear and transparent information.

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

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

It's also required to expand the big data technology platform, improve the enterprise-level indicator system and the data operation mechanism in order to visualize the whole process and drive the full-field data. Related data will be collected based on various products, materials, techniques and projects for the purpose of data research, and two kinds of R&D data sub-products have also been developed including Product Cube and R&D Steward; in terms of the data from domestic sales and export sales, the omni-channel data monitoring system shall be established to focus on the product sales structure, the price system and the market layout, with a KPI-based monitoring indicator system, visualizing all data ranging from the order placement to the after-sales service, as well as integrating customer data for all-round customer assessment; the big manufacturing data shall regard the visualization of capacity as the core objective, and completely improve the digital management on the manufacturing field; big financial and economic data shall be analyzed and applied to measure the profit and loss, the profitability and the costs indicators so as to provide a valid data support for the enterprise's endogenous growth.

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

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

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

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

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

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

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

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

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

Award.

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

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

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

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

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

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

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

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

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

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

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

2. Analysis of Main Business

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

√ Yes □ No

See "1. Overview" of this section.

YoY changes in key financial data:

Unit: RMB'000

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

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

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

□ Applicable √ Inapplicable

No such cases in the Reporting Period.

Breakdown of Midea's main business:

Unit: RMB'000

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

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

3. Analysis of Non-Core Business

□ Applicable √ N/A

4. Assets and Liabilities

4.1 Material changes of asset items

Unit: RMB'000

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

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

4.2 Assets and liabilities measured at fair value

Unit: RMB'000

Item	Opening balance	Profit or loss from change in fair value during the period	Cumulative fair value change charged to equity	Other	Purchased in the period	Sold in the period	Closing balance
Financial assets							
1. Financial assets with fair value changes included in profit or loss (excluding derivative financial assets)							
2. Derivative financial assets	714,185	-20,801	-350,397	-15,986	-	-	327,001
3. Financial assets available for sale	22,213,426	-	168,582	-	8,873,379	18,516,741	12,738,646
Sub-total of financial assets	22,927,611	-20,801	-181,815	-15,986	8,873,379	18,516,741	13,065,647
Investment properties							

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

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

□ Yes √ No

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

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

5. Investment made

5.1 Total investment amount

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

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

5.2 Significant equity investment made in the Reporting Period

□ Applicable √ N/A

5.3 Significant non-equity investments ongoing in the Reporting Period

□ Applicable √ N/A

5.4 Financial investments

5.4.1 Securities investments

□ Applicable √ N/A

No such cases in the Reporting Period.

5.4.2 Derivatives investments

Unit: RMB'0,000

Operating party	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	6,588.2	01/01/2018	31/12/2018	6,588.2	-	-	-	-895.3	-0.01%	-17,725.4
Bank	No	No	Forward forex contracts	55,599.5	01/01/2018	31/12/2018	55,599.5	-	-	-	-73,077.1	-0.92%	-62,171.6
Total				62,187.7	--	--	62,187.7				-73,972.4	-0.93%	-79,897.0
Source of derivatives investment funds				All from the Company's own money									
Litigation involved (if applicable)				N/A									
Disclosure date of the announcement about the board's consent for the derivative investment (if any)				31/03/2018									
Disclosure date of the announcement				24/04/2018									

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 RMB-177,254,000. 2. Loss from forward forex contracts during the Reporting Period was RMB-621,716,000. 3. Public quotations in futures market or forward forex quotations announced by the Bank of China are used in the analysis of derivatives fair value.
Explanation of significant changes in accounting policies and specific financial accounting principles in respect of the Company's derivatives for the Reporting Period as compared to the previous Reporting Period	N/A
Special opinions expressed by independent directors concerning the Company's derivatives investment and risk control	The Company's independent directors are of the view that the futures hedging business is an effective instrument for the Company to eliminate price volatility and implement risk prevention measures through enhanced internal control, thereby improving the operation and management of the Company; the Company's foreign exchange risk management capability can be further improved through the forex funds business, so as to maintain and increase the value of foreign exchange assets and the abovementioned investment in derivatives can help the Company to fully bring out its competitive advantages. Therefore, it is practicable for the Company to carry out derivatives investment business, and the risks are controllable.

6. Sale of Major Assets and Equity Interests

6.1 Sale of major assets

□ Applicable √ N/A

No such cases in the Reporting Period.

6.2 Sale of major equity interests

□ Applicable √ N/A

7. Analysis of Major Subsidiaries

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

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

Acquisition and disposal of subsidiaries during the Reporting Period

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

8. Structured Bodies Controlled by the Company

□ Applicable √ N/A

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

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

□ Applicable √ N/A

10. Risks Facing by the Company and Countermeasures

A. Risk of macro economy fluctuation

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

B. Risks in the fluctuation of production factors

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

C. Risk in global asset allocation and overseas market expansion

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

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

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

E. Market risks brought by trade barriers

With trade protectionism on the rise around the world, besides the tariff barriers, the non-tariff barriers among countries have become increasingly distinctive. This may aggravate the burden in costs and expenses for household appliance enterprises, and has brought about new challenges to market expansion for enterprises.

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

Section V Significant Events

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

1.1 General Meetings of Shareholders Convened during Reporting Period

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

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

□ Applicable √ N/A

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

□ Applicable √ N/A

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

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

Undertaking	Undertaking giver	Type of undertaking	Details of undertaking	Undertaking date	Term	Particulars on the performance
Undertakings given in time of IPO or refinancing	Xiaomi Technology	Private issue	Xiaomi Technology has given an undertaking that it shall not transfer the shares that it had subscribed for in this private placement with Midea	26/06/2015	36 months from the listing date of this private placement, i.e. to 26 June 2018	**Fulfilled, without violations**

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

4. Engagement and Disengagement of CPAs Firm

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

□ Yes √ No

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

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

□ Applicable √ N/A

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

□ Applicable √ N/A

7. Bankruptcy and Reorganization

□ Applicable √ N/A

No such cases in the Reporting Period.

8. Litigation

Material litigation and arbitration:

□ Applicable √ N/A

No such cases in the Reporting Period.

Other legal matters:

□ Applicable √ N/A

9. Punishments and Rectifications

□ Applicable √ N/A

No such cases in the Reporting Period.

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

□ Applicable √ N/A

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

A. Overview of the First Stock Option Incentive Scheme

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

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

B. Overview of the Second Stock Option Incentive Scheme

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

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

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

C. Overview of the Third Stock Option Incentive Scheme

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

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

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

D. Overview of the Fourth Stock Option Incentive Scheme

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

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

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

E. Overview of the Fifth Stock Option Incentive Scheme

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

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

F. Overview of the First Partner Stock Ownership Scheme

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

G. Overview of the Second Partner Stock Ownership Scheme

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

H. Overview of the Third Partner Stock Ownership Scheme

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

25.88%.

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

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

I. Overview of the Fourth Global Partner Stock Ownership Scheme

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

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

J. Overview of the First Business Partner Stock Ownership Scheme

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

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

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

K. Overview of the 2017 Restricted Share Incentive Scheme

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

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

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

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

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

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

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

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

L. Overview of the 2018 Restricted Share Incentive Scheme

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

b. On 23 April 2018, the Company convened the 2017 Annual General Meeting of Shareholders, at which the *Proposal on the 2018 Restricted Share Incentive Scheme (Draft) and Its Abstract*, the *Proposal on the Implementation and Appraisal Measures for the 2018 Restricted Share Incentive Scheme*, the *Proposal for Asking the Meeting of Shareholders to Authorize the Board to Handle 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.

12. Significant Related Transactions

12.1 Related transactions arising from routine operation

Related transaction party	Relation	Type of the transaction	Contents of the transaction	Pricing principle	Transaction price	Transaction amount (RMB'0,000)	Proportion in the total amounts of transaction of the same kind (%)	Approved transaction line (RMB'0,000)	Over approved line	Mode of settlement	Obtainable market price for the transaction of the same kind	Disclosure date	Index to the disclosed information
Infore Environment Technology Group Co., Ltd.	Controlled by family member of Company's actual controller	Procurement	Procurement of goods	Market price	-	61,486.90	0.68%	155,000	No	Payment after delivery	-	31/03/2018	www.cninfo.com.cn
Orinko Plastics Group	Controlled by family member of Company's actual controller	Procurement	Procurement of goods	Market price	-	17,057.80	0.19%	45,000	No	Payment after delivery	-	31/03/2018	www.cninfo.com.cn
Total				--	--	78,544.70	--	200,000	--	--	--	--	--
Details of any sales return of a large amount				Zero									
Give the actual situation in the Reporting Period (if any) where a forecast had been made for the				The line for routine related transactions between the Company and the related parties and their subsidiaries did not exceed the total amount of routine related									

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

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

□ Applicable √ N/A

No such cases in the Reporting Period.

12.3 Related transitions arising from joint investments in external parties

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

12.4 Credits and liabilities with related parties

□ Applicable √ N/A

No such cases in the Reporting Period.

12.5 Other significant related transactions

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

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

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

Index to the announcement about the said related transactions disclosed

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

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

□ Applicable √ N/A

No such cases in the Reporting Period.

14. Significant Contracts and Their Execution

14.1 Trusteeship, contracting and leasing

14.1.1 Trusteeship

□ Applicable √ N/A

No such cases in the Reporting Period.

14.1.2 Contracting

□ Applicable √ N/A

No such cases in the Reporting Period.

14.1.3 Leasing

□ Applicable √ N/A

No such cases in the Reporting Period.

14.2 Major Guarantees

14.2.1 Guarantees provided

Unit: RMB'0,000

Guarantees provided by the Company for external parties (excluding those for subsidiaries)								
Guaranteed party	Disclosure date of the guarantee line announcement	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
Misr Refrigeration and Air Conditioning Manufacturing Co.	2018-3-31	1,100	-	0	Joint liability	One year	No	No
Total external guarantee line approved during the Reporting Period (A1)		1,100		Total actual external guarantee amount during the Reporting Period (A2)		0		
Total approved external guarantee line at the end of the Reporting Period (A3)		1,100		Total actual external guarantee balance at the end of the Reporting Period (A4)		0		
Guarantees provided by the Company for its subsidiaries								
Guaranteed party	Disclosure date of the guarantee line announcement	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
Midea Group Finance Co., Ltd.	2018-3-31	838,000	2018-2-28	0	Joint liability	One year	No	No
Guangdong Midea Refrigeration Equipment Co., Ltd.	2018-3-31	1,188,600	2018-1-11	7,784	Ditto	Ditto	Ditto	Ditto
Guangzhou Hualing Refrigeration Equipment Co., Ltd.	2018-3-31	119,600	2018-2-9	33	Ditto	Ditto	Ditto	Ditto
Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.	2018-3-31	396,000	2018-1-8	37,501	Ditto	Ditto	Ditto	Ditto
Foshan Shunde Midea Washing Appliance Manufacturing Co., Ltd.	2018-3-31	207,000	2018-1-12	25,618	Ditto	Ditto	Ditto	Ditto

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

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

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

Midea Middle East	2018-3-31	10,300	-	0	Ditto	Ditto	Ditto	Ditto
Midea America (Canada) Corp.	2018-3-31	5,500	-	0	Ditto	Ditto	Ditto	Ditto
Midea Austria GmbH	2018-3-31	3,400	-	0	Ditto	Ditto	Ditto	Ditto
Midea Electric Trading (Thailand) Limited	2018-3-31	10,300	2018-2-15	600	Ditto	Ditto	Ditto	Ditto
Midea America Corp.	2018-3-31	18,200	-	0	Ditto	Ditto	Ditto	Ditto
PT. Midea Planet Indonesia	2018-3-31	15,100	-	0	Ditto	Ditto	Ditto	Ditto
Midea Europe GmbH	2018-3-31	6,900	-	0	Ditto	Ditto	Ditto	Ditto
Midea México, S. De R.L. De C.V.	2018-3-31	13,800	-	0	Ditto	Ditto	Ditto	Ditto
Midea Electric Netherlands（Ⅰ）B.V.	2018-3-31	2,960,000	2018-1-1	2,893,044	Ditto	Ditto	Ditto	Ditto
Total guarantee line for subsidiaries approved during the Reporting Period (B1)		9,772,220		Total actual guarantee amount for subsidiaries during the Reporting Period (B2)		4,294,447		
Total approved guarantee line for subsidiaries at the end of the Reporting Period (B3)		9,772,220		Total actual guarantee balance for subsidiaries at the end of the Reporting Period (B4)		3,838,633		
Guarantees between subsidiaries								
Guaranteed party	Disclosure date of the guarantee line announcement	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
No such cases								
Total guarantee amount (total of the above-mentioned three kinds of guarantees)								
Total guarantee line approved during the Reporting Period (A1+B1+C1)		9,773,320		Total actual guarantee amount during the Reporting Period		4,294,447		

		(A2+B2+C2)	
Total approved guarantee line at the end of the Reporting Period (A3+B3+C3)	9,773,320	Total actual guarantee balance at the end of the Reporting Period (A4+B4+C4)	3,838,633
Proportion of the total actual guarantee amount (A4+B4+C4) in net assets of the Company		48.41%	
Of which:			
Amount of guarantees provided for shareholders, the actual controller and their related parties (D)		0	
Amount of debt guarantees provided directly or indirectly for entities with a liability-to-asset ratio over 70% (E)		3,460,921	
Portion of the total guarantee amount in excess of 50% of net assets (F)		0	
Total amount of the three kinds of guarantees above (D+E+F)		3,460,921	
Joint responsibilities possibly borne for undue guarantees (if any)		N/A	
Provision of external guarantees in breach of the prescribed procedures (if any)		N/A	

14.2.2 Illegal provision of guarantees for external parties

□ Applicable √ N/A

No such cases in the Reporting Period.

14.3 Other significant contracts

□ Applicable √ N/A

No such cases in the Reporting Period.

15. Social Responsibility (CSR)

15.1 **Major environmental issues**

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

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

				2#discharge outlet		industrial kiln and furnace GB9078-1996 chart 2 second-level）			
				2#stator heat-treating furnace 3#discharge outlet	39.9mg/m³				
				Stator + rotor heat-treating furnace 1#discharge outlet	192 mg/m³				
				The head of discharge outlet of 3#stator furnace	30.4 mg/m³				
				The head of discharge outlet of 2# stator furnace and 4#rotor furnace	30.2 mg/m³				
				The tail of 3# and 4# stator furnace and the general discharge outlet of four melting aluminum furnace	79.5mg/m³				
				The discharge outlet for the waste gas of melting aluminum furnace	29.1mg/m³				
	Sulfur dioxide	Collected by gas trap hood +21m high exhaust cylinder	7	Stator + rotor heat-treating furnace 2#discharge outlet	68 mg/m³	850（comprehensive emission standard of air pollutants for industrial furnace GB9078-1996 chart 2 second-level）	7,142	20,000	No
				2# stator heat-treating furnace 3#discharge outlet	602 mg/m³				
				Stator +rotor	ND				

				heat-treating furnace 1# discharge outlet					
				The head of discharge outlet of 3# stator furnace	245mg/m³				
				The head of discharge outlet of 2#stator furnace and the 4#rotor furnace	146 mg/m³				
				The tail of 3# and 4#stator furnace and the general discharge outlet for 4 melting aluminum furnaces	124 mg/m³				
				The discharge outlet for waste gas of melting aluminum furnace	136 mg/m³				
	Nitrogen oxide	Collected by gas trap hood +21m high exhaust cylinder	3	Stator + rotor heat-treating furnace2#discharge outlet	244 mg/m³	/	8,028	18,000	No
				2#stator heat-treating furnace 3#discharge outlet	790 mg/m³				
				Stator + rotor heat-treating furnace 1#discharge outlet	275 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（comprehensive discharge standard of air pollutant GB16297-1996	2,947	5,000	No
				5-10#discharge outlet for drying waste gas	30.36 mg/m³				

						chart 2 the second level）			
Guangdong Midea Refrigeration Equipment Co., Ltd	COD	Discharge after being treated by wastewater treatment station	1	4#Southeastern plant	39 mg/L	Wastewater discharge standard for Guangdong electroplating industry（DB441597-2015）chart 2The standard of Pearl River Delta	2,318	14,600	No
	Ammonia nitrogen	Discharge after being treated by wastewater treatment station		4#Southeastern plant	0.631 mg/L		1,510		No
	Total VOCs	High altitude discharge	4	4#plant	10.26 mg/m³	《VOC Emission Standards for Furniture Manufacturing Industry》（DB44/814-2010）the second time period	87	5,930	No

The construction of pollution prevention facilities and their operation

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

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

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

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

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

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

Contingency plans for environmental accidents

All subsidiaries have finished the compilation and approval of their contingency plans for environmental accidents. Emergency mechanisms for environmental pollution accidents have been established and improved, and the subsidiaries' ability to deal with environmental pollution accidents has been enhanced, so as to maintain social stability, protect the lives, health and properties of the public, protect the environment, and promote a comprehensive, coordinated and sustainable development of the society.

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

Environment self-monitoring plans

All subsidiaries have formulated their own environment self-monitoring plans according to China's relevant laws and regulations, and have entrusted third-party qualified institutions to monitor the discharge of waste including waste water and waste gas on a regular basis. Meanwhile, 11 factories have been equipped with an online waste water monitoring system, and such a system is underway for other operations.

Other environment-related information that should be made public

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

Other environment-related information

None

15.2 Measures taken for targeted poverty alleviation

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

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

15.2.2 Targeted poverty alleviation plans for the coming future

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

Moreover, to help with the Foshan city's poverty alleviation support for Liangshan, Sichuan Province under an east and west China co-working poverty alleviation framework, Midea has undertaken to donate RMB100 million for new housing, industrial development, vocational education and labour service introduction for the local Yi people in Liangshan in June 2018.

16. Other Significant Events

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

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

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

17. Significant Events of Subsidiaries

□ Applicable √ N/A

Section VI Changes in Shares and Information about Shareholders

1. Changes in Shares

1.1 Changes in shares

Unit: share

	Before		Increase/decrease in Reporting Period (+/-)					After	
	Shares	Percentage (%)	New issue	Shares as dividend converted from retained earnings	Shares as dividend converted from capital reserves	Other	Subtotal	Shares	Percentage (%)
1. Restricted shares	212,022,910	3.23	25,955,000	0	0	-91,356,275	-65,401,275	146,621,635	2.21
1.1 Shares held by the state	0	0	0	0	0	0	0	0	0
1.2 Shares held by state-owned corporations	0	0	0	0	0	0	0	0	0
1.3 Shares held by other domestic investors	211,272,910	3.22	24,645,000	0	0	-91,046,275	-66,401,275	144,871,635	2.19
Among which: Shares held by domestic corporations	82,500,000	1.26		0	0	-82,500,000	-82,500,000	0	0
Shares held by domestic individuals	128,772,910	1.96	24,645,000	0	0	-8,546,275	16,098,725	144,871,635	2.19
1.4 Shares held by foreign investors	750,000	0.01	1,310,000	0	0	-310,000	1,000,000	1,750,000	0.02

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

Reasons for the changes in shares

a. 5,385,000 reserved restricted shares were granted to 54 employees for the Company’s 2017 Restricted Share Incentive Scheme, of which 240,000 were granted to foreign employees who work in China.

b. 20,570,000 restricted shares were granted to 319 employees for the first phase of the Company’s 2018 Restricted Share Incentive Scheme, of which 1,070,000 were granted to foreign employees who work in China.

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

d. The repurchase and retirement of 1,701,834 shares under the 2017 Restricted Share Incentive Scheme was completed on 30 July 2018.

e. The 82,500,000 restricted shares held by Xiaomi Technology Co., Ltd. were unlocked and allowed for public trading.

Approval of share changes

□ Applicable √ N/A

Transfer of share ownership

□ Applicable √ N/A

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

□ Applicable √ N/A

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

□ Applicable √ N/A

1.2 Changes in restricted shares

Unit: share

Name of shareholder	Opening restricted shares	Unlocked in current period	Increased in current period	Closing restricted shares	Reason for change	Date of unlocking
Incentive receivers of reserved restricted shares under 2017 Restricted Share Incentive Scheme □	0	0	5,385,000	5,235,000	Lockup according to the Scheme	29 December 2018
Incentive receivers of 2018 Restricted Share Incentive Scheme	0	0	20,570,000	20,570,000	Lockup according to the Scheme	7 May 2020
Incentive receivers of 2017 Restricted Share Incentive Scheme (first phase) □	23,130,000	7,198,166	0	14,380,000	Lockup according to the Scheme	12 May 2018
Xiaomi Technology Co., Ltd.	82,500,000	82,500,000	0	0	Promised lockup of privately issued shares	29 June 2018
Li Feide	843,750	0	17,500	861,250	Lockup for senior management position	
Zhang Xiaoyi	0	0	53,725	53,725	Lockup of new shares for senior management position	
Jiang Peng	458,750	27,500	0	431,250	Lockup for senior management position	
Total	106,932,500	89,725,666	26,026,225	41,531,225	--	--

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

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

2. Issuance and Listing of Securities

□ Applicable √ N/A

3. Total Number of Shareholders and Their Shareholdings

Unit: share

Total number of common shareholders at the end of the Reporting Period	165,179	Total number of preference shareholders with resumed voting rights at the period-end (if any)	0

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

Central Huijin Asset Management Ltd.	State-owned corporation	1.18	78,474,900	0	0	78,474,900	-	-
Canada Pension Plan Investment Board－self-owned capital (stock exchange)	Foreign corporation	1.09	72,309,875	47,145,264	0	72,309,875	-	-
Li Jianwei	Domestic individual	0.89	59,176,770	-4,968,064	0	59,176,770	Pledged	5,400,000
Strategic investors or general corporations becoming top-ten common shareholders due to placing of new shares (if any)		N/A						
Related-parties or acting-in-concert parties among the shareholders above		N/A						

Top 10 non-restricted common shareholders			
Name of shareholder	Number of non-restricted common shares held at the period-end	Type of shares	
		Type	Shares
Midea Holding Co., Ltd.	2,212,046,613	RMB common stock	2,212,046,613
Hong Kong Exchanges and Clearing Limited	768,294,661	RMB common stock	768,294,661
China Securities Finance Co., Ltd.	271,434,266	RMB common stock	271,434,266
Hillhouse Capital Management Limited－HCM China Fund	107,658,338	RMB common stock	107,658,338
Huang Jian	88,005,400	RMB common stock	88,005,400
Xiaomi Technology Co., Ltd.	82,500,000	RMB common stock	82,500,000
Central Huijin Asset Management Ltd.	78,474,900	RMB common stock	78,474,900
Canada Pension Plan Investment Board－self-owned capital (stock exchange)	72,309,875	RMB common stock	72,309,875
Li Jianwei	59,176,770	RMB common stock	59,176,770
Yuan Liqun	54,916,850	RMB common stock	54,916,850
Related-parties or acting-in-concert parties among the top ten non-restricted common shareholders and between the top ten non-restricted common shareholders and the top ten common shareholders	N/A		
Explanation on the top 10 common shareholders participating in securities margin trading (if any)	N/A		

Did any of the top 10 common shareholders or the top 10 non-restricted common shareholders of the

Company conduct any promissory repurchase during the Reporting Period

□ Yes √ No

No such cases in the Reporting Period.

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

Change of the controlling shareholder during the Reporting Period

□ Applicable √ N/A

No such cases in the Reporting Period.

Change of the actual controller during the Reporting Period

□ Applicable √ N/A

No such cases in the Reporting Period.

Section VII Preference Shares

□ Applicable √ N/A

No such cases in the Reporting Period.

Section VIII Information about Directors, Supervisors and Senior Management

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

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

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

2. Changes in Directors, Supervisors and Senior Management

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

Section IX Corporate Bonds

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

□ Yes √ No

Section X Financial Report

1. Auditor’s Report

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

□ Yes √ No

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

2. Financial Statements

MIDEA GROUP CO., LTD.

CONSOLIDATED AND COMPANY BALANCE SHEETS
AS AT 30 JUNE 2018

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

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

Legal representative:	Person in charge of accounting function:	Person in charge of accounting department:
Fang Hongbo	Xiao Mingguang	Chen Lihong

MIDEA GROUP CO., LTD.

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

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

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

Legal representative:	Person in charge of accounting function:	Person in charge of accounting department:
Fang Hongbo	Xiao Mingguang	Chen Lihong

MIDEA GROUP CO., LTD.

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

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

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

Legal representative: Fang Hongbo   Person in charge of accounting function: Xiao Mingguang   Person in charge of accounting department: Chen Lihong

MIDEA GROUP CO., LTD.

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

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

Item	Note	For the six months ended 30 June 2018 Consolidated	For the six months ended 30 June 2017 Consolidated	For the six months ended 30 June 2018 Company	For the six months ended 30 June 2017 Company
1. Cash flows from operating activities:					
Cash received from sales of goods or rendering of services		101,192,080	99,984,184	-	-
Net increase in customer deposits and deposits from banks and other financial institutions		-	73,308	-	-
Net increase in borrowings from the central bank		30,367	-	-	-
Cash received for interest, fee and commission		656,777	543,915	-	-
Refund of taxes and surcharges		3,648,098	2,593,364	-	-
Cash received relating to other operating activities	4(45)(a)	3,556,377	2,485,847	9,646,377	8,176,371
Sub-total of cash inflows		109,083,699	105,680,618	9,646,377	8,176,371
Cash paid for goods and services		(62,574,802)	(58,343,060)	-	-
Net increase in loans and advances		(3,345,537)	(1,903,898)	-	-
Net decrease in customer deposits and deposits from banks and other financial institutions		(5,855)	-	-	-
Net increase in deposits with the central bank		(1,332,232)	(528,948)	-	-
Cash paid for interest, fee and commission		(169,952)	(167,327)	-	-
Cash paid to and on behalf of employees		(13,600,798)	(11,456,781)	(325,065)	(112,878)
Payments of taxes and surcharges		(6,994,367)	(5,982,427)	(17,702)	(94,326)
Cash paid relating to other operating activities	4(45)(b)	(13,446,468)	(13,402,245)	(1,592,701)	(1,958,570)
Sub-total of cash outflows		(101,470,011)	(91,784,686)	(1,935,468)	(2,165,774)
Net cash flows from operating activities	4(45)(c)	7,613,688	13,895,932	7,710,909	6,010,597
2. Cash flows from investing activities:					
Cash received from disposal of investments		31,793,113	40,674,727	13,502,964	27,815,545
Cash received from returns on investments		1,007,924	1,223,225	7,568,060	5,297,145
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		36,333	859,943	-	12,049
Net cash received from disposal of subsidiaries and other business units		30,755	2,415	-	-
Cash received relating to other investing activities		-	-	-	-
Sub-total of cash inflows		32,868,125	42,760,310	21,071,024	33,124,739
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(2,368,539)	(1,520,059)	(115,266)	(59,406)
Cash paid to acquire investments		(39,300,659)	(42,660,602)	(21,358,367)	(32,378,633)
Net cash paid to acquire subsidiaries and other business units		(142,604)	(25,331,546)	-	-
Cash paid relating to other investing activities		-	-	-	-
Sub-total of cash outflows		(41,811,802)	(69,512,207)	(21,473,633)	(32,438,039)
Net cash flows from investing activities		(8,943,677)	(26,751,897)	(402,609)	686,700
3. Cash flows from financing activities:					
Cash received from capital contributions		1,711,968	629,854	1,168,515	629,854
Including: Cash received from capital contributions by minority shareholders of subsidiaries		521,351	-	-	-
Cash received from borrowings		1,117,310	31,631,302	-	1,600,000
Cash received from issuing short-term financing bonds		-	-	-	-
Cash received relating to other financing activities		-	-	-	-
Sub-total of cash inflows		2,829,278	32,261,156	1,168,515	2,229,854
Cash repayments of borrowings		(2,493,061)	(4,198,336)	-	(1,600,000)
Cash payment for issuing short-term financing bonds		-	-	-	-
Cash payments for interest expenses and distribution of dividends or profits		(8,667,397)	(7,072,016)	(8,093,220)	(6,816,712)
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		(497,161)	(395,950)	-	-
Cash paid relating to other financing activities		(1,835,429)	-	(28,811)	-
Sub-total of cash outflows		(12,995,887)	(11,270,352)	(8,122,031)	(8,416,712)
Net cash flows from financing activities		(10,166,609)	20,990,804	(6,953,516)	(6,186,858)
4. Effect of foreign exchange rate changes on cash and cash equivalents		92,339	137,862	-	-
5. Net increase in cash and cash equivalents		(11,404,259)	8,272,701	354,784	510,439
Add: Cash and cash equivalents at beginning of period		21,831,653	12,513,730	25,978,543	8,174,915
6. Cash and cash equivalent at end of period		10,427,394	20,786,431	26,333,327	8,685,354

Legal representative: Fang Hongbo   Person in charge of accounting function: Xiao Mingguang   Person in charge of accounting department: Chen Lihong

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

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

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

Legal representative:	Person in charge of accounting function:	Person in charge of accounting department:
Fang Hongbo	Xiao Mingguang	Chen Lihong

MIDEA GROUP CO., LTD.

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

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

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

Legal representative: Fang Hongbo
Person in charge of accounting function: Xiao Mingguang
Person in charge of accounting department: Chen Lihong

MIDEA GROUP CO., LTD.

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

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

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

Legal representative: Fang Hongbo
Person in charge of accounting function: Xiao Mingguang
Person in charge of accounting department: Chen Lihong

MIDEA GROUP CO., LTD.

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

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

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

Legal representative: Fang Hongbo

Person in charge of accounting function: Xiao Mingguang

Person in charge of accounting department: Chen Lihong

1 General information

Midea Group is a techonology company that boasts a diversified offering in products and services, mainly comprises heating&ventilation, as well as air-conditioner("HVAC"), consumer appliances, robots and automatic system and smart supply chain. Consumer appliances centred on kitchen appliances, refrigerators, washing machines and various small appliances. HVAC centred on household air-conditioner, commercial air-conditioner, heating and ventilation systems. Robots and automation systems centred on KUKA Aktiengesellschaft and its subsidiaries (hereinafter referred to as "KUKA Group") and robots corporations of Midea Group, and smart supply chain systems centred on smart integrated logistics solutions. Other operations include sale, wholesale and processing of raw materials of household electrical appliances and financial business, which includes customer deposits, interbank lending, consumption credit, buyer's credit and finance lease.

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

As at 30 June 2018, the Company's registered capital is RMB 6,626,911,513, the same as share capital, and the total number of shares in issue is 6,626,911,513, of which 146,621,635 shares are restricted tradable shares and 6,480,289,878 shares are unrestricted tradable shares.

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

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

2. Summary of significant accounting policies and accounting estimates

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

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

(1) Basis of preparation

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

The financial statements are prepared on a going concern basis.

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

The financial statements of the Company for the six months ended 30 June 2018 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the consolidated and the Company as at 30 June 2018 and their financial performance, cash flows and other information for the six months then ended.

(3) Accounting period

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

(4) Functional currency

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

(5) Business combinations

(a) Business combinations involving enterprises under common control

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

(b) Business combinations involving enterprises not under common control

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

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

(5) Business combinations (Cont'd)

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

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

(6) Preparation of consolidated financial statements

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

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

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

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

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

(7) Recognition criteria of cash and cash equivalents

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

(8) Foreign currency translation

(a) Foreign currency transaction

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

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

(b) Translation of foreign currency financial statements

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

(9) Financial instrument

(a) Financial assets

(i) Classification of financial assets

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

Financial assets at fair value through profit or loss

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

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

(9) Financial instrument (Cont'd)

(a) Financial assets (Cont'd)

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

Loans and receivables

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

Available-for-sale financial assets

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

(ii) Derivative financial instruments

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

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

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

Cash flow hedging

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

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

(9) Financial instrument (Cont'd)

(a) Financial assets (Cont'd)

(ii) Derivative financial instruments (Cont'd)

Cash flow hedging (Cont'd)

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

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

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

(iii) Recognition and measurement

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

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

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

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

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

(9) Financial instrument (Cont'd)

(a) Financial assets (Cont'd)

(iv) Impairment of financial assets

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

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

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

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

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

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

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

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

(9) Financial instrument (Cont'd)

(a) Financial assets (Cont'd)

(v) Derecognition of financial assets

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

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

(b) Financial liabilities

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

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

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

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

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

(c) Determination of fair value of financial instruments

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

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

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

(10) Receivables

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

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

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

The judgement standard for individually significant amount is an individual amount exceeding RMB 5,000,000 for accounts receivable and RMB 500,000 for other receivables.

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

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

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

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

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

	Within 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years
HVAC	0% or 5%	5%	10%	30%	50%	100%
Consumer appliances	0% or 5%	5%	10%	30%	50%	100%
Robots and automatic system	0% or 5%	5%	10%	30%	50%	100%
Others	0% or 5%	5%	10%	30%	50%	100%

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

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

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

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

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

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

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

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

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

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

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

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

(11) Provision for bad debts of loans and advances

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

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

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

(12) Inventories

(a) Classification of inventories

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

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

(b) Costing of inventories

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

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

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

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

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

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

(d) Inventory system

The Group adopts the perpetual inventory system.

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

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

(13) Long-term equity investments

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

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

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

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

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

(a) Determination of investment cost

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(d) Impairment of long-term equity investments

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

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

(14) Investment properties

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

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

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

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

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

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

(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 residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

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

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

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

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

(15) Fixed assets (Cont'd)

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

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

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

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

(e) Disposal of fixed assets

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

(16) Construction in progress

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

(17) Borrowing costs

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

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

(17) Borrowing costs (Cont'd)

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

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

(18) Intangible assets

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

(a) Land use rights

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

(b) Patents and non-patent technologies

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

(c) Trademark rights

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

(d) Trademark use rights

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

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

(18) Intangible assets (Cont'd)

(e) Periodical review of useful life and amortisation method

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

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

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

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

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

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

(g) Impairment of intangible assets

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

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

(19) Long-term prepaid expenses

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

(20) Impairment of long-term assets

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

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

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

(21) Employee benefits

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

(a) Short-term employee benefits

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

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 normal retirement date. The Group accounts for the early retirement benefits in accordance with the treatment of termination benefits, in which the salaries and social security contributions to be paid to and for the early retired employees from the off-duty date to the normal retirement date are recognised as liabilities with a corresponding charge to the profit or loss for the current period. The differences arising from the changes in the respective actuarial assumptions of the early retirement benefits and the adjustments of benefit standards are recognised in profit or loss in the period in which they occur.

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

(22) Financial assets sold under repurchase agreements

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

(23) General reserve

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

(24) Dividend distribution

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

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

(25) Provisions

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

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

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

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

(26) Share-based payment

(a) Type of share-based payment

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

Equity-settled share-based payment

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

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

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

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

(b) Determination of the fair value of equity instruments

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

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

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

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

(d) Accounting treatment related to the exercise of share options

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

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

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

(27) Revenue

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

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

(a) Sales of goods

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

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

(27) Revenue (Cont'd)

(a) Sales of goods (Cont'd)

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

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

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

(b) Rendering of services

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

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

(c) Construction contract

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

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

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

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

(27) Revenue (Cont'd)

(c) Construction contract (Cont'd)

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

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

(d) Interest income

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

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

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

(e) Dividend income

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

(f) Rental income

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

(g) Fee and commission income

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

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

(28) Government grants

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

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

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

Government grants related to assets could be offset the carrying amount of related assets, or recognised as deferred income, and reasonably and systematically amortised to profit or loss over the useful life of the related asset. For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the Group in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss or offset the related cost over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred by the Group, the grant is recognised immediately in profit or loss or offset the related cost for the current period.

The same kind of government grants are presented with the same method, that is, those related to ordinary activities are recorded into operating profit while other in non-operating income and expenses.

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

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

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

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

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

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

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

Deferred tax assets and liabilities are offset when:

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

(30) Leases

(a) Operating leases

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

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

(b) Finance leases

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

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

(31) Held for sale and discontinued operations

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

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

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

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

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

(32) Segment information

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

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

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

(33) Critical accounting estimates and judgements

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

Critical accounting estimates and key assumptions

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

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

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

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

(ii) Provision for impairment of goodwill

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

(iii) Income taxes

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

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

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

(34) Significant changes in accounting policies

In 2017, the Ministry of Finance released the *Accounting Standard for Business Enterprises No. 42 - Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations*, revised *Accounting Standard for Business Enterprises No. 16 - Government Grants* and *the Circular on Amendment to Formats of Financial Statements of General Industry* (Cai Kuai [2017] No. 30). The financial statements for the six months ended 30 June 2018 are prepared in accordance with the above standards and circular, and impacts are as follows:

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

(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%, 14%, 15%, 16.5%, 17%, 25%, 19%, 20-31.5%, 32%, 34% or 35%
Value-added tax (VAT) (b)	Taxable value-added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period)	3%, 5%, 6%, 10%, 11%, 16%, 17%, 19%
City maintenance and construction tax	The amount of VAT paid	5% or 7%
Educational surcharge	The amount of VAT paid	3% or 5%
Local educational surcharge	The amount of VAT paid	2%
Property tax	Price-based property is subject to a 1.2% tax rate after a 30% cut in the original price of property. Rental-based is subject to 12% tax rate for the rental income.	1.2% or 12%

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

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

Name of tax payer	No. of the *Certificate of the High-tech Enterprise*	Dates of issuance	Effective period
Jiangsu Midea Cleaning Appliance Company Limited	GR201732001675	17 November 2017	3 years
Guangdong Midea Environmental Electric Appliance Manufacturing Co., Ltd.	GR201644002286	30 November 2016	3 years
Jiangxi Midea Guiya lighting Co., Ltd.	GR201736000187	23 August 2017	3 years
Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.	GR201544000202	30 September 2015	3 years
Guangdong Witt Vacuum Electronics Manufacturing Co., Ltd.	GR201744000489	9 November 2017	3 years
Foshan Shunde Midea Washing Appliance Manufacturing Co., Ltd.	GR201744002837	9 November 2017	3 years
Foshan Shunde Midea Electric Appliance Manufacturing Co., Ltd.	GR201544001470	10 October 2015	3 years
Foshan Shunde century Tongchuang Technology Co., Ltd.	GR201644000331	30 November 2016	3 years
Foshan Shunde Midea Electric Technology Co., Ltd.	GR201644000358	30 November 2016	3 years
Guangdong Midea Heating & Ventilation Equipment Co., Ltd.	GF201544000292	20 October 2015	3 years
Hefei Midea Heating & Ventilation Equipment Co., Ltd.	GR201634000207	21 October 2016	3 years
Anhui GMCC Precision Manufacturing Co., Ltd.	GR201534000785	15 October 2015	3 years
Guangzhou Midea Hualing Refrigerator Co., Ltd.	GR201644002925	30 November 2016	3 years
Guangdong Welling Motor Manufacturing Co., Ltd.	GR201744002062	9 November 2017	3 years
Foshan Welling Washer Motor Manufacturing Co., Ltd.	GR201744001025	9 November 2017	3 years
Huaian Weiling Motor Manufacturing Co., Ltd.	GR201632004278	3 November 2016	3 years

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

Name of tax payer	No. of the *Certificate of the High-tech Enterprise*	Dates of issuance	Effective period
Wuxi Little Swan Company Limited	GR201532000606	6 July 2015	3 years
Wuxi Filin Electronics Co., Ltd.	GR201532000917	6 July 2015	3 years
Wuxi Little Swan General Appliance Co., Ltd.	GR201532000557	6 July 2015	3 years
Guangdong Midea Refrigeration Equipment Co., Ltd.	GR201744000337	9 November 2017	3 years
Handan Midea Refrigeration Equipment Co., Ltd.	GR201713000957	27 October 2017	3 years
Midea Group Wuhan Refrigeration Equipment Co., Ltd.	GR201742002075	30 November 2017	3 years
Guangzhou Hualing Refrigeration Equipment Co., Ltd.	GR201744010610	11 December 2017	3 years
Wuhu Meizhi Air-Conditioning Equipment Co., Ltd.	GR201734001246	7 November 2017	3 years
Chongqing Midea General Refrigeration Equipment Co., Ltd.	GR201751100113	28 December 2017	3 years
Guangdong GMCC Refrigeration Equipment Co., Ltd.	GR201744000895	9 November 2017	3 years
Hubei Midea Refrigerator Co., Ltd.	GR201742001255	28 November 2017	3 years
Guangdong Midea Life Electric Appliance Manufacturing Co., Ltd.	GR201744006141	11 December 2017	3 years
Anhui GMCC Refrigeration Equipment Co., Ltd	GR201634000994	5 December 2016	3 years
Foshan Shunde Midea Water Dispenser Manufacturing Co., Ltd.	GR201744008471	11 December 2017	3 years
Midea Welling Motor Technologies (Shanghai) Co., Ltd.	GR201731001731	23 November 2017	3 years
Hefei Hualing Co., Ltd.			

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

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

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

3 Taxation (Cont'd)

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

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

(a-5) The Company's subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5%. Such subsidiaries include Midea International Trade Co., Ltd., Midea International Co., Ltd., Midea Appliance Investment (Hong Kong) Ltd., Chairing Holding Ltd., Century Carrier Household Air-conditioning Co., Ltd., Midea Refrigeration (Hong Kong) Ltd., Welling Holding Limited (Hong Kong), Welling International Hong Kong Ltd (HK), and Midea Investment (Asia) Co., Ltd. and Main Power Electrical Factory Limited.

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

(a-7) Springer Carrier Ltda., the Company's subsidiaries in Brazil, is subject to Brazil corporate income tax at the rate of 34%.

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

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

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

(a-11) SMC, the Company's subsidiaries in Israel, is subject to Israel corporate income tax at the rate of 24%.

(b) Notes to the VAT rate of the principal tax payers with different tax rates

(b-1) According to the *Notice for the Full Implementation of Transformation from business tax to value-added tax Pilot* (Cai Shui [2016] No. 36) and the relevant provisions issued by Ministry of Finance and the State Administration of Taxation, since 1 May 2016, revenue from rental services, real estate management services, financial services, consulting services and logistics services of the Company and its subsidiaries are subject to VAT, while these services are subject to business tax at the rate of 5% before 1 May 2016.

(b-2) Sales of goods and provision of repairs and replacement service provided by certain subsidiaries of the Company are subject to VAT at the rate of 17% before 1 May 2018 and of 16% after 1 May 2018.

(b-3) Rental services on real estate and distribution services provided by the Company and certain subsidiaries are subject to VAT at the rate of 11% before 1 May 2018 and of 10% after 1 May 2018.

(b-4) Financial services, consulting services and storage services provided by the Company and certain subsidiaries are subject to VAT at the rate of 6%.

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

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

4 Notes to the consolidated financial statements

(1) Cash at bank and on hand

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

(a) As at 30 June 2018, cash at bank includes fixed deposits with the term of over three months, amounting to RMB 6,960,071,000 (31 December 2017: RMB 3,540,237,000).

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

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

(d) As at 30 June 2018, deposits with banks and other financial institutions include time deposits with the term of over three months, amounting to RMB 24,470,000,000 (31 December 2017: RMB 20,800,000,000).

(2) Notes receivable

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

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

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

(3) Receivables

(a) Accounts receivable

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

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

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

(3) Receivables (Cont'd)

(a) Accounts receivable (Cont'd)

The ageing of other receivables is analysed as follows:

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

Accounts receivable are analysed by categories as follows:

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

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

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

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

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

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

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

(3) Receivables (Cont'd)

(a) Accounts receivable (Cont'd)

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

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

(b) Other receivables

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

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

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

Other receivables are analysed by categories as follows:

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

As at 30 June 2018, other receivables with amounts that are individually significant and that the related provision for bad debts is provided on the individual basis are analysed as follows:

Name of the Company	Book balance	Provision for bad debts	Ratio	Reason
China Securities Depository and Clearing Corporation Limited Shenzhen Branch	389,365	-	0%	Receivables related to share options without bad debt risks

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

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

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

(3) Receivables (Cont'd)

(b) Other receivables (Cont'd)

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

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

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

(4) Advances to suppliers

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

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

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

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

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

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

(5) Loans and advances

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

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

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

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

(5) Loans and advances (Cont'd)

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

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

(6) Inventories

(a) Inventories are summarised by categories as follows:

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

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

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

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

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

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

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

(7) Other current assets

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

(a) As at 30 June 2018, wealth management products due within one year are presented as other current assets, mainly including non-principal-guaranteed wealth management products with floating earnings (Note 15(1)).

(b) The Company didn't purchase wealth management products and assets management plan due more than one year which are presented as other non-current assets.

(8) Available-for-sale financial assets

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

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

(b) The available-for-sale financial assets measured at cost mainly include the unlisted equity investments held by the Group, which do not have a quoted market price in an active market and whose fair value cannot be reliably measured as the range of fair value reasonable estimates is large and probabilities for determining these estimates cannot be reasonably determined. The Group has no plan to dispose these investments.

(9) Long-term equity investments

Long-term equity investments are classified as follows:

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

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

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

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

(10) Fixed assets

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

(a) For the six months ended 30 June 2018, the depreciation of fixed assets amounted to RMB 1,686,509,000 (for the six months ended 30 June 2017: RMB 1,669,291,000) and is included in income statement.

(b) As at 30 June 2018, the Company is still in the course of obtaining the ownership certificate for the fixed asset with a carrying amount of RMB 594,344,000.

(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

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

As at 30 June 2018, there's no provision for impairment of construction in progress with the ending balance consistent with the carrying amount; and the cost of construction in progress matches the budget amount. The projects are carried out on schedule.

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

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

(12) Intangible assets

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

(a) For the six months ended 30 June 2018, the amortisation of intangible assets amounted to RMB 529,900,000 (for the six months ended 30 June 2017: RMB 1,477,108,000) and is included in income statement.

(b) As at 30 June 2018, the Group had no certificates of land use rights to be obtained.

(c) As at 30 June 2018, other intangible assets mainly represented customer relationship.

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

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

(13) Goodwill

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

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

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

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

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

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

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

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

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

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

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

(15) Details of provision for asset impairments

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

(16) Assets with ownership or use right restricted

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

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

(17) Short-term borrowings

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

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

(18) Notes payable

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

(19) Accounts payable

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

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

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

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

(20) Advances from customers

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

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

(21) Employee benefits payable

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

(a) Short-term employee benefits

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

(22) Taxes payable

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

(23) Other payables

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

(b) As at 30 June 2018, accounts payable with ageing over 1 year with a carrying amount of RMB 853,161,000 (31 December 2017: RMB 405,709,000) are mainly restricted share repurchase obligation, deposit and security deposit payable, which are unsettled for related projects that are uncompleted.

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

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

(24) Other current liabilities

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

(25) Long-term borrowings

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

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

(b) As at 30 June 2018, the annual interest rate range of the long-term borrowings was 0.9% to 5.5% (31 December 2017: 0.4% to 6%).

(26) Long-term employee benefits payable

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

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

(27) Share capital

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

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

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

(27) Share capital (Cont'd)

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

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

(b) Pursuant to the first share option incentive plan as approved at the first extraordinary general meeting dated 17 February 2014 (the "First Options Incentive Programme"), for the six months ended 30 June 2018, the total number of shares exercised by the granted employees was 10,640,000, of which RMB 10,640,000 was recognised as share capital, and RMB 130,420,000 was recognised as capital surplus (share premium), of which RMB 39,042,000 transferred from capital surplus (others) to capital surplus (share premium).

Pursuant to the second share option incentive plan as approved at the first extraordinary general meeting dated 25 May 2015 (the "Second Options Incentive Programme"), for the six months ended 30 June 2018, the total number of shares exercised by the granted employees was 14,271,000, of which RMB 14,271,000 was recognised as share capital, and RMB 337,763,000 was recognised as capital surplus (share premium), of which RMB 96,851,000 transferred from capital surplus (others) to capital surplus (share premium).

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

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

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

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

(28) Capital surplus

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

(a) The increase in share premium arose from the exercise of share options with the amount of RMB 1,003,687,000, and restricted shares subscription with amount of RMB 691,886,000, and the decrease in share premium arose from the repurchased restricted shares with the amount of RMB 27,109,000.

(b) Share-based payment incentive plan included share option incentive plan and restricted share plan. The increase of share-based payment incentive plan arose from expenses attributable to shareholders' equity of the Company in the share option incentive plan and restricted share plan with the amount of RMB 480,408,000, while the decrease arose from the transfer of RMB 247,911,000 to share premium due to exercise of share option.

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

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

(29) Other comprehensive income

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

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

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

(30) Surplus reserve

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

(31) Undistributed profits

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

(a) Ordinary share dividends distributed in current period

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

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

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

(32) Revenue and cost of sales

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

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

(a) Revenue and cost of sales from main operations

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

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

(b) Revenue and cost of sales from other operations

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

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

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

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

(33) Interest income/(expenses)

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

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

(34) Taxes and surcharges

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

(35) Selling and distribution expenses

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

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

(36) General and administrative expenses

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

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

(37) Financial expenses

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

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

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

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

(38) Asset impairment loss

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

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

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

(40) Investment income

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

There is no restriction on recovery of investment income.

(41) Gains on disposal of assets

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

(42) Other income

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

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

(43) Income tax expenses

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

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

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

(44) Calculation of basic and diluted earnings per share

(a) Basic earnings per share

Basic earnings per share are calculated by dividing consolidated net profit attributable to ordinary shareholders of the parent company by the weighted average number of outstanding ordinary shares:

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

(b) Diluted earnings per share are calculated by dividing consolidated net profit attributable to ordinary shareholders of the parent company by the diluted weighted average number of outstanding ordinary shares:

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

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

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

(45) Notes to the cash flow statement

(a) Cash received relating to other operating activities

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

(b) Cash paid relating to other operating activities

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

(c) Supplementary information to the cash flow statement

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

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

(d) Composition of cash and cash equivalents

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

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

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

(46) Monetary items denominated in foreign currencies

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

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

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

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

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

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

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

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

Item	31 December 2017		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand			
USD	1,601,324	6.5342	10,463,372
JPY	2,292,090	0.0579	132,712
HKD	167,138	0.8359	139,711
EURO	181,609	7.8023	1,416,970
BRL	173,113	1.9755	341,985
Other currencies	N/A	N/A	888,618
Sub-total			13,383,368
Accounts receivable			
USD	969,755	6.5342	6,336,575
JPY	26,231,623	0.0579	1,518,811
HKD	52,543	0.8359	43,921
EURO	283,715	7.8023	2,213,627
BRL	480,808	1.9755	949,836
Other currencies	N/A	N/A	1,885,439
Sub-total			12,948,209
Other receivables			
USD	48,777	6.5342	318,717
JPY	2,234,111	0.0579	129,355
HKD	723	0.8359	604
EURO	50,804	7.8023	396,390
BRL	44,134	1.9755	87,187
Other currencies	N/A	N/A	208,022
Sub-total			1,140,275
Total			27,471,852

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

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

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

Item	31 December 2017		
	Foreign currency balance	Exchange rate	RMB balance
Short-term borrowings			
USD	258,328	6.5342	1,687,965
EURO	30,233	7.8023	235,885
BRL	135,206	1.9755	267,100
Other currencies	N/A	N/A	393,152
Sub-total			2,584,102
Accounts payable			
USD	350,735	6.5342	2,291,771
JPY	18,175,112	0.0579	1,052,339
HKD	53,468	0.8359	44,694
EURO	259,337	7.8023	2,023,424
BRL	208,088	1.9755	411,078
Other currencies	N/A	N/A	1,013,751
Sub-total			6,837,057
Other payables			
USD	54,810	6.5342	358,138
JPY	8,281,744	0.0579	479,513
HKD	96,625	0.8359	80,769
EURO	33,701	7.8023	262,945
Other currencies	N/A	N/A	51,418
Sub-total			1,232,783
Long-term borrowings			
EURO	4,227,267	7.8023	32,982,403
BRL	933	1.9755	1,843
Other currencies	N/A	N/A	2,079
Sub-total			32,986,325
Debentures payable			
USD	696,804	6.5342	4,553,054
Total			48,193,321

5 Changes in consolidation scope

(1) Disposal of subsidiaries

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

(2) Changes in consolidation scope due to other reasons

(a) Increase of consolidation scope

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

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

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

(b) Decrease of consolidation scope

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

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

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

6 Interests in other entities

(1) Interests in subsidiaries

(a) Information of significant subsidiaries

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

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

6 Interests in other entities (Cont'd)

(1) Interests in subsidiaries (Cont'd)

(b) Subsidiaries that have significant minority interests

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

(2) Information of enterprise group

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

Subsidiaries	Ending balance						Opening balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Wuxi Little Swan Company Limited	17,738,535	1,810,991	19,549,526	10,912,290	14,712	10,927,002	19,564,974	1,773,447	21,338,421	13,103,359	16,764	13,120,123

Subsidiaries	Current figure				Comparative figure			
	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Wuxi Little Swan Company Limited	12,056,938	1,003,465	990,991	173,229	10,568,061	832,760	800,344	(142,411)

6 Interests in other entities

(3) Interests in associates and joint ventures

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

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

(i) The net profit and other comprehensive income have taken into account the impacts of both the fair value of the identifiable assets and liabilities upon the acquisition of investment and accounting policies unifying.

7 Segment information

The reportable segments of the Group are the business units that provide different products or service, or operate in the different areas. Different businesses or areas require different technologies and marketing strategies, the Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance.

The Group identified 4 reportable segments as follows:

- Heating & ventilation, as well as air-conditioner
- Consumer appliances
- Robots and automatic system
- Others

Inter-segment transfer prices are measured by reference to selling prices to third parties.

The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment’s revenue.

Operating expenses include cost of sales, interest expenses, fee and commission expenses, taxes and surcharges, selling and distribution expenses, general and administrative expenses, financial expenses and asset impairment losses.

(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 six months ended 30 June 2018 was as follows:

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

(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 six months ended 30 June 2017 is as follows:

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

(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, Japan, Hong Kong, Macau, Singapore, and Brazil, etc.) are as follows:

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

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

9 Related parties and significant related party transactions

(1) Information of the parent company

(a) General information of the parent company

Name of the parent company	Relationship	Place of registration	Nature of business
Midea Holding Co., Ltd.	Controlling shareholder	Shunde District, Foshan	Commercial

The Company's ultimate controlling person is Mr. He Xiangjian.

(b) Registered capital and changes in registered capital of the parent company

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

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

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

(2) Information of the Company's subsidiaries

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

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

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

(3) Information of other related parties

Name of other related parties	Relationship
Guangzhou Wellkey Electrician Material Co., Ltd.	Under the common control of the direct relatives of the Company's ultimate controlling shareholders
Anhui Wellkey Electrician Material Co., Ltd.	Under the common control of the direct relatives of the Company's ultimate controlling shareholders
Guangdong Infore Electronics Co., Ltd.	Under the common control of the direct relatives of the Company's ultimate controlling shareholders
Hefei Orinko Plastics Group.	Under the common control of the direct relatives of the Company's ultimate controlling shareholders
Foshan Micro Midea Filter MFG Co., Ltd.	Associates of the Company
Foshan Shunde Rural Commercial Bank Co., Ltd.	Associates of the Company

(4) Information of related party transactions

The following related party transactions are conducted in accordance with normal commercial terms or relevant agreements.

(a) Purchase of goods

Related parties	Content of related party transactions	Pricing policies of related party transactions	Current figure	Comparative figure
Hefei Orinko Plastics Group.	Purchase of goods	Agreed price	170,578	241,380
Guangzhou Wellkey Electrician Material Co., Ltd.	Purchase of goods	Agreed price	449,123	417,827
Foshan Micro Midea Filter MFG Co., Ltd.	Purchase of goods	Agreed price	93,526	93,705
Anhui Wellkey Electrician Material Co., Ltd.	Purchase of goods	Agreed price	165,746	123,049
Total			878,973	875,961

(b) Investment income

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

(5) Receivables from and payables to related parties

Receivables from related parties:

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

Payables to related parties:

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

10 Share-based payment

(1) Share Option Incentive Plan

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

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

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

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

(b) Movements of share options during the six months

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

As at 30 June 2018, the maturity date of the First Option Incentive Plan is on 17 February 2019. The residual contractual maturity date of the Second Share Option Incentive Plan is on 27 May 2020. The residual contractual maturity date of the Third Share Option Incentive Plan is on 28 June 2021. The residual contractual maturity date of the Fourth Share Option Incentive Plan is on 12 May 2021. The residual contractual maturity date of the Fifth Share Option Incentive Plan is on 7 May 2024.

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

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

(2) Restricted shares

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

10 Share-based payment (Cont'd)

(2) Restricted shares (Cont'd)

(b) Movements of share options during the six months

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

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

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

11 Contingencies

The amount in tax disputes involving Brazilian subsidiary with 51% interests held by the Company is about BRL 672 million (equivalent to RMB 1,153 million) (Some cases have lasted for more than 10 years. The above amount includes the principal and interest). As at 30 June 2018, relevant cases are still at court. Original shareholders of Brazilian subsidiary have agreed to compensate the Company according to verdict results of the above tax disputes. The maximum compensation amount is about BRL 157 million (equivalent to RMB 269 million). With reference to judgements of third-party attorneys, management believes that the probability of losing lawsuits and making compensation is small, and expects no significant risk of debt default, therefore, no provisions are made and appropriate disclosures are made in the financial statements.

12 Commitments

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

13 Subsequent events

Nil

14 Financial risk

The Group is exposed to various financial risks in the ordinary course of business, mainly including:

- Foreign exchange risk
- Interest rate risk
- Credit risk
- Liquidity risk

The following mainly relates to the above risk exposures and relevant causes, objectives, policies and process of risk management and method of risk measurement, etc.

14 Financial risk (Cont’d)

The objective of the Group's risk management is to seek balance between risk and income, minimising the adverse impact of financial risks on the Group's financial performance. Pursuant to the risk management objective, the Group has made risk management policies to identify and analyse the risks it is exposed to and set appropriate risk resistant level and design relevant internal control procedures to monitor the Group’s risk level. The Group reviews regularly these risk management policies and relevant internal control systems to adapt to changes in market condition or its operating activities.

(1) Market risk

(a) Foreign exchange risk

The Group mainly operates in Mainland China, Europe, America, Asia and Africa for the manufacturing, sales, investments and financing activities. Any foreign currency denominated monetary assets and liabilities other than in RMB would subject the Group to foreign exchange exposure.

The Group’s finance department at its headquarters has a professional team to manage foreign exchange risk, with approach of the natural hedge for settling currencies, signing forward foreign exchange hedging contracts and controlling the scale of foreign currency assets and liabilities, to minimise foreign exchange risk, and to reduce the impact of exchange rate fluctuations on business performance.

(b) Interest rate risk

The Group's interest rate risk arises from interest bearing borrowings including long-term borrowings and debentures payable. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 30 June 2018, the Group had no long-term interest bearing borrowings at floating rates (31 December 2017: nill) (Note 4(25)).

The Group’s finance department at its headquarters continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group’s outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group’s financial position. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk.

(2) Credit risk

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

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

14 Financial risk (Cont’d)

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

(2) Credit risk

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

(3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements. As at the balance sheet date, monetary assets held by the Group, including cash at bank and on hand, notes assets, discounted assets and wealth management funds in other current assets, amounted to RMB 114,423,861,000.

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

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

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

14 Financial risk (Cont'd)

(3) Liquidity risk (Cont'd)

31 December 2017					
Ending balance	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Short-term borrowings (including interest)	2,602,067	-	-	-	2,602,067
Notes payable	25,207,785	-	-	-	25,207,785
Accounts payable	35,144,777	-	-	-	35,144,777
Interest payable	94,801	-	-	-	94,801
Dividends payable	95,317	-	-	-	95,317
Other payables	3,170,405	-	-	-	3,170,405
Customer deposits and deposits from banks and other financial institutions	108,926	-	-	-	108,926
Derivative financial liabilities	90,432	-	-	-	90,432
Other current liabilities	9,017,975	-	-	-	9,017,975
Debentures payable (including interest)	108,631	4,682,571	-	-	4,791,202
Long-term borrowings (including interest)	306,723	2,415,508	31,643,935	2,087	34,368,253
Other non-current liabilities	-	189,404	138,643	666,012	994,059
Sub-total	75,947,839	7,287,483	31,782,578	668,099	115,685,999

15 Fair value estimates

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

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

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

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

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

15 Fair value estimates (Cont'd)

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

As at 31 December 2017, the assets and liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

Item	Fair value at beginning of year			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss -				
derivative financial assets	-	353,327	-	353,327
Other current assets - hedging instruments	-	360,858	-	360,858
Available-for-sale financial assets -				
Other current assets - wealth management products	-	-	22,094,715	22,094,715
Available-for-sale financial assets	38,460	-	80,251	118,711
Total assets	38,460	714,185	22,174,966	22,927,611
Financial liabilities at fair value through profit or loss -				
Derivative financial liabilities	-	90,432	-	90,432
Other financial liabilities - hedging instruments	-	1,877	-	1,877
Total liabilities	-	92,309	-	92,309

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

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

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

The changes in Level 3 financial assets are analysed below:

Available-for-sale financial assets

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

Available-for-sale financial assets

Item	- Available-for-sale equity instruments
1 January 2017	30,109,067
Increase	26,513,177
Decrease	(35,571,427)
Total gains of current period	
Investment income recognised in the income statement	975,534
Gains recognised in other comprehensive income	148,615
31 December 2017	22,174,966

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

15 Fair value estimates (Cont'd)

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

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

	30 June 2018 Fair value	Valuation technique	Inputs			
			Name	Range	Relationship with fair value	Observable/ unobservable
Available-for-sale financial assets -						
Other current assets	12,642,160	Discounted cash flows	Estimated annual yield	2.2% to 5.4%	Positive	Unobservable
Available-for-sale financial assets	96,486	Income approach	-	-	-	-
	12,738,646					

Assets and liabilities subject to level 2 fair value measurement are mainly forward exchange contracts and are evaluated by income approach.

(2) Assets and liabilities not measured at fair value but disclosed

The Group's financial assets and financial liabilities measured at amortised cost mainly include: cash at bank and on hand, deposits with central bank, deposits with banks and other financial institutions, notes receivable, accounts receivable, loans and advances, other receivables, other current assets (excluding those mentioned in Note 15(1)), accounts payable, notes payable, short-term borrowings, long-term borrowings, customer deposits and deposits from banks and other financial institutions, financial assets sold under repurchase agreements, interest payable and other current liabilities, etc.

Carrying amounts of the Group's financial assets and financial liabilities as at 30 June 2018 and 31 December 2017 approximated to their fair value.

16 Capital management

The Group's capital management policies aim to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce debts. The Group is not subject to external mandatory capital requirements, and monitors capital structure on the basis of gearing ratio (total assets divide total liabilities).

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

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

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

17 Notes to the parent company's financial statements

(1) Other receivables

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

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

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

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

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

(c) Other receivables that the related provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

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

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

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

(1) Other receivables (Cont'd)

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

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

(2) Long-term equity investments

Long-term equity investments are classified as follows:

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

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

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

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

(a) Subsidiary

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

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

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

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

(a) Subsidiary (Cont'd)

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

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

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

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

(a) Subsidiary (Cont'd)

Investee	Opening balance	Movements in current period					Ending balance	Cash dividends declared in current period
		Additional investment	Changes arising from share-based payment	Decrease in investment	Absorption and merger	Others		
Guangdong Midea Environmental Electric Appliance Manufacturing Co., Ltd.	342,233	-	19,958	-	-	-	362,191	
Foshan Shunde Midea Washing Appliance Manufacturing Co., Ltd.	427,372	-	6,922	-	-	-	434,294	277,987
Guangdong Midea Kitchen & Bathroom Electric Manufacturing Co., Ltd.	88,260	-	7,585	-	-	-	95,845	
Wuhu Midea Kitchen & Bathroom Electric Manufacturing Co., Ltd.	103,643	-	13,408	-	-	-	117,051	547,744
Jiangxi Midea Guiya lighting Co., Ltd.	170,464	-	2,755	(545)	-	-	172,674	
Guangdong Midea Household Appliances Import and Export Trade Co., Ltd.	53,207	-	-	-	-	-	53,207	
JV MIDEA–HORIZON Co., Ltd.	41,357	-	-	-	-	-	41,357	854
Guangdong MIDEA-YASKAWA Service Robotics Ltd.	24,040	-	45	-	-	-	24,085	
Foshan Shunde Midea Petty Loan Co., Ltd.	69,766	-	1,154	-	-	-	70,920	
Midea Petty Loan Co., Ltd.	55,381	-	88	-	-	-	55,469	
Midea Robotics Industry Development Co., Ltd.	7,000	-	-	-	-	-	7,000	
Wuhu Midea Household Consultation Service Co., Ltd.	101,648	-	-	-	-	-	101,648	
Hefei Midea Washing Machine Co., Ltd.	84,895	-	4,172	-	-	-	89,067	
China Refrigerator Industry Co., Ltd.	2,430	-	-	-	-	-	2,430	
Guangdong Midea Advanced Technologies Co., Ltd.	50,000	-	34	-	-	-	50,034	
Foshan Shunde Meiying Enterprise Management Services Co., Ltd.	13,000	-	-	-	-	-	13,000	
Midea Smart Home Technology Co., Ltd.	20,000	-	-	-	-	-	20,000	
Midea Finance Holding (Shenzhen) Co., Ltd.	50,000	1,900,000	-	-	-	-	1,950,000	
Guangdong Midea Electric Co., Ltd.	1,000	-	-	-	-	-	1,000	
Guangdong Midea Intelligent Robotics Co., Ltd.	150,000	-	-	-	-	-	150,000	
Guangdong Midea Advanced Technologies Co., Ltd.	50,000	-	-	-	-	-	50,000	
Guangdong Midea Environment Technology Co., Ltd.	47,500	-	-	-	-	-	47,500	
Total	23,099,672	1,900,000	440,329	(80,545)	-	-	25,359,456	6,275,165

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

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

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

(b) Associates

Investments in associates are mainly the investments in Foshan Shunde Rural Commercial Bank Co., Ltd., Misr Refrigeration And Air Conditioning Manufacturing Co. and Hefei Royalstar Motor Co., Ltd. and other companies.

(3) Revenue

Revenue mainly comprises other operating income including the brand royalty income, rental income and management fee income, etc. obtained by the parent company from the subsidiaries.

(4) Investment income

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

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

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

1 Details of non-recurring profit or loss

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

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

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

2 Return on net assets and earnings per share

The Group's return on net asset and earnings per share calculated pursuant to the *Compilation Rules for Information Disclosure of Companies Offering Securities to the Public No. 9 - Calculation and Disclosure of Return on Net Asset and Earnings per Share* (revised in 2010) issued by CSRC and relevant requirements of accounting standards are as follows:

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

Section XI Documents Available for Reference

1. The original of *The Semi-Annual Report 2018 of Midea Group Co., Ltd.* signed by the legal representative;

2. The financial statements signed and stamped by the legal representative, the Chief Financial Officer and the accounting supervisor;

3. The originals of all company documents and announcements that are disclosed to the public via newspaper designated for information disclosure during the Reporting Period; and

4. The electronic version of *The Semi-Annual Report 2018* that is released on http://www.cninfo.com.cn.

Midea Group Co., Ltd.

Legal Representative: Fang Hongbo

31 August 2018