Midea Group Co., Ltd.

Semi-Annual Report 2017

August 2017

Part I Important Statements, Contents and Definitions

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

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

The Company plans not to distribute cash dividends or bonus shares or convert capital reserves into share capital for the first half of 2017.

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

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

The future plans and other forward-looking statements mentioned in this report shall NOT be considered as virtual promises of the Company to investors. Therefore investors are kindly reminded to pay attention to investment risk.

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

Table of Contents

Definitions

Term	Definition
Company, the Company, Midea, Midea Group, Group or the Group	Midea Group Co., Ltd.
Midea Holding	Midea Holding Co., Ltd.
Little Swan	Wuxi Little Swan Company Limited
Toshiba	Toshiba Corporation
TLSC	Toshiba Lifestyle Products & Services Corporation
KUKA	KUKA Aktiengesellschaft
MECCA	MECCA International (BVI) Limited
SMC	Servotronix and its subsidiaries
The Reporting Period	The period from 1 January 2017 to 30 June 2017

Part II Company Profile and Key Financial Results

1. Corporate Information

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

2. Contact Us

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

3. Other Information

3.1 Ways to Contact the Company

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

□ Applicable √ N/A

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

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

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

□ Applicable √ N/A

The newspapers designated by the Company for information disclosure, the website designated by the CSRC for disclosing this Report and the place where materials carrying disclosed information such as this Report were kept did not change in the Reporting Period. The said information can be found in the 2016 Annual Report.

3.3 Other Information

Changes in the Reporting Period to other information:

□ Applicable √ N/A

4. Key Accounting Data and Financial Indicators

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

□ Yes √ No

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

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

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

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

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

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

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

□ Applicable √ N/A

No such differences for the Reporting Period.

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

□ Applicable √ N/A

No such differences for the Reporting Period.

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

□ Applicable √ N/A

6. Non-recurring Gains and Losses

√ Applicable □ N/A

RMB'000

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

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

□ Applicable √ N/A

No such cases for the Reporting Period.

Part III Business Profile

1. Business Scope for Reporting Period

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

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

2. Significant Changes in Main Assets

2.1 Significant Changes in Main Assets

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

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

2.2 Main Assets Overseas

□ Applicable √ N/A

3. Core Competitiveness Analysis

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

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

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

The Group is focused on building a competitive, multi-layered global R&D system centering on user experience and product functions, which represents world-class R&D input and strength. With more than RMB20 billion invested in R&D over the past five years, the Group has set up a total of 17 research centers in eight countries, with its R&D employees over 10,000 and senior foreign experts over 300. And the applications the Group has filed for white goods-related patents are second to none worldwide. While building its own research centers around the world, the Group has also signed technical cooperation agreements with scientific research institutions at home and abroad, such as MIT, UC Berkeley, UIUC, Stanford, Purdue University, Tsinghua University and the Chinese Academy of Sciences, to establish joint labs and build a global innovation ecosystem. The Group's long-term focus on building technology, marketing, product and open innovation systems, building a cutting-edge research system and building reserves in technology for the mid and long term, has helped lay a solid foundation for the Group to maintain technical superiority across the globe.

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

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

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

By virtue of years of development and investments, Midea Group has formed an all-dimensional market coverage. In the mature first and second-tier markets, the Company has developed and maintained good partnerships with large home appliance retail chains. While in the broad third and fourth-tier markets, the Company uses flagship stores, specialty shops, traditional channels and new channels as effective supplements. Already, the Company has achieved 100% coverage in first and second-tier markets, as well as over 95% coverage in third and fourth-tier markets. Additionally, the Company's dominance in branding, products, offline channels and logistics distribution have also created powerful guarantees for the Company's rapid expansion of its e-commerce business and channels. Achieving the highest online sales among China's household appliance manufacturers, Midea's online retail sales exceeded RMB20 billion (around 25% of Midea's total domestic sales) in H1 2017, a year-on-year growth of 80%.

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

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

So far, the Company has launched four stock option incentive plans, one restricted stock incentive plan and three senior management “partner” stock ownership plans for key managerial and technical personnel, marking the establishment of a governance structure aligning the interests of management and shareholders, as well as the formulation of an incentive scheme comprising long and short-term incentives and restrains.

Part IV Performance Discussion and Analysis

1. Overview

1.1 Industry Overview

A. Home Appliance Industry

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

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

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

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

B. Robotics Industry

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

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

The World Health Organization has predicted that China may become, by 2050, the country that faces the most serious problems caused by aging, with 35% of its population over 60 years old. These problems may include labor shortages and rising labor costs, which will stimulate demand among manufacturing enterprises for smart equipment including industrial robots. Prospects look promising for China's robot industry. In addition to carmaking, robots will be used increasingly in manufacturing of general-purpose equipment, home appliances, electronics and rubber and plastic products. Robots are also needed in labor-intensive textile and logistics industries, dangerous military and commercial explosive sectors, pharmaceutical, semi-conductor and food industries that require a clean production environment, as well as hazardous ceramic- and brick-making. Therefore, China's industrial robot market is expected to experience dramatic growth to become a market worth hundreds of billions in RMB in the foreseeable future.

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

1.2 Analysis of the Company's Main Business

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

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

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

improved product competitive advantages.

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

In its commercial air conditioner business, with years of accumulation in technology, outstanding product advantages and brand influence, Midea possesses over 1,000 patents and has won bids for a lot of substantial projects worldwide, including 2014 FIFA World Cup, Games of the XXXI Olympiad, European Youth Olympic Games and Milan EXPO 2015. And in 2017, we won the bid for 2018 FIFA World Cup, which, once again, showcased our strong competitiveness. According to the online data, in the first half of 2017, our market share of commercial air-conditioners was 18.7%, continuously taking a leading position in this field. In the auxiliary market of real estate, we provided MDV X series commercial air conditioner for villa and TR series for duplex apartment and big house. Besides, we also offered a string of products tailored for customers differentiated needs, namely, the water heater driven by air energy, integral AIO air purifier, household wall-hanging stove with gas as its energy and "electricity replacing coal" ultra low temperature heater with air source heat pump. Midea offered professional solutions covering air conditioner, water heater, new wind and heating in an all-round manner. During the evaluation of the 14th Top China Real Estate Oscar, Midea commercial air conditioner was awarded the title of "Excellent and First-choice Brand for Real Estate". In the field of rail transit, Midea commercial air conditioner became the outstanding brand which occupied the biggest market share in the high speed train market. According to statistics, Midea commercial air conditioner covered 650 high-speed railway stations in over 300 cities. And we also blanketed over 50% of the heating project for high-speed train. Among the 44 cities which were entitled to build metro, we got orders from 20 cities, a coverage of 18 provinces with a percentage of 45% of its total. And hence, we claimed our fame as a brand of "entering the most cities, covering the longest mileage in metro and enjoying the biggest blanket order".

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

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

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

As for Midea’s small appliance business, with the improvement on technical innovation and the product capacity, many small household appliances won the honor of IF design award, Red Dot award and Appliance Prize, etc, which showcased our competitiveness. Midea “Aurora” kitchen cleaner with “Skyeye detector”, featured in real time temperature variation, automatic adjustment, overall automation, strong suction ($20m^3$/min) and high-temperature steam cleaning, could solve the thorny problem for customers. Midea M-box “cooking robot” electronic cooker, combined functions of rice recognition, rice access, cleaning, water access and cooking, won a gold award of the Appliance Awards. Midea 105kpa electronic pressure cooker with the function of fast cooking within 19 minutes and 121℃ high-temperature sterilization, ranked No. 1 of its kind from its launching day till now. Midea “Ironman” and “Hot Hatch”, high-end cell wall breaker, was warmly welcomed by the market, because it has multiple functions and highly efficiency on breaking the cell walls of food materials for cooking. And it also ranked No.1 of its kind from its launching day till now. Midea “Qingyu” smart fan was tailored for the needs and the children and the elderly with its double fan blade which enabled a gentle wind. It could be used as a helper of the air conditioner in different temperatures. Midea installation-free dish washer with many washing modes was specially designed for small families, because it can finish washing within 29 minutes and no need for installation. Midea Beverly G400E water purifier could provide water flow of 1L/min with its dedicate and small body and it provided users with water of 2 different quality. Midea Beverly I8 water heater optimized customers’ experience for shower, since it had functions of 3.0T zero cool water, constant temperature system and sine sound wave for denoising, and it also won the Appliance Award 2017.

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

We continuously increased investment on R&D and R&D mechanism innovation. We pushed forward the innovation on technology, users and products. What’s more, we also conducted opening innovation system and technical innovation planning system. The 4th grade R&D systematic management model was further enhanced. We focused on prior research and paid attention to middle and long term technical reserve and long term competitiveness. Apart from research on core technology, we gave full play to the transformation of R&D result, which helped us win many prizes and awards. In the first half of 2017, altogether 14 technologies got "the global advanced level" awards, including research and industrialization on key integral mute technology, research and industrialization on key technology of IH electronic cooker with nuclear boiling and cooking supply function, application of all-variable frequency second-grade compression technique on multi-split air conditioner, research and application of household kitchen ventilator smart steam cleaning technology, research on microwave oven variable frequency power technology, modularizing easy-cleaning material and its application in the kitchen appliance and AC no-polar variable frequency technology. In the industrial field, we had 14 industrial designs got the IF award 2017, and 16 industrial designs won the Red Dot Award 2017.

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

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

The Company persistently promoted channel transformation, decreased offline channel hierarchy, pushed forward direct sales on e-commerce and reduced channel inventory to improve the efficiency substantially. In the first half of 2017, our product models declined for 24%, offline inventory decreased for 51%, and channel circulation increased by 1.6 times compared to the same period of last year. Only 70 out of over 2,000 agencies had subletting. We advanced the operating system for our flagship stores, in the first half of 2017, 200 new flagship stores were opened, and the sales revenue enjoyed a year-on-year growth of 45%. With the TOP Club reaching its scale of 10 billion, we were committed to creating the V200 Club for small and medium-sized chain stores to increase our coverage and enhance terminal sales. In the first half of this year, the sales of V200 enjoyed a year-on-year growth of 27%. We also promoted the sharing of distributors, sales channel, terminal resources, shopping guide, inventory and logistics. Many commercial centers were set up to reduce the costs and expenses in a coordinated manner. We gave full play to various advantages of different products to gain the common growth.

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

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

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

The smart logistic system was further developed and applied. We carried out in-depth research on integrated storage of big products, highly efficient sorting process for small products, automatic loading, moveable AGV and analog simulation. Moreover, the Magic Center order management system, Magic Space warehouse management system and Magic Control warehouse control system was delicately created. Besides, we also conducted overall connectivity with the consignor, third party logistic company (transport company/ driver) and the consignee. Hence, a modern and visible information system with balanced core procedure was formed to provide integral service of software and hardware, and hence a multi-win result was ensured. As for data operation, we successfully developed “KUNPENG” transparent business analysis system, and it covered various scenarios, including warehouse, main delivery, branch delivery, allocation, e-commerce and international business. Consequently, we could offer customers smart order management, decision-making analysis, cloud arrangement and mobile transformation, by doing so , we optimized the traditional IT information flow for customers.

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

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

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

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

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

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

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

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

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

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

H. Midea improved its operations throughout the value chain.

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

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

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

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

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

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

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

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

2. Analysis of Main Business

Overview:

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

√ Yes □ No

See “1. Overview” of this part.

YoY changes in key financial data:

Unit: RMB’000

	H1 2017	H1 2016	YoY Change (%)	Main reasons for change
Operating revenues	124,450,065	77,522,287	60.53%	Increased sales and consolidation of KUKA and TLSC
Operating costs	93,051,081	54,866,160	69.60%	Increased sales and consolidation of KUKA and TLSC
Selling expenses	12,404,770	8,185,178	51.55%	Increased sales and consolidation of KUKA and TLSC
Administrative expenses	6,832,958	3,690,059	85.17%	Increased sales and consolidation of KUKA and TLSC
Finance costs	346,614	-905,261	138.29%	Increased exchange losses
Net cash flows from operating activities	13,895,932	8,129,163	70.94%	Increased revenues
Net cash flows from investing activities	-26,751,897	-16,336,731	63.75%	Increase in net cash paid to obtain subsidiaries
Net cash flows from financing activities	20,990,804	13,246,447	58.46%	Increase in borrowings secured
Net increase in cash and cash equivalents	8,272,701	5,109,499	61.91%	Increased net cash flows from operating activities

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

□ Applicable √ Inapplicable

No such cases in the Reporting Period.

Breakdown of Midea's main business:

Unit: RMB'000

	Operating revenue	Operating cost	Gross margin (%)	YoY change in operating revenue (%)	YoY change in operating cost (%)	YoY change in gross margin (%)
By business segment						
Manufacturing	115,456,202	84,704,701	26.63%	63.39%	73.27%	-4.18%
Others	1,078,404	1,033,539	4.16%	19.15%	23.59%	-3.44%
By product						
HVAC	50,022,802	35,410,252	29.21%	41.52%	48.64%	-3.39%
Consumer appliances	51,827,140	37,688,678	27.28%	46.75%	50.38%	-1.75%
Robotics and automatic systems	13,606,260	11,605,771	14.70%	-	-	-
Others	1,078,404	1,033,539	4.16%	19.15%	23.59%	-3.44%
By geographical segment						
PRC	61,071,521	41,470,376	32.10%	51.76%	58.51%	-2.88%
Other countries and regions	55,463,085	44,267,864	20.18%	77.05%	87.91%	-4.62%

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

3. Analysis of Non-Core Business

□ Applicable √ N/A

4. Assets and Liabilities

4.1 Material Changes of Asset Items

Unit: RMB'000

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

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

4.2 Assets and Liabilities Measured at Fair Value

√ Applicable □ N/A

Unit: RMB'000

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

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

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

□ Yes √ No

4.3 Restricted Asset Rights as of End of Reporting Period

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

5. Analysis of Investments

5.1 Total Investments Made

√ Applicable □ N/A

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

5.2 Significant Equity Investments Made in Reporting Period

√ Applicable □ N/A

Unit: RMB'000

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

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

5.3 Significant Non-Equity Investments Ongoing in Reporting Period

□ Applicable √ N/A

5.4 Financial Investments

5.4.1 Securities Investments

□ Applicable √ N/A

No such cases in the Reporting Period.

5.4.2 Derivatives Investments

√ Applicable □ N/A

Unit: RMB'0,000

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

Litigation involved (if applicable)	N/A
Disclosure date of board announcement approving derivative investment (if any)	31/03/2017
Disclosure date of shareholders' meeting announcement approving derivative investment (if any)	22/04/2017
Risk analysis of positions held in derivatives during Reporting Period and explanation of control measures (including but not limited to market risk, liquidity risk, credit risk, operational risk and legal risk)	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 price or fair value of derivatives product invested during Reporting Period: specific methods used and relevant assumption and parameter settings shall be disclosed for analysis of fair value of derivatives	1. Gains/losses on futures hedging contracts incurred during the Reporting Period were RMB-3,724,000. 2. Gains/losses on forward forex contracts incurred during the Reporting Period were RMB207,635,000. 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 Reporting Period compared to last reporting period	No change
Special opinions expressed by independent directors concerning the Company's derivatives investment and risk control	The Company's independent directors are of the view that the futures hedging business is an effective instrument for the Company to eliminate price volatility and implement risk prevention measures through enhanced internal control, thereby improving the operation and management of the Company; the Company's foreign exchange risk management capability can be further improved through the forex funds business, so as to maintain and increase the value of foreign exchange assets and the abovementioned investment in derivatives can help the Company to fully bring out its competitive advantages. Therefore, it is practicable for the Company to carry out derivatives investment business, and the risks are controllable.

6. Sale of Major Assets and Equity Interests

6.1 Sale of Major Assets

□ Applicable √ N/A

No such cases in the Reporting Period.

6.2 Sale of Major Equity Interests

□ Applicable √ N/A

7. Analysis of Major Subsidiaries

√ Applicable □ N/A

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

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

Acquisition and disposal of subsidiaries during the Reporting Period:

√ Applicable □ N/A

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

8. Structured Bodies Controlled by the Company

□ Applicable √ N/A

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

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

□ Applicable √ N/A

10. Risks Facing the Company and Countermeasures

A. Risk of Macro Economy Fluctuation

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

B. Risks in Fluctuation of Production Factors

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

C. Risk in Global Asset Allocation and Overseas Market Expansion

Internationalization and global operations is a long-term strategic goal of the Company. The Company has built joint-venture manufacturing bases in many countries around the world. It has also conducted a series of significant acquisitions to promote new business, enlarge its global market share, expand its channels and seek greater brand recognition. However, its efforts in global resource integration may not be able to produce expected synergies; and in overseas market expansion, there are still unpredictable risks such as local political and economic situations, significant changes in law and regulation systems, and sharp increases in production costs.

D. Risk in Product Export and Foreign Exchange Losses Caused by Exchange Rate Fluctuation

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

Part V Significant Events

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

1.1 Meetings of Shareholders Convened during Reporting Period

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

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

□ Applicable √ N/A

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

□ Applicable √ N/A

The Company plans not to distribute cash dividends or bonus shares or convert capital reserves into share capital for the first half of 2017.

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

□ Applicable √ N/A

No such cases in the Reporting Period.

4. Engagement and Disengagement of CPAs Firm

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

□ Yes √ No

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

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

□ Applicable √ N/A

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

□ Applicable √ N/A

7. Bankruptcy and Reorganization

□ Applicable √ N/A

No such cases in the Reporting Period.

8. Legal Matters

Material litigations and arbitrations involved:

□ Applicable √ N/A

No such cases in the Reporting Period.

Other legal matters:

□ Applicable √ N/A

9. Punishments and Rectifications

□ Applicable √ N/A

No such cases in the Reporting Period.

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

□ Applicable √ N/A

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

√ Applicable □ N/A

A. Overview of First Stock Option Incentive Plan

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

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

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

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

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

B. Overview of Second Stock Option Incentive Plan

a. The Company convened the 22nd Meeting of the 2nd Board of Directors on 12 May 2017, at which the *Proposal for the Adjustments to the Exercise Price for the Second Stock Option Incentive Plan* was reviewed and approved. As the 2016 Annual Profit Distribution had been carried out, the exercise price for the Second Stock Option Incentive Plan was revised from RMB19.56 to RMB18.56 per share.

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

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

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

C. Overview of Third Stock Option Incentive Plan

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

b. The Company convened the 24th Meeting of the 2nd Board of Directors on 29 June 2017, at which the *Proposal for the Adjustments to the Incentive Receivers and Their Exercisable Stock Options of the Third Stock Option Incentive Plan* was reviewed and approved. As such, it was agreed to adjust the incentive receivers and their exercisable stock options for the Third Stock Option Incentive Plan due to the departure, positional changes, low performance appraisals or other factors of some incentive receivers. Upon the adjustments, the number of incentive receivers decreased from 929 to 891, and the number of locked-up stock options granted to them was also reduced from 127,290,000 to 121,485,000.

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

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

D. Overview of Fourth Stock Option Incentive Plan

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

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

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

c. In light of the authorization given at the 2016 Annual Meeting of Shareholders, the Company convened the 22nd Meeting of the 2nd Board of Directors on 12 May 2017, at which the *Proposal for the Adjustments to the Exercise Price, Incentive Receiver List and Number of Stock Options to Be Granted for the Fourth Stock Option Incentive Plan*, the *Proposal for the Determination of the Grant Date for the Fourth Stock Option Incentive Plan* and the *Proposal for the Grant-Related Matters for the Fourth Stock Option Incentive Plan* were reviewed and approved. As such, the Company agreed to grant 98,274,000 stock options to 1,463 receivers on 12 May 2017 with the exercise price being RMB32.72 per share. The incentive receiver list and the number of stock options to be granted were revised by the Company's Board of Directors because 13 incentive receivers were no longer eligible due to their departure or positional changes.

E. Overview of First Employee Stock Ownership Plan

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

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

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

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

F. Overview of Second Employee Stock Ownership Plan

a. The company performance requirement for the Second Employee Stock Ownership Plan is a weighted average ROE not lower than 20% for 2016. According to the *2016 Annual Auditor's Report for Midea Group Co., Ltd.* issued by PricewaterhouseCoopers China (LLP), this ROE requirement has been met at 26.88%.

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

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

G. Overview of Third Employee Stock Ownership Plan

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

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

H. Overview of 2017 Restricted Share Incentive Plan

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

Board.

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

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

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

12. Significant Related Transactions

12.1 Related Transactions Arising from Routine Operation

√ Applicable □ N/A

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

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

12.2 Related Transactions Regarding Purchase or Sales of Assets or Equity Interests

□ Applicable √ N/A

No such cases in the Reporting Period.

12.3 Related Transitions Arising from Joint Investments in Third Parties

□ Applicable √ N/A

No such cases in the Reporting Period.

12.4 Credits and Liabilities with Related Parties

□ Applicable √ N/A

No such cases in the Reporting Period.

12.5 Other Significant Related Transactions

□ Applicable √ N/A

No such cases in the Reporting Period.

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

□ Applicable √ N/A

No such cases in the Reporting Period.

14. Significant Contracts and Their Execution

14.1 Trusteeship, Contracting and Leasing

14.1.1 Trusteeship

□ Applicable √ N/A

No such cases in the Reporting Period.

14.1.2 Contracting

□ Applicable √ N/A

No such cases in the Reporting Period.

14.1.3 Leasing

□ Applicable √ N/A

No such cases in the Reporting Period.

14.2 Major Guarantees

√ Applicable □ N/A

14.2.1 Major Guarantees

Unit: RMB'0,000

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

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

Foshan Welling Material Co., Ltd.	31/03/2017	6,000	01/01/2017	2,503	Ditto	Ditto	Ditto	Ditto
Guangzhou Kaizhao Trading Co., Ltd.	31/03/2017	18,000	01/01/2017	492	Ditto	Ditto	Ditto	Ditto
Guangdong Midea Group Wuhu Refrigeration Equipment Co., Ltd.	31/03/2017	122,300	-	0	Ditto	Ditto	Ditto	Ditto
Wuhu GMCC Air Conditioning Equipment Co., Ltd.	31/03/2017	111,000	12/01/2017	1,864	Ditto	Ditto	Ditto	Ditto
Hefei Midea Refrigerator Co., Ltd.	31/03/2017	34,000	06/01/2017	0	Ditto	Ditto	Ditto	Ditto
Hubei Midea Refrigerator Co., Ltd.	31/03/2017	10,000	24/03/2017	1,075	Ditto	Ditto	Ditto	Ditto
Hefei Hualing Co., Ltd.	31/03/2017	52,000	10/01/2017	950	Ditto	Ditto	Ditto	Ditto
Guangzhou Midea Hualing Refrigerator Equipment Co., Ltd.	31/03/2017	20,000	12/01/2017	1,089	Ditto	Ditto	Ditto	Ditto
Hefei Midea Heating & Ventilation Equipment Co., Ltd.	31/03/2017	24,200	-	0	Ditto	Ditto	Ditto	Ditto
Hefei Midea-Bosch Air Conditioning Equipment Co., Ltd.	31/03/2017	5,000	-	0	Ditto	Ditto	Ditto	Ditto
Wuhu Midea Kitchen & Bathroom Electric Manufacturing Co., Ltd.	31/03/2017	44,000	05/05/2017	16,472	Ditto	Ditto	Ditto	Ditto
Wuhu Midea Kitchen Appliances Manufacturing Co., Ltd.	31/03/2017	4,000	-	0	Ditto	Ditto	Ditto	Ditto
Anhui GMCC Refrigeration Equipment Co., Ltd.	31/03/2017	10,000	14/03/2017	21	Ditto	Ditto	Ditto	Ditto
Anhui GMCC Precise Manufacture Co., Ltd.	31/03/2017	25,200	12/01/2017	2,983	Ditto	Ditto	Ditto	Ditto
Welling (Wuhu) Motor Manufacturing Co., Ltd.	31/03/2017	16,800	18/05/2017	6,040	Ditto	Ditto	Ditto	Ditto
Annto Logistics Co., Ltd.	31/03/2017	32,000	01/01/2017	479	Ditto	Ditto	Ditto	Ditto
Hefei Midea Washing Machine Co., Ltd.	31/03/2017	105,000	21/02/2017	24,433	Ditto	Ditto	Ditto	Ditto
Jiangsu Midea Cleaning Appliances Co., Ltd.	31/03/2017	22,000	16/03/2017	17,505	Ditto	Ditto	Ditto	Ditto
Jiangxi Midea Guiya Lighting Co., Ltd.	31/03/2017	7,700	-	0	Ditto	Ditto	Ditto	Ditto

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

Midea Scott & English Electronics SDN BHD	31/03/2017	4,510	17/01/2017	3,306	Ditto	Ditto	Ditto	Ditto
Midea America (Canada) Corp.	31/03/2017	5,500	-	0	Ditto	Ditto	Ditto	Ditto
Midea México, S. DE R.L. DE C.V.	31/03/2017	13,810	-	0	Ditto	Ditto	Ditto	Ditto
Orient Household Appliances Ltd.	31/03/2017	10,290	-	0	Ditto	Ditto	Ditto	Ditto
Midea Electric Netherlands（Ⅰ）B.V.	31/03/2017	3,000,000	01/01/2017	2,697,658	Ditto	Ditto	Ditto	Ditto
Midea India Private Limited	31/03/2017	6,900	-	0	Ditto	Ditto	Ditto	Ditto
Midea Electric Trading (Thailand) Limited	31/03/2017	6,900	-	0	Ditto	Ditto	Ditto	Ditto

Total guarantee line for subsidiaries approved during Reporting Period (B1)	10,289,650	Total actual guarantee amount for subsidiaries during Reporting Period (B2)	4,410,531
Total approved guarantee line for subsidiaries at end of Reporting Period (B3)	10,289,650	Total actual guarantee balance for subsidiaries at end of Reporting Period (B4)	4,569,726

Guarantees between subsidiaries

Guaranteed party	Disclosure date of guarantee line announcement	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for related party or not
No such cases								

Total guarantee amount (total of above three kinds of guarantees)

Total guarantee line approved during Reporting Period (A1+B1+C1)	10,293,750	Total actual guarantee amount during Reporting Period (A2+B2+C2)	4,410,531
Total approved guarantee line at end of Reporting Period (A3+B3+C3)	10,293,750	Total actual guarantee balance at end of Reporting Period (A4+B4+C4)	4,569,726
Proportion of total actual guarantee amount (A4+B4+C4) in net assets of the Company	68.91%		
Of which:			

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

14.2.2 Illegal Provision of Guarantees for Third Parties

□ Applicable √ N/A

No such cases in the Reporting Period.

14.3 Other Significant Contracts

□ Applicable √ N/A

No such cases in the Reporting Period.

15. Social Responsibilities

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

15.1.1 Summary of Poverty Alleviation Measures Taken in H1 2017

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

15.1.2 Poverty Alleviation Plans for Coming Future

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

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

15.2 Material Environmental Issues

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

□ Yes √ No

16. Other Significant Events

√ Applicable □ N/A

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

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

17. Significant Events of Subsidiaries

□ Applicable √ N/A

Part VI Changes in Shares and Information about Shareholders

1. Changes in Shares

1.1 Changes in Shares

Unit: share

	Before		Change in Reporting Period					After	
	Number	As percentage in total shares (%)	New issue	Bonus shares	Converted from capital reserves	Other	Subtotal	Number	As percentage in total shares (%)
1. Restricted shares	279,045,260	4.32	23,130,000	0	0	-90,498,800	-67,368,800	211,676,460	3.25
1.1 Shares held by the state	0	0	0	0	0	0	0	0	0
1.2 Shares held by state-owned corporations	0	0	0	0	0	0	0	0	0
1.3 Shares held by other domestic investors	279,045,260	4.32	22,380,000	0	0	-90,498,800	-68,118,800	210,926,460	3.24
Among which: Shares held by domestic corporations	82,500,000	1.28	0	0	0	0	0	82,500,000	1.27
Shares held by domestic individuals	196,545,260	3.04	22,380,000	0	0	-90,498,800	-68,118,800	128,426,460	1.97
1.4 Shares held by foreign investors	0	0	750,000	0	0	0	750,000	750,000	0.01
Among which: Shares held by foreign corporations	0	0	0	0	0	0	0	0	0
Shares held by foreign individuals	0	0	750,000	0	0	0	750,000	750,000	0.01
2. Non-restricted shares	6,179,721,548	95.68	37,740,390	0	0	90,498,800	128,239,190	6,307,960,738	96.75
2.1 RMB common shares	6,179,721,54	95.68	37,740,390	0	0	90,498,800	128,239,19	6,307,960,73	96.7

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

Reasons for the changes in shares:

√ Applicable □ N/A

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

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

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

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

Approval of share changes:

□ Applicable √ N/A

Transfer of share ownership:

□ Applicable √ N/A

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

□ Applicable √ N/A

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

□ Applicable √ N/A

1.2 Changes in Restricted Shares

√ Applicable □ N/A

Unit: share

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

2. New Issues and Listing

□ Applicable √ N/A

3. Shareholders and Their Shareholdings at End of Reporting Period

Unit: share

Total number of common shareholders at end of Reporting Period	145,123				Total number of preference shareholders with resumed voting rights at end of Reporting Period (if any)	0		
5% or greater common shareholders or top 10 common shareholders								
Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Total common shares held at period-end	Increase/decrease in Reporting Period	Restricted common shares held at period-end	Non-restricted common shares held at period-end	Pledged or frozen shares	
							Status	Number

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

Top 10 non-restricted common shareholders			
Name of shareholder	Non-restricted common shares held at period-end	Type of shares	
		Type	Number
Midea Holding Co., Ltd.	2,212,046,613	RMB common share	2,212,046,613
Hong Kong Exchanges and Clearing Limited	379,247,553	Ditto	379,247,553
China Securities Finance Co., Ltd.	176,076,530	Ditto	176,076,530
Hillhouse Capital Management Limited－	113,891,138	Ditto	113,891,138

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

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

Whether any of the top 10 common shareholders or the top 10 non-restricted common shareholders of the Company conducted any promissory repurchase during the Reporting Period:

□ Yes √ No

No such cases in the Reporting Period.

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

Change of the controlling shareholder during the Reporting Period:

□ Applicable √ N/A

No such cases in the Reporting Period.

Change of the actual controller during the Reporting Period:

□ Applicable √ N/A

No such cases in the Reporting Period.

Part VII Preference Shares

□ Applicable √ N/A

No such cases in the Reporting Period.

Part VIII Information about Directors, Supervisors and Senior Management

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

√ Applicable □ N/A

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

2. Changes in Directors, Supervisors and Senior Management

√ Applicable □ N/A

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

Part IX Financial Report

1. Auditor's Report

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

□ Yes √ No

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

2. Financial Statements

MIDEA GROUP CO., LTD.

CONSOLIDATED AND COMPANY BALANCE SHEETS
AS AT 30 JUNE 2017
(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

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

Legal representative: Fang Hongbo

Person in charge of accounting function: Xiao Mingguang

Person in charge of accounting department: Chen Lihong

MIDEA GROUP CO., LTD.
CONSOLIDATED AND COMPANY BALANCE SHEETS (CONT'D)
AS AT 30 JUNE 2017
(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

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

Legal representative: Fang Hongbo

Person in charge of accounting function: Xiao Mingguang

Person in charge of accounting department: Chen Lihong

MIDEA GROUP CO., LTD.
CONSOLIDATED AND COMPANY INCOME STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017

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

		For the six months ended 30 June 2017	For the six months ended 30 June 2016	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Item	**Note**	**Consolidated**	**Consolidated**	**Company**	**Company**
Total revenue		124,963,616	78,007,516	701,070	588,251
Including: Operating revenue	4(33), 17(3)	124,450,065	77,522,287	701,070	588,251
Interest income	4(34)	513,549	479,576	-	-
Fee and commission income		2	5,653	-	-
Total cost of sales		(113,963,618)	(66,818,413)	(323,655)	(759,589)
Including: Cost of sales	4(33)	(93,051,081)	(54,866,160)	(19,329)	(13,648)
Interest expenses	4(34)	(165,666)	(261,318)	-	-
Fee and commission expense		(1,661)	(1,387)	-	-
Taxes and surcharges	4(35)	(754,771)	(467,762)	(3,779)	(3,335)
Selling and distribution expenses	4(36)	(12,404,770)	(8,185,178)	-	-
General and administrative expenses	4(37)	(6,832,958)	(3,690,059)	(105,438)	(338,538)
Financial expenses	4(38)	(346,614)	905,261	(194,963)	(404,035)
Asset impairment loss	4(39)	(406,097)	(251,810)	(146)	(33)
Add: (Losses)/gains on changes in fair value	4(40)	(9,523)	(525,089)	-	22,673
Investment income	4(41), 17(4)	1,199,452	714,082	6,125,238	7,558,711
Including: Share of profit of associates and joint ventures		287,134	200,742	214,433	131,111
Other income	4(42)	846,226	-	-	-
Operating profit		13,036,153	11,378,096	6,502,653	7,410,046
Add: Non-operating income	4(43)	990,914	903,272	757	1,837
Including: Gains on disposal of non-current assets		781,229	3,548	-	-
Less: Non-operating expenses	4(44)	(419,943)	(103,799)	(1,041)	(1,557)
Including: Losses on disposal of non-current assets		(37,127)	(32,149)	(119)	(1,547)
Total profit		13,607,124	12,177,569	6,502,369	7,410,326
Less: Income tax expenses	4(45)	(2,059,053)	(1,946,671)	(7,902)	(34,901)
Net profit		11,548,071	10,230,898	6,494,467	7,375,425
Including: Net profit of the acquiree entity before the combination date		-	-	-	-
Attributable to shareholders of the Company		10,811,322	9,496,493	6,494,467	7,375,425
Minority interests		736,749	734,405	-	-
Other comprehensive income, net of tax		26,322	1,347,262	(3,426)	(10,577)
Other comprehensive income attributable to shareholders of the parent company		9,682	1,276,714	(3,426)	(10,577)
(1) Other comprehensive income items which will not be reclassified subsequently to profit or loss		39,579	-	-	-
(2) Other comprehensive income items which will be reclassified subsequently to profit or loss		(29,897)	1,276,714	(3,426)	(10,577)
1) Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified subsequently to profit and loss		(8,069)	(65,706)	(3,426)	(10,577)
2) Change in fair value of available-for-sale financial assets		(292,475)	1,082,507	-	-
3) Losses or profits arising from the reclassification of held-to-maturity investments into available-for-sale financial assets		-	-	-	-
4) Effective portion of cash flow hedging gains or losses		168,716	145,603	-	-
5) Translation of foreign currency financial statements		101,931	114,310	-	-
Other comprehensive income attributable to minority shareholders, net of tax		16,640	70,548	-	-
Total comprehensive income		11,574,393	11,578,160	6,491,041	7,364,848
Attributable to shareholders of the parent company		10,821,004	10,773,207	6,491,041	7,364,848
Minority interests		753,389	804,953	-	-
Earnings per share					
(1) Basic earnings per share	4(46)	1.67	1.48	N/A	N/A
(2) Diluted earnings per share	4(46)	1.66	1.48	N/A	N/A

Legal representative: Fang Hongbo

Person in charge of accounting function: Xiao Mingguang

Person in charge of accounting department: Chen Lihong

MIDEA GROUP CO., LTD.
CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017
(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

Item	Note	For the six months ended 30 June 2017 Consolidated	For the six months ended 30 June 2016 Consolidated	For the six months ended 30 June 2017 Company	For the six months ended 30 June 2016 Company
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		99,984,184	67,859,148	-	-
Net increase in customer deposits and deposits from banks and other financial institutions		73,308	20,521	-	
Net increase in borrowings from the central bank		-	45,740	-	-
Cash received for interest, fee and commission		543,915	493,143	-	-
Refund of taxes and surcharges		2,593,364	2,797,186	-	-
Cash received relating to other operating activities	4(47)(a)	2,485,847	1,537,990	8,176,371	21,775,704
Sub-total of cash inflows		105,680,618	72,753,728	8,176,371	21,775,704
Cash paid for goods and services		(58,343,060)	(39,448,768)	-	-
Net increase in loans and advances		(1,903,898)	(4,588,457)	-	-
Net increase in deposits with central bank and deposits with banks and other financial institutions		(528,948)	(454,933)	-	-
Cash paid for interest, fee and commission		(167,327)	(262,705)	-	-
Cash paid to and on behalf of employees		(11,456,781)	(5,660,543)	(112,878)	(97,184)
Payments of taxes and surcharges		(5,982,427)	(4,743,106)	(94,326)	(42,490)
Cash paid relating to other operating activities	4(47)(b)	(13,402,245)	(9,466,053)	(1,958,570)	(4,533,614)
Sub-total of cash outflows		(91,784,686)	(64,624,565)	(2,165,774)	(4,673,288)
Net cash flows from operating activities	4(47)(c)	13,895,932	8,129,163	6,010,597	17,102,416
2. Cash flows from investing activities					
Cash received from disposal of investments		40,674,727	28,775,253	27,815,545	17,722,372
Cash received from returns on investments		1,223,225	824,805	5,297,145	6,531,603
Cash received from disposal of fixed assets, intangible assets and other long-term assets		859,943	16,919	12,049	110
Net cash received from disposal of subsidiaries and other business units		2,415	272,899	-	-
Cash received relating to other investing activities		-	-	-	-
Sub-total of cash inflows		42,760,310	29,889,876	33,124,739	24,254,085
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(1,520,059)	(1,076,411)	(59,406)	(217,976)
Cash paid to acquire investments		(42,660,602)	(43,293,409)	(32,378,633)	(21,275,146)
Net cash paid to acquire subsidiaries and other business units		(25,331,546)	(1,856,787)	-	-
Cash paid relating to other investing activities		-	-	-	-
Sub-total of cash outflows		(69,512,207)	(46,226,607)	(32,438,039)	(21,493,122)
Net cash flows from investing activities		(26,751,897)	(16,336,731)	686,700	2,760,963
3. Cash flows from financing activities					
Cash received from capital contributions		629,854	45,552	629,854	29,742
Including: Cash received from capital contributions by minority shareholders of subsidiaries		-	15,810	-	-
Cash received from borrowings		31,631,302	27,806,076	1,600,000	1,800,000
Cash received from issuing short-term financing bonds		-	1,999,500	-	1,999,500
Cash received relating to other financing activities		-	-	-	-
Sub-total of cash inflows		32,261,156	29,851,128	2,229,854	3,829,242
Cash repayments of borrowings		(4,198,336)	(11,044,612)	(1,600,000)	(1,290,000)
Cash payment for issuing short-term financing bonds		-	-	-	-
Cash payments for interest expenses and distribution of dividends or profits		(7,072,016)	(5,560,069)	(6,816,712)	(5,782,143)
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		(395,950)	(297,841)	-	-
Cash payments relating to other financing activities		-	-	-	-
Sub-total of cash outflows		(11,270,352)	(16,604,681)	(8,416,712)	(7,072,143)
Net cash flows from financing activities		20,990,804	13,246,447	(6,186,858)	(3,242,901)
4. Effect of foreign exchange rate changes on cash and cash equivalents		137,862	70,620	-	-
5. Net increase in cash and cash equivalents		8,272,701	5,109,499	510,439	16,620,478
Add: Cash and cash equivalents at the beginning of the period		12,513,730	5,187,317	8,174,915	6,245,008
6. Cash and cash equivalent at the end of period		20,786,431	10,296,816	8,685,354	22,865,486

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

MIDEA GROUP CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2017
(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

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

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

MIDEA GROUP CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2017
(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

	Comparative 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 the end of last year	4,266,839	14,511,190	-	(1,071,151)	1,846,523	118,624	29,529,827	6,829,770	56,031,622
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-
Balance at the beginning of current year	4,266,839	14,511,190	-	(1,071,151)	1,846,523	118,624	29,529,827	6,829,770	56,031,622
Movements in the current year	2,191,928	(914,621)	-	1,084,276	957,946	29,978	8,575,564	1,020,003	12,945,074
(1) Total comprehensive income			-	1,084,276	-	-	14,684,357	1,281,494	17,050,127
(2) Capital contribution and withdrawal by shareholders	58,232	1,235,744	-	-	-	-	-	445,093	1,739,069
1) Capital contribution from shareholders	58,232	1,007,110	-	-	-	-	-	32,593	1,097,935
2) Business combinations	-	-	-	-	-	-	-	339,543	339,543
3) Share-based payment included in shareholders' equity	-	228,634	-	-	-	-	-	72,957	301,591
4) Others			-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	957,946	29,978	(6,108,793)	(550,321)	(5,671,190)
1) Appropriation to surplus reserve	-	-	-	-	957,946	-	(957,946)	-	-
2) Appropriation to general reserve	-	-	-	-	-	29,978	(29,978)	-	-
3) Profit distribution to shareholders	-	-	-	-	-	-	(5,120,869)	(550,321)	(5,671,190)
4) Others	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	2,133,696	(2,133,696)	-	-	-	-	-	-	-
1) Transfer from capital surplus to paid-in capital	2,133,696	(2,133,696)	-	-	-	-	-	-	-
2) Transfer from surplus reserve to paid-in capital	-	-	-	-	-	-	-	-	-
3) Surplus reserve used to offset accumulated losses	-	-	-	-	-	-	-	-	-
4) Others	-	-	-	-	-	-	-	-	-
(5) Specific reserve	-	-	-	-	-	-	-	-	-
1) Increase in current period	-	-	-	-	-	-	-	-	-
2) Usage in current period	-	-	-	-	-	-	-	-	-
(6) Others	-	(16,669)	-	-	-	-	-	(156,263)	(172,932)
Balance at the end of current period	6,458,767	13,596,569	-	13,125	2,804,469	148,602	38,105,391	7,849,773	68,976,696

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

MIDEA GROUP CO., LTD.
COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2017
(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

	Current figure							
Item	**Share capital**	**Capital surplus**	**Less: Treasury stock**	**Other comprehensive income**	**Specific reserve**	**Surplus reserve**	**Undistributed profits**	**Total shareholders' equity**
Balance at the end of last year	6,458,767	5,455,268	-	(9,069)	-	2,804,469	13,379,033	28,088,468
Add: Changes in accounting policies	-	-	-	-	-	-	-	-
Balance at the beginning of current year	6,458,767	5,455,268	-	(9,069)	-	2,804,469	13,379,033	28,088,468
Movements in the current year	60,870	1,123,664	(366,842)	(3,426)	-	-	28,790	843,056
(1) Total comprehensive income	-	-	-	(3,426)	-	-	6,494,467	6,491,041
(2) Capital contribution and withdrawal by shareholders	60,870	1,123,725	(366,842)	-	-	-	-	817,753
1) Capital contribution from shareholders	60,870	1,026,038	(366,842)	-	-	-	-	720,066
2) Capital contribution from owners of other equity instruments	-	-	-	-	-	-	-	-
3) Share-based payment included in owners' equity	-	97,687	-	-	-	-	-	97,687
4) Others	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	(6,465,677)	(6,465,677)
1) Appropriation to surplus reserve	-	-	-	-	-	-	-	-
2) Profit distribution to shareholders	-	-	-	-	-	-	(6,465,677)	(6,465,677)
3) Others	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-
1) Transfer from capital surplus to paid-in capital	-	-	-	-	-	-	-	-
2) Transfer from surplus reserve to paid-in capital	-	-	-	-	-	-	-	-
3) Surplus reserve used to offset accumulated losses	-	-	-	-	-	-	-	-
4) Others	-	-	-	-	-	-	-	-
(5) Specific reserve	-	-	-	-	-	-	-	-
1. Increase in the current year	-	-	-	-	-	-	-	-
2. Usage in the current year	-	-	-	-	-	-	-	-
(6) Others	-	(61)	-	-	-	-	-	(61)
Balance at the end of the year	6,519,637	6,578,932	(366,842)	(12,495)	-	2,804,469	13,407,823	28,931,524

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

MIDEA GROUP CO., LTD.
COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2017
(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

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

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

1. General information

The operational activities of Midea Group Co. Ltd. (hereinafter referred to as the "Company") and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacturing and sale of household electrical appliances, design and implementation of scheme for robots and industrial automation system. Other operations include sale, wholesale and processing of raw materials of household electrical appliances and financial business, which includes customer deposits, interbank lending, consumption credit, buyer's credit and finance lease.

The Company was promoted and set up by the Council of Trade Unions of GD Midea Group Co. Ltd., and was registered in Market Safety Supervision Bureau of Shunde District, Foshan on 7 April 2000, with its headquarters located in Shunde District, Foshan. On 31 December 2011, the Company was transformed into a limited liability company. On 29 July 2013, the Company was approved to acquire additional interests in Guangdong Midea Electric Co., Ltd., a subsidiary listed on Shenzhen Stock Exchange. On 18 September 2013, the Company's shares became listed on Shenzhen Stock Exchange through share issuance and share exchange.

As at 30 June 2017, the Company's registered capital is RMB6,519,637,198 and the total number of shares in issue is 6,519,637,198, of which 211,676,460 shares are restricted tradable shares and 6,307,960,738 shares are unrestricted tradable shares.

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

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

2 Summary of significant accounting policies and accounting estimates

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

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

(1) Basis of preparation

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

The financial statements are prepared on a going concern basis.

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

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

The financial statements of the Company for the six months ended 30 June 2017 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the consolidated and the Company as at 30 June 2017 and their financial performance, cash flows and other information for the six months then ended.

(3) Accounting period

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

(4) Recording currency

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

(5) Business combinations

(a) Business combinations involving enterprises under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (share premium). If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

(b) Business combinations involving enterprises not under common control

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

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

(5) Business combinations (Cont'd)

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

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

(6) Preparation of consolidated financial statements

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

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

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

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity and the portion of a subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to Company are recognised as minority interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent and minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and minority interests in accordance with the allocation proportion of the parent in the subsidiary. If the accounting treatment of a transaction which considers the Group as an accounting entity is different from 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 RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(b) Translation of foreign currency financial statements

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

(9) Financial instruments

(a) Financial assets

(i) Classification of financial assets

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

Financial assets at fair value through profit or loss

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

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

(9) Financial instrument (Cont'd)

(a) Financial assets (Cont'd)

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

Loans and receivables

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

Available-for-sale financial assets

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

(ii) Derivative financial instruments

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

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

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

Cash flow hedging

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

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

(9) Financial instrument (Cont'd)

(a) Financial assets (Cont'd)

(ii) Derivative financial instruments (Cont'd)

Cash flow hedging (Cont'd)

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

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

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

(iii) Recognition and measurement

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

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

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

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

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

(9) Financial instrument (Cont'd)

(a) Financial assets (Cont'd)

(iv) Impairment of financial assets

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

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

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

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

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

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

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

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

(9) Financial instrument (Cont'd)

(a) Financial assets (Cont'd)

(v) Derecognition of financial assets

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

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

(b) Financial liabilities

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

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

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

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

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

(c) Determination of fair value of financial instruments

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

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

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

(10) Provision for bad debts of receivables

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

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

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

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

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

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

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

The Group assesses the recovery risk of receivables based on the characteristics of different regions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(11) Provision for bad debts of loans and advances

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

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

(12) Inventories

(a) Classification of inventories

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

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

(12) Inventories (Cont'd)

(a) Classification of inventories (Cont'd)

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

(b) Costing of inventories

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

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

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

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

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

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

(d) Inventory system

The Group adopts the perpetual inventory system.

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

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

(13) Long-term equity investments

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

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

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

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

Associates are the investees that the Group has significant influence on their financial and operating policies.

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

(a) Determination of investment cost

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(d) Impairment of long-term equity investments

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

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:

Classes	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	20 to 60 years	0% to 10%	5% to 1.5%
Machinery and equipment	2 to 18 years	0% to 10%	50% to 5.0%
Motor vehicles	2 to 20 years	0% to 10%	50% to 4.5%
Electronic equipment and other equipment	2 to 20 years	0% to 10%	50% to 4.5%
Land with permanent ownership	Permanent	N/A	N/A

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

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

(15) Fixed assets (Cont'd)

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

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

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

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

(e) Disposal of fixed assets

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

(16) Construction in progress

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

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

(17) Borrowing costs

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

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

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

(18) Intangible assets

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

(a) Land use rights

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

(b) Patents and non-patent technologies

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

(c) Trademark rights

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

(d) Trademark use rights

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

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

(18) Intangible assets (Cont'd)

(e) Periodical review of useful life and amortisation method

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

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

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

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

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

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

(g) Impairment of intangible assets

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

(19) Long-term prepaid expenses

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

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

(20) Impairment of long-term assets

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

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

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

(21) Employee benefits

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

(a) Short-term employee benefits

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

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

(21) Employee benefits (Cont'd)

(b) Post-employment benefits

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

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

Supplementary retirement benefits

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The charges related to the supplemental retirement benefits (including current service costs, past-service costs and gains or losses on settlement) and net interest costs are recognised in the statement of profit or loss or included in the cost of an asset, and the changes of remeasurement in net liabilities or net assets arising from the benefit plan are charged or credited to equity in other comprehensive.

(c) Termination benefits

The Group provides compensation for terminating the employment relationship with employees before the end of the employment contracts or as an offer to encourage employees to accept voluntary redundancy before the end of the employment contracts. The Group recognises a liability arising from compensation for termination of the employment relationship with employees, with a corresponding charge to profit or loss at the earlier of the following dates: 1) when the Group cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; 2) when the Group recognises costs or expenses related to the restructuring that involves the payment of termination benefits.

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.

(26) Share-based payment

(a) Type of share-based payment

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

Equity-settled share-based payment

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

(b) Determination of the fair value of equity instruments

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

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

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

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

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

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

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

(27) Revenue

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

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

(a) Sales of goods

The Group are principally engaged in the manufacturing and sales of home appliances and mechanical and electrical products (namely large household appliances, small household appliances and motors).

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

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

(b) Rendering of services

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

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

(27) Revenue (Cont'd)

(c) Construction contract

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

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

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

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

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

(d) Interest income

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

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

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

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

(27) Revenue (Cont'd)

(e) Dividend income

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

(f) Rental income

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

(g) Fee and commission income

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

(28) Government grants

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

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

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

Government grants related to assets could be offset the carrying amount of related assets, or recognised as deferred income, and reasonably and systematically amortised to profit or loss over the useful life of the related asset. For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the Group in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss or offset the related cost over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred by the Group, the grant is recognised immediately in profit or loss or offset the related cost for the current period. The same kind of government grants are presented with the same method, that is, those related to ordinary activities are recorded into operating profit while other in non-operating income and expenses.

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

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

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

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

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

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

Deferred income tax assets and liabilities are offset when:

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

(30) Leases

(a) Operating lease

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

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

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

(30) Leases (Cont'd)

(b) Finance lease

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

(31) Segment information

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

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

(32) Critical accounting estimates and judgements

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

(a) Critical accounting estimates and key assumptions

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

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

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

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

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

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

(ii) Provision for impairment of goodwill

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

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

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

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

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

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

(iv) Income taxes

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

(v) Fair value of financial instruments

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

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

3 Taxation

(1) Main tax category and rate

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

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

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

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

(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 2017 as they qualified as high-tech enterprises and obtained the *High-tech Enterprise Certificate*. (Cont'd)

Name of tax payer	No. of the *High-tech Enterprise Certificate*	Dates of issuance	Effective period
Hefei Midea Refrigerator Co., Ltd.	GR201434001001	21 October 2014	3 years
Hefei Hualing Co., Ltd.	GR201434000715	21 October 2014	3 years
Annto Logistics Company Limited	GF201534000356	19 June 2015	3 years
Wuxi Filin Electronics Co., Ltd.	GR201532000917	6 July 2015	3 years
Wuxi Little Swan General Appliance Co., Ltd.	GR201532000557	6 July 2015	3 years
Wuxi Little Swan Company Limited	GR201532000606	6 July 2015	3 years
Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.	GR201544000202	30 September 2015	3 years
Foshan Shunde Midea Electric Appliance Manufacturing Co., Ltd.	GR201544001470	10 October 2015	3 years
Anhui GMCC Precision Manufacturing Co., Ltd.	GR201534000785	15 October 2015	3 years
Guangdong Midea Heating & Ventilation Equipment Co., Ltd.	GF201544000292	20 October 2015	3 years
Hefei Midea Heating & Ventilation Equipment Co., Ltd.	GR201634000207	21 October 2016	3 years
Guangdong Midea Environmental Electric Appliance Manufacturing Co., Ltd.	GR201644002286	30 November 2016	3 years
Guangzhou Midea Hualing Refrigerator Co., Ltd.	GR201644002925	30 November 2016	3 years
Foshan Shunde Midea Electric Technology Co., Ltd.	GR201644000358	30 November 2016	3 years
Foshan Shunde century Tongchuang Technology Co., Ltd.	GR201644000331	30 November 2016	3 years
Anhui GMCC Refrigeration Equipment Co., Ltd.	GR201634000994	5 December 2016	3 years
Huaian Weiling Motor Manufacturing Co., Ltd.	GF201632004278	30 November 2016	3 years

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

(a-3) The application for corporate income tax preferential treatment by Chongqing Midea Refrigeration Equipment Co., Ltd., the Company's subsidiary, was approved by the State Administration of Taxation of Chongqing Economical and Technological Development Zone on 3 June 2014. The subsidiary is subject to corporate income tax at the rate of 15% in 2017.

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

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

3 Taxation (Cont'd)

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

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

(a-6) In August 2008, Midea Electric Appliance (Singapore) Co., Ltd., the Company's subsidiary, was awarded with the *Certificate of Honor for Development and Expansion* (NO.587) by the Singapore Economic Development Board, which approves that qualified income exceeding a certain amount is subject to corporate income tax at the rate of 5% while the unqualified income is subject to the corporate income tax at the rate of 17%. Midea Electric Appliance (Singapore) Co., Ltd. and Little Swan International (Singapore) Co., Ltd., the Company's subsidiary, is subject to corporate income tax at the rate of 17%.

(a-7) The Company's subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5%. Such subsidiaries include Midea International Trade Co., Ltd., Midea International Co., Ltd., Midea Appliance Investment (Hong Kong) Ltd., Gold Emperor Enterprises Ltd., Chairing Holding Ltd., Century Carrier Household Air-conditioning Co., Ltd., Midea Refrigeration (Hong Kong) Ltd., Welling Holding Limited (Hong Kong), Welling International Hong Kong Ltd (HK), and Midea Investment (Asia) Co., Ltd.

(a-8) The Company's subsidiaries in BVI and Cayman Islands are exempted from corporate income tax. Such subsidiaries include Mecca International (BVI) Limited, Titoni Investments Development Ltd., Midea Holdings (BVI) Ltd., Midea Electric Investment (BVI) Limited, Welling Holding (BVI) Ltd., Midea Holding (Cayman Islands) Ltd. and Midea Investment Development Ltd.

(a-9) Springer Carrier Ltda., the Company's subsidiaries in Brazil, is subject to Brazil corporate income tax at the rate of 34%.

(a-10) TLSC, the Company's subsidiaries in Japan, is subject to Japan corporate income tax at the rate of 31.5%.

(a-11) Clivet, the Company's subsidiaries in Italy, is subject to Italy corporate income tax at the rate between 20% and 31.4%.

(a-12) KUKA, the Company's subsidiaries in Germany, is subject to Germany corporate income tax at the rate of 32%

(a-13) SMC, the Company's subsidiaries in Israel, is subject to Israel corporate income tax at the rate of 25%

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

(b-1) According to the *Notice for the Full Implementation of Transformation from business tax to value-added tax Pilot* (tax[2016]36) and the relevant provisions issued by Ministry of Finance and the State Administration of Taxation, since 1 May 2016, revenue from rental service, real estate management service, financial service, consulting service and logistics service of the Company and its subsidiaries are subject to VAT, while these service are subject to business tax at the rate of 5% before 1 May 2016.

(b-2) Sales of goods and provision of repairs and replacement service from certain subsidiaries of the Company are subject to VAT at the rate of 17%.

(b-3) Rental service on real estate and distribution service provided by the Company and certain subsidiaries are subject to VAT at the rate of 11%.

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

3 Taxation (Cont'd)

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

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

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

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

4 Notes to the consolidated financial statements

(1) Cash at bank and on hand

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

(a) As at 30 June 2017, cash at bank includes fixed deposits with the term of over three months, amounting to RMB11,111,670,000 (31 December 2016: RMB9,136,346,000).

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

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

(d) As at 30 June 2017, deposits with banks and other financial institutions include time deposits with the term of over three months, amounting to RMB500,000,000 (31 December 2016: RMB3,800,000,000).

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

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

(2) Notes receivable

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

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

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

(3) Receivables

(a) Accounts receivable

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

The ageing of other receivables is analysed as follows:

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

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

(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)

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

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

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

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

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

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

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

(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

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

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

The ageing of other receivables is analysed as follows:

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

Other receivables are analysed by categories as follows:

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

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

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

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

(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 2017, the top 5 other receivables assembled by debtors are analysed as follows:

Name of the Company	Amount	Provision for bad debts	% of total balance
Total balance of top 5 other receivables	366,560	2,184	16.66%

As at 30 June 2017, the Group' has no significant government grants recognised at amounts receivable.

(4) Advances to suppliers

Item	Ending balance	Opening balance
Advances paid for raw materials and others	2,065,803	1,587,366

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

Ageing	Ending balance		Opening balance	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	2,000,813	96.86%	1,492,532	94.02%
1 to 2 years	43,623	2.11%	73,736	4.65%
2 to 3 years	13,023	0.63%	14,907	0.94%
Over 3 years	8,344	0.40%	6,191	0.39%
Total	2,065,803	100.00%	1,587,366	100.00%

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

As at 30 June 2017, the top five balances of advances to suppliers assembled by debtors are summarised as follows:

Item	Amount	% of total balance
Total balance of top 5 advances to suppliers	485,441	23.50%

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

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

(5) Loans and advances

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

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

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

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

(6) Inventories

(a) Inventories are summarised by categories as follows:

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

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

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

(6) Inventories (Cont'd)

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

Item	Opening balance	Increase in current period	Decrease of reversal or write-off in current period	Differences on translation of foreign currency financial statements	Ending balance
Finished goods	191,147	171,245	(131,969)	(1,883)	228,540
Raw materials	11,237	28,322	(35,400)	592	4,751
Work in progress	-	25,703	(14,262)	750	12,191
Total	202,384	225,270	(181,631)	(541)	245,482

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

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

(d) Construction contract

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

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

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

(a) As at 30 June 2017, wealth management products due within one year are presented as other current assets, mainly including wealth management products with floating earnings of RMB30,514,012,000 (31 December 2016: wealth management products with floating earnings of RMB26,267,067,000) (Note 15(1)).

(b) Wealth management products purchased by the Company due more than one year amounting to RMB500,000,000 are presented as other non-current assets (31 December 2016: RMB3,842,000,000) (Note 15(1)).

(8) Available-for-sale financial assets

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

(a) Since the equity acquisition of KUKA was completed during the first half year of 2017, the available-for-sale financial assets at fair value previously recognised were transferred to long-term equity investments and eliminated at the consolidation level, which led the balance at the beginning of year decreasing sharply.

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

(9) Long-term equity investments

Long-term equity investments are classified as follows:

Item	Ending balance	Opening balance
Investment in associates	2,586,329	2,211,732
Carrying amount of investment in joint ventures	-	-
Less: Provision for impairment of long-term equity investments	-	-
Total	2,586,329	2,211,732

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

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

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

(Cont'd)

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

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

(a) For the six months ended 30 June 2017, the depreciation of fixed assets amounted to RMB1,669,291,000 (for the six months ended 30 June 2016: RMB1,248,904,000) and is included in income statement.

(b) As at 30 June 2017, the Company is still in the course of obtaining the ownership certificate for the fixed asset with a carrying amount of RMB653,756,000.

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

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

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

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

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

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

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

(13) Goodwill

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	-	30,223	-	528,947
Carrier S.A. Co., Ltd.	614,728	-	(24,335)	-	590,393
TLSC	2,697,290	-	77,762	-	2,775,052
KUKA	-	20,698,212	1,354,393	-	22,052,605
SMC	-	544,555	(8,261)	-	536,294
Others	558,947	13,787	833	-	573,567
Total	5,730,995	21,256,554	1,430,615	-	28,418,164

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

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

(a) Deferred income tax assets

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

(b) Deferred income tax liabilities

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

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

(16) Assets with ownership or use right restricted

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

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

(17) Short-term borrowings

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

(a) As at 30 June 2017, the annual interest rate range of short-term borrowings is 1.30% to 9.38% (31 December 2016: 1.77% to 9.38%).

(b) There is a large increase in the balance of short-term borrowings compared to that at the beginning of year, mainly resulting from the new borrowings due to acquisition of KUKA, which were replaced with long-term borrowings in August 2017.

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

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

(18) Notes payable

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

(19) Accounts payable

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

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

(20) Advances from customers

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

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

(21) Employee benefits payable

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

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

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

(21) Employee benefits payable (Cont'd)

(a) Short-term employee benefits

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

(22) Taxes payable

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

(23) Other payables

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

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

(24) Other current liabilities

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

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

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

(25) Long-term borrowings

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

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

(26) Debentures payable

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

Related information is as follows:

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

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

(27) Long-term employee benefits payable

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

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

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

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

(28) Share capital

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

(a) Pursuant to the Restricted Share Incentive Plan for 2017 as approved at the shareholders' meeting dated 21 April 2017 (the "Restricted Share Incentive Plan for 2017 "), the Company granted 23,130,000 restricted shares with an exercise price of RMB15.86 to 133 employees. Under the circumstance that specified performance conditions are met, one third of the total share options granted will become effective after 1 year, 2 years and 3 years, respectively, since 12 May 2017. For the six months ended 30 June 2017, the total number of shares exercised by the granted employees was 23,130,000, of which RMB 23,130,000 was recognised as share capital, and RMB343,712,000 was recognised as capital surplus (share premium).

(b) Pursuant to the first share option incentive plan as approved at the first extraordinary general meeting dated 17 February 2014 (the "First Options Incentive Programme"), the Company granted 99,863,000 share options with an exercise price of RMB10.01 to 691 employees. Under the circumstance that specified performance conditions are met, one third of the total share options granted will become effective after 1 year, 2 years and 3 years, respectively, since 18 February 2014. For the six months ended 30 June 2017, the total number of shares exercised by the granted employees was 20,046,539, of which RMB 20,046,539 was recognised as share capital, and RMB 251,337,000 was recognised as capital surplus (share premium), of which RMB67,912,000 transferred from capital surplus (others) to capital surplus (share premium).

Pursuant to the second share option incentive plan as approved at the first extraordinary general meeting dated 25 May 2015 (the "Second Options Incentive Programme"), the Company granted 83,790,000 share options with an exercise price of RMB18.56 to 733 employees. Under the circumstance that specified performance conditions are met, one third of the total share options granted will become effective after 1 year, 2 years and 3 years, respectively, since 27 May 2015. For the six months ended 30 June 2017, the total number of shares exercised by the granted employees was 17,693,851, of which RMB17,693,851 was recognised as share capital, and RMB430,989,000 was recognised as capital surplus (share premium), of which RMB116,180,000 transferred from capital surplus (others) to capital surplus (share premium).

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

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

(29) Capital surplus

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

(a) The increase in share premium arose from the exercise of share options and grant of restricted shares, amounting to RMB682,326,000 and RMB343,712,000, respectively.

(b) The increase in share option incentive plan arose from the share option expenses attributable to shareholders' equity of the Company with the amount of RMB295,888,000. The decrease in share option incentive programme arose from the transfer of RMB184,092,000 share options to share premium due to exercise of share option.

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

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

(30) Other comprehensive income

Item	Other comprehensive income in the balance sheet			Other comprehensive income in the income statement				
	Opening balance	Attributable to the parent company after tax	Ending balance	Amount arising before income tax for current period	Less: Reclassification of previous other comprehensive income to profit or loss	Less: Income tax expenses	Attributable to the parent company after tax	Attributable to minority shareholders after tax
Other comprehensive income items which will not be reclassified subsequently to profit or loss								
Remeasurements of net liabilities and net assets of defined-benefit plan	82,223	39,579	121,802	49,958	-	8,095	39,579	2,284
Other comprehensive income items which will be reclassified subsequently to profit or loss								
Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified subsequently to profit and loss	(75,053)	(8,069)	(83,122)	(8,069)	-	-	(8,069)	-
Gains or losses arising from changes in fair value of available-for-sale financial assets	392,378	(292,475)	99,903	97,691	408,968	(5,719)	(292,475)	(13,083)
Effective portion of cash flow hedging gains or losses	4,594	168,716	173,310	187,230	5,086	12,616	168,716	812
Exchange differences arising from translating foreign operations	(391,017)	101,931	(289,086)	128,558	-	-	101,931	26,627
Total	13,125	9,682	22,807	455,368	414,054	14,992	9,682	16,640

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

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

(31) Surplus reserve

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

(32) Undistributed profits

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

(a) Ordinary share dividends distributed in current year

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

(33) Revenue and cost of sales

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

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

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

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

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

(a) Revenue and cost of sale from main operations

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

For the six months ended 30 June 2017, cost of sales is mainly material costs and labour costs, which accounts for over 80% of total cost of sales from main operations (For the six months ended 30 June 2016: over 80%).

(b) Revenue and cost of sales from other operations

Item	Current figure		Comparative figure	
	Revenue	Cost of sales	Revenue	Cost of sales
Revenue from sales of materials	7,276,885	7,097,826	5,506,428	5,024,891
Others	638,574	215,015	448,833	119,539
Sub-total	7,915,459	7,312,841	5,955,261	5,144,430

For the six months ended 30 June 2017, cost of sales from other operations is mainly material costs, which accounts for over 80% of total cost of sales from other operations (For the six months ended 30 June 2016: over 80%).

(34) Interest income/(expenses)

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

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

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

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

(35) Taxes and surcharges

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

(36) Selling and distribution expenses

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

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

(37) General and administrative expenses

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

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

(38) Financial expenses

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

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

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

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

(39) Asset impairment loss

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

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

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

(41) Investment income

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

There is no restriction on recovery of investment income.

(42) Other income

Item	Current figure	Comparative figure
Other income	846,226	-

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

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

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

(43) Non-operating income

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

(44) Details of government grants

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

(45) Income tax expenses

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

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

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

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

(46) Calculation of basic and diluted earnings per share

(a) Basic earnings per share

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

Item	Unit	Current figure	Comparative figure
Consolidated net profit attributable to ordinary shareholders of the parent company	RMB'000	10,811,322	9,496,493
Weighted average number of outstanding ordinary shares	Thousand shares	6,464,909	6,400,970
Basic earnings per share	RMB per share	1.67	1.48

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

Item	Unit	Current figure	Comparative figure
Consolidated net profit attributable to ordinary shareholders of the Company	RMB'000	10,811,322	9,496,493
Weighted average number of ordinary shares of the Company outstanding	Thousand shares	6,464,909	6,400,970
Weighted average number of ordinary shares increased due to share options	Thousand shares	39,541	18,074
Weighted average number of diluted outstanding ordinary shares	Thousand shares	6,504,450	6,419,044
Diluted earnings per share	RMB per share	1.66	1.48

(47) Notes to cash flow statement

(a) Cash received relating to other operating activities

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

(b) Cash paid relating to other operating activities

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

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

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

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

(c) Supplementary information to cash flow statement

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

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

(d) Acquisition of subsidiaries

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

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

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

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

(d) Acquisition of subsidiaries (Cont’d)

Net assets of the subsidiaries acquired

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

(e) Composition of cash and cash equivalents

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

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

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

(48) Monetary items denominated in foreign currencies

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

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

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

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

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

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

5 Changes in consolidation scope

(1) Business combinations involving enterprises not under common control

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

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

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

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

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

5 Changes in consolidation scope (Cont'd)

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

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

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

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

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

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

(i) KUKA

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

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

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

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

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

5 Changes in consolidation scope (Cont'd)

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

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

(i) KUKA (Cont'd)

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

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

(ii) SMC

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

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

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

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

5 Changes in consolidation scope (Cont'd)

(2) Changes in consolidation scope due to other reasons

(a) Increase of consolidation scope

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

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

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

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

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

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

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

(b) Decrease of consolidation scope

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

Name of company	Disposal method of the equity	Disposal time-point of the equity
Beijing Beichuan Technology development Co., Ltd.	Deregistration	February 2017

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

6 Interests in other entities

(1) Interests in subsidiaries

(a) Information of significant subsidiaries

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

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

6 Interests in other entities (Cont'd)

(1) Interests in subsidiary (Cont'd)

(b) Subsidiaries that have significant minority interests

Subsidiaries	Shareholding of minority shareholders	Total profit or loss attributable to minority shareholders for current period	Dividends distributed to minority interests for the current period	Minority interests at the end of period
Guangdong Midea Refrigeration Equipment Co., Ltd.	20%	81,167	122,225	669,332
Wuxi Little Swan Company Limited	47%	345,870	224,501	2,843,923
Guangdong GMCC Refrigeration Equipment Co., Ltd.	40%	53,514	48,705	755,181
KUKA	5%	(20,587)	8,316	567,010
Welling Holding Co., Ltd.	31%	103,715	-	1,430,973

(2) Information of enterprise group

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

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

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

6 Interests in other entities (Cont'd)

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

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

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

6 Interests in other entities (Cont'd)

(3) Interests in associates and joint ventures

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

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

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

7 Segment information

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

In 2016 and early of 2017, the Group finished a series of overseas merges, such as TLSC and KUKA(Germany robot enterprises), and carried out integration on the existing business and newly acquired business. On the basis of new management mode, the segment reporting was adjusted accordingly, and the comparative figures were presented accordingly too. The Group identified 4 reportable segments as follows:

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

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

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

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

(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 2017 is 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	55,624,107	54,049,321	13,655,523	1,634,665	-	124,963,616
Inter-segment revenue	1,216,745	139,860	433	2,879,845	(4,236,883)	-
Operating expenses	(51,390,893)	(48,664,743)	(14,486,022)	(3,640,771)	4,218,811	(113,963,618)
Segment profit	5,449,959	5,524,438	(830,066)	873,739	(18,072)	10,999,998
Other profit or loss						2,607,126
Total profit						13,607,124
Total assets	92,062,091	90,073,822	27,602,655	81,363,914	(60,085,990)	231,016,492
Total liabilities	62,786,365	92,183,380	17,183,416	68,684,125	(84,815,686)	156,021,600
Long-term equity investments in associates and joint ventures	209,974	74,533	138,011	2,163,811		2,586,329
Investment income from associates and joint ventures	37,670	4,097	(7,902)	253,269		287,134
Increase in non-current assets (excluding available-for-sale financial assets, long-term equity investments and deferred income tax assets)	471,922	1,011,631	12,736,618	110,494	-	14,330,665
Asset impairment losses/(reversal)	248,101	47,601	27,591	18,859	63,945	406,097
Depreciation and amortisation expenses	794,475	947,541	1,462,109	202,267	-	3,406,392

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

8 Segment report (Cont'd)

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

Segment information as at and for the six months ended 30 June 2016 is as follows:

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

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

8 Segment report (Cont'd)

(b) Geographical area information

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

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

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

9 Related parties and significant related party transactions

(1) Information of the parent company

(a) General information of the parent company

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

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

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

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

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

Name of the parent company	At the end of period			At the beginning of period		
	Shareholding (%)		Voting rights (%)	Shareholding (%)		Voting rights (%)
	Direct	Indirect		Direct	Indirect	
Midea Holding Co., Ltd.	33.93%	-	33.93%	34.75%	-	34.75%

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

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

(2) Information of the Company's subsidiaries

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

(3) Information of other related parties

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

(4) Information of related party transactions

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

(a) Purchase of goods

Related parties	Content of related party transactions	Pricing policies of related party transactions	Current figure	Comparative figure
Hefei Orinko Plastics Group.	Purchase of goods	Agreed price	241,380	104,024
Guangzhou Wellkey Electrician Material Co., Ltd.	Purchase of goods	Agreed price	417,827	476,574
Foshan Micro Midea Filter MFG Co., Ltd.	Purchase of goods	Agreed price	93,705	82,158
Guangdong Infore Electronics Co., Ltd.	Purchase of goods	Agreed price	714	-
Anhui Wellkey Electrician Material Co., Ltd.	Purchase of goods	Agreed price	123,049	117,679
Total			876,675	780,435

(b) Investment income

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

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

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

(5) Receivables from and payables to related parties

Receivables from related parties

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

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

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

Payables to related parties:

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

10 Share-based payment and restricted shares

(1) Share-based payment

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

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

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

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

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

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

(b) Movements of share options during the six months

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

As at 31 December 2016, the maturity date of the First Option Incentive Plan is on 17 February 2019. The residual contractual maturity date of the Second Share Option Incentive Plan is on 27 May 2020. The residual contractual maturity date of the Third Share Option Incentive Plan is on 28 June 2021.

(c) Impact of share-based payment transactions on financial position and financial performance
The total share option expenses recognised for the six months ended 30 June 2017 were RMB333,931,000. As at 30 June 2017, the balance relating to the option incentive plan and provided for in capital surplus was RMB722,979,000.

(2) Restricted shares

(a) Pursuant to the Restricted Share Incentive Plan for 2017 as approved at the shareholders' meeting dated 21 April 2017 (the "Restricted Share Incentive Plan for 2017"), the Company granted 23,130,000 restricted shares with an exercise price of RMB15.86 to 133 employees. Under the circumstance that specified performance conditions are met, one third of the total share options granted will become effective after 1 year, 2 years and 3 years, respectively, since 12 May 2017.

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

11 Contingencies

The amount in tax disputes involving Brazilian subsidiary with 51% interests held by the Company is about BRL629 million (equivalent to RMB1,288 million) (Some cases have lasted for more than 10 years. The above amount includes the principal and interest). As at 30 June 2017, relevant cases are still at court. Original shareholders of Brazilian subsidiary have agreed to compensate the Company according to verdict results of the above tax disputes. The maximum compensation amount is about BRL157 million (equivalent to RMB322 million). With reference to judgements of third-party attorneys, management believes that the probability of losing lawsuits and making compensation is small, and expects no significant risk of debt default, therefore, no provisions are made and appropriate disclosures are made in the financial statements.

12 Commitments

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

13 Subsequent events

Nil

14 Financial risk

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

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

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

(1) Market risk

(a) Foreign exchange risk

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

14 Financial risk (Cont'd)

(1) Market risk (cont'd)

(b) Interest rate risk

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

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

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

(2) Credit risk

Credit risk is managed on the grouping basis. Credit risk mainly arise from cash at bank, deposits with central bank, deposits with banks and other financial institutions, notes receivable, accounts receivable, interest receivable, loans and advances, other receivables and other structural deposits in current assets.
The Group expects that there is no significant credit risk associated with cash at bank, deposits with central bank and deposits with banks and other financial institutions since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.
In addition, the Group has policies to limit the credit exposure on notes receivable, accounts receivable, interest receivable, loans and advances, other receivables and other structural deposits in current assets. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

(3) Liquidity risk

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

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

14 Financial risk (Cont'd)

(3) Liquidity risk (Cont'd)

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

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

15 Fair value estimates

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

(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

As at 30 June 2017, the assets and liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

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

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

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

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

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

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

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

15 Fair value estimates (Cont'd)

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

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

	30 June 2017 Fair value	Valuation technique	Inputs: Name	Inputs: Range	Inputs: Relationship with fair value	Inputs: Observable/unobservable
Available-for-sale financial assets -						
Other current assets	30,514,012	Discounted cash flows	Estimated annual yield	2.2% to 7.2%	Positive	Unobservable
Other non-current assets	500,000	Discounted cash flows	Estimated annual yield	4% to 7.35%	Positive	Unobservable
Available-for-sale financial assets	25,025	Income approach	-	-	-	-
	31,039,037					

Assets and liabilities subject to level 2 fair value measurement are mainly forward exchange contracts and are evaluated by income approach.

(2) Assets and liabilities not measured at fair value but disclosed

The Group's financial assets and financial liabilities measured at amortised cost mainly include: cash at bank and on hand, deposits with central bank, deposits with banks and other financial institutions, notes receivable, accounts receivable, loans and advances, other receivables, other current assets (excluding those mentioned in Note 15(1)), accounts payable, notes payable, short-term borrowings, long-term borrowings, customer deposits and deposits from banks and other financial institutions, financial assets sold under repurchase agreements, interest payable and other current liabilities, etc.

Carrying amounts of the Group's financial assets and financial liabilities as at 30 June 2017 and 31 December 2016 approximated their fair value.

16 Capital management

The Group's capital management policies aim to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce debts.

The Group is not subject to external mandatory capital requirements, and monitors capital structure on the basis of gearing ratio (total assets divide total liabilities).

As at 30 June 2017 and 31 December 2016, the Group's gearing ratio is as follows:

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

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

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

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

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

	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 provided on the individual basis	14,682,836	99.97%	-	-	12,633,325	99.91%	-	-
Provision for bad debts provided on the grouping basis	4,843	0.03%	884	18.25%	12,005	0.09%	738	6.15%
Total	14,687,679	100.00%	884	0.01%	12,645,330	100.00%	738	0.01%

(c) Other receivables that the related provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

	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	1,361	67	5.00%	9,245	462	5.00%
1 to 2 years	1,140	114	10.00%	2,760	276	10.00%
2 to 3 years	2,342	703	30.00%	-	-	-
Sub-total	4,843	884	18.25%	12,005	738	6.15%

(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 2017, other receivables from the top five debtors are analysed as below:

Name of the Company	Nature	Book balance	Ageing	% of total balance	Provision for bad debts
1st	Temporary payments receivable	6,157,095	Within 2 year	42%	-
2nd	Temporary payments receivable	1,864,680	Within 1 year	13%	-
3rd	Temporary payments receivable	88,946	Within 1 year	1%	-
4th	Temporary payments receivable	75,544	Within 1 year	1%	-
5th	Temporary payments receivable	62,759	Within 1 year	0%	-
Sub-total		8,249,024		56%	-

(2) Long-term equity investments

Long-term equity investments are classified as follows:

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

(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) Subsidiaries

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

(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) Subsidiaries (Cont'd)

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

(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) Subsidiaries (Cont'd)

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

(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

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

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

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

(3) Revenue

Revenue mainly comprises other operating income including the brand royalty income, rental income and management fee income, etc. obtained by the parent company from the subsidiaries.

(4) Investment income

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

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

(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	759,055	6,042
Government grants recognised in profit or loss for the current period (closely related to the Company's normal course of business and in line with the state's policies and regulations, except continuous government grants based on a certain standard quota)	843,198	762,724
Income arising from investment cost of enterprises' acquisition of subsidiaries, associates and joint venture which is less than the share of the fair value of the investee's identifiable net assets at the time of acquisition of investment	-	-
Profit or loss from entrusting others with investment or asset management	-	-
Provision for impairment of assets owing to force majeure factor, such as natural disaster	-	-
Profit or loss from debt restructuring	-	-
Enterprise restructuring expenses including staff resettlement expenses and integration expenses	-	-
Except for the effective hedging activities related to the Company's ordinary activities, profit or loss arising from changes in fair value of financial assets and financial liabilities held for trading, and investment income from disposal of financial assets and financial liabilities held for trading and available-for-sale financial assets.	(135,031)	(539,590)
Reversal of impairment provision for receivables individually assessed for impairment	-	-
Other operating income and expenses other than those above mentioned	(185,909)	67,147
Sub-total	1,281,313	296,323
Less: Corporate Income tax effect (of which the decrease is represented by "-")	(297,237)	(30,545)
Minority interests effect (after tax)	(64,520)	130,471
Net non-recurring profit or loss attributable to shareholders of the parent company	919,556	396,249

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

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

2 Return on net assets and earnings per share

The Group's return on net asset and earnings per share calculated pursuant to the *Compilation Rules for Information Disclosure of Companies Offering Securities to the Public No.9 - Calculation and Disclosure of Return on Net Asset and Earnings per Share* (revised in 2010) issued by CSRC and relevant requirements of accounting standards are as follows:

Item	Weighted average return on net assets (%)		Earnings per share (RMB/share)			
			Basic earnings per share		Diluted earnings per share	
	Current figure	Comparative figure	Current figure	Comparative figure	Current figure	Comparative figure
Net profit attributable to shareholders of the Company	16.46%	17.64%	1.67	1.48	1.66	1.48
Net profit attributable to shareholders of the Company net of non-recurring profit or loss	15.06%	16.90%	1.53	1.42	1.52	1.42

Section 10 Catalog of reference documentation

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

MIDEA GROUP CO., LTD.

Legal representative:
Fang hongbo

31 August 2017