

Midea Group Co., Ltd.
The 2016 Annual Report



31 March 2017

A Letter to Shareholders

“Go for our dreams no matter how difficult it will be”, we have kept that in mind ever since the beginning of 2016.

In a changing era with global economic turmoil and China’s economy in a “New Normal” state, we have never stopped chasing our dreams. With the courage to transform, the pragmatic approach, the hard-working spirit and the enthusiasm in our genes, as well as a market-oriented and open mechanism, the spirit of pioneering and sharing, we were able to deliver an impressive performance for the past 2016 and move closer to achieving our dreams.

The targets we set for 2016 were all achieved. We enjoy a higher position in this industry with the improved efficiencies, optimized asset structure and growing overseas business. Our efforts in global operations and asset allocation have produced remarkable results. The acquisitions of Toshiba Lifestyle, KUKA, CLIVET, SERVOTRONIX, etc. around the world are key steps of Midea advancing towards a global technology group of consumer appliances, HVAC and robots & automation. Also, Midea has earned support and recognition from all its shareholders and the capital market, with its market cap up 34% for 2016 and exceeding RMB200 billion for the first time. In this year, Midea made it to the *Fortune Global 500*.

However, with the world now changing much faster than one might have imagined, the fittest can never always be the fittest, and an enterprise has to keep adapting itself to changes for survival and growth.

In 2017, we will “Keep the Wind in Our Sails”. We will maintain our strategic focusers, face our weaknesses with a humble heart, keep working hard and believe that our efforts will be rewarded someday. After decades of development, we are confident about Midea’s future. It WILL become a global technology enterprise. To make it happen, we will remain pioneering, hold onto Midea’s spirit and build a stronger and better Midea.

“Leading Products, Operational Efficiency & Global Operations” has been our core strategic

focuses for the past few years, and we will stick to that with the following measures for a long time to come:

Firstly, we will keep developing leading products by ensuring continual inputs to R&D, as well as improving the R&D structure, R&D environment and innovation mechanism. Meanwhile, we will strengthen R&D on a global basis by bringing in leading R&D talents for achieving technology breakthroughs and better quality products. In this way, we will be able to increase the core competitiveness of all our products.

Secondly, we never stop pursuing operational efficiency. We will unwaveringly promote lean management through our whole value chain, as well as the MBS (Midea Business System) and the “T+3” production strategy based on customer orders. With the end and retail demand as the center, we produce accordingly, distribute rapidly, improve the product mix, increase channel efficiency and reduce inventories so that our business cycles could be further shortened and our cash flows further improved.

Finally, we will stick to global operations and continue with our efforts to expand in regional markets so as to build up an international operation system. By promoting business growth of our existing operations around the world and increasing the weight of overseas business, we are trying to rebuild and optimize Midea’s international system at every level and link.

In the meantime, we will continue to foster new business. With KUKA as the platform, we will work on industrial robots, commercial robots, service robots and artificial intelligence, as well as increase investment in key components and application control in the field of industrial automation.

We will try to achieve greater efficiency by streamlining the organization, further improving the appraisal mechanism for employees and reforming the incentive mechanism, to make sure that the organization is in line with our strategies and objectives.

With dreams, Midea takes only a few decades to grow from a workshop to a Fortune Global 500 company. Through hardship and changes, Midea is now in its golden age.

We have achieved so much in the past, and we will achieve so much more in the future. Keeping in mind that we still have far to go to create long-term competitive edges and further transformation, in 2017, we will continue to forge valiantly ahead with our dreams

and try to achieve greater success.

Finally, we would like to express our gratitude for the support and trust of all our shareholders. We wish to share our success with you!

The Board of Directors of Midea Group Co., Ltd.

March 2017

Section I Important Statements, Contents and Definitions

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

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

The financial statements of the Company for 2016 have been audited by PricewaterhouseCoopers China (LLP) and have obtained a standard unqualified audit report.

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

The Board has considered and approved the following profit distribution plan for the year 2016: Based on the Company’s total existing shares of 6,465,677,368, it is proposed that the Company will distribute cash dividends of RMB10 per 10 shares (tax inclusive) to all shareholders.

The future plans and some 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 possible investment risks.

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

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Definitions

Term	Definition
Company, the Company, or Midea 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
Reporting Period	1 Jan. 2016 to 31 Dec. 2016

Section II Company Profile and Key Financial Results

1. Corporate Information

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

2. Contact us

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

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

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

4. Company Registration and Alteration

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

5. Other Relevant Information

Accounting firm engaged by the Company

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

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

Applicable N/A

Name of the sponsor	Business office of the sponsor	Representative of the sponsor	Supervisory period
CITIC Securities Co., Ltd.	CITIC Securities Tower, No. 8 Zhong Xin San Road, Futian District, Shenzhen City, Guangdong Province 518040	Zeng Jinsong, Qin Chengdong	2015.6.26-2016.12.3 1

Note: Upon the receipt of a personnel change notice from CITIC Securities Co., Ltd. on 21 October 2016, the Company issued an announcement stating that Mr. Wu Hongri of CITIC Securities was no longer responsible for relevant work during the supervisory period due to his personal reasons. Mr. Qin Chengdong would replace him to work with Mr. Zeng Jinsong as a representative of the listing sponsor during the supervisory period.

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

Reporting Period

√ Applicable □ N/A

Name of the financial advisor	Business office of the financial advisor	Representative of the financial advisor	Supervisory period
CITIC Securities Co., Ltd.	CITIC Securities Tower, No. 8 Zhong Xin San Road, Futian District, Shenzhen City, Guangdong Province 518040	Wu Renjun, Lin Junjian	2017.1.6-2018.12.31

6. Key Accounting Data and Financial Indicators

Whether the Company performed a retroactive adjustment to or restatement of accounting data due to changes of accounting policies and correction of accounting errors

□ Yes √ No

	2016	2015	YoY Change (%)	2014
Operating revenues (RMB'000)	159,044,041	138,441,226	14.88%	141,668,175
Net profits attributable to shareholders of the Company (RMB'000)	14,684,357	12,706,725	15.56%	10,502,220
Net profits attributable to shareholders of the Company before non-recurring gains and losses (RMB'000)	13,492,866	10,911,341	23.66%	9,476,849
Net cash flows from operating activities (RMB'000)	26,695,009	26,764,254	-0.26%	24,788,512
Basic earnings per share (RMB/share)	2.29	2.00	14.50%	1.66
Diluted earnings per share (RMB/share)	2.28	1.99	14.57%	1.66
Weighted average ROE (%)	26.88%	29.06%	-2.18%	29.49%
	At the end of 2016	At the end of 2015	YoY Change (%)	At the end of 2014
Total assets (RMB'000)	170,600,711	128,841,935	32.41%	120,292,086
Net assets attributable to shareholders of the Company (RMB'000)	61,126,923	49,201,852	24.24%	39,470,499

Notes: 1. For the Company granted, for 2015, 5 additional shares per 10 shares to all its shareholders with its capital reserves, the earnings per share for both 2015 and 2014 are restated.

2. On 30 June 2016, the Company completed the transaction to acquire 80.1% stake in Toshiba's home appliances business, Toshiba Lifestyle Products & Services Corporation (TLSC), which has created market expansion and cost synergies for TLSC. For 2016, TLSC contributed revenue of RMB7,523,598,000 and net profit of RMB32,181,000 to the Company.

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

Total share capital of the Company on the last trading session before disclosure (share)	6,465,677,368
Fully diluted earnings per share based on the latest share capital above (RMB/share)	2.27

Whether there are any corporate bonds

Yes No

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

7.1 Differences in the net profits and net assets disclosed in the financial reports prepared under the international and China accounting standards

Applicable N/A

No such differences for the Reporting Period.

7.2 Differences in the net profits and net assets disclosed in the financial reports prepared under the overseas and China accounting standards

Applicable N/A

No such differences for the Reporting Period.

7.3 Reasons for the differences in accounting data under domestic and foreign accounting standards

Applicable N/A

8. Key Financial Results by Quarter

RMB'000

	Q1	Q2	Q3	Q4
Operating revenues	38,341,624	39,180,663	38,856,130	42,665,624
Net profits attributable to shareholders of the Company	3,907,252	5,589,241	3,311,500	1,876,364
Net profits attributable to shareholders of the Company before non-recurring gains and losses	3,745,392	5,354,852	3,131,646	1,260,976
Net cash flows from operating activities	6,595,024	1,534,139	10,908,332	7,657,514

Whether there are any material differences between the financial indicators above or their summations and those

which have been disclosed in quarterly or semi-annual reports

Yes No

9. Non-recurring Profits and Losses

Applicable N/A

RMB'000

Item	2016	2015	2014	Note
Profit or loss from disposal of non-current assets	-134,258	-242,814	-223,943	
Government grants accounted for, in the profit or loss for the current period (except for the government grants closely related to the business of the Company and given at a fixed amount or quantity in accordance with the State's uniform standards)	1,330,065	1,348,652	790,501	
Profit generated for the costs of the Company in the acquisition of subsidiaries, associates or joint ventures are lower than the fair value of the Company's share in the identifiable net assets of the investees		19,513		
Profit or loss from entrusted investments or entrusted asset management		1,008,770	953,661	
Corporate restructuring costs (e.g. staff replacement costs and expenses for consolidation)			-17,259	
Except for effectively hedging business related to normal business operations of the company, profit or loss arising from the change in the fair value of held-for-trading financial assets and liabilities, as well as investment profit or loss produced from the disposal of held-for-trading financial assets and liabilities and available-for-sale financial assets	-25,408	369,806	-268,422	
Impairment provision reversal of the accounts receivable on which the impairment test is carried out separately		45,752		
Other non-operating income and expenditure except above-mentioned items	246,361	-16,398	-62,072	
Less: Corporate income tax	272,925	505,642	204,646	

Minority interests (after tax)	-47,656	232,255	-57,551	
Total	1,191,491	1,795,384	1,025,371	--

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

Applicable N/A

No such cases for the Reporting Period.

Section III Business Profile

1. Business Scope in the Reporting Period

1.1 Business scope and position in the household appliance industry

Midea is a global technology group with a diversified offering, including consumer appliances centered on kitchen appliances, refrigerators, washing machines and various small appliances; HVAC centered on household AC, central AC, heating and ventilation systems; and robots and automation systems with KUKA and joint ventures with YASKAWA as the main producers. As of 31 December 2016, Midea had approximately 120,000 employees around the world, about 200 subsidiaries and 10 strategic business units. In January 2017, Midea became 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 over 300 million consumers across the globe every year.

In 2016, Midea successfully entered into the *Fortune Global 500* list, becoming the first Chinese home appliance manufacturer on that list, and it has topped the other home appliance manufacturers on the list of *Fortune China 500* for a row of three years. According to Euromonitor’s *Consumer Appliance Global Ranking*, Midea, with a global market share of 4.6%, is ranked the second among global home appliance companies. According to the *2016 State of Innovation* published by Thomson Reuters, Midea is ranked highest among *Top 10 Global Innovators–Home Appliances (2015)* and *Top 10 Kitchen Innovators–Asia (2011-2015)*. Also, Midea is the only Chinese home appliance maker among the Top 200 on the European Commission’s “*2016 World Top 2500 R&D Investors*” list.

Offline Retail market share of some of the Company’s products sourced from China Market Monitor:

Product category	2016		2015	
	Market share	Market ranking	Market share	Market ranking
Air-conditioners	23.9%	2	25.2%	2
Washing machines	23.0%	2	21.3%	2

Refrigerators	10.5%	3	9.6%	4
Rice cookers	42.2%	1	42.3%	1
Induction cookers	50.0%	1	48.6%	1
Electric pressure cookers	45.5%	1	42.7%	1
Electric kettles	36.9%	1	32.2%	1
Microwave ovens	45.7%	2	44.6%	2
Water heaters	12.7%	3	12.2%	3
Range hoods	9.5%	3	8.8%	3

1.2 Industry review and outlook

In 2016, in the face of a new environment where the global economic growth was weak, the domestic economy growth was slowing down, the raw material price went up sharply, and the exchange rate fluctuation intensified, the household appliances industry was in the process of continuous innovation, reforming, integration, and transformation in the new economic environment. The core power for sustainable growth in the industry should come from the action of focusing on users and products, promoting technology innovation, product upgrade, as well as efficiency improvement, enlarging the development of smart products and the layout of e-commerce channels, and carrying forward the transformation of business models, as well as the innovation of whole-value-chain operation model. The data from the State <http://www.youdao.com/dict/7.0.1.0227/resultui/dict/Statistics> Bureau shows that from January to December 2016, the revenue from household appliances industry reached RMB1.4606 trillion, a year-on-year 3.8% increase. From January to December 2016, the yield of room air conditioners reached 160.49 million units, a year-on-year 4.5% increase; the yield of household refrigerators reached 92.38 million units, a year-on-year 4.6% increase; and the yield of household washing machines reached 76.209 million units, a year-on-year 4.9% increase. According to All View Cloud data, the sales of major kitchen appliances such as hoods, ovens, and disinfection <http://www.youdao.com/dict/7.0.1.0227/resultui/dict/cabinets>, were growing steadily due to the relatively low penetration rate as well as the recovering real estate market. The sales revenue of kitchen appliances was RMB62.7 billion, representing a 7.9% year-on-year increase. Various kinds of products in the small

appliances market developed in different paths, of which the overall scale increased by 8.8%.

From mid to long term perspective, the growth momentum of home appliances and HVAC <http://www.youdao.com/dict/7.0.1.0227/resultui/dict/> system industry in China will not have much change. The major reasons are as follows:

a. With constant increase of people's income and accelerated new urbanization in China, the new demand for household appliances is still expected to be raised. According to the data from the National Bureau of Statistics of China, the per capita disposable personal income (DPI) for 2016 is RMB 23,821, which has 8.4% increase year-on-year. As for townfolks in provinces and cities like Shanghai, Beijing, Zhejiang, and Shenzhen, the per capita personal income has reached USD7,000. The improved revenue and the rise of the young consumer groups give impetus to the arrival of a consumption age featured by networking, individuation, and diversification, which makes the consumption of household appliances more and more similar with goods for everyday consumption. The urbanization rate in China is about 56%, which means there's huge space for urbanization improvement no matter in quantity or quality. If the target of urbanization rate of 60% in China by 2020 can be achieved, there's expected to be nearly 100 million rural population turning to urban population at that time. Meanwhile, urbanization has been accelerated in China. A number of key projects have entered into implementation stage, which created new growth opportunities. All these can effectively pull consumption and release potential of domestic demands.

b. Consumption upgrade is becoming the major bonus for pushing the continuous development of Chinese household appliances and heating ventilation air conditioning industry in future. The stock of over 1.6 billion units of household appliances requires the sustainable and stable renewal demand to become the important driving force for improving sales in the household appliances industry. The rise of new consumer groups, as well as the improvement of performance and quality of household appliances in aspects of energy saving, environmental protection, intelligence, interconnection, industry design, and so on, will further accelerate the consumption upgrade of household appliances, and continuously mobilize enterprises' efforts on optimizing product structure and improving profitability. According to the prediction of China Market Monitor, by 2020 the penetration rate of smart appliances will be further improved in China with smart appliances accounting for 45%, 25%, and 28% respectively of white goods, kitchen appliances and domestic appliances sales. In the future five years, the demand for smart

appliances will reach RMB1.5 trillion in China.

c. Transformation and upgrade in household appliances industry will be further accelerated. The intellectualization of products pushes forward the thorough improvement of capability in manufacturing intellectualization and lean manufacturing management. The application of robots and industrial automation will be further popularized. Channel reform will be further speeded up. The rise of the O2O mode combining online and offline businesses, as well as the big data and mobile consumption thanks to wide spread use of the internet, sustainably promotes the transform and upgrade of enterprises' channels. The e-commerce channel has stepped into a rapid growth period. The B2C online sales (including mobile terminal sales) in household appliances market for 2016 has reached RMB384.6 billion, and achieved 27.9% growth year-on-year. The penetration rate of online shopping in household appliances market has reached 19.95%. Intellectualization and high-end orientation become the new trend for online household appliances shopping.

d. With competitive Chinese home appliance and HVAC makers, the ecology of this sector will further improve and the markets will become increasingly centralized. Relying on their strengths in brand, technology, industrial chain, service and distribution channels, the leading household appliance and HVAC manufacturers are expected to further increase their market shares and profitability, and as a result promote orderly competition and sound progress in the industry.

e. Relying on this giant domestic market in China, with a population of 1.4 billion, together with its large-scale advantages, product cluster advantages, industrial support advantages and capital advantages, China's household appliance and HVAC industry will continue to keep its global competitive position. Developing markets have large population and growing economy, and are now entering into fast-developing period for home appliances. Chinese companies are expected to play a significant role in these markets which will provide a solid foundation for the export growth of Chinese companies. Meanwhile, Chinese companies are very active in the global M&A fields. Acquisitions of brands, channels, technologies will provide Chinese companies with new competitive advantages worldwide.

2. Significant Changes in the Main Assets

2.1 Significant changes in the main assets

Main assets	Reasons for any significant change
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Equity assets	Down 23% YoY, mainly due to the disposal of some equity investments
Fixed assets	Up 12% YoY, mainly due to the acquisition of subsidiaries
Intangible assets	Up 102% YoY, mainly due to the acquisition of subsidiaries
Construction in progress	Down 39% YoY, mainly due to the carry-forward to fixed assets

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 the only white goods and HVAC enterprise with a whole industrial chain and full product line in China, 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, motors, 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. It

has also been in close cooperation with over 30 scientific research institutions at home and abroad such as Tsinghua University, Zhejiang University, Huazhong University of Science and Technology, MIT, UCB and Stanford, improving its R&D strength and facilitating its business relationships with their assistance. According to the *2016 State of Innovation* published by Thomson Reuters, Midea is ranked highest among *Top 10 Global Innovators–Home Appliances (2015)* and *Top 10 Kitchen Innovators–Asia (2011-2015)*.

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

Midea has quickened its pace in global resource allocation and new business expansion. In 2016 and the beginning of 2017, it completed the acquisitions of Toshiba Lifestyle Products & Services Corporation, Clivet (an Italian central AC manufacturer), KUKA Aktiengesellschaft (one of the world's top four robot makers) and Servotronix (an Israeli company specializing in motion control and automation solutions), which 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 trying to shift its focus from OEM to OBM and giving direct supervision to local operations.

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 such as Gome and Suning. 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 its full coverage in first, second, 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 RMB23 billion in 2016.

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 promising, stable and sustainable future development of the Company.

Currently, the senior core management team and the key managerial staff hold a stake in the Company through direct or indirect stock ownership, multiple stock option incentive plans and employee stock ownership plans, marking the establishment of a governance structure aligning the interests of management and shareholders, as well as the formulation of an incentive scheme comprising long and short-term incentives and restrains.

Section IV Performance Discussion and Analysis

1. Overview

In 2016, guided by the three main strategies of “Leading Products, Operational Efficiency and Global Operations”, Midea strengthened its transformation by focusing on improving products, investigating customers’ needs, increasing inputs to technology, improving its global R&D network and promoting lean manufacturing and management. As a result, its product quality and reputation have kept improving, the profitability of quite many products has reached new highs, and the efficiency indicators and risk indicators have continued to improve. Its asset structure has been further improved and it has achieved increased revenues from almost all its overseas operations. Meanwhile, new breakthroughs have been made in internalization and new business expansion. The consummation of a series of significant overseas acquisitions, marking a crucial step of Midea in its efforts for global operations and new business expansion, has further solidified its competitive edges with an enriched product range and global operations synergies. For 2016, Midea achieved, on a consolidated basis, operating revenues of RMB159.842 billion, up 15% from last year; net profits of RMB15.862 billion (net profits attributable to Midea exclusive of subsidiaries at RMB14.684 billion, a 16% year-on-year increase); and a gross profit margin of 27.39%, 1.47 percentage points higher than last year.

In 2016, the Company carried out the following tasks:

a. Focused on products and users, continuously optimized product structure, and steadily improved product competitive advantages

—Household Air-conditioners: While focusing on core connotation of refrigeration, heating, energy saving and so on, the Company innovated on product development, continuously optimized product structure, and promoted a series of differentiated products. Midea “Smart King” series of air conditioners, with features of neoteric design of sphere appearance, voice and gesture control function, as well as smart functions such as smart air supply and safety protection, won the Best Product Award in Jin Xuan Award election for Chinese household appliances in 2016, as well as the Innovation Award in the 12th Chinese Household Appliances Election. The OP series of hanging air conditioners, with features of excellent performance in energy saving, smart scene control for comfortable air supply, and heating

under low temperature of minus 30°C, won wide acclaim from clients. North America High-efficiency and Energy-saving air conditioners developed by Midea, with technology breakthrough in highly effective heat exchanger, refrigeration and heating in ultralow temperature, and so on, won the Most Efficient Mini Split Certificate by the Air Conditioning, Heating, and Refrigeration Institute (AHRI) from the United States. By virtue of deep technology accumulation, as well as positive exploration and innovation, the project of Research and Application of Key Technologies in Comfortableness of Air Conditioners won the First Prize for Technology Advancement in Chinese Household Appliances in 2016 awarded by Chinese Household Appliances Technology Conference. In the Y2016-Y2017 Chinese Air Conditioner Industry Summit Forum, the Midea air conditioners won the Leading Brand of Smart Air Conditioners in Air Conditioner Industry in Y2016-Y2017.

—Commercial Air-conditioners: As a leading Chinese brand in the commercial air conditioning industry, Midea holds over 1000 patents in this field and won a lot of important projects worldwide including Changi International Airport from Singapore, Capital International Airport T3 Terminal, the UAE government's Residential Villa, Shanghai World Expo exhibition hall, the European Youth Olympic Festival, the African Games, the Abu Dhabi, UAE shopping center, and Guangzhou Asian Games stadiums. Relying on globally leading products, as well as the superior and perfect service system, Midea has provided Beijing-Shanghai express railway, Beijing-Guangzhou express railway, Nanjing-Anqing express railway, Shanghai-Nanjing express railway, Shanghai-Hangzhou Interurban Passenger Railway, Guangzhou-Zhuhai Interurban Railway with all-around solutions. With heating and ventilation projects covering more than 50% railway field, Midea has become the brand with the highest market share in railway industry market. 2016 witnessed Midea air conditioning won all the public biddings officially hold by Olympic Committee of Rio Olympic Games stadiums, as well as won the biddings of significant projects such as Guangzhou New Baiyun Airport, Country Garden Malaysia Forest City, the Philippines Semiconductor Factory, Brazil Rio Marriott Hotel, Hong Kong Police North New Territories Regional Headquarter, and Taiwan Taoyuan Hospital. Because of the outstanding performance, Midea commercial air conditioners were granted by the Air Conditioning, Heating, and Refrigeration Institute (AHRI) from the United States the first Modular Air Conditioning Unit Performance Certificate in the world, the first Heat Pump Performance Certificate in Asia, and by Eurovent Certita Certification from the Europe the first VRF Performance Certificate. In the Annual Selection for Board of

Fame in Chinese Real Estate industry, Midea commercial air conditioning was honored as the First-choice Qualified Brand for Commercial Air Conditioning for Chinese Real Estate, and was awarded as the Leading Brand in Household Central Air Conditioning Market in Y2016-Y2017.

—Washing machines: Midea continued to invest heavily in R&D and product innovation by investing in advanced technologies, smart technologies and core technologies, as well as continuously launching new products. For instance, this year the Company placed a major emphasis on launching its premium series Beverly and differentiation series Disney, so as to create high-quality life experience for users. The Beverly series design was an outcome from working with an Italian craft research institute, which adopted the advanced Italian craftsmanship and applied diamond cutting technology to forge the door-rings similar with rose-like diamond, loaded the wide-gamut seven-inch HD screen and the exclusive PUSH take-out box, and realized smart and precise input. The Beverly series were granted the Red Dot Award from Germany, the Appliance Product Award from China, as well as the GD Award from Korea. Disney series design was tailor-made for children, covering roller wash machines in versions of Iron Man and Captain America, wall-hung wash machines, portable mini-wash machines, and so on. Disney series met differentiated consumer demand, possessed the features of both art and practical-use, and represented the Company's continuous efforts on launching fashionable and competitive goods. In 2016, Little Swan, the Company's subsidiary, was granted Certificates for its Water Cubic High Efficiency & Energy Saving Technology and for BLDC Motor 20-Year Operating Life Quality by VDE, as well as honored as the Leading Brand in Chinese wash machines industry. The Little Swan and Beverly product series won multiple Red Dot Awards from Germany, and the Beverly roller wash machines were granted the GD Award from Korea and the Appliance Product Award by China Household Electrical Appliance Association.

—Refrigerators: Midea focused on user research in the trend of consumption upgrade, and was committed to R&D, as well as application of smart technologies, so as to lead the product upgrade in the refrigerator industry. Midea premium smart refrigerator BCD-646WGPZVA showed the innovation and application of real-time image identification system, RFID food management system, personalized nutrition management system, smart pharmacy system, and the first smart weight calculation function that can be applied for mass production. And at the same time, with the development of online shopping function, as well as the set-up of media and entertainment platform in kitchen, the Midea product was

created to set up the biggest and most complete nutrition knowledge base in the field of smart refrigerators. Midea refrigerator 401WGPZV was granted the Appliance Product Award by China Household Electrical Appliance Association due to its unique selling features such as two separate keeping fresh systems technology, two cabinets separate temperature control technology, auto-control atomization and moisture reservation technology. 5 types of Midea refrigerators including BCD-530WGPZV were honored as the Star of Energy Saving due to the focus on energy-saving application. In the last years, Midea refrigerators have been granted various international and domestic certifications such as UL safety certification from the United States, Energy Star certification from Europe, TUV quality certification, Greenhouse Gas Emission Certification (first one received in the industry), the first CSC Energy-saving technology certification, CQC quality certification, etc. Midea refrigerators have not only focused on the improvement of product and technology, but also set an excellent example in the household appliances industry, and led the industry standards keep being improved.

—Small household appliances: Midea kept deeply digging out users' trigger points. Midea microwave oven of smart Steam Cube applied the technology of humidity reaction and stepless-frequency smart-control heat power, which required no manual work for setting time and heat power, and delivered highly efficient, nutritious, and healthy cooking. Midea microwave oven of Super OTR series combined traditional microwave oven with smoke exhaust ventilator, making space highly utilized. IH electric cooker, the vacuum pressure-variable vessel-pot, could cook fluffy, smooth, and whippy rice by IH heating technology applying instant pressure control and broadband partition. The technology was authenticated as internationally advanced by experts from academicians of the Chinese Academy of Engineering. The constant even-firepower technology realized by each-wave control and iso-electric control for induction cooker, as well as the technology for delicious meal realized by maglev magnetic levitation and pressure stabilization for electric pressure cooker, won the identification as the internationally leading technology. The premium positioned HALO series and MINI Food Era series for young families, as the systematic and integrated solutions, both won the Red Dot Awards from Germany. Midea Original Ecology AH electric cooker, which combined functions of boiling, steaming, stewing, and cooking rice and dishes into one machine, and as a result, solved problems including lack of space in kitchen in a cross-boundary way, won international awards including IF from Germany, IDEA from the USA, and Excellent Patent Award from China on the basis of plenty of innovation items. Midea Tianmu

series European-style steam-lampblack-cleaning machine conducted intelligent auto steam-cleaning, broke through large air flow of 22m³/min, and was widely acclaimed. Midea Qingyu smart electric fan adopted feather-imitation blade design, which could produce soft winds and address the concerns of elders and children. It could connect with air condition and provide an auto control air treatment solution. Midea MUSE water heater was embedded with JBL high-quality Bluetooth loud speaker, which could be quickly connected by one key operation, and enabled people to listen to music and receive phone calls during showering. In 2016, a number of Midea small appliance categories were granted international and domestic authoritative awards such as IF Design Awards, Red Dot Awards, and Appliance Awards for consecutive years, which effectively demonstrated the first-class competitiveness of Midea products in international market.

b. Kept enlarging input on R&D, and improving global R&D capability

The Company concentrated on consumers, kept enlarging input on R&D and product development, focused on R&D and innovation, and built a R&D system with global competitiveness. Midea Group took the central research institute as the core, continued to perfect the 4-grade R&D system in business divisions, paid attention to advanced technology research, and arranged middle-and-long term technology reservation. As at the end of 2016, Midea had built 17 research centers in 8 countries in the world, conducted R&D for localized product and technology, established deep technology cooperation relations with international and domestic scientific research institutions including MIT, UC Berkeley, UIUC, Stanford, Purdue University, Tsinghua, and Chinese Academy of Sciences, and set up the global innovation ecosystem. There had been over 10,000 R&D staffs in all, of which the staffs in advanced R&D accounted for 10%. While strengthening the layout of global R&D centers, the Company also attached importance to the conversion of R&D results, and promoted a series of innovative and initiate products in the industry, such as the Smart King air conditioner, 6D flowing water heater, high-temperature steam-lampblack-cleaning machine, precise-input and washing-and-dryer integrated machine, the vacuum IH smart cooker, microwave cooker, the Qingyu electric fan, and so on.

As at the end of 2016, Midea group had possessed over 26,000 authorized patents. In 2016, Midea Group applied 13,546 patents and invented 5,562 patents, still ranking the first in household appliance field. According to the appraisal result of the 18th China Patent Award announced by the State Intellectual Property Office, Media was granted 7 China Excellent Patent Awards and 6 China Excellent

Appearance Design Awards, ranking as the second to none among Chinese enterprises in terms of award quantity and taking the lead in the household appliance industry. Midea was the only one among Chinese household appliances enterprises to enter the top 200 in the Ranking List of R&D Input of Enterprises in the World in 2016 announced by the European Commission.

c. With a global view, strengthened the position in the industry and explored new business

In 2016, with a global view, Midea Group launched three international M&A deals and strategic cooperation with total value exceeding RMB30 billion.

The strategic cooperation with Toshiba home appliance business was completed in the end of Jun. 2016. Through this transaction, Midea acquired 80.1% stake in Toshiba Lifestyle Products & Services Corporation (“TLSC”), the home appliance arm of Toshiba Corporation. Midea obtained 5,000 IP assets and is licensed to use the Toshiba brand worldwide for 40 years. This transaction will improve Midea’s capability in branding, technology, channel and manufacturing so as to strengthen Midea’s global influence and competitiveness.

As part of the “Smart Home + Intelligent Manufacturing” strategy, Midea launched a voluntary public tender offer for all shares in KUKA AG (KUKA), a leading global supplier of robots, automation production equipment, and automation solutions, and completed the transaction in Jan. 2017. Midea held 94.55% shares of KUKA. The accomplishment of the transaction marked Midea becoming the leading science-and-technology enterprise in the field of robot and automation in China, even in the world. In Jan. 2017, Midea accomplished the acquisition for Servotronix in Israel, which further enriched Midea’s technology and product reservation in the field of motion control and automation solution, and perfected the platform and layout for robot industry.

Midea entered into a Definitive Agreement with the shareholder of Clivet for the acquisition of 80% stake in Clivet, a well-known air conditioning enterprise in Italy, which was accomplished in Oct. 2016. Benefited from Clivet’s position in commercial air conditioner industry in Europe, Midea will further improve its market share of large-capacity commercial air conditioner in Europe as well as worldwide, expand sales channels, as well as obtain complete production lines and technology synergy for large-capacity commercial air conditioners, so as to improve its integral value.

d. Thoroughly improved the channel network, resulting in fast-growing e-commerce

Relying on the collaborative advantages of multiple product types of Midea, the Company enlarged 6

channels covering the flagship stores, Suning, Gome, Regional Chain (TOP100), Small Regional Chain (VIP200) and exclusive shops in villages and towns, realized the channel layout in markets in different levels from villages and towns to ultra-first-tier cities. In 2016, Media flagship stores achieved rapid growth of sales revenue, Suning and Gome, the two large strategic cooperation partners kept stable sales, regional chain reached overall retail sales revenue to RMB10 billion, and the channel coverage over counties, towns, and villages made effective breakthrough.

Taking users and products as the core and relying on product advantages, the Company built the internet big-data platform and system, further accelerated Media's strategic layout in whole channels for e-commerce, and thoroughly developed strategic cooperation with platforms such as Tmall and JD, and as a result, achieved preliminary operating effects in Media flagship stores in all platforms. In 2016, the overall sales of Media's e-commerce exceeded RMB23 billion, the systems of Tmall and JD both realized the scale of RMB10 billion, the e-commerce kept ranking the first among the whole network, and the online sales accounted for over 20% for the Company's domestic sales.

e. Centered on core capability establishment of "a plate of goods" in whole channels, and comprehensively improved logistics platforms and capability

The core business pattern of "whole-net-work distribution and delivery" has been implemented in domestic market. The Company provided integrated service of product distribution, delivery, and installation in nationwide. Through effective links of intelligent cloud warehouse, truckload / less truckload, urban distribution, and delivery combining with installation, the Company accomplished the establishment of an integrated network covering distribution, delivery, and installation in nationwide, as well as the layout arrangement of a network covering 72 logistics centers in the country that helped with B2B and B2C integrated operation, effectively improved the one-stop service in the last kilometer and the logistic service for end-to-end of "a plate of goods", and realized 99.6% in-time signing rate of orders after goods delivery. In the field of international logistics carriage, the Company has set up an international logistics information system, which could provide clients with integrated logistics services in container truck transportation in domestic ports, international railway, international air express, international full or consolidated container shipping, and so on, as well as provide clients with a package of overseas logistics solutions.

f. Enlarged the smart home business, deepened the layout of smart home business, and maintained a

leading position in the industry

Based on its wide product category and large amount of users, Midea has been actively pushing forward its smart home strategy. In 2016, Midea kept enhancing the implementation of M-SMART strategy, sustainably optimized the cloud platform, Midea home, communication module, household appliance single-item intelligence, and after-sales service, etc. on the basis of the original functions, and continuously improved user satisfaction.

The Company deeply dug out market potential of smart household appliances, enlarged input on R&D and market resources for smart household appliances, as well as continuously improved the market competitiveness of smart household appliances. In 2016, the Technology Research Center of the Internet of Things and Smart Home Engineering of Guangdong Province settled down in Media. The Company was the first household appliances enterprise in Asia to join ZigBee, the international internet-of-things alliance, and became the top of the table. The Company independently researched and developed the first internet-of-things security module in the industry, established safety-union labs for smart home with companies and institutions such as Huawei, Tencent, Infineon, Opple, China Electronics Standardization Institute, Philips, and China Mobile, and built strategic cooperation partnership with companies such as Huawei, the State Grid Corporation of China, China Oil and Food Import and Export Corporation, Honyar, Onstar, Whaley, Ayla Networks, so as to build the smart home ecosphere.

The Company positively enlarged and distributed the smart home industry in the whole house, input R&D and market resources in security, lighting, air purification, bath, health management, and so on, developed deep cooperation with well-known real estate companies such as Evergrande, Poly, Country Garden, and COFCO in respects of smart community and property management, and so on, and put related projects into practice. As a result, the integrated smart home solution with the core of smart home suits, smart leasing, smart hardware, as well as smart core modules, was preliminarily formulated.

g. Reinforced input on quality improvement, established a highly-effective operation system, and pushed forward whole-value-chain lean management

The Company further clarified the middle-and-long-term policy for quality strategy as ultimate experience for users, quality management and control system under globalization, as well as establishment of professional capability for internationalization, focused on core factors such as delicate appearance,

outstanding performance, and reliable quality, and developed a series of quality improvement work which sharply improved product quality and satisfaction.

Midea 632 project, which covers 6 operation systems, 3 management platforms and 2 technical platforms, has been fully launched, which further enhanced the Company's management principle of "One Midea, One System, One Standard" and helped the overall improvement in business fields from dimensions covering client experience, management standard, operation transparency, as well as internal and external synergy.

Oriented by the market, the Company further promoted whole-value-chain lean management, overall implemented the new production and sales mode of T+3 client-order system, transformed from the previous production for reservation to production for client orders, reduced intermediate links like transit, forced the improvement of manufacturing capability by dual assessment in production and sales, accelerated turnover, and improved market competitiveness. The execution of T+3 order system effectively strengthened the management and control on inventory cycle, as well as the occupation of inventory area, and remarkably upgraded the efficiency of operation and turnover.

h. Made further investment in developing overseas market, improved the development of overseas sales platform, and increased OBM sales

The Company continued to propel the global operation strategy, planned the overseas expansion layout and OBM sales, optimized product structure and ensured steady growth of overseas revenue by unit efforts from overseas branch offices in the front-end and product division in the back-end. The Company constructed Midea's globally uniformed operation and service platform, kept perfecting the management on overseas compliance and the establishment of internal control system, strengthened the appraisal mechanism for overseas branch offices' businesses and risks, launched the global IT integrated project; continued to carry forward the establishment of localized project in overseas strategic market, improved the localization rate in supply chain, and speeded up the synergic promotion of its own brands by virtue of the "full-product-line" advantage of Midea.

In 2016, the export sales of Midea obtained rapid year-on-year growth. The overseas exports of household air conditioner, microwave oven, washing machine, refrigerator, dish-washing machine, water heater, and so on kept taking the lead in Chinese household appliances enterprises. Local sales revenue in overseas market went up steadily and healthily, and the launch speed of new products of OBM sales

in overseas market was remarkably improved.

i. Continuously implementing long-term incentive plans, and improving corporate governance:

In 2016, after the third term of stock option incentive plan for its medium and high-level management as well as for key-business employees, Midea continued to carry out the second term of “partner” stock ownership plan for its core management personnel that have played a significant role in the Company’s medium and long-term business performance, therefore trying to change them from “managers” to “partners”. Through allocating share purchase quotas according to their performances, executing stock options in stages and extending their share lock-up periods, management are empowered with the responsibility to create long-term value for the Company. The “partner” stock ownership plans and the stock option incentive plans have helped to align the long-term interests of senior management and key personnel with that of all shareholders . In this way, the governance mechanism of the Company was further improved.

2. Analysis of Main Business

2.1 Overview

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

Yes No

See “1. Overview” of this section.

2.2 Revenues and Costs

2.2.1 Breakdown of operating revenues

Unit: RMB'000

	2016		2015		YoY Change (%)
	Amount	As a percentage of operating revenues (%)	Amount	As a percentage of operating revenues (%)	
Total	159,044,041	100%	138,441,226	100%	14.88%
By business segment					
Manufacturing	145,266,238	91.34%	126,911,843	91.67%	14.46%
Logistics transportation	1,907,746	1.20%	1,652,757	1.19%	15.43%

By product					
Large home appliances	97,855,794	61.53%	87,932,142	63.52%	11.29%
Air conditioners and components	66,780,877	41.99%	64,491,950	46.58%	3.55%
Refrigerators and components	14,955,684	9.40%	11,422,676	8.25%	30.93%
Washing machines and components	16,119,233	10.14%	12,017,516	8.68%	34.13%
Small household appliances	43,282,927	27.21%	35,445,859	25.60%	22.11%
Motors	7,220,463	4.54%	6,471,372	4.67%	11.58%
Logistics	5,018,196	3.16%	4,008,479	2.90%	25.19%
By geographical segment					
PRC	83,162,174	56.51%	79,147,263	61.56%	5.07%
Outside PRC	64,011,810	43.49%	49,417,336	38.44%	29.53%

Note: In order to help investors learn about the actual scale of operation and operational capability of motors and logistics, the above mentioned data include the intracompany sales of motors and logistics within the Company. Please refer to the notes to the financial statements in this Annual Report for the data excluding the intracompany sales amount.

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

√ Applicable □ N/A

Unit: RMB'000

	Operating Revenue	Operating costs	Gross profit margin	YoY change of operating revenue (%)	YoY change of operating costs (%)	YoY change of gross profit margin (%)
By business segment						
Manufacturing	145,266,238	103,246,836	28.93%	14.46%	10.75%	2.39%
By product						
Large home appliances	97,855,794	69,390,846	29.09%	11.29%	8.96%	1.52%
Air conditioners and components	66,780,877	46,372,262	30.56%	3.55%	0.22%	2.31%
Washing	16,119,233	11,511,915	28.58%	34.13%	33.23%	0.48%

machines and components						
Small household appliances	43,282,927	30,431,915	29.69%	22.11%	14.52%	4.66%
By geographical segment						
PRC	83,162,174	56,959,663	31.51%	5.07%	3.06%	1.34%
Outside PRC	64,011,810	48,131,794	24.81%	29.53%	22.11%	4.57%

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

Applicable N/A

2.2.3 Whether revenue from physical sales is higher than service revenue

Yes No

Business segment	Item	Unit	2016	2015	YoY Change (%)
Home appliances	Sales volume	0,000 units/sets	31,727.72	27,945.50	13.53%
	Output volume	0,000 units/sets	32,712.74	26,691.48	22.56%
	Inventory	0,000 units/sets	3,473.23	2,524.80	37.54%

Note: The aforementioned statistics about output volume, sales volume and inventory were calculated based on internal standards. Lighting products are excluded because they are difficult to count.

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

Applicable N/A

The 37.54% YoY increase in the inventory was mainly due to more orders and the acquisition of TLSC.

2.2.4 Execution of significant sales contracts in the Reporting Period

Applicable N/A

2.2.5 Breakdown of operating costs

By product

Unit: RMB'000

Product	Item	2016		2015		YoY Change (%)
		Amount	As a percentage of operating costs (%)	Amount	As a percentage of operating costs (%)	
Home	Raw materials	87,868,769	85.11%	78,714,556	84.43%	11.63%

appliances	Labor costs	6,267,030	6.07%	5,602,646	6.01%	11.86%
	Depreciation	2,330,741	2.26%	2,135,140	2.29%	9.16%
	Energy	1,574,007	1.52%	1,417,455	1.52%	11.04%

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

Yes No

For the main subsidiaries included the scope of the consolidated financial statements for the current year, please refer to Note 5 and Note 6 to the Financial Statements. And the main companies newly consolidated in the current year are Guangdong Midea Cuchen Consumer Electric Manufacturing Co., Ltd., Midea Factoring Co., Ltd., Toshiba Lifestyle Products & Services Corporation, Clivet S.P.A & Clivet España S.A.U. and Shenzhen Shenzhoutongfu Technology Co., Ltd. (for details, please see “5.1” and “a”, “5.2” under Note 5 to the Financial Statements). For the companies deconsolidated in the current year, please refer to “b”, “5.2” under Note 5 to the Financial Statements.

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

Applicable N/A

2.2.8 Main customers and suppliers

Sales to major customers of the Company

Total sales to top five customers (RMB'000)	16,070,907.67
Total sales to top five customers as a percentage of the total sales for the year (%)	10.10%
Total sales to related parties among top five customers as a percentage of the total sales for the year (%)	0

Information on top five customers

No.	Customer	Sales amount (RMB'000)	As a percentage of the total sales for the year (%)
1	Customer A	6,795,001.07	4.27%
2	Customer B	3,854,215.54	2.42%
3	Customer C	2,596,843.02	1.63%
4	Customer D	1,448,781.59	0.91%
5	Customer E	1,376,066.44	0.87%
Total	--	16,070,907.67	10.10%

Major suppliers of the Company

Total purchases from top five suppliers (RMB'000)	5,279,942.17
Total purchases from top five suppliers as a percentage of the total purchases for the year (%)	4.82%
Total purchases from related parties among top five suppliers as a percentage of the total purchases for the year (%)	0

Information on top five suppliers of the Company

No.	Supplier	Purchases (RMB'000)	As a percentage of the total purchases for the year (%)
1	Supplier A	1,711,044.36	1.56%
2	Supplier B	1,182,847.45	1.08%
3	Supplier C	902,236.47	0.82%
4	Supplier D	799,119.51	0.73%
5	Supplier E	684,694.38	0.63%
Total	--	5,279,942.17	4.82%

2.3 Expense

Unit: RMB'000

	2016	2015	YoY Change (%)	Reason for any significant change
Selling and distribution expenses	17,678,451	14,799,769	19.45%	
General and Administrative expenses	9,620,777	7,441,755	29.28%	
Finance costs	-1,005,979	138,932	-824.08%	Exchange gains and gains on structural deposits

2.4 R&D input

√ Applicable □ N/A

In the Reporting Period, Midea carried on with technological innovation and product improvement "Based on Customers' Needs". It integrated innovation resources globally and increased its R&D inputs to build an open R&D system covering four links from prior study to product development. Also, a world-class R&D team has been set up to work on core technology, cutting-edge technology and basic

technology. In this way, Midea is able to create its own unique selling points and differential competitive edges for continuously advanced products. For more details about the R&D input and product competitiveness improvements, please refer to the relevant contents presented in “Core Competitiveness Analysis” under “Section III Business Profile” and “Overview” under “Section IV Performance Discussion and Analysis”.

Information about R&D input

	2016	2015	YoY Change (%)
Number of R&D personnel	8,741	8,672	0.79%
R&D personnel as a percentage in total employees	9.07%	9.30%	-0.23%
R&D input (RMB'000)	6,045,800	5,262,600	14.87%
R&D input as a percentage in operating revenues	3.80%	3.80%	0
Capitalized R&D input (RMB Yuan)	-	-	-
Capitalized R&D input as a percentage in total R&D input	-	-	-

Note: The data in the table above do not include TLSC and KUKA. If included, Midea's R&D personnel would be over 10,000 globally.

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

Applicable N/A

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

Applicable N/A

2.5 Cash flows

Unit: RMB'000

Item	2016	2015	YoY Change (%)
Subtotal of cash inflows from operating activities	162,658,812	134,278,290	21.14%
Subtotal of cash outflows due to operating activities	135,963,803	107,514,036	26.46%
Net cash flows from operating activities	26,695,009	26,764,254	-0.26%
Subtotal of cash inflows from investing activities	76,323,327	44,741,136	70.59%
Subtotal of cash outflows due to	96,104,411	62,730,329	53.20%

investing activities			
Net cash flows from investing activities	-19,781,084	-17,989,193	-9.96%
Subtotal of cash inflows from financing activities	35,236,372	26,383,619	33.55%
Subtotal of cash outflows due to financing activities	35,076,460	35,260,272	-0.52%
Net cash flows from financing activities	159,912	-8,876,653	101.80%
Net increase in cash and cash equivalents	7,326,413	-84,923	8,727.12%

Explanation of why the data above varied significantly

Applicable N/A

a. Mainly due to more borrowings obtained, net cash flows from financing activities increased 101.80% from last year.

b. Mainly due to the increased operating cash flows, net increase in cash and cash equivalents soared 8,727.12% as compared with last year.

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

Applicable N/A

3. Analysis of Non-Core Business

Applicable N/A

4. Assets and Liabilities

4.1 Material changes of asset items

Unit: RMB'000

	As at the end of 2016		As at the end of 2015		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	17,196,070	10.08%	11,861,977	9.21%	0.87%	
Accounts receivable	13,454,511	7.89%	10,371,718	8.05%	-0.16%	

Inventories	15,626,897	9.16%	10,448,937	8.11%	1.05%	
Investment properties	494,122	0.29%	150,803	0.12%	0.17%	
Long-term equity investments	2,211,732	1.30%	2,888,274	2.24%	-0.94%	
Fixed assets	21,056,791	12.34%	18,729,881	14.54%	-2.20%	
Construction in progress	580,729	0.34%	954,761	0.74%	-0.40%	
Short-term borrowings	3,024,426	1.77%	3,920,933	3.04%	-1.27%	
Long-term borrowings	2,254,348	1.32%	90,061	0.07%	1.25%	

4.2 Assets and liabilities measured at fair value

√ Applicable □ N/A

Unit: RMB'000

Item	Opening balance	Profit or loss from change in fair value during the period	Cumulative fair value change charged to equity	Other	Purchased in the period	Sold in the period	Closing balance
Financial assets							
1. Financial assets measured at fair value with fair value changes included in profit and loss for the year (excluding derivative financial assets)							
2. Derivative financial assets	166,421	173,836	3,751	80,155.89			424,163
3. Financial assets available for sale	19,999,275	1,270,941	451,820	13,330.00	37,598,466	25,706,072	33,627,760
Sub-total of financial assets	20,165,696	1,444,777	455,571	93,485.89	37,598,466	25,706,072	34,051,923
Investment properties							
Productive living assets							

Others							
Sub-total of the above	20,165,696	1,444,777	455,571	93,485.89	37,598,466	25,706,072	34,051,923
Financial liabilities	243,083	56,460	-203,441				96,102

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

Yes No

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

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

5. Investments Made

5.1 Total investments made

Applicable N/A

Investments made in the Reporting Period (RMB'000)	Investments made in the prior year (RMB'000)	YoY Change
96,104,411	62,730,329	53.20%

5.2 Significant equity investments made in the Reporting Period

Applicable N/A

5.3 Significant non-equity investments ongoing in the Reporting Period

Applicable N/A

5.4 Financial investments

5.4.1 Securities investments

Applicable N/A

No such cases in the Reporting Period.

5.4.2 Derivatives investments

Applicable N/A

Unit: RMB'0,000

Operating Parties	Related party or not	Related party transaction or not	Investment type	Initial investment amount	Comment date	Termination date	Investment amount at the beginning of the period	Purchased in the period	Sold in the period	Amount provided for impairment (if applicable)	Investment amount at the end of the period	Ratio of investment amount to net asset at the end of the period (%)	Actual profit and loss amount for the period
Futures company	No	No	Futures contracts	748.2	2016.01.01	2016.12.31	748.2			-	-11.50	-0.0002%	306.10
Bank	No	No	Forward forex contracts	-8,414.40	2016.01.01	2016.12.31	-8,414.40			-	32,817.60	0.5369%	1,178.60
Total				-7,666.20	--	--	-7,666.20			-	32,806.10	0.5367%	1,484.70
Source of derivatives investment funds	All from the Company's own funds												
Litigation involved (if applicable)	N/A												
Disclosure date of the announcement about the board's consent for the derivative investment (if any)	2016.03.26												
Disclosure date of the announcement about the general meeting's consent for the derivative investment (if any)	2016.04.27												
Risk analysis of positions held in derivatives during the Reporting Period and	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												

<p>explanation of control measures (including but not limited to market risk, liquidity risk, credit risk, operational risk and legal risk)</p>	<p>rate fluctuation, realizing the preservation and appreciation of forex assets, reducing forex liabilities, as well as achieving locked-in costs. The Company has performed sufficient evaluation and control against derivatives investment and position risks, details of which are described as follows:</p> <p>1. Legal risk: The Company's futures business and forex funds businesses shall be conducted in compliance with laws and regulations, with clearly covenanted responsibility and obligation relationship between the Company and the agencies.</p> <p>Control measures: The Company has designated relevant responsible departments to enhance learning of laws and regulations and market rules, conducted strict examination and verification of contracts, defined responsibility and obligation well, and strengthened compliance check, so as to ensure that the Company's derivatives investment and position operations meet the requirements of the laws and regulations and internal management system of the Company.</p> <p>2. Operational risk: Imperfect internal process, staff, systems and external issues may cause the Company to suffer from loss during the course of its futures business and forex funds business.</p> <p>Control measures: The Company has not only developed relevant management systems that clearly defined the assignment of responsibility and approval process for the futures business and forex funds business, but also established a comparatively well-developed monitoring mechanism, aiming to effectively reduce operational risk by strengthening risk control over the business, decision-making and trading processes.</p> <p>3. Market risk: Uncertainties caused by changes in the prices of bulk commodity and exchange rate fluctuations in foreign exchange market could lead to greater market risk in the futures business and forex funds business. Meanwhile, inability to timely raise sufficient funds to establish and maintain hedging positions in futures operations, or the forex funds required for performance in forex funds operations being unable to be credited into account could also result in loss and default risks.</p> <p>Control measures: The futures business and forex funds business of the Company shall always be conducted by adhering to prudent operation principles. For futures business, the futures transaction volume and application have been determined strictly according to the requirements of production & operations, and the stop-loss mechanism has been implemented. Besides, to determine the prepared margin amount which may be required to be supplemented, the futures risk measuring system has been established to measure and calculate the margin amount occupied, floating gains and losses, margin amount available and margin amount required for intended positions. As for forex funds business, a hierarchical management mechanism has been implemented, whereby the operating unit which has submitted application for funds business should conduct risk analysis on the conditions and environment affecting operating profit and loss, evaluate the possible greatest revenue and loss, and report the greatest acceptable margin ratio or total margin amount, so that the Company can update operating status of the funds business on a timely basis to ensure proper funds arrangement before the expiry dates.</p>
<p>Changes in market price or fair value of derivatives product</p>	<p>1. Profit/loss from futures hedging contracts incurred during the Reporting Period was RMB3,061,000;</p> <p>2. Profit/loss from forward forex contracts incurred during the Reporting Period was</p>

invested during the Reporting Period: specific methods used and relevant assumption and parameter settings shall be disclosed for analysis of fair value of derivatives	RMB11,786,000; 3. Public quotations in futures market or forward forex quotations announced by Bank of China are used in the analysis of derivatives fair value.
Explanation of significant changes in accounting policies and specific financial accounting principles in respect of the Company's derivatives for the Reporting Period as compared to the previous Reporting Period	No change
Special opinions expressed by independent directors concerning the Company's derivatives investment and risk control	The Company's independent directors are of the view that the futures hedging business is an effective instrument for the Company to eliminate price volatility and implement risk prevention measures through enhanced internal control, thereby improving the operation and management of the Company; the Company's foreign exchange risk management capability can be further improved through the forex funds business, so as to maintain and increase the value of foreign exchange assets and the abovementioned investment in derivatives can help the Company to fully bring out its competitive advantages. Therefore, it is practicable for the Company to carry out derivatives investment business, and the risks are controllable.

5.5 Use of funds raised

Applicable N/A

No such cases in the Reporting Period.

6. Sale of Major Assets and Equity Interests

6.1 Sale of major assets

Applicable N/A

No such cases in the Reporting Period.

6.2 Sale of major equity interests

Applicable N/A

7. Analysis of Major Subsidiaries

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	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	USD7,200.00	9,717.38	2,487.48	11,931.11	1,768.18	1,514.15
Guangdong Midea Refrigeration Equipment Co., Ltd.	Subsidiary	Manufacturing of air conditioners	RMB85,400.00	29,114.45	3,454.02	27,695.21	672.08	617.60
Foshan Shunde Midea Electric Appliance Manufacturing Co., Ltd.	Subsidiary	Manufacturing of home appliances	USD4,200.00	4,922.82	2,075.14	6,658.61	969.56	843.29
Wuhu Midea Kitchen & Bathroom Electric Appliances Manufacturing Co., Ltd.	Subsidiary	Manufacturing of water heaters	RMB6,000.00	4,818.70	814.13	5,634.01	679.29	679.42
Anhui GMCC Precise Manufacture Co., Ltd.	Subsidiary	Manufacturing of compressors	RMB84,210.5263	2,518.43	1,400.22	4,248.47	448.89	393.13

Acquisition and disposal of subsidiaries during the Reporting Period

Applicable N/A

Subsidiary name	How subsidiary was acquired or disposed during the Reporting	Impact on overall operation and results (Unit: RMB'000)	
		Revenue	Net profit

	Period		
Midea Factoring Co., Ltd.	Incorporated	5,454.18	-169.99
Midea Financial Holding (Shenzhen) Co., Ltd.	Ditto	77.25	-1,049.46
Shenzhen Qianhai Midea Asset Management Co., Ltd.	Ditto	30.56	3,892.48
Guangdong Midea Cuchen Consumer Electric Manufacturing Co., Ltd.	Ditto	41,688.99	444.82
Midea Investment and Development Co., Ltd.	Ditto	-	-49,721.72
Midea Intelligent Home Technology Co., Ltd.	Ditto	11,976.00	-1,781.22
Midea Investment (Asia) Co., Ltd.	Ditto	-	6,828.16
Guangdong Midea Intelligent Technology Co., Ltd.	Ditto	423.08	-2,133.78
Foshan Shunde Meiyong Management Service Co., Ltd.	Ditto	-	-
Midea Heating and Ventilation Equipment Co., Ltd. (in Italy)	Ditto	2,181.81	-3,726.30
Guangdong Midea Lighting Electric Manufacturing Co., Ltd.	Cancelled	-	-20.24
Foshan Shunde Meihui Management Service Co., Ltd.	Sold	-	-4,134.03
Anhui GMCC Compressor Sales Co., Ltd.	Canceled	-	-397.34

8. Structured Bodies Controlled by the Company

□ Applicable √ N/A

9. Outlook for the Future Development of the Company

9.1 Development strategies of the Company

Setting the strategic vision of “becoming the world's leading technology group in consumer appliances, heating, ventilating and air conditioning (HVAC), robotics and automation systems”, and the strategic focuses on “leading products, efficiency driven, global operations”, our company will deepen the transformation and build new cost competitive advantage driven by efficiency through technological innovation, quality improvement, quality Engineering and leading products, as well as ascension of management efficiency, manufacturing efficiency and asset efficiency. We will focus on global industry

mergers and acquisitions opportunities and strategic market regional expansion to consolidate the global operating base; also we will strengthen the industrial layout in the field of robotics and industrial automation, enhance new industry strategy research and generate new growth points and industrial platforms.

9.2 Key operation points in Y2017

a. Product-leading as principle, we will build differentiated competitiveness and continuously promote the transformation and upgrading of existing business, also we will stick to quality stability and promote quality engineering, improve the construction of research and development system and increase R & D resources. We will focus on the core product capabilities and continuously enhance the product competitiveness by professional accumulation and height in the industry.

b. We will continue to build all-factor lean management systems such as Lean Design, Lean Supply Chain and Lean Manufacturing, and continuously improve manufacturing efficiency and product quality to build new cost advantages. We will grasp user's needs and enhance user experience to further promote the implementation of T+3 Made-To-Order model. Based on order demands, we will improve product mix and channel efficiency, reduce inventory levels, and improve business cycles and cash flow;

c. We will continue to consolidate our global operating base, build an international system and capacity, rebuild and further optimize the global allocation of resources, and focus on international strategic market, open up the global IT infrastructure and internal system processes and improve overseas local manufacturing and local sales business to ensure our stable growth of overseas income; we will do well in business integration and efficient operation of mergers and acquisitions of Toshiba and other projects to improve business performance; we will continue to focus on and grasp mergers and acquisitions opportunities that can elevate our overall brand, technology, channels and global influence to achieve effective regional expansion, and enhance the global competitive strength.

d. We will grasp the industry expansion opportunities of industrial automation and intelligent manufacturing. Taking KUKA as a platform, we will continue the layout of industrial robots, commercial robots, service robots and artificial intelligence, and actively develop key components in the field of industrial automation.

e. We will continue to promote the transformation of marketing. Aiming at strengthening the terminal operating service capacity, we will comprehensively promote the optimization and integration of agents

and functional changes, enhance the long-term sustainable development of channels, seize the core channels to further extend the chain and online channel size and share, and improve the operating capacity of Midea's flagship shops and franchised shops.

f. We will build a "smart connection, technology-driven" logistics core competence, throughout the supply chain to provide series of services in information technology, efficient logistics, finance and supply chain optimization. We will increase science and technology investment and R & D layout of warehousing automation, selection robots, automatic loading robot, driverless express vehicle and other core technology areas, and continuously strengthen the logistics information and data operation capacity.

g. We will follow our "Smart Home + Intelligent Manufacturing" strategy, reform existing commercial and operating models, strengthen independent research and development and external cooperation, and provide stable, safe and leading overall solutions for "Smart Home", so as to explore new growth points.

9.3 Future key capital expenditure plan

To adapt to changes in this industry environment, the Company will emphasize its 2017 investment on aspects including technology innovation, quality improvement, robots and automatic systems, IT information process excellence, channel expansion and capability improvement for e-business, as well as the execution of the overall M-SMART smart home strategy. It will also seek global M&A opportunities, trying to solidify and increase its global competitiveness. Meanwhile, the Company will strictly control investment in infrastructure such as land and factories, and non-production operation projects. The investment fund will mainly derive from self-owned funds of the Company.

9.4 Main risks against future development

a. Risk of macro economy fluctuation

The household and commercial HVAC, refrigerators, washing machines, and small household appliances sold by the Company are consumer appliances. The market demand for them is affected by the economic situation and macro control to some extent. If the economy growth or consumer demand slows down, the growth of the household appliance industry, to which the Company belongs, will slow down accordingly, and as a result, will affect the product sales of Midea Group.

b. Risks in the fluctuation of production factors

The raw materials required by Midea Group to manufacture its consumer appliances and core components primarily include different grades of copper, steel, aluminum, and plastics. At present, the

household appliance manufacturing sector belongs to a labor intensive industry. If the price of raw materials fluctuate largely, or there is a large fluctuation in the cost of production factors (labor, water, electricity, and land) caused by a change to the macroeconomic environment and policy change, or the cost reduction resulted from lean production and improved efficiency, as well as the sale prices of end products cannot offset the total effects of cost fluctuations, the Company's business will be influenced to some degree.

c. Risk in global asset allocation and overseas market expansion

Internationalization and global operations is a long-term strategic goal of the Company. The Company has built joint-venture manufacturing bases in many countries around the world. 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.

e. Market risks brought by trade barriers

With trade protectionism on the rise around the world, besides the tariff barriers, the non-tariff barriers among countries have become increasingly distinctive. These can mainly be seen on compulsory safety certificates, international standards and requirements, and product quality and management systems certification, energy-saving requirements, the call for increasingly strict environmental protection requirements, as well as with rigorous requirements for recycling household appliances waste. Trade protectionism and trade frictions caused by anti-dumping measures implemented by some countries and regions aggravate the burden in costs and expenses for household appliance enterprises, and have brought about new challenges to market expansion for enterprises.

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

10.1 In the Reporting Period

√ Applicable □ N/A

Date of visit	Way of visit	Type of visitor	Index to main inquiry information
5~29 January 2016	One-on-one meeting	Institution	Log Sheet of Investor Relations Activities for 5~29 January 2016 on www.cninfo.com.cn
28 March~8 April 2016	Ditto	Ditto	Log Sheet of Investor Relations Activities for 28 March~8 April 2016 on www.cninfo.com.cn
11 April~6 May 2016	Ditto	Ditto	Log Sheet of Investor Relations Activities for 11 April~6 May 2016 on www.cninfo.com.cn
9 May~8 June 2016	Ditto	Ditto	Log Sheet of Investor Relations Activities for 9 May~8 June 2016 on www.cninfo.com.cn
13~29 June 2016	Ditto	Ditto	Log Sheet of Investor Relations Activities for 13~29 June 2016 on www.cninfo.com.cn
5~29 July 2016	Ditto	Ditto	Log Sheet of Investor Relations Activities for 5~29 July 2016 on www.cninfo.com.cn
31 August~30 September 2016	Ditto	Ditto	Log Sheet of Investor Relations Activities for 31 August~30 September 2016 on www.cninfo.com.cn
31 October~18 November 2016	Ditto	Ditto	Log Sheet of Investor Relations Activities for 31 October~18 November 2016 on www.cninfo.com.cn
6~26 December 2016	Ditto	Ditto	Log Sheet of Investor Relations Activities for 6~26 December 2016 on www.cninfo.com.cn

Times of visit	153
Number of visiting institutions	1,673
Number of visiting individuals	85
Number of other visitors	0
Significant undisclosed information disclosed, revealed or leaked	No

Section V Significant Events

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

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

Applicable N/A

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

Plan for profit distribution for 2014: Based on its total of 4,215,808,472 shares as at 31 December 2014, the Company distributed a cash dividend of RMB10 (tax inclusive) per 10 shares to all shareholders. The book closure day was 29 April 2015 and the ex-right & ex-dividend day 30 April 2015.

Plan for profit distribution and converting capital reserves into share capital for 2015: Based on its total of 4,267,391,228 shares, the Company distributed a cash dividend of RMB12 (tax inclusive) per 10 shares and granted 5 additional shares per 10 shares with its capital reserves to all shareholders. The book closure day was 5 May 2016 and the ex-right & ex-dividend day 6 May 2016.

Preliminary plan for profit distribution for 2016: Based on its total of 6,465,677,368 existing shares, the Company is to distribute a cash dividend of RMB10 (tax inclusive) per 10 shares to all shareholders. The said preliminary plan has been considered and approved by the 20th Meeting of the 2nd Board of the Company and will later be submitted to a meeting of shareholders for further consideration.

Cash dividend distribution of the Company to common shareholders over the recent three years (including the Reporting Period)

Unit: RMB

Year	Cash dividends (tax included)	Net profit attributable to common shareholders in the consolidated statement in the year	Ratio to net profit attributable to common shareholders in the consolidated statement in the year	Cash dividends in other forms	Ratio of cash dividends in other forms
2016	6,465,677,368.00	14,684,357,000.00	44.03%	0.00	0.00
2015	5,120,869,473.60	12,706,725,000.00	40.30%	0.00	0.00

2014	4,215,808,472.00	10,502,220,260.00	40.14%	0.00	0.00
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The Company made a profit in the Reporting Period and the profit distributable to common shareholders of the Company (without subsidiaries) was positive, but it did not put forward a preliminary plan for cash dividend distribution to its common shareholders

Applicable N/A

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

Applicable N/A

Bonus shares for every 10 shares (share)	0
Dividend for every 10 shares (RMB) (tax included)	10
Additional shares converted from capital reserves for every 10 shares (share)	0
Total shares as the basis for the preliminary plan for profit distribution (share)	6,465,677,368
Total cash dividends (RMB) (tax included)	6,465,677,368
Distributable profit (RMB)	13,379,033,000
Percentage of cash dividends in the total distributed profit (%)	100%
Cash dividend policy	
Other	
Details about the preliminary plan for profit distribution and converting capital reserves into share capital	
<p>As audited by PricewaterhouseCoopers China (LLP), the Company realized a net profit of RMB9,579,463,000 for 2016. Pursuant to the relevant provisions under the Articles of Association, it provided 10% as statutory surplus reserves, namely RMB957,946,000. Plus undistributed profit at the beginning of the year of RMB9,878,385,000 and minus the distributed profit of RMB5,120,869,000, the actual distributable profit would be RMB13,379,033,000.</p> <p>Preliminary plan for profit distribution for 2016: Based on its total of 6,465,677,368 existing shares, the Company is to distribute a cash dividend of RMB10.00 (tax inclusive) per 10 shares to all shareholders, resulting in a total cash dividend payment of RMB6,465,677,368.00. The remaining undistributed profit shall be carried forward for future distribution.</p> <p>The preliminary plan shall be submitted to the Company's 2016 annual meeting of shareholders for further consideration.</p>	

3. Performance of Undertakings

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

√ Applicable □ N/A

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

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

		<p>Midea Group, or damage the interests of its shareholders at their advantages during the related transactions.</p> <p>(2) They shall fulfill the obligation of withdrawing from voting that involves the above mentioned related transactions at the general meeting of Midea Group;</p> <p>(3) The related subject mentioned above shall not require Midea Group to offer more favorable conditions than those to any independent third party in any fair market transactions.</p> <p>(4) In accordance with effective laws, regulations or other regulatory documents of People's Republic of China, as long as Midea Holding is identified as the controlling shareholder of Midea Group, and He Xiangjian the actual controller, they shall not change or terminate this undertaking.</p> <p>(5) Midea Holding and He Xiangjian will faithfully fulfill the above undertaking and assume the corresponding legal liabilities. If they fail to fulfill their obligations and responsibilities conferred by the undertaking, they will bear the corresponding legal responsibilities according to relevant laws, rules, regulations and regulatory documents.</p>			
Controlling shareholder, actual controller	On Midea Trade Union Committee transferring its limited equity of Midea	<p>5. On 4 January 2001, the Midea Trade Union Committee signed the "Equity Transfer Contract" with five people, namely He Xiangjian, Chen Dajiang, Feng Jingmei, Chen Kangning and Liang Jieyin, where it transferred all its limited equity of Midea Group (22.85%) respectively to those five people. According to the confirmation letter issued by members of the Midea Trade Union Committee at that time, the equity transfer price was determined after mutual discussion on the basis of their true opinions, therefore there was no dispute or potential dispute.</p> <p>On 28 June, 2013, Foshan Shunde Beijiao General Union,</p>	2013.03.28	Long-standing	<p>5. So far, this shareholding transfer has not brought about any loss caused by any dispute or potential disputes. There has been no violation of this undertaking.</p>

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

	Controlling shareholder, actual controller	Issues about asset alteration, asset flaw and house leasing of Midea Group and its subsidiaries	<p>7. Undertakings on issues about asset alteration, asset flaw and house leasing of Midea Group and its subsidiaries</p> <p>Midea Holding and He Xiangjian have undertaken as follows:</p> <p>(1) Midea Holding will do its utmost to assist and urge Midea Group (including its subsidiaries) to complete renaming procedures of related assets, such as land, housing, trademarks, patents and stock rights, declared in the related files of this merger. Midea Holding will be liable for all compensations of losses caused by issues about renaming procedures of related assets mentioned above to Midea Group.</p> <p>(2) Midea Holding shall do its utmost to assist Midea Group (including its subsidiaries) to apply for ownership certificates of land and housing or property declared in related files of this merger.</p> <p>(3) Midea Holding shall assist Midea Group (including its subsidiaries) to re-apply for corresponding construction procedures and apply for their ownership certificates for houses without complete procedures, as happened in the past, to apply for the ownership certificate. If the competent authorities requires Midea Group to dismantle buildings that cannot acquire the re-application for real estate registration procedures, Midea Holding shall do its utmost to provide assistance and be liable for any related expenses used in dismantling such buildings by Midea Group (including its subsidiaries).</p> <p>(4) Under any circumstances that Midea Group suffers from losses incurred from no longer using these properties or presently using the land or house above due to failing to obtain or collect in time the ownership certificates of the land or house</p>	2013.03.28	Long-standing	<p>7. So far, the issues about asset alteration, asset flaw and house leasing of Midea Group and its subsidiaries have not brought about any controversy or potential disputes. There has been no violation of this undertaking. And Midea Holding shall honor this undertaking before its expiration.</p>
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		<p>above or any losses caused by any other reasons, Midea Holding shall compensate any loss for these reasons in time and in full. Midea Holding shall compensate the actual loss Midea Group suffers from any circumstances above resulting in penalties subjected to from competent authorities or through claims from any other third party.</p> <p>(5) Based on issues of defective house leasing declared in related files of this merger, Midea Holding shall provide sufficient compensations for all economic losses incurred by Midea Group (including its subsidiaries) where the leasehold relations above become invalid or other disputes occur, which are caused by rights claims from a third party or by means of an administrative authority exercising a right and therefore results in any economic losses due to eviction from rental houses, or any penalties subjected to by competent government departments or any recourse from related parties.</p> <p>(6) Based on the issues of defective land leasing declared in related files of this merger, when leasehold relations become invalid caused by defects of land leasing or when other disputes occur, resulting in any economic losses to Midea Group (including its subsidiaries) or through any penalties administered by competent government departments. Likewise if the lessor cannot compensate for losses caused by such defective leasing, Midea Holding shall compensate Midea Group for losses caused by such defective land leasing.</p> <p>Midea Holding has further undertaken that where a violation of guarantees and undertakings referred to previously occurs or such guarantees and undertakings are not consistent with the reality and Midea Group has suffered any loss therefrom, Midea</p>			
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			Holding shall compensate in cash or make up for Midea Group's loss upon Midea Group's notice in writing within 30 days when the loss occurs and the loss amount is definite.			
	Other shareholders	Share lock-up	Shareholders of Midea Group Ningbo Meicheng, Fang Hongbo, Huang Jian, Cai Qiwu, Yuan Liqun, Huang Xiaoming, Li Jianwei, Zheng Weikang promise that since Midea Group was listed on the Shenzhen Stock Exchange Center, transferring shares or delegating others to manage their shares with either direct or indirect ownership of Midea Group, issued before this time, has been forbidden for 36 months. Midea Group is not allowed to buy back those shares either.	2013.03.28	36 months from the day of Midea Group's listing (2013.09.18-2016.09.18)	This undertaking has expired and there has been no violation of this undertaking.
Undertakings given in time of IPO or refinancing	Xiaomi Technology	Private issue	Xiaomi Technology has given an undertaking that it shall not transfer the shares that it had subscribed for in this private placement with Midea Group within 36 months from the completion date of this offering (26 June 2015, the listing date for this offering).	2015.06.26	36 months from the listing date of this private placement, i.e. to 26 June 2018	There has been no violation of this undertaking.
Whether the undertaking is fulfilled on time	Yes					
Specific	N/A					

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

Applicable N/A

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

Applicable N/A

No such cases in the Reporting Period.

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

Applicable N/A

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

Applicable N/A

No such cases in the Reporting Period.

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

Applicable N/A

No such cases in the Reporting Period.

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

Applicable N/A

For the main subsidiaries included the scope of the consolidated financial statements for the current year, please refer to Note 5 and Note 6 to the Financial Statements. And the main companies newly consolidated in the current year are Guangdong Midea Cuchen Consumer Electric Manufacturing Co., Ltd., Midea Factoring Co., Ltd., Toshiba Lifestyle Products & Services Corporation, Clivet S.P.A & Clivet España S.A.U. and Shenzhen Shenzhoutongfu Technology Co., Ltd. (for details, please see "5.1" and

“a”, “5.2” under Note 5 to the Financial Statements). For the companies deconsolidated in the current year, please refer to “b”, “5.2” under Note 5 to the Financial Statements.

9. Engagement and Disengagement of CPAs Firm

CPAs firm at present

Name of the domestic CPAs firm	PricewaterhouseCoopers China (LLP)
The Company's payment for the domestic CPAs firm (RMB'0,000)	738
Consecutive years of the audit service provided by the domestic CPAs firm	Two years
Names of the certified public accountants from the domestic CPAs firm	Yao Wenping, Huang Meimei

Whether the CPAs firm was changed in the current period

Yes No

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

Applicable N/A

The Company appointed PricewaterhouseCoopers China as the internal control auditor for this year. The remuneration in total paid by the Company to PricewaterhouseCoopers China for its audit of the Company's financial report and internal control conditions for 2016 was RMB7.38 million.

In this year, the Company acquired shares of KUKA in cash through tender offer via MECCA, one of the Company's wholly-owned foreign subsidiaries, and hired CITIC Securities Co., Ltd. as the financial advisor for the said transaction. The transaction has been concluded on 6 January 2017 and a financial advising fee of RMB6 million needs to be paid.

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

Applicable N/A

11. Bankruptcy and Reorganization

Applicable N/A

No such cases in the Reporting Period.

12. Material Litigation and Arbitration

Applicable N/A

No such cases in the Reporting Period.

13. Punishments and Rectifications

Applicable N/A

No such cases in the Reporting Period.

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

Applicable N/A

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

Applicable N/A

A. Overview of the First Stock Option Incentive Plan

a. The Company convened the 6th Meeting of the 2nd Board of Directors on 24 March 2016, 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 or low performance appraisals of some incentive receivers. Upon the adjustments, the number of incentive receivers decreased from 626 to 562, and their unexercised stock options were also reduced to 58,155,600 (including the unexercised stock options from the first exercise period).

The Proposal for Matters Related to the Stock Option Exercise for the Second Exercise Period of the First Stock Option Incentive Plan was also considered and approved. For the exercise conditions that have grown mature for the second exercise period, a total of 559 incentive receivers who have ascertained and verified the First Stock Option Incentive Plan have been allowed to exercise 27,185,000 stock options in the second exercise period.

b. On 29 April 2016, the Announcement on the 2015 Annual Profit Distribution and Conversion of Capital

Reserves into Share Capital was disclosed by the Company, with a decision to distribute a cash dividend of RMB12.00 and grant 5 additional shares with its capital reserves for every 10 shares to all the shareholders based on the total of 4,267,391,228 shares of the Company. The book closure date was 5 May 2016 and the ex-right and ex-dividend date was 6 May 2016.

The Company convened the 10th Meeting of the 2nd Board of Directors on 9 May 2016, at which the Proposal for the Adjustments to the Stock Options and Exercise Price for the First Stock Option Incentive Plan was reviewed and approved. As the 2015 Annual Profit Distribution and Conversion of Capital Reserves into Share Capital had been carried out, the unexercised stock options for the First Stock Option Incentive Plan were increased from 58,155,600 to 87,233,400, the exercise price was revised from RMB17.72 to RMB11.01 per share, and the exercisable stock options for the second exercise period were changed from 27,185,000 to 40,777,500.

c. On 26 March 2016, the exercise conditions grew mature for the second 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 second exercise period of the First Stock Option Incentive Plan started on 7 June 2016. In the Reporting Period, 37,639,742 stock options have been exercised.

B. Overview of the Second Stock Option Incentive Plan

a. The Company convened the 10th Meeting of the 2nd Board of Directors on 9 May 2016, at which the Proposal for the Adjustments to the Stock Options and Exercise Price for the Second Stock Option Incentive Plan was reviewed and approved. As the 2015 Annual Profit Distribution and Conversion of Capital Reserves into Share Capital had been carried out, the stock options for the Second Stock Option Incentive Plan were increased from 83,790,000 to 125,685,000, and the exercise price was revised from RMB30.54 to RMB19.56 per share.

b. The Company convened the 13th Meeting of the 2nd Board of Directors on 1 June 2016, 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 or low performance appraisals of some incentive receivers. Upon the adjustments, the number of incentive receivers decreased from 733 to 639, and their stock options were

also reduced from 125,685,000 to 108,705,000.

c. On 2 June 2016, the exercise conditions grew mature for the first 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 first exercise period of the Second Stock Option Incentive Plan started on 28 June 2016. In the Reporting Period, 20,629,995 stock options have been exercised.

C. Overview of the Third Stock Option Incentive Plan

a. On 25 May 2016, the Third Stock Option Incentive Plan (Draft) and its Abstract of Midea Group Co., Ltd. was reviewed and approved at the 12th Meeting of the 2nd Board of Directors, and the incentive receiver list for the Third Stock Option Incentive Plan (Draft) was examined at the 9th Meeting of the 2nd Supervisory Committee.

b. On 6 June 2016, the Company convened a third special meeting of shareholders for 2016, at which the Third Stock Option Incentive Plan (Draft) and its Abstract, the Implementation and Appraisal Measures for the Third Stock Option Incentive Plan, the Proposal for Asking the Meeting of Shareholders to Authorize the Board to Handle Matters Related to the Third Stock Option Incentive Plan and other relevant proposals were reviewed and approved.

c. In light of the authorization given at the Third Special Meeting of Shareholders for 2016, the Company convened the 15th Meeting of the 2nd Board of Directors on 28 June 2016, at which the Proposal for the Adjustments to the Incentive Receiver List and the Number of Granted Stock Options for the Third Stock Option Incentive Plan, the Proposal for the Determination of the Grant Date for the Third Stock Option Incentive Plan and the Proposal for the Grant-Related Matters for the Third Stock Option Incentive Plan were reviewed and approved. As such, the Company agreed to grant 127,290,000 stock options to 929 receivers on 28 June 2016 with the exercise price being RMB21.35 per share.

D. Overview of the First Employee Stock Ownership Plan

The Proposal for the First Core Management and “Midea Group Partner” Stock Ownership Plan and Adjustments was reviewed and approved at the 6th Meeting of the 2nd Board of Directors on 24 March 2016. As such, the intended receivers for the First Core Management and “Midea Group Partner” Stock Ownership Plan (the “First Employee Stock Ownership Plan” for short) were revised from 31 to 15, and 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 2015 were achieved and how much the intended receiver contributed to that. The shares would be granted to the intended receivers 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) granted to the receivers would be locked up until the final 30% was put under the name of the receivers, and the third installment would not be subject to lock-up (tradable as soon as they were put under the name of the receivers). That is, all the shares would be locked up for four years and then unlocked at the same time (when the First Employee Stock Ownership Plan would be considered to have expired).

At the said board meeting, the First Core Management and “Midea Group Partner” Stock Ownership Plan (Draft) (Revised) was also reviewed and approved. As per the applicable rules, the administrative committee for the First Employee Stock Ownership Plan decided to grant a total of 1,962,000 shares to the intended receivers and nailed down the first installment. After the first installment, the excess shares and their dividends (if any) would be taken back by the administrative committee for no compensation and sold before the First Employee Stock Ownership Plan expired. The earnings on the sale would be used for the repayment of the funds raised through financing and the payment of the accrued interest. Any earnings left after that would belong to the Company.

E. Overview of the Second Employee Stock Ownership Plan

a. The Proposal for the Second Core Management and “Midea Group Partner” Stock Ownership Plan (Draft) of Midea Group Co., Ltd. & Its Abstract was considered and approved at the 6th Meeting of the 2nd Board of Directors on 24 March 2016. As resolved by a meeting of the intended receivers of the Second Employee Stock Ownership Plan, China International Capital Corporation Limited (CICC) was entrusted to conduct the “CICC Directional Asset Management Plan for the Second Midea Group Partner Stock Ownership Plan” with Midea Group shares purchased from the secondary market.

From 13 April 2016 to 26 April 2016, CICC, the stock ownership plan administrator, purchased a total of 2,583,060 Midea Group shares at an average price of RMB30.69/share from the secondary market. The funds used for the share purchase were sourced from Midea Group’s special fund for the Second Employee Stock Ownership Plan of RMB80.5 million. As such, the shares needed by the Second Employee Stock Ownership Plan have been purchased, with a statutory lock-up period from 29 April 2016 to 28 April 2017.

16. Significant Related-Party Transactions

16.1 Related-party transactions arising from routine operation

√ Applicable □ N/A

Related transaction party	Relation	Type of the transaction	Contents of the transaction	Pricing principle	Transaction price	Transaction amount (RMB '0,000)	Proportion in the total amount of transactions of the same kind (%)	Approved transaction line (RMB '0,000)	Over approved line	Mode of settlement	Obtainable market price for the transaction of the same kind	Disclosure date	Index to the disclosed information
Infore Environment Technology Group Co., Ltd.	Controlled by family member of Company's actual controller	Procurement	Procurement of goods	Market price	-	85,886.7	0.78%	125,500	No	Payment after delivery	-	2016.03.26	www.cninfo.com.cn
Orinko Plastics Group	Controlled by family member of Company's actual controller	Procurement	Procurement of goods	Market price	-	24,008.2	0.22%	40,000	No	Payment after delivery	-	2016.03.26	www.cninfo.com.cn
Total				--	--	109,894.9	--	165,500	--	--	--	--	--
Details of any sales return of a large amount				Zero									
Give the actual situation in the Reporting Period (if any) where a forecast had been made for the				The 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.									

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

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

Applicable N/A

No such cases in the Reporting Period.

16.3 Related-party transactions arising from joint investments in external parties

Applicable N/A

No such cases in the Reporting Period.

16.4 Credits and liabilities with related parties

Applicable N/A

No such cases in the Reporting Period.

16.5 Other significant related-party transactions

Applicable N/A

The Proposal for the Related-Party Transaction Regarding Note Discounting for Infore Environment in 2016 and the Proposal for Related-party Transactions Regarding Making Deposits in and Securing Loans from Shunde Rural Commercial Bank in 2016 were reviewed and approved at the 6th Meeting of the 2nd Board of Directors held on 24 March 2016 and later at the 2015 Annual Meeting of Shareholders held on 26 April 2016.

In 2016, Midea Group Finance Co., Ltd., a subsidiary of the Company, provided note discounting services for Infore Environment Technology Group Co., Ltd. and its subsidiaries, with the total amount of discounted notes not exceeding RMB1 billion and the interest charged not exceeding RMB20 million.

In 2016, the deposit balance of the Company in Shunde Rural Commercial Bank did not exceed RMB5 billion and neither did the credit balance provided by the bank to the Company exceed RMB3 billion.

Index to the Announcements about the said related-party transactions disclosed

Title of Announcement	Disclosure date	Disclosure website
Announcement on the Related-Party Transaction Regarding Note Discounting for Infore Environment in 2016	2016.03.26	www.cninfo.com.cn
Announcement on Related-party Transactions Regarding Making Deposits in and Securing Loans from Shunde Rural Commercial Bank	2016.03.26	www.cninfo.com.cn

17. Significant Contracts and Their Execution**17.1 Trusteeship, contracting and leasing****17.1.1 Trusteeship**

Applicable N/A

No such cases in the Reporting Period.

17.1.2 Contracting

Applicable N/A

No such cases in the Reporting Period.

17.1.3 Leasing

Applicable N/A

No such cases in the Reporting Period.

17.2 Major Guarantees

Applicable N/A

17.2.1 Guarantees provided by the Company

Unit: RMB'0,000

Guarantees provided by the Company and its subsidiaries for external parties (excluding those for subsidiaries)								
Guaranteed party	Disclosure date of the guarantee line	Line of guarantee	Actual occurrence date (date of agreement)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party

	announcement		signing)					or not
Shanxi Huaxiang Group Co., Ltd.	2016-3-26	20,400	2016-1-28	0	Joint and several liability	One year	No	No
Total external guarantee line approved during the Reporting Period (A1)		20,400			Total actual external guarantee amount during the Reporting Period (A2)			6,800
Total approved external guarantee line at the end of the Reporting Period (A3)		20,400			Total actual external guarantee balance at the end of the Reporting Period (A4)			0
Guarantees between the Company and its subsidiaries								
Guaranteed party	Disclosure date of the guarantee line announcement	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
Midea Group Finance Co., Ltd.	2016-3-26	1,095,800	2016-1-1	338,703	Joint and several liability	One year	No	No
Midea Microcredit Co., Ltd.	2016-3-26	60,000	-	-	Ditto	Ditto	Ditto	Ditto
Foshan Shunde Midea Microcredit Co., Ltd.	2016-3-26	30,000	-	-	Ditto	Ditto	Ditto	Ditto
Guangdong Midea Refrigeration Equipment Co., Ltd.	2016-3-26	1,095,100	2016-1-11	237,146	Ditto	Ditto	Ditto	Ditto
Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.	2016-3-26	718,500	2016-1-12	237,588	Ditto	Ditto	Ditto	Ditto
Guangdong Witt Vacuum Electronics Manufacturing Co., Ltd.	2016-3-26	43,600	2016-1-1	350	Ditto	Ditto	Ditto	Ditto
Guangdong Midea Heating & Ventilation Equipment Co., Ltd.	2016-3-26	293,700	2016-4-28	22,562	Ditto	Ditto	Ditto	Ditto
Midea Commercial Air Conditioning Equipment Co., Ltd., Guangdong Province	2016-3-26	14,400	-	11,565	Ditto	Ditto	Ditto	Ditto
Guangdong Midea-SIIX Electronics Co., Ltd.	2016-3-26	12,000	-	-	Ditto	Ditto	Ditto	Ditto
Guangdong Midea Consumer	2016-3-26	105,500	2016-6-28	1,215	Ditto	Ditto	Ditto	Ditto

Electric Manufacturing Co., Ltd.	6								
Foshan Shunde Midea Electric Appliance Manufacturing Co., Ltd.	2016-3-26	181,100	2016-1-12	27,235	Ditto	Ditto	Ditto	Ditto	
Guangdong Midea Kitchen & Bathroom Appliances Manufacturing Co., Ltd.	2016-3-26	10,000	-	10	Ditto	Ditto	Ditto	Ditto	
Foshan Shunde Midea Drinking Manufacturing Co., Ltd.	2016-3-26	19,300	2016-5-11	10,277	Ditto	Ditto	Ditto	Ditto	
Foshan Midea Clear Lake Water Purification Equipment Manufacturing Co., Ltd.	2016-3-26	9,800	-	-	Ditto	Ditto	Ditto	Ditto	
Guangdong Midea Environment Appliances Manufacturing Co., Ltd.	2016-3-26	223,000	2016-1-12	-	Ditto	Ditto	Ditto	Ditto	
Foshan Shunde Midea Washing Appliance Manufacturing Co., Ltd.	2016-3-26	448,200	2016-3-29	15,341	Ditto	Ditto	Ditto	Ditto	
Guangdong GMCC Refrigeration Equipment Co., Ltd.	2016-3-26	67,800	2016-4-27	25,981	Ditto	Ditto	Ditto	Ditto	
Guangdong GMCC Precise Manufacture Co., Ltd.	2016-3-26	34,000	2016-1-1	13,358	Ditto	Ditto	Ditto	Ditto	
Guangdong Welling Motor Co., Ltd.	2016-3-26	65,700	2016-1-1	54	Ditto	Ditto	Ditto	Ditto	
Foshan Welling Electronic and Electric Appliances Co., Ltd.	2016-3-26	10,000	2016-1-1	9	Ditto	Ditto	Ditto	Ditto	
Foshan Welling Washer Motor Manufacturing Co., Ltd.	2016-3-26	118,000	2016-1-1	3,636	Ditto	Ditto	Ditto	Ditto	
Ningbo Midea Joint Materials Supply Co. Ltd.	2016-3-26	66,000	2016-1-1	-	Ditto	Ditto	Ditto	Ditto	
Foshan Welling Material Co., Ltd.	2016-3-26	21,000	2016-1-1	-	Ditto	Ditto	Ditto	Ditto	
Guangzhou Kaizhao Trading Co., Ltd.	2016-3-26	18,000	-	48	Ditto	Ditto	Ditto	Ditto	
Foshan Midea Carrier Refrigeration Equipment Co., Ltd.	2016-3-26	52,400	-	-	Ditto	Ditto	Ditto	Ditto	
Guangdong Midea Group Wuhu Refrigeration Equipment Co., Ltd.	2016-3-26	36,000	-	-	Ditto	Ditto	Ditto	Ditto	
Wuhu GMCC Air Conditioning Equipment Co., Ltd.	2016-3-26	151,600	2016-1-1	-	Ditto	Ditto	Ditto	Ditto	
Hefei Midea Refrigerator Co., Ltd.	2016-3-26	43,600	2016-6-21	2,500	Ditto	Ditto	Ditto	Ditto	

	6							
Hubei Midea Refrigerator Co., Ltd.	2016-3-26	10,000	2016-1-1	71	Ditto	Ditto	Ditto	Ditto
Hefei Hualing Co., Ltd.	2016-3-26	52,000	2016-1-1	571	Ditto	Ditto	Ditto	Ditto
Guangzhou Midea Hualing Refrigerator Equipment Co., Ltd.	2016-3-26	20,000	2016-1-1	182	Ditto	Ditto	Ditto	Ditto
Hefei Midea Heating & Ventilation Equipment Co., Ltd.	2016-3-26	7,000	-	-	Ditto	Ditto	Ditto	Ditto
Hefei Midea-Bosch Air Conditioning Equipment Co., Ltd.	2016-3-26	10,000	-	-	Ditto	Ditto	Ditto	Ditto
Wuhu Midea Kitchen & Bathroom Electric Manufacturing Co., Ltd.	2016-3-26	6,000	2016-1-1	3,674	Ditto	Ditto	Ditto	Ditto
Wuhu Midea Washing Appliance Manufacturing Co., Ltd.	2016-3-26	12,000	-	-	Ditto	Ditto	Ditto	Ditto
Anhui GMCC Refrigeration Equipment Co., Ltd.	2016-3-26	10,000	2016-1-1	15	Ditto	Ditto	Ditto	Ditto
Anhui GMCC Precise Manufacture Co., Ltd.	2016-3-26	24,000	2016-6-23	12,219	Ditto	Ditto	Ditto	Ditto
Welling (Wuhu) Motor Manufacturing Co., Ltd.	2016-3-26	12,000	2016-3-29	47	Ditto	Ditto	Ditto	Ditto
Annto Logistics Co., Ltd.	2016-3-26	32,000	2016-1-1	10,090	Ditto	Ditto	Ditto	Ditto
Hefei Midea Washing Machine Co., Ltd.	2016-3-26	40,000	2016-6-28	47,363	Ditto	Ditto	Ditto	Ditto
Jiangsu Midea Cleaning Appliances Co., Ltd.	2016-3-26	26,800	2016-6-20	9,857	Ditto	Ditto	Ditto	Ditto
Jiangxi Midea Guiya Lighting Co., Ltd.	2016-3-26	5,500	-	-	Ditto	Ditto	Ditto	Ditto
Changzhou Welling Motor Manufacturing Co., Ltd.	2016-3-26	12,000	-	-	Ditto	Ditto	Ditto	Ditto
Midea International Holdings Ltd.	2016-3-26	2,436,256	2016-2-1	690,540	Ditto	Ditto	Ditto	Ditto
Midea International Trading Co., Ltd	2016-3-26	70,000	2016-1-4	32,354	Ditto	Ditto	Ditto	Ditto
Midea Electric Investment (BVI) Limited	2016-3-26	27,000	-	-	Ditto	Ditto	Ditto	Ditto
Calpore Macao Commercial Offshore Ltd.	2016-3-26	21,300	2016-1-4	-	Ditto	Ditto	Ditto	Ditto

Welling International Hong Kong Limited	2016-3-26	24,000	-	-	Ditto	Ditto	Ditto	Ditto
Main Power Electrical Factory Limited	2016-3-26	46,400	2016-1-6	8,254	Ditto	Ditto	Ditto	Ditto
Midea Electric Trading (Singapore) Co. Pte. Ltd.	2016-3-26	986,000	2016-1-1	31,825	Ditto	Ditto	Ditto	Ditto
Midea Consumer Electric (Vietnam) Co., Ltd.	2016-3-26	21,000	-	-	Ditto	Ditto	Ditto	Ditto
Springer Carrier Ltda.	2016-3-26	130,000	2016-6-17	49,980	Ditto	Ditto	Ditto	Ditto
Climazon Industrial Ltda.	2016-3-26				Ditto	Ditto	Ditto	Ditto
Carrier S.A	2016-3-26	12,000	-	-	Ditto	Ditto	Ditto	Ditto
Carrier Fueguina S.A.	2016-3-26				Ditto	Ditto	Ditto	Ditto
Carrier(Chile) S.A.	2016-3-26	14,000	-	5,075	Ditto	Ditto	Ditto	Ditto
Midea Electrics Netherlands B.V.	2016-3-26	14,000	-	-	Ditto	Ditto	Ditto	Ditto
Midea America Corp.	2016-3-26	35,000	-	-	Ditto	Ditto	Ditto	Ditto
PT.Midea Planet Indonesia Co., Ltd.	2016-3-26	35,000	-	-	Ditto	Ditto	Ditto	Ditto
MIDEA Scott & English Electronics Sdn Bhd	2016-3-26	14,000	-	-	Ditto	Ditto	Ditto	Ditto
Midea America (Canada) Corp.	2016-3-26	7,000	-	3,100	Ditto	Ditto	Ditto	Ditto
Midea Middle East	2016-3-26	36,000	-	-	Ditto	Ditto	Ditto	Ditto
Midea Europe GmbH	2016-3-26	14,000	-	-	Ditto	Ditto	Ditto	Ditto
Midea Italia S.R.L.	2016-3-26	14,000	-	-	Ditto	Ditto	Ditto	Ditto
Midea México, S. DE R.L. DE C.V.	2016-3-26	21,000	-	-	Ditto	Ditto	Ditto	Ditto
Orient Household Appliances Ltd.	2016-3-26	14,000	-	-	Ditto	Ditto	Ditto	Ditto

Toshiba Lifestyle Products & Services Corporation	2016-6-30	1,040,512	-	-	Ditto	Ditto	Ditto	Ditto
Midea Investment and Development Co., Ltd.	2016-9-20	195,096	-	-	Ditto	Ditto	Ditto	Ditto
Midea Carrier Egypt Miraco S.A.E.	2016-9-20	3,252	-	-	Ditto	Ditto	Ditto	Ditto
Total guarantee line for subsidiaries approved during the Reporting Period (B1)		10,554,216			Total actual guarantee amount for subsidiaries during the Reporting Period (B2)			4,435,889
Total approved guarantee line for subsidiaries at the end of the Reporting Period (B3)		10,554,216			Total actual guarantee balance for subsidiaries at the end of the Reporting Period (B4)			1,852,795
Guarantees between subsidiaries								
Guaranteed party	Disclosure date of the guarantee line announcement	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
No such cases								
Total guarantee amount (total of the above-mentioned three kinds of guarantees)								
Total guarantee line approved during the Reporting Period (A1+B1+C1)		10,574,616			Total actual guarantee amount during the Reporting Period (A2+B2+C2)			4,442,689
Total approved guarantee line at the end of the Reporting Period (A3+B3+C3)		10,574,616			Total actual guarantee balance at the end of the Reporting Period (A4+B4+C4)			1,852,795
Proportion of the total actual guarantee amount (A4+B4+C4) in net assets of the Company								30.22%
Of which:								
Amount of guarantees provided for shareholders, the actual controller and their related parties (D)								0
Amount of debt guarantees provided directly or indirectly for entities with a liability-to-asset ratio over 70% (E)								1,652,566
Portion of the total guarantee amount in excess of 50% of net assets (F)								0

Total amount of the three kinds of guarantees above (D+E+F)	1,652,566
Joint responsibilities possibly borne or already borne in the Reporting Period for undue guarantees (if any)	N/A
Provision of external guarantees in breach of the prescribed procedures (if any)	N/A

17.2.2 Illegal provision of guarantees for external parties

Applicable N/A

No such cases in the Reporting Period.

17.3 Entrusted cash management

17.3.1 Entrusted asset management

Applicable N/A

Unit: RMB'0,000

Name of trustee	Whether it is a related-party transaction	Product type	Value of entrusted assets	Commencement date	Termination date	Method of remuneration	Actual principal amount recovered for the period	Amount provided for impairment (if applicable)	Projected income	Actual profit & loss for the period	Actually received/paid profit/loss for the period
Bank	No	Bank financial product	3,635,890	2016.01.01	2016.12.31	Agreement	2,570,607.20	-	127,094.10	127,094.10	127,094.10
Total			3,635,890	--	--	--	2,570,607.20	-	127,094.10	127,094.10	--
Source of entrusted assets			All from the Company's own funds								
Cumulative amount of principal and revenue overdue			0								
Litigation involved (if applicable)			N/A								
Disclosure date of the announcement about			2016.03.26								

the board's consent for the asset management entrustment (if any)	
Disclosure date of the announcement about the general meeting's consent for the asset management entrustment (if any)	2016.04.27
Any plan for asset management entrustment in the future	The Proposal for the Entrustment of the Company's Own Idle Funds for Management in 2017 was considered and approved at the 20 th Meeting of the 2 nd Board of Directors on 29 March 2017. As such, the Board has agreed to entrust its own idle funds not exceeding RMB40 billion in total to medium and short-term low-risk investment on a rolling basis. The Proposal awaits further consideration at a meeting of shareholders.

17.3.2 Entrusted loans

Applicable N/A

No such cases in the Reporting Period.

17.4 Other significant contracts

Applicable N/A

No such cases in the Reporting Period.

18. Social Responsibilities

18.1 Targeted measures taken to help people lift themselves out of poverty

Applicable N/A

18.1.1 Summary of annual targeted poverty alleviation

In 2016, to actively fulfilled its social responsibility and made good use of donations, Midea Group began the work of targeted poverty alleviation according to the annual poverty alleviation plan to improve the development of poverty alleviation target. The donation of 2016 was RMB100 million, which will be coordinated by the Guangdong Poverty Alleviation and Development Office for poverty alleviation work in the 2,277 relatively poor villages in education, basic medical care and housing security, etc. to support the relatively poor villages in Guangdong Province and income increase of those living under the poverty

line.

18.1.2 Follow - up targeted poverty alleviation plan

In order to implement the decision-making arrangements on the poverty alleviation activities of the Guangdong provincial government and bear the social responsibility of private enterprises, Midea Group will continue to steadily push forward the work of poverty alleviation in the year 2017 in accordance with the principle of truth and efficiency.

The annual targeted poverty alleviation work in 2017 will be based on poverty alleviation researches. Such researches will be made together with Guangdong Poverty Alleviation and Development Office to get deeply understanding of actual situation in the regions, and a detailed program will be developed to implement the measures.

Targeted poverty alleviation work will be based on the principle of targeted supports. Those living under the poverty line will be distinguished and poverty alleviation donation project design will be further optimized to ensure that the donations will be used for the target people. At the same time we will focus on improve the ability of target people, adhere to the principle of fairness and justice, and further play the role of social supervision to be open and transparent.

18.2 Other social responsibilities taken

Whether the listed company and its subsidiaries belong to heavy polluting industries prescribed by the environmental protection departments of China

Yes No N/A

Whether a social responsibility report is released

Yes No

Corporate social responsibility report					
Nature of business	Environment-related information included (yes/no)	Social welfare-related information included (yes/no)	Corporate governance-related information included (yes/no)	Standards adopted	
				Domestic	Foreign
Private	Yes	Yes	Yes	CASSCSR1.0	G3

More details

1. Certified to ISO14001	Yes
2. Inputs for improvement of employees' knowledge and	10,600

skills so that they could have a better career (RMB'0,000)	
3. Charity donations (money, goods and professional services free of charge) (RMB'0,000)	2,000

19. Other Significant Events

Applicable N/A

A. Overview of Midea Group's acquisition of TLSC

The Company held the seventh meeting of the second session of the Board of Directors on 30 Mar. 2016 to consider and approve the "Proposal on Deepening Strategic Cooperation with Toshiba". As an initiative of the Midea Group to deepen the strategic cooperative relationship with Toshiba, Midea Group signed a share transfer agreement with Toshiba to acquire 80.1% stake of Toshiba's main business of home appliances "Toshiba Lifestyle Products & Services Corporation (TLSC)" for about 53.7 billion yen, and the rest 19.9% stake was retained by Toshiba. At the same time, Midea Group will receive the Toshiba brand global authorization for 40 years and more than 5,000 patents related to white household electrical appliance.

Up to 30 Jun. 2016 (the "closure day"), our Company has obtained the necessary approvals for the transaction, including the approval of Japan Fair Trade Commission, a Japanese antitrust regulator, and the filing of the National Development and Reform Commission. In addition, in accordance with the Equity Transfer Agreement and the relevant trading agreements, the terms of the equity delivery have been achieved. Our Company and Toshiba have reached an agreement of the transaction and completed the signing of the agreement on the date of delivery. The total price of the transaction has been paid by the Company to Toshiba and related entities, totaling about 51.4 billion yen (about USD 500 million). The total amount of the transaction price is the adjusted amount of basic transaction price 53.7 billion yen in the transaction agreement. Our Company has completed the equity transfer and held 80.1% equity interest of TLSC through Midea International Corporation Company Limited, a subsidiary of the group.

B. Overview of Midea Group's tender offer to acquire KUKA

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 General Meeting in 2016. The Company intends 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.

On 15 Jun. 2016, the Federal Financial Supervisory Authority of Germany reviewed and approved the tender offer documents (in German), which were issued by the Company on the following day.

Regarding the opinions of KUKA's board of supervisors and executive board as to the tender offer, as well as the Investment Agreement signed between the Company and KUKA, the Company disclosed the Indicative Announcement of Midea Group Co., Ltd. on Progress on the Tender Offer to Acquire KUKA Aktiengesellschaft Shares on www.cninfo.com.cn dated 29 Jun. 2016.

As the tender offer period ended on 4 Aug. 2016, holders of 81.04% of KUKA's outstanding shares had decided to accept the tender offer. Adding the 13.51% stake that the Company had held in KUKA before the tender offer, the Company would hold 94.55% in total of KUKA's outstanding shares provided the acquisition is successfully completed.

In the case of the delivery conditions approved by the government for the tender offer, our Company made further announcements of "Notice on the Progress of Midea Group Co., Ltd.'s Offer to Acquire KUKA Aktiengesellschaft" on 11 Aug. 2016, 23 Aug. 2016, 31 Aug. 2016, 8 Sept. 2016, 21 Sept. 2016, 14 Oct. 2016, 15 Oct. 2016, 31 Dec. 2016, and 31 Dec. 2016 in CNINF www.cninfo.com.cn.

The Company completed the transaction on 6 Jan. 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.

20. Significant Events of Subsidiaries

Applicable N/A

Section VI Changes in Shares and Information about Shareholders

1. Changes in Shares

1.1 Changes in shares

Unit: share

	Before		+/-					After	
	Number	Proportion (%)	Issuance of new shares	Bonus shares	Capitalization of capital reserves	Other	Subtotal	Number	Proportion (%)
1. Restricted shares	2,026,343,750	47.49	0	0	1,013,371,875	-2,760,670,365	-1,747,298,490	279,045,260	4.32
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	2,026,343,750	47.49	0	0	1,013,371,875	-2,760,670,365	-1,747,298,490	279,045,260	4.32
Among which:									
Shares held by domestic corporations	1,626,250,000	38.11	0	0	813,125,000	-2,356,875,000	-1,543,750,000	82,500,000	1.28
Shares held by domestic individuals	400,093,750	9.38	0	0	200,246,875	-403,795,365	-203,548,490	196,545,260	3.04
1.4 Shares held by foreign investors	0	0	0	0	0	0	0	0	0
Among which:									
Shares held by foreign corporations	0	0	0	0	0	0	0	0	0

Shares held by foreign individuals	0	0	0	0	0	0	0	0	0
2. Non-restricted shares	2,240,495,699	52.51	0	0	1,120,323,739	2,818,902,110	3,939,225,849	6,179,721,548	95.68
2.1 RMB common shares	2,240,495,699	52.51	0	0	1,120,323,739	2,818,902,110	3,939,225,849	6,179,721,548	95.68
2.2 Domestically listed foreign shares	0	0	0	0	0	0	0	0	0
2.3 Overseas listed foreign shares	0	0	0	0	0	0	0	0	0
2.4 Other	0	0	0	0	0	0	0	0	0
3. Total shares	4,266,839,449	100	0	0	2,133,695,614	58,231,745	2,191,927,359	6,458,766,808	100

Reasons for the changes in shares

Applicable N/A

- a. Supervisor Ms. Mai Yufen increased her shareholding by 2,300 shares on 17 May 2016.
- b. As the 2015 Annual Plan for Profit Distribution & Converting Capital Reserves into Share Capital has been carried out, and stock option exercise is allowed for stock option incentive plans (Director & Vice President Mr. Li Feide chose to exercised 750,000 shares on 3 November 2016, and 75% of these shares, equal to 562,500 shares, were locked up due to his senior management position), the total shares of the Company have increased from 4,266,839,449 to 6,458,766,808.
- 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 were locked up for half a year on a 100% basis.
- d. During the Reporting Period, a total of 2,956,875,000 shares, locked up before the Company's IPO, were unlocked and became tradable from 19 September 2016.
- e. Vice President Mr. Zhu Fengtao purchased all together 1,020,400 shares of the Company on 14 and 15 December 2016, and 75% of these shares, equal to 765,300 shares, were locked up due to his senior management position.
- f. Mr. Yin Bitong was hired by the Board as a vice president on 17 December 2016, and 75% of his shareholding in the Company (2,109,655 shares), equal to 1,582,241 shares, were locked up due to his

senior management position.

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 current period	Increased in current period	Closing restricted shares	Reason for change	Date of unlocking
Midea Holding Co., Ltd., Ningbo Maysun Equity Investment Partnership (limited partnership), Huang Jian, Huang Xiaoming, Li Jianwei, Cai Qiwu, Zheng Weikang	1,821,250,000	2,731,875,000	0	0	Shares locked-up before IPO were unlocked	2016.09.19
Fang Hongbo	90,000,000	135,000,000	102,742,869	102,742,869	Mr. Fang's shareholding locked-up before the IPO were unlocked, and some of his shareholding was locked up due to his senior management position. Currently, he holds 136,990,492 shares in the Company.	135,000,000 shares were unlocked on 19 September 2016

Yuan Liqun	60,000,000	90,000,000	90,750,000	90,750,000	Ms. Yuan left the Company on 15 July 2016, and her 90,750,000 shares in the Company were thus locked up for half a year due to her former senior management position	90,000,000 shares were unlocked on 19 September 2016
Mai Yufen	0	0	1,725	1,725	Ms. Mai purchased 2,300 shares of the Company on 17 May 2016, and a percentage of these shares were locked up for her senior management position	
Li Feide	0	0	562,500	562,500	Mr. Li chose to exercise, on 3 November 2016, 750,000 stock options granted to him as an incentive, and a percentage of these shares were locked up for his senior management position	-
Zhu Fengtao	0	0	765,300	765,300	Mr. Zhu purchased all together 1,020,400 shares of the Company on 14 and 15 December 2016, and a percentage of these shares were locked up for his senior management position	-
Yin Bitong	0	0	1,582,241	1,582,241	Mr. Yin was hired as a vice president on 17 December 2016, and a percentage of his 2,109,655 shares in the Company were locked up for his senior management position	-
Total	1,971,250,000	2,956,875,000	196,404,635	196,404,635	--	--

Note: The plan for profit distribution and converting capital reserves into share capital for 2015 has been carried out. The Company distributed a cash dividend of RMB12 (tax inclusive) per 10 shares and granted 5 additional shares per 10 shares with its capital reserves to all shareholders. The book closure day was 5 May 2016 and the ex-right & ex-dividend day 6 May 2016.

2. Issuance and Listing of Securities

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

Applicable N/A

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

Applicable N/A

The total shares of the Company were 4,266,839,449 at the beginning of the Reporting Period. Due to the profit distribution and conversion of capital reserves into share capital for 2015 as well as the 551,779 exercised incentive stock options before that, the total shares increased to 6,401,086,842. After that, another 57,679,966 incentive stock options were exercised before the end of the Reporting Period. As such, the total shares rose to 6,458,766,808 at the end of the Reporting Period.

2.3 Existing staff-held shares

Applicable N/A

3. Shareholders and Actual Controller

3.1 Total number of shareholders and their shareholdings

Unit: share

Total number of common shareholders at the end of the Reporting Period	107,577	Total number of common shareholders at the prior month-end before the disclosure date of the annual report	98,402	Total number of preference shareholders with resumed voting rights at the period-end (if any) (see note 8)	0	Total number of preference shareholders with resumed voting rights at the prior month-end before the disclosure date of the annual report (if any) (see note 8)	0	
Shareholdings of shareholders with a shareholding percentage over 5% or the top 10 shareholders								
Name of shareholder	Nature of shareholder	Shareholding percentage	Total shares held at the period-end	Increase/decrease during	Number of restricted shares held	Number of non-restricted shares held	Pledged or frozen shares	
							Status of shares	Number of shares

		ntage (%)		the Reporting Period				
Midea Holding Co., Ltd.	Domestic non-state-owned corporation	34.75	2,244,375,000			2,244,375,000	Pledged	854,955,000
China Securities Finance Co., Ltd.	State-owned corporation	2.79	180,039,880			180,039,880		
Fang Hongbo	Domestic individual	2.12	136,990,492		102,742,869	34,247,623		
Hillhouse Capital Management Limited—HCM China Fund	Foreign corporation	1.76	113,891,138			113,891,138		
Guotai Junan—CCB—The Hongkong and Shanghai Banking Corporation Limited	Foreign corporation	1.48	95,727,746			95,727,746		
Yuan Liqun	Domestic individual	1.41	90,750,000		90,750,000			
Huang Jian	Domestic individual	1.36	88,000,000			88,000,000	Pledged	23,000,000
Tianjin CDH Jiatai Equity Investment Partnership (limited partnership)	Domestic non-state-owned corporation	1.36	87,777,826			87,777,826		
Xiaomi Technology Co., Ltd.	Domestic non-state-owned corporation	1.28	82,500,000		82,500,000			
Central Huijin Asset Management Ltd.	State-owned corporation	1.22	78,474,900			78,474,900		
Strategic investors or general corporations becoming top-ten shareholders due to placing of new shares (if any) (see note 3)						N/A		
Related-parties or acting-in-concert						N/A		

parties among the shareholders above			
Shareholdings of the top 10 non-restricted shareholders			
Name of shareholder	Number of non-restricted shares held at the period-end	Type of shares	
		Type	Number
Midea Holding Co., Ltd.	2,244,375,000	RMB common share	2,244,375,000
China Securities Finance Co., Ltd.	180,039,880	Ditto	180,039,880
Hillhouse Capital Management Limited—HCM China Fund	113,891,138	Ditto	113,891,138
Guotai Junan—CCB—The Hongkong and Shanghai Banking Corporation Limited	95,727,746	Ditto	95,727,746
Huang Jian	88,000,000	Ditto	88,000,000
Tianjin CDH Jiatai Equity Investment Partnership (limited partnership)	87,777,826	Ditto	87,777,826
Central Huijin Asset Management Ltd.	78,474,900	Ditto	78,474,900
He Xiangjian	77,334,548	Ditto	77,334,548
Li Jianwei	73,977,047	Ditto	73,977,047
UBS AG	65,421,047	Ditto	65,421,047
Related-parties or acting-in-concert parties among the top ten non-restricted shareholders and between the top ten non-restricted shareholders and the top ten shareholders	Mr. He Xiangjian and Midea Holding Co., Ltd. are acting-in-concert parties as Mr. He is the controlling shareholder of the latter.		
Explanation on the top 10 common shareholders participating in securities margin trading (if any) (see note 4)	N/A		

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

Yes No

No such cases in the Reporting Period.

3.2 Particulars about the controlling shareholder

Name of controlling shareholder	Legal representative / company principal	Date of establishment	Credibility code	Main business scope
Midea Holding Co., Ltd.	He Xiangjian	2002-08-05	91440606742998973	Manufacture and commerce investment;

			3	domestic commerce and materials supply and marketing industry (excluding state-designated monopoly); CP software and hardware development; industrial product design; information technology consulting services, providing investment consultant and consulting services; installation, maintenance and after-sales service of electric appliances; real estate intermediary service and forwarding agent service.
Shareholdings of the controlling shareholder in other controlled or non-controlled listed companies at home or abroad during the Reporting Period	Apart from a direct control over the Company, Midea Holding does not directly control or have shares in other listed companies at home or abroad.			

Change of the controlling shareholder during the Reporting Period

Applicable N/A

No such cases in the Reporting Period.

3.3 Particulars about the actual controller

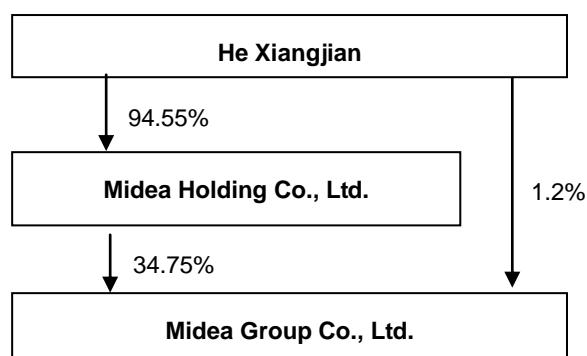
Name of the actual controller	Nationality	Right of residence in other countries or regions
He Xiangjian	The People's Republic of China	No
Main occupation and duty	Incumbent board chairman of Midea Holding	
Used-to-be-holding listed companies home and abroad in the last 10 years	Midea Group (000333.SZ),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

Change of the actual controller during the Reporting Period

Applicable N/A

No such cases in the Reporting Period.

Ownership and control relations between the actual controller and the Company



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

Applicable N/A

3.4 Other corporate shareholders with a shareholding percentage above 10%

Applicable N/A

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

Applicable N/A

Section VII Preference Shares

Applicable N/A

No such cases in the Reporting Period.

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

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

Name	Office title	Incumbent/Former	Gender	Age	Starting date of tenure	Ending date of tenure	Shares held at the year-begin (share)	Shares increased at the Reporting Period (share)	Shares decreased at the Reporting Period (share)	Other increase/decrease (share)	Shares held at the period-end (share)
Fang Hongbo	Chairman and President	Incumbent	Male	50	2012-8-25	2018-9-18	91,326,995	0	0	45,663,497	136,990,492
He Jianfeng	Director	Incumbent	Male	50	2012-8-25	2018-9-18	0	0	0	0	0
Gu Yanmin	Director and Vice President	Incumbent	Male	54	2014-4-21	2018-9-18	0	0	0	0	0
Li Feide	Director and Vice President	Incumbent	Male	40	2012-8-31	2018-9-18	0	750,000	0	0	750,000
Hu Xiaoling	Director	Incumbent	Female	47	2012-8-25	2018-9-18	0	0	0	0	0
Wu Shinong	Independent Director	Incumbent	Male	61	2013-3-4	2018-9-18	0	0	0	0	0
Rui Meng	Independent Director	Incumbent	Male	50	2015-9-18	2018-9-18	0	0	0	0	0
Guo Xuejin	Independent Director	Incumbent	Male	58	2013-3-4	2018-9-18	0	0	0	0	0
Li	Independent	Incumbent	Male	38	2013-3-4	2018-9-18	0	0	0	0	0

Wenjing	Director	Incumbent	Female			8					
Liu Min	Chairman of the Supervisory Committee	Incumbent	Female	40	2016-2-1	2018-9-18	0	0	0	0	0
Zhao Jun	Supervisor	Incumbent	Male	42	2014-4-21	2018-9-18	0	0	0	0	0
Mai Yufen	Worker-representative Supervisor	Incumbent	Female	33	2016-1-16	2018-9-18	0	2,300	0	0	2,300
Yin Bitong	Vice President	Incumbent	Male	49	2016-12-16	2018-9-18	0	2,109,655	0	0	2,109,655
Zhu Fengtao	Vice President	Incumbent	Male	49	2014-4-21	2018-9-18	0	1,020,400	0	0	1,020,400
Wang Jinliang	Vice President	Incumbent	Male	50	2014-8-18	2018-9-18	0	0	0	0	0
Hu Ziqiang	Vice President	Incumbent	Male	60	2014-8-18	2018-9-18	0	0	0	0	0
Xiao Mingguang	CFO	Incumbent	Male	47	2016-7-16	2018-9-18	0	0	0	0	0
Jiang Peng	Company Secretary	Incumbent	Male	44	2013-10-30	2018-9-18	125,000	0	31,250	46,875	140,625
Zeng Qiao	Chairman of the Supervisory Committee	Former	Female	44	2012-8-25	2016-1-31	0	0	0	0	0
Li Baoqing	Worker-representative Supervisor	Former	Female	36	2014-5-26	2016-1-15	0	0	0	0	0
Xu Hai	Director	Former	Male	41	2013-3-4	2016-4-6	0	0	0	0	0
Yuan	Director, Vice	Former	Female	48	2012-8-25	2016-7-1	60,500,000	0	0	30,250,000	90,750,000

Liqun	President and CFO	mer	ale			5					
Wu Wenxin	Director and Vice President	For mer	Mal e	53	2014-4-21	2017-1-6	0	0	0	0	0
Total	--	--	--	--	--	--	151,951,995	3,882,355	31,250	75,960,372	231,763,472

2. Changes in Directors, Supervisors and Senior Management

Name	Office title	Type of change	Date	Reason
Li Baoqiong	Worker-representative Supervisor	Left	2016.01.15	Personal reason
Zeng Qiao	Chairman of the Supervisory Committee	Left	2016.01.31	Personal reason
Xu Hai	Director	Left	2016.04.06	Personal reason
Yuan Liqun	Director, Vice President and CFO	Left	2016.07.15	Personal reason
Wu Wenxin	Director and Vice President	Left	2017.01.06	Personal reason

3. Brief Biographies

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

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

Mr. He Jianfeng, holder of a Bachelor's degree, is one of the Company's directors. He is also the Chairman and President of Infore Investments Holding Group Co., Ltd.

Mr. Gu Yanmin, holder of a doctoral degree, joined Midea in 2000 and once functioned as Midea Group's Planning & Investment Head, Midea Air-Conditioning & Refrigeration Group's Overseas Strategy & Development Head, Vice President and Head of Overseas Business Expansion in the Marketing Department, and Midea Group's Head of Overseas Strategy. He is currently a director and vice president

of the Company.

Mr. Li Feide, holder of a Master's degree, joined Midea in 1999 and served as the Company Secretary, the Strategic Operation Head, the Operational Management Head, and the President's Assistant. He is now a company director, vice president. and also an executive director of the Hong Kong listed company, Welling Holding Co., Ltd., which is controlled by the Company.

Ms. Hu Xiaoling, a master's degree graduate, was a Senior Auditor for Arthur Andersen Accounting Firm and Senior Manager of Direct Investment Department in China International Capital Co., Ltd before she joined the company. She is now the Managing Director of CDH Investments Management (Hong Kong) Limited and a director of Midea Group.

Mr. Wu Shinong, holder of a doctoral degree, is Professor and Tutor for doctoral students at the Management School of Xiamen University. He is also involved as an Independent Director of Midea Group, and a member of the National Natural Science Foundation of China.

Mr. Rui Meng, holder of a doctoral degree. He is now an independent director of the Company, a professor of finance and accounting at China Europe International Business School, a chaired professor of finance in Zhong Kun Group, a doctoral advisor, and concurrently the director of a doctoral program, the head of the CEIBS Shoushan Wealth Management Research Center, a member of the Risk Management Committee of the Shanghai Clearing House.

Mr. Guo Xuejin, a master's degree graduate, is the director of Guangdong Kings Law Firm, a member of the Guangzhou 15th People's Congress, a member of Guangzhou Law Committee of the NPC, the arbitrator of Guangzhou Arbitrator Committee, an expert consultant of Guangzhou Traffic Committee and is currently an independent director of Midea Group.

Mr. Li Wenjing, holder of a doctoral degree, is the Director of the Accounting Department, professor and doctoral supervisor in the Accounting Department of the School of Management at Jinan University, and at present is an independent director of Midea Group. He also holds concurrent positions including being a member of the International Exchange Committee & a director of the Branch Society of Financial Costs under the Accounting Society of China, and a director of Accounting Academy of Guangdong Province.

Ms. Liu Min, a master's degree graduate, joined Midea in 1998. She used to be the General Manager of an overseas marketing company under Midea's Household Air-Conditioning Division and the Chief Operations Officer of Midea. She is now the Chairman of the Supervisory Committee and the Chief HR

Officer of Midea.

Mr. Zhao Jun, a master's degree graduate, joined Midea in 2000 and has functioned as the Director and the CFO of GD Midea Holding Co., Ltd. He is now a Supervisor of the Company, the President's Assistant and CFO in Midea Holding Co., Ltd.

Ms. Mai Yufen, a bachelor's degree graduate, joined Midea in 2007. She served to function as the Budget Commissioner-General of the Financial Management Department of the Company and is now the Worker-representative Supervisor of the Company.

Mr. Yin Bitong, a master's degree graduate, joined Midea in 1999. He used to be a general manager assistant and the Chief Marketing Officer of Midea's domestic marketing company for air conditioners, in addition to being a director and the General Manager of Wuxi Little Swan Co., Ltd. Currently, he is a vice president and the Household Air Conditioner General Manager of the Company.

Mr. Zhu Fengtao, holder of a doctoral degree, joined Midea in 1993. He once served as the Microwave Oven General Manager of the Company. He is currently a vice president and the Kitchen Appliances General Manger of the Company.

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

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

Mr. Xiao Mingguang, a master's degree graduate, joined Midea in 2000. He once served as a vice chief financial officer and the Chief Operational Officer of Midea Group, as well as the Chief Audit Supervision Officer and a director of GD Midea Holding Co., Ltd. Currently, he is the CFO of Midea Group, in addition to being a director of Wuxi Little Swan Company Limited and executive director of Welling Holding Limited.

Mr. Jiang Peng, holder of a master's degree, joined Midea in 2007 and used to be the Representative for Securities Affairs and Company Secretary for GD Midea Holding Co., Ltd. He is now the Secretary of the Company.

Posts held in shareholding entities

√ Applicable □ N/A

Name	Shareholding entity	Position	Beginning date of office term	Ending date of office term	Allowance from the shareholding entity
Zhao Jun	Midea Holding Co., Ltd.	Vice President, CFO	2013-01-01	-	Yes
Note	Mr. Zhao Jun has become a vice president of Midea Holding since 5 January 2016.				

Posts held in other entities

√ Applicable □ N/A

Name	Other entity	Position	Beginning date of office term	Ending date of office term	Allowance from the entity
Fang Hongbo	Wuxi Little Swan Co., Ltd.	Board Chairman	2012-08	2018-08	No
He Jianfeng	Infore Investments Holding Group Co., Ltd.	Board Chairman, President	1995	-	Yes
Li Feide	Welling Holding Limited	Executive Director	2012-12		No
Hu Xiaoling	Belle International Holdings Limited	Non-executive director	2005-09	-	No
	Beijing Xiron Book Co., Ltd	Director	2010-07	-	No
	Baroque Japan Ltd	Non-executive director	2013-08	-	No
	Dali Foods Group Co., Ltd.	Non-executive director	2015-05	-	No
	CDH Investments Management (Hong Kong) Limited	Managing Director	2002-08	-	Yes
Wu Shinong	Fuyao Glass Industry Group Holding Co., Ltd.	Director	2011-04	-	Yes
	Xiamen ITG Group Co., Ltd.	Independent Director	2014-06	2017-06	Yes
Rui Meng	COSCO SHIPPING Energy Transportation Co., Ltd.	Independent Director	2015-06	2018-06	Yes
	ShangHai Winner Networks Information Technology Co., Ltd.	Independent Director	2016-06	2019-06	Yes
Guo Xuejin	Donlinks International Investment Co., Ltd.	Independent Director	2014-04	2017-04	Yes
Li Wenjing	Guangzhou Devotion Thermal Technology Co., Ltd.	Independent Director	2013-12	2019-03	Yes
	Guangzhou Longse Technology Co.,	Independent	2015-11	-	Yes

	Ltd.	Director			
Xiao	Wuxi Little Swan Company Limited	Director	2010-01	2018-08	No
Mingguang	Welling Holding Limited	Executive Director	2016-07		No

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

Applicable N/A

4. Remuneration of Directors, Supervisors and Senior Executives

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

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

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

- a. Wage growth in the industry
- b. Inflation
- c. Corporate earnings
- d. Organizational structure adjustment
- e. Individual adjustment due to a change in position

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

Unit: RMB'0,000

Name	Position	Gender	Age	Incumbent/ Former	Total before-tax remuneration from the Company	Remuneration from related parties of the Company
Fang Hongbo	Board Chairman and President	Male	50	Incumbent	766	
He Jianfeng	Director	Male	50	Incumbent		Yes
Gu Yanmin	Director and Vice President	Male	54	Incumbent	276	
Li Feide	Director and Vice President	Male	40	Incumbent	204	
Hu Xiaoling	Director	Female	47	Incumbent		No
Wu Shinong	Independent Director	Male	61	Incumbent	15	
Rui Meng	Independent Director	Male	50	Incumbent	15	
Guo Xuejin	Independent Director	Male	58	Incumbent	15	
Li Wenjing	Independent Director	Male	38	Incumbent	15	
Liu Min	Chairman of the Supervisory Committee	Female	40	Incumbent	154	
Zhao Jun	Supervisor	Male	42	Incumbent		Yes
Mai Yufen	Worker-representative Supervisor	Female	33	Incumbent	23	
Yin Bitong	Vice President	Male	49	Incumbent	346	
Zhu Fengtao	Vice President	Male	49	Incumbent	363	
Wang Jinliang	Vice President	Male	50	Incumbent	221	
Hu Ziqiang	Vice President	Male	60	Incumbent	302	
Xiao Mingguang	CFO	Male	47	Incumbent	206	
Jiang Peng	Company Secretary	Male	44	Incumbent	155	
Yuan Liqun	Director, Vice President and CFO	Female	48	Former	209	
Wu Wenxin	Director and Vice President	Male	53	Former	403	
Xu Hai	Director	Male	41	Former		No
Zeng Qiao	Chairman of the Supervisory Committee	Female	44	Former	0	
Li Baoqiong	Worker-representative Supervisor	Female	36	Former	31	

Total	--	--	--	--	3,719	--
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Share incentives for directors, supervisors and senior executives in the Reporting Period

√ Applicable □ N/A

Unit: share

Name	Office title	Exercisable share options for the Reporting Period	Exercised share options in the Reporting Period	Exercise price for exercised share options in the Reporting Period (RMB / share)	Market price at the end of the Reporting Period (RMB / share)	Restricted shares held at the beginning of the Reporting Period	Unlocked shares in the Reporting Period	Restricted shares granted in the Reporting Period	Grant price of the restricted shares (RMB/share)	Restricted shares held at the end of the Reporting Period
Li Feide	Director, Vice President	750,000	750,000	11.01	28.17	0	375,000	0	-	0
Jiang Peng	Company Secretary	277,500	0	-	28.17	0	277,500	0	-	0
Total	--	1,027,500	750,000	--	--	0	652,500	0	--	0
Note (if any)	375,000 stock options of Mr. Li Feide were unlocked in the Reporting Period, leaving 375,000 still in lockup. And 277,500 stock options of Mr. Jiang Peng were unlocked in the Reporting Period, leaving 367,500 still in lockup.									

5. Staff in the Company

5.1 Number, functions and educational backgrounds of the staff

Number of in-service staff of the Company	1,221
Number of in-service staff of main subsidiaries	95,197
Total number of in-service staff	96,418
Total number of staff with remuneration in the period	96,418
Number of retirees to whom the Company or its main subsidiaries need to pay retirement pension	2,116
Functions	
Function	Number of staff
Production	82,240
Sales	3,576

R&D	8,741
Financial	1,080
Administrative	781
Total	96,418
Educational backgrounds	
Educational background	Number of staff
Master and doctor	2,177
Bachelor	15,591
College, technical secondary school	44,337
Others	34,313
Total	96,418

Note: The data above have not yet included the global staff of controlled subsidiaries TLSC and KUKA, which are around 30,000.

5.2 Staff remuneration policy

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

5.3 Staff training plans

The attendances at training sessions were 481,708 in the Reporting Period, of which 39,250 were executives, 36,630 technical and sales staff, and 405,828 operating staff.

Main training:

- a. Building a pilot Leadership Development Program and the High-Potential Leaders Training system to facilitate talent management and training. They have carried out 53 talent training programs and trained 2,516 highly skilled managerial staff.
- b. The internet occupational E-learning platform, together with "Midea Learning" App ("Meike") on the

mobile platform, have become the most significant means of support for the daily training in our business divisions. The training comprises all managerial employees in Midea Group. An approximate total of 576,800 logins to Midea's various platforms for training were recorded throughout the year, including 386,700 logins to Midea's mobile Learning platform and 190,100 logins to the computer E-learning platform.

c. Facilitating organizational learning by developing 797 internal trainers. The annual teaching time was 10,001 hours. A total of 2,641 courses were designed in the year, including 90 training sessions conducted by top management, which consisted of 17,500 attendances with 35,000 man-hours, and 260 of those by senior staff with 265,000 man-hours.

d. Continuous training for mid-level and senior managers. 29 trips, equivalent to 578 attendances, were undertaken by mid-level and senior managers to benchmarking companies, taking up 4,117 man-hours. A total of 40 lectures on leadership skills for mid-level management were given to 1,082 attendances, representing 14,824 teaching man-hours. 11 lectures on leadership skills for senior management (25 days) were given to 213 attendances, which consisted of 3,828 man-hours. Meanwhile, courses on subjects such as leadership skills, business models-related innovation, robots and future technology, and marketing model reform for top management consisted of 3,168 man-hours in total.

e. Facilitating the training of key technical staff and working team leaders. The total training time was 126,889 hours.

5.4 Labor outsourcing

Applicable N/A

Section IX Corporate Governance

1. Basic Situation of Corporate Governance

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

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

In 2016, the Company won the following honors for its corporate governance:

“The Best Board of Directors” at “The Golden Round Table Awards 2016” presented by the *Directors & Boards* magazine; “The Top 100 Golden Bull Listed Companies”, “The Golden Bull Company Secretary” and “The Golden Bull Business Leader” by the *China Securities Journal*; “China’s Top Business Leader Award” by the *China Business News*; “Global Top 2,000 Listed Companies” by the *Forbes*; “Global Top 500” by the *Fortune*; and rated by the Shenzhen Stock Exchange at “A” in information disclosure for the

year among the companies listed on the main board of the exchange.

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

Yes No

No such cases in the Reporting Period.

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

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

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

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

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

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

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

3. Horizontal Competition

Applicable N/A

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

4.1 Meetings of shareholders convened during the Reporting Period

Meeting	Type	Investor participation ratio	Convened date	Disclosure Date	Disclosure Index
2016 First Special Meeting of Shareholders	Special meeting of shareholders	44.3249 %	2016.02.01	2016.02.02	Announcement No. 2016-007, disclosed on www.cninfo.com.cn
2015 Annual Meeting of Shareholders	Annual meeting of shareholders	57.7211 %	2016.04.26	2016.04.27	Announcement No. 2016-036, disclosed on www.cninfo.com.cn
2016 Second Special Meeting of Shareholders	Special meeting of shareholders	47.8323 %	2016.05.11	2016.05.12	Announcement No. 2016-045, disclosed on www.cninfo.com.cn
2016 Third Special Meeting of Shareholders	Special meeting of shareholders	52.1499 %	2016.06.06	2016.06.07	Announcement No. 2016-068, disclosed on www.cninfo.com.cn
2016 Fourth Special Meeting of Shareholders	Special meeting of shareholders	46.3382 %	2016.06.29	2016.06.30	Announcement No. 2016-082, disclosed on www.cninfo.com.cn
2016 Fifth Special Meeting of Shareholders	Special meeting of shareholders	46.9205 %	2016.09.19	2016.09.20	Announcement No. 2016-106, disclosed on www.cninfo.com.cn
2016 Sixth Special Meeting of Shareholders	Special meeting of shareholders	45.9214 %	2016.11.17	2016.11.18	Announcement No. 2016-116, disclosed on www.cninfo.com.cn

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

Applicable N/A

5. Performance of Independent Directors during the Reporting Period

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

Attendance of independent directors in Board meetings						
Independent director	Presence due in the Reporting Period (times)	Presence on site (times)	Presence by telecommunication (times)	Presence through a proxy (times)	Absence (times)	Absence for two consecutive times
Wu Shinong	15	1	14	0	0	No
Rui Meng	15	1	14	0	0	No
Guo Xuejin	15	1	14	0	0	No
Li Wenjing	15	1	14	0	0	No
Presence of independent directors in meetings of shareholders (times)		1				

5.2 Objections from independent directors on related issues of the Company

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

Yes No

No such cases in the Reporting Period.

5.3 Other details about the performance of duties by independent directors

Were there any suggestions from independent directors adopted by the Company

Yes No

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

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

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

6.1 The Audit Committee under the Board convened four meetings in the Reporting Period, at which the following proposals were considered and approved: *The 2015 Final Account Report, The 2015 Annual Report & Its Abstract, The Report of the Audit Committee on Concluding and Appraising the 2015 Annual Audit Work, The Proposal for Appointing an Auditor for the 2016 Annual Result, The Proposal for Appointing an Auditor for the Internal Control in 2016, The Proposal for Writing off Asset Impairment Provisions, The Report on the First Quarter of 2016, The 2016 Semi-Annual Report and The Report on the Third Quarter of 2016.*

6.2 The Strategy Committee under the Board convened one meeting in the Reporting Period, at which *The Mid-Term Development Planning (2016-2018)* was considered and approved.

6.3 The Remuneration and Appraisal Committee under the Board convened one meeting in the Reporting Period, at which *The Proposal for the Payment of Remuneration to Senior Executives for 2015* was considered and approved.

6.4 The Nomination Committee under the Board convened three meetings in the Reporting Period, at which the following proposals were considered and approved: *The Proposal for CFO Appointment, The Proposal for New Director and The Proposal for Vice President Appointment.*

7. Performance of Duties by the Supervisory Committee

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

Yes No

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

8. Assessment and Incentive Mechanism for the Senior Management

The Company established an appraisal system on the basis of its target-oriented responsibility system and adopted an appraisal agreement for senior management members, which determines the appraisal criterion, appraisal method and measures taken based on the appraisal result. During the Reporting Period, the Company has carried out appraisals of senior management members on the basis of its target-oriented responsibility system and the appraisal result was reflected in the annual

performance-based incentive rewards. Meanwhile, the Company promoted the unification of interests between managers and shareholders through high-level staff and core management teams' shareholding plans as well as multiple stock option incentive plans, laying a good foundation for the future growth of the Company.

9. Internal Control

9.1 Serious internal control defects found in the Reporting Period

Yes No

9.2 Self-evaluation report on internal control

Disclosure date of the internal control self-evaluation report	2017.03.31	
Index to the disclosed internal control self-evaluation report	For details, please refer to the 2016 Self-Evaluation Report on Internal Control, which has been disclosed on www.cninfo.com.cn	
Ratio of the total assets of the appraised entities to the consolidated total assets	70%	
Ratio of the operating revenues of the appraised entities to the consolidated operating revenues	70%	
Defect identification standards		
Type	Financial-report related	Non-financial-report related
Nature standard	For details, please refer to “(c) Basis for internal control evaluation and identification standards for internal control defects” under Section III of The 2016 Self-Evaluation Report on Internal Control disclosed on www.cninfo.com.cn dated 31 March 2017.	For details, please refer to “(c) Basis for internal control evaluation and identification standards for internal control defects” under Section III of The 2016 Self-Evaluation Report on Internal Control disclosed on www.cninfo.com.cn dated 31 March 2017.
Quantitative standard	For details, please refer to “(c) Basis for internal control evaluation and identification standards for internal control defects” under Section III of The 2016 Self-Evaluation Report on Internal Control disclosed on www.cninfo.com.cn dated 31 March 2017.	For details, please refer to “(c) Basis for internal control evaluation and identification standards for internal control defects” under Section III of The 2016 Self-Evaluation Report on Internal Control disclosed on www.cninfo.com.cn dated 31 March 2017.
Number of serious financial-report-related defects	0	
Number of serious non-financial-report-related	0	

defects	
Number of important financial-report-related defects	0
Number of important non-financial-report-related defects	0

10. Auditor's Report on Internal Control

Applicable N/A

Opinion paragraph in the auditor's report on internal control	
The internal control auditor holds the view that on 31 December 2016, Midea Group maintained an effective internal control of a financial report in all significant aspects based on the <i>General Specifications of Company Internal Control</i> and relevant specifications.	
Auditor's report on internal control disclosed or not	Disclosed on www.cninfo.com.cn
Date of disclosing the full text of the auditor's report on internal control	2017.03.31
Index to the disclosed full text of the auditor's report on internal control	For details, please refer to the 2016 Auditor's Report on Internal Control, which has been disclosed on www.cninfo.com.cn
Type of the auditor's opinion	Standard unqualified opinion
Serious non-financial-report-related defects	No

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

Yes No

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

Yes No

Section X Financial Report

1. Auditor's report

Type of audit report	Standard & unqualified
Signing date of auditor's report	2017-03-29
Name of Audit	PricewaterhouseCoopers China (LLP)
No. of auditor's report	PwC ZT Shen Zi (2017) No. 10080
Names of auditors	Yao Wenping, Huang Meimei

Auditor's Report

PwC ZT Shen Zi (2017) No. 10080

To the shareholders of Midea Group Co., Ltd.,

We have audited the accompanying financial statements of Midea Group Co., Ltd. (hereinafter the "Company"), which comprise the consolidated and company balance sheets as at 31 December 2016, and the consolidated and company income statements, the consolidated and company statements of changes in shareholders' equity and the consolidated and company cash flow statements for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Company as at 31 December 2016, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China

29 March 2017

2. Financial Statements

MIDEA GROUP CO., LTD.

CONSOLIDATED AND COMPANY BALANCE SHEETS AS AT 31 DECEMBER 2016

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

[English translation for reference only]

ASSETS	Note	31 December	31 December	31 December	31 December
		2016	2015	2016	2015
		Consolidated	Consolidated	Company	Company
Current assets					
Cash at bank and on hand	4(1)	17,196,070	11,861,977	17,135,480	14,213,747
Deposits with central bank	4(2)	735,183	1,048,045	-	-
Deposits with banks and other financial institutions	4(3)	9,237,865	4,062,807	-	-
Derivative financial assets		412,813	158,822	-	-
Notes receivable	4(4)	7,427,488	12,889,151	-	727,218
Accounts receivable	4(5)	13,454,511	10,371,718	-	-
Advances to suppliers	4(6)	1,587,366	988,625	8,252	8,915
Loans and advances	4(7)	10,273,397	6,608,705	-	-
Dividends receivable		-	-	285,916	290,245
Other receivables	4(5), 18(1)	1,140,133	1,101,339	12,644,592	7,461,039
Inventories	4(8)	15,626,897	10,448,937	-	-
Other current assets	4(9)	43,529,597	33,827,580	24,165,141	21,059,789
Total current assets		120,621,320	93,367,706	54,239,381	43,760,953
Non-current assets					
Available-for-sale financial assets	4(10)	5,187,732	3,289,954	28,931	9,000
Long-term receivables		33,868	-	-	-
Long-term equity investments	4(11), 18(2)	2,211,732	2,888,274	23,058,980	23,126,546
Investment properties		494,122	150,803	604,881	286,272
Fixed assets	4(12)	21,056,791	18,729,881	984,666	1,107,082
Construction in progress	4(13)	580,729	954,761	467,053	543,588

Intangible assets	4(14)	6,868,538	3,392,402	236,083	248,482
Goodwill	4(15)	5,730,995	2,393,066	-	-
Long-term prepaid expenses		625,971	781,359	46,090	57,393
Deferred income tax assets	4(16)	3,030,383	2,223,999	62,711	7,961
Other non-current assets	4(9)	4,158,530	669,730	3,342,000	-
Total non-current assets		49,979,391	35,474,229	28,831,395	25,386,324
TOTAL ASSETS		170,600,711	128,841,935	83,070,776	69,147,277

MIDEA GROUP CO., LTD.**CONSOLIDATED AND COMPANY BALANCE SHEETS (CONT'D)
AS AT 31 DECEMBER 2016**

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

[English translation for reference only]

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 December	31 December	31 December	31 December
		2016	2015	2016	2015
		Consolidated	Consolidated	Company	Company
Current liabilities					
Short-term borrowings	4(19)	3,024,426	3,920,933	-	1,290,000
Customer deposits and deposits from banks and other financial institutions		36,708	52,000	-	-
Derivative financial liabilities		89,838	33,377	-	22,671
Financial assets sold under repurchase agreements		-	651,784	-	-
Notes payable	4(20)	18,484,939	17,078,520	-	-
Accounts payable	4(21)	25,356,960	17,448,684	-	9,403
Advances from customers	4(22)	10,252,375	5,616,361	-	-
Employee benefits payable	4(23)	3,154,387	2,229,332	199,842	13,411
Taxes payable	4(24)	2,364,446	1,607,181	103,848	52,656
Interest payable		21,343	9,343	76,776	200,090
Dividends payable		105,641	118,851	-	-
Other payables	4(25)	1,571,422	1,139,306	54,461,578	45,166,453
Current portion of non-current liabilities		158,545	-	-	-
Other current liabilities	4(26)	24,562,970	22,098,177	140,264	5,106
Total current liabilities		89,184,000	72,003,849	54,982,308	46,759,790
Non-current liabilities					
Long-term borrowings	4(27)	2,254,348	90,061	-	-
Debentures payable	4(28)	4,818,769	-	-	-
Long-term payable		366,881	-	-	-
Payables for specific projects		2,405	500	-	-

Provisions		325,217	38,893	-	3,800
Deferred revenue		502,316	479,352	-	-
Long-term employee benefits payable	4(29)	1,449,954	-	-	-
Deferred income tax liabilities	4(16)	1,831,973	40,464	-	-
Other non-current liabilities		888,152	157,194	-	-
Total non-current liabilities		12,440,015	806,464	-	3,800
Total liabilities		101,624,015	72,810,313	54,982,308	46,763,590
Shareholders' equity					
Share capital	4(30)	6,458,767	4,266,839	6,458,767	4,266,839
Capital surplus	4(31)	13,596,569	14,511,190	5,455,268	6,370,934
Other comprehensive income	4(32)	13,125	(1,071,151)	(9,069)	21,006
General reserve		148,602	118,624	-	-
Surplus reserve	4(33)	2,804,469	1,846,523	2,804,469	1,846,523
Undistributed profits	4(34)	38,105,391	29,529,827	13,379,033	9,878,385
Total equity attributable to shareholders of the parent company		61,126,923	49,201,852	28,088,468	22,383,687
Minority interests		7,849,773	6,829,770	-	-
Total shareholders' equity		68,976,696	56,031,622	28,088,468	22,383,687
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		170,600,711	128,841,935	83,070,776	69,147,277

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

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

MIDEA GROUP CO., LTD.

**CONSOLIDATED AND COMPANY INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

[English translation for reference only]

Item	Note	2016	2015	2016	2015
		Consolidated	Consolidated	Company	Company
1. Total revenue		159,841,701	139,347,124	1,193,744	862,376
Including: Operating revenue	4(35), 18(3)	159,044,041	138,441,226	1,193,744	862,376
Interest income	4(36)	789,414	900,161	-	-
Fee and commission income		8,246	5,737	-	-
Less: Cost of sales	4(35)	(115,615,437)	(102,662,818)	(38,713)	(24,369)
Interest expenses	4(36)	(439,607)	(561,514)	-	-
Fee and commission expenses		(2,839)	(2,247)	-	-
Taxes and surcharges	4(37)	(1,077,119)	(911,330)	(29,741)	(16,613)
Selling and distribution expenses	4(38)	(17,678,451)	(14,799,769)	-	-
General and administrative expenses	4(39)	(9,620,777)	(7,441,755)	(718,487)	(494,159)
Finance income/(expenses)	4(40)	1,005,979	(138,932)	(740,586)	(835,211)
Asset impairment (loss)/reversal	4(41)	(380,812)	(4,766)	(475)	751
Add: Gains/(losses) on changes in fair value	4(42)	117,376	81,611	22,618	(22,618)
Investment income	4(43), 18(4)	1,285,961	2,011,269	9,853,358	7,107,452
Including: Share of profit of associates and a joint venture		165,904	420,744	247,016	273,974
2. Operating profit		17,435,975	14,916,873	9,541,718	6,577,609
Add: Non-operating income	4(44)	1,819,009	1,707,039	58,027	111,749
Including: Gains on disposal of non-current assets		60,789	53,084	11,533	52,963
Less: Non-operating expenses	4(45)	(340,381)	(572,558)	(4,099)	(87,691)

Including: Losses on disposal of non-current assets		(172,663)	(287,167)	(1,960)	(77,897)
3. Total profit		18,914,603	16,051,354	9,595,646	6,601,667
Less: Income tax expenses	4(46)	(3,052,691)	(2,426,699)	(16,183)	(34,353)
4. Net profit		15,861,912	13,624,655	9,579,463	6,567,314
Attributable to shareholders of the parent company		14,684,357	12,706,725	9,579,463	6,567,314
Minority interests		1,177,555	917,930	-	-

MIDEA GROUP CO., LTD.**CONSOLIDATED AND COMPANY INCOME STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

[English translation for reference only]

Item	Note	2016	2015	2016	2015
		Consolidated	Consolidated	Company	Company
5. Other comprehensive income net of tax		1,188,215	(469,463)	(30,075)	21,006
Attributable to shareholders of the parent company		1,084,276	(296,852)	(30,075)	21,006
(1) Other comprehensive income items which will not be reclassified subsequently to profit or loss		82,223	-	-	-
1) Remeasurements of post-employment benefit obligations		82,223	-	-	-
(2) Other comprehensive income items which will be reclassified subsequently to profit or loss		1,002,053	(296,852)	(30,075)	21,006
1) Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified subsequently to profit and loss		(73,811)	39,924	(30,075)	21,006
2) Changes in fair value of available-for-sale financial assets		231,672	159,887	-	-
3) Effective portion of cash flow hedging gains or losses		199,356	74,392	-	-
4) Translation of foreign currency financial statements		644,836	(571,055)	-	-
Attributable to minority shareholders		103,939	(172,611)	-	-
6. Total comprehensive income		17,050,127	13,155,192	9,549,388	6,588,320
Attributable to shareholders of the parent company		15,768,633	12,409,873	9,549,388	6,588,320
Attributable to minority shareholders		1,281,494	745,319	-	-

7. Earnings per share	(restated)				
Basic earnings per share (RMB Yuan)	4(47)	2.29	2.00	N/A	N/A
Diluted earnings per share (RMB Yuan)	4(47)	2.28	1.99	N/A	N/A

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

Legal representative:

Fang Hongbo

Principal in charge of accounting function:

Xiao Mingguang

Head of accounting department:

Chen Lihong

MIDEA GROUP CO., LTD.

**CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

[English translation for reference only]

Item	Note	2016	2015	2016	2015
		Consolidated	Consolidated	Company	Company
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		153,324,273	125,902,444	-	-
Net increase in customer deposits and deposits from banks and other financial institutions		-	44,506	-	-
Net decrease in deposits with central bank		286,915	313,636	-	-
Cash received from interest, fee and commission		783,936	905,898	-	-
Refund of taxes and surcharges		5,124,402	3,900,819	-	-
Cash received relating to other operating activities	4(48)(a)	3,139,286	3,210,987	11,327,292	3,683,989
Sub-total of cash inflows		162,658,812	134,278,290	11,327,292	3,683,989
Cash paid for goods and services		(89,440,654)	(71,733,220)	-	-
Net increase in loans and advances		(3,785,600)	(63,624)	-	-
Net decrease in customer deposits and deposits from banks and other financial institutions		(15,292)	-	-	-
Cash paid for interest, fee and commission		(442,446)	(563,760)	-	-
Cash paid to and on behalf of employees		(11,652,740)	(10,493,582)	(28,966)	(150,458)
Payments of taxes and surcharges		(8,824,342)	(8,323,884)	(57,284)	(27,659)
Cash paid relating to other operating activities	4(48)(b)	(21,802,729)	(16,335,966)	(5,370,055)	(248,526)
Sub-total of cash outflows		(135,963,803)	(107,514,036)	(5,456,305)	(426,643)
Net cash flows from operating activities	4(48)(c)	26,695,009	26,764,254	5,870,987	3,257,346
2. Cash flows from investing activities					
Cash received from disposal of investments		73,905,220	42,061,959	37,846,031	30,722,557
Cash received from returns on investments		1,954,049	2,088,899	10,003,516	7,247,990
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		191,159	548,009	111	107,314
Net cash received from disposal of subsidiaries and other business units		272,899	-	-	-
Cash received relating to other investing activities		-	42,269	-	-

Sub-total of cash inflows	76,323,327	44,741,136	47,849,658	38,077,861
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(2,323,430)	(3,130,932)	(297,767)	(623,193)
Cash paid to acquire investments	(90,880,725)	(59,315,666)	(44,445,211)	(37,061,751)
Net cash paid to acquire subsidiaries and other business units	4(48)(d) (2,900,256)	(283,731)	-	-
Sub-total of cash outflows	(96,104,411)	(62,730,329)	(44,742,978)	(37,684,944)
Net cash flows from investing activities	(19,781,084)	(17,989,193)	3,106,680	392,917
3. Cash flows from financing activities				
Cash received from capital contributions	814,845	1,701,630	782,252	1,648,190
Including: Cash received from capital contributions by minority shareholders of subsidiaries	32,593	53,440	-	-
Cash received from borrowings	32,422,027	24,515,274	1,800,000	1,290,000
Cash received from issuing short-term financing bonds	1,999,500	-	1,999,500	-
Cash received relating to other financing activities	-	166,715	-	-
Sub-total of cash inflows	35,236,372	26,383,619	4,581,752	2,938,190
Cash repayments of borrowings	(26,961,143)	(29,352,243)	(3,090,000)	(500,000)
Cash payments for short-term financing bonds	(1,999,500)	-	(1,999,500)	-
Cash payments for repurchase of shares	-	(999,998)	-	(999,998)
Cash payments for interest expenses and distribution of dividends or profits	(6,046,355)	(4,908,031)	(6,540,012)	(5,723,163)
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries	(563,320)	(552,545)	-	-
Cash payments relating to other financing activities	(69,462)	-	-	-
Sub-total of cash outflows	(35,076,460)	(35,260,272)	(11,629,512)	(7,223,161)
Net cash flows from financing activities	159,912	(8,876,653)	(7,047,760)	(4,284,971)
4. Effect of foreign exchange rate changes on cash and cash equivalents				
	252,576	16,669	-	-
5. Net increase/(decrease) in cash and cash equivalents				
	7,326,413	(84,923)	1,929,907	(634,708)
Add: Cash and cash equivalents at beginning of year	5,187,317	5,272,240	6,245,008	6,879,716

6. Cash and cash equivalents at end of year	12,513,730	5,187,317	8,174,915	6,245,008
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The accompanying notes form an integral part of these financial statements.

Legal representative:

Fang Hongbo

Principal in charge of accounting function:

Xiao Mingguang

Head of accounting department:

Chen Lihong

MIDEA GROUP CO., LTD.**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

[English translation for reference only]

Item	Attributable to shareholders of the parent company						Minority interest	Total shareholders' equity
	Share capital	Capital surplus	Other comprehensive income	General reserve	Surplus reserve	Undistributed profits		
Balance at 1 January 2015	4,215,808	13,024,883	(774,299)	-	1,189,791	21,814,316	6,260,955	45,731,454
Movements for the year ended 31 December 2015								
Total comprehensive income								
Net profit	-	-	-	-	-	12,706,725	917,930	13,624,655
Other comprehensive income net of tax	-	-	(296,852)	-	-	-	(172,611)	(469,463)
Total comprehensive income	-	-	(296,852)	-	-	12,706,725	745,319	13,155,192
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders	80,623	1,667,248	-	-	-	-	244,910	1,992,781
Business combinations	-	-	-	-	-	-	106,106	106,106

Share-based payment included in shareholders' equity	-	237,613	-	-	-	-	49,752	287,365
Repurchase of shares	(29,592)	(970,406)	-	-	-	-	-	(999,998)
Profit distribution								
Appropriation to general reserve	-	-	-	118,624	-	(118,624)	-	-
Appropriation to surplus reserve	-	-	-	-	656,732	(656,732)	-	-
Profit distribution to shareholders	-	-	-	-	-	(4,215,808)	(577,272)	(4,793,080)
Others	-	551,852	-	-	-	(50)	-	551,802
Balance at 31 December 2015	4,266,839	14,511,190	(1,071,151)	118,624	1,846,523	29,529,827	6,829,770	56,031,622

MIDEA GROUP CO., LTD.**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

[English translation for reference only]

Item	Attributable to shareholders of the parent company						Minority interest	Total shareholders' equity
	Share capital	Capital surplus	Other comprehensive income	General reserve	Surplus reserve	Undistributed profits		
Balance at 1 January 2016	4,266,839	14,511,190	(1,071,151)	118,624	1,846,523	29,529,827	6,829,770	56,031,622
Movements for the year ended 31 December 2016								
Total comprehensive income								
Net profit	-	-	-	-	-	14,684,357	1,177,555	15,861,912
Other comprehensive income net of tax	-	-	1,084,276	-	-	-	103,939	1,188,215
Total comprehensive income	-	-	1,084,276	-	-	14,684,357	1,281,494	17,050,127
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders	58,232	1,007,110	-	-	-	-	32,593	1,097,935
Business combinations	-	-	-	-	-	-	339,543	339,543

Share-based payment included in shareholders' equity	-	228,634	-	-	-	-	72,957	301,591
Profit distribution								
Appropriation to general reserve	-	-	-	29,978		(29,978)	-	-
Appropriation to surplus reserve	-	-	-		957,946	(957,946)	-	-
Profit distribution to shareholders	-	-	-	-	-	(5,120,869)	(550,321)	(5,671,190)
Capital addition from capital surplus	2,133,696	(2,133,696)	-	-	-	-	-	-
Others	-	(16,669)	-	-	-	-	(156,263)	(172,932)
Balance at 31 December 2016	6,458,767	13,596,569	13,125	148,602	2,804,469	38,105,391	7,849,773	68,976,696

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

Legal representative:

Fang Hongbo

Principal in charge of accounting function:

Xiao Mingguang

Head of accounting department:

Chen Lihong

MIDEA GROUP CO., LTD.**COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

[English translation for reference only]

Item	Share capital	Capital surplus	Other comprehensive income	Surplus reserve	Undistributed profits	Total shareholders' equity
Balance at 1 January 2015	4,215,808	5,356,080	-	1,189,791	7,282,924	18,044,603
Movements for the year ended 31 December 2015						
Total comprehensive income						
Net profit	-	-	-	-	6,567,314	6,567,314
Other comprehensive income net of tax	-	-	21,006	-	-	21,006
Total comprehensive income	-	-	21,006	-	6,567,314	6,588,320
Capital contribution and withdrawal by shareholders						
Capital contribution by shareholders	80,623	1,667,248	-	-	-	1,747,871
Share-based payment included in shareholders' equity	-	320,856	-	-	-	320,856
Repurchase of shares	(29,592)	(970,406)	-	-	-	(999,998)
Profit distribution						
Appropriation to surplus reserve	-	-	-	656,732	(656,732)	-
Profit distribution to shareholders	-	-	-	-	(4,215,808)	(4,215,808)
Merger of subsidiaries	-	-	-	-	900,687	900,687
Others	-	(2,844)	-	-	-	(2,844)
Balance at 31 December 2015	4,266,839	6,370,934	21,006	1,846,523	9,878,385	22,383,687
Balance at 1 January 2016	4,266,839	6,370,934	21,006	1,846,523	9,878,385	22,383,687
Movements for the year ended 31 December 2016						
Total comprehensive income						
Net profit	-	-	-	-	9,579,463	9,579,463
Other comprehensive income net of tax	-	-	(30,075)	-	-	(30,075)
Total comprehensive income	-	-	(30,075)	-	9,579,463	9,549,388
Capital contribution and withdrawal by shareholders						

Capital contribution by shareholders	58,232	1,007,110	-	-	-	1,065,342
Share-based payment included in shareholders' equity	-	210,663	-	-	-	210,663
Profit distribution						
Appropriation to surplus reserve	-	-	-	957,946	(957,946)	-
Profit distribution to shareholders	-	-	-	-	(5,120,869)	(5,120,869)
Transfer from capital surplus to share capital	2,133,696	(2,133,696)	-	-	-	-
Others	-	257	-	-	-	257
Balance at 31 December 2016	6,458,767	5,455,268	(9,069)	2,804,469	13,379,033	28,088,468

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

Legal representative:
Fang Hongbo

Principal in charge of accounting function:
Xiao Mingguang

Head of accounting department:
Chen Lihong

MIDEA GROUP CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

[English translation for reference only]

1 General information

The operational activities of Midea Group Co. Ltd. (hereinafter referred to as the “Company”) and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacturing and sale of household electrical appliances, motors and related components and rendering of logistics services. Other operations includes 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. (广东美的电器股份有限公司), 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 31 December 2016, the Company's registered capital is RMB6,458,766,808 and the total number of shares in issue is 6,458,766,808, of which 279,045,260 shares are restricted tradable shares and 6,179,721,548 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 Cuchen Home Appliances Manufacturing Co.,Ltd, Midea Business Factoring Co.,Ltd, Toshiba Lifestyle Products & Services Corporation (hereinafter referred to as “TLSC”), Clivet S.P.A with its subsidiaries and Clivet España S.A.U. (hereinafter referred to as “Clivet”), and Shenzhen Shenzhou Payment Tech Co., Ltd. (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 March 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) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the year ended 31 December 2016 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 31 December 2016 and their financial performance, cash flows and other information for the year then ended.

(3) Accounting period

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

(4) 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 dates. 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.

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 dates.

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 shareholders of the parent company. 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 shareholders 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 shareholders 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 shareholders 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.

(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 shareholders' 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.

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 hedge

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

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income in current 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 equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

(iv) Impairment of financial assets

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

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

Objective evidence indicating impairment of available-for-sale investments in equity instruments includes a significant or prolonged decline in the fair value of an investment in an equity instrument. The Group reviews available-for-sale investments in equity instruments on an individual basis at the balance sheet date. If the fair value of an equity instrument investment at the balance sheet date is lower than 50% (inclusive) of its initial cost for more than 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 investment cost of available-for-sale equity instruments by 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 incurs, 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 an impairment loss on an available-for-sale financial asset measured at cost incurs, the amount of loss is measured at 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. The previously recognised impairment loss will not be reversed in subsequent periods.

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

(v) Derecognition of financial assets

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

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

(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 with maturities no more than one year are classified as current liabilities. Other financial liabilities with maturities over one year but are due within one year (inclusive) since the balance sheet date are classified as the current portion of non-current liabilities. 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 the financial liability or the derecognised part of the financial liability and the consideration paid is 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. In valuation, the Group uses a valuation technique that is applicable in the current situation and supported by adequate available data and other information, selects inputs with the same characteristics as those of assets or liabilities considered in relevant trade of assets or liabilities by market participants, and maximises the use of relevant observable inputs. The Group uses unobservable inputs when relevant observable inputs are not available or feasible.

(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 Group makes provision for bad debts for those individually significant amounts based on the amount by which the present value of the future cash flows expected to be derived from the receivable is 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
Air-conditioner motors and related components	5%	5%	10%	30%	50%	100%
Refrigerator motors and related components	5%	5%	10%	30%	50%	100%
Washing machine motors and related components	5%	5%	10%	30%	50%	100%
Small household appliances	5%	5%	10%	30%	50%	100%
Logistics and transport	0%	5%	10%	30%	50%	100%
Motor	0%	5%	10%	30%	50%	100%
Others	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.

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.

- (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 by which the present value of the future cash flows expected to be derived from the receivable is 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

Provision of the loans and advances is made based on the five-level classification, details are 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, finished goods, etc., are measured at the lower of cost and net realisable value.

(b) Costing of inventories

Cost is determined using the first-in first-out method when issued. The cost of goods in 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. A joint venture is a joint arrangement which is structured through a separate vehicle over which the Group has joint control together with other parties and only has rights to the net assets of the arrangement based on legal forms, contractual terms and other facts and circumstances. Associates are the investees that the Group has significant influence on their financial and operating policies.

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

(a) Determination of investment cost

For long-term equity investments acquired through a business combination: for long-term equity investments acquired through a business combination involving enterprises under common control, the investment cost shall be the absorbing party's share of the carrying amount of shareholders' 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 dates, 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 dates, the difference is included in profit or loss and the cost of the long-term equity investment is adjusted upwards accordingly.

For long-term equity investments accounted for using the equity method, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount 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 in the shareholders' equity of the investee 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 intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based on which the investment gains or losses are recognised. For the loss on the intra-group transaction amongst the Group and its investees attributable to asset impairment, any unrealised loss is 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)).

(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 value	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 deducting its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(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 fixed assets are included in the cost of fixed assets 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 value	Annual depreciation rates
Buildings	20 to 60 years	0% to 10%	5% to 1.5%
Machinery and equipment	3 to 18 years	0% to 10%	33.3% 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	Not applicable	Not applicable

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.

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

A lease that in substance 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)).

(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 a fixed 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 amortized 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 amortized over the estimated useful life of 40 years.

(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”)

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 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 when they are incurred. Development costs previously recognised as expenses are not recognised as an asset in 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 deferred expenses

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

(20) Impairment of long-term assets

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

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

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

(21) Employee benefits

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

(a) Short-term employee benefits

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, and 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. Non-monetary benefits are measured at their fair value.

(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, the Group's subsidiaries, provides supplemental retirement benefits beyond the national regulatory insurance system.

Basic pensions

Employees of the Group participate in the defined basic pension insurance plan set up and administered by local labour and social protection authorities. Basic pensions are provided for monthly according to stipulated bases and proportions to local labour and social security institutions. 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.

Supplemental 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.

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.

(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.

(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.

(c) 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.

(d) Dividend income

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

(e) Rental income

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

(f) 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.

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. Government grants measured at nominal amounts are recognised immediately in profit or loss for the current period.

For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the Group in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred by the Group, the grant is recognised immediately in profit or loss for the current period.

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

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

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

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

Deferred income tax assets and liabilities are offset when:

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

(30) Leases**(a) Operating lease**

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

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

(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.

(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.

3 Taxation

(1) Main tax category and rate

Category	Tax base	Tax rate
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		5%, 15%, 16.5%, 17%, 25%, 20%-31.4%, 31.5% or 34%
Corporate income tax (a)	Levied based on taxable income	
	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)	
Value-added tax (VAT) (b)		5%, 6%, 11% or 17%
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%
	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.	
Property tax		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 2016 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

(a-1) The following subsidiaries of the Company are subject to corporate income tax at the rate of 15% in

2016 as they qualified as high-tech enterprises and obtained the High-tech Enterprise Certificate.
(Cont'd)

Name of tax payer	No. of the Certificate of the High-tech Enterprise	Dates of issuance	Effective period
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) The application for corporate income tax preferential treatment of 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 2016.
- (a-3) The Company's subsidiaries in Mainland China other than those mentioned in (a-1) and (a-2) are subject to corporate income tax at the rate of 25%.
- (a-4) 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.
- (a-5) 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-6) 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-7) 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-8) Springer Carrier Ltda., the Company's subsidiaries in Brazil, is subject to Brazil corporate income tax at the rate of 34%.
- (a-9) TLSC, the Company's subsidiaries in Japan, is subject to Japan corporate income tax at the rate of 31.5%.
- (a-10) Clivet, the Company's subsidiaries in Italy, is subject to Italy corporate income tax at the rate between 20% and 31.4%.
- (b) Notes to the value-added tax 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 value-added tax, 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 value-added tax 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 value-added tax at the rate of 11%.
- (b-4) Financial service, consulting service and storage service provided by the Company and certain subsidiaries are subject to value-added tax at the rate of 6%.
- (b-5) Rental revenue of Hefei Midea Refrigerator Co., Ltd., which is a subsidiary of the Company, is subject to easy levy of value-added tax at the rate of 5%.

4 Notes to the consolidated financial statements

(1) Cash at bank and on hand

	31 December 2016	31 December 2015
Cash on hand	2,315	2,915
Cash at bank (a)	16,151,724	11,437,417
Other cash balances (b)	1,042,031	421,645
	17,196,070	11,861,977

Including: Cash abroad (including Hong Kong, Macau, Singapore, Japan, Italy and Brazil, etc.)	4,234,153	2,204,425
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- (a) As at 31 December 2016, cash at bank includes fixed deposits with the term of over three months, amounting to RMB9,136,346,000 (31 December 2015: RMB9,001,934,000).
- (b) Other cash balances mainly includes security deposits, bank acceptance note and letter of credit.

(2) Cash due from the Central Bank

	31 December 2016	31 December 2015
Statutory reserve with the Central Bank (a)	677,011	963,926
Surplus reserve with the Central Bank	58,172	84,119
	<u>735,183</u>	<u>1,048,045</u>

- (a) 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 the Group's daily operations.

(3) Deposits with banks and other financial institutions

	31 December 2016	31 December 2015
Financial enterprises' deposits with domestic banks	<u>9,237,865</u>	<u>4,062,807</u>

As at 31 December 2016, deposits with banks and other financial institutions include time deposits with the term of over three months, amounting to RMB3,800,000,000 (31 December 2015: RMB1,400,000,000).

(4) Notes receivable

	31 December 2016	31 December 2015
Bank acceptance notes	<u>7,427,488</u>	<u>12,889,151</u>

- (a) As at 31 December 2016, the Group's notes receivable that are not mature but have been endorsed to other parties, or that have been discounted are as follows:

	Derecognised	Recognised
Bank acceptance notes	<u>21,601,475</u>	<u>-</u>

(5) Receivables

- (a) Accounts receivable

	31 December 2016	31 December 2015
Accounts receivable	14,198,320	10,978,218
Less: Provision for bad debts	(743,809)	(606,500)
	<u>13,454,511</u>	<u>10,371,718</u>

The ageing of other receivables is analysed as follows:

	31 December 2016	31 December 2015
Within 1 year	13,603,125	10,728,566
1 to 2 years	462,845	104,495
2 to 3 years	66,756	88,558
3 to 5 years	45,212	49,487
Over 5 years	20,382	7,112
	<u>14,198,320</u>	<u>10,978,218</u>

As at 31 December 2016, the Group has no overdue accounts receivable with significant amount.

Accounts receivable are analysed by categories as follows:

	31 December 2016				31 December 2015			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
	Amount	% of total balance	Amount	Ratio	Amount	% of total balance	Amount	Ratio
With amounts that are individually significant and that the related provision for bad debts is provided on the individual basis	35,363	0.25%	9,108	25.76%	-	-	-	-
That the related provision for bad debts is provided on the age grouping basis	13,931,404	98.12%	729,848	5.24%	10,961,426	99.85%	593,762	5.42%
With amounts that are not individually significant but the related provision for bad debts is provided on the individual basis	231,553	1.63%	4,853	2.10%	16,792	0.15%	12,738	75.86%
	<u>14,198,320</u>	<u>100.00%</u>	<u>743,809</u>	<u>5.24%</u>	<u>10,978,218</u>	<u>100.00%</u>	<u>606,500</u>	<u>5.52%</u>

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

	31 December 2016			31 December 2015		
	Ending balance	Provision for bad debts		Ending balance	Provision for bad debts	
	Amount	Amount	Ratio	Amount	Amount	Ratio
Within 1 year	13,353,944	431,907	3.23%	10,718,211	403,660	3.77%
1 to 2 years	445,165	198,277	44.54%	102,186	76,371	74.74%
2 to 3 years	66,701	40,686	61.00%	84,473	63,191	74.81%
3 to 5 years	45,212	38,596	85.37%	49,444	43,428	87.83%
Over 5 years	20,382	20,382	100.00%	7,112	7,112	100.00%
	<u>13,931,404</u>	<u>729,848</u>	<u>5.24%</u>	<u>10,961,426</u>	<u>593,762</u>	<u>5.42%</u>

The provision for bad debts reversed in the current year is RMB58,148,000.

The accounts receivable as written off by the Group in the current year are arising from transactions with third parties and there's no written-off accounts receivable with amounts that are individually significant.

As at 31 December 2016, the top 5 accounts receivable assembled by debtors are analysed as follows:

	Amount	Provision for bad debts	% of total balance
Total balance of top 5 accounts receivable	1,772,348	85,401	12%

(b) Other receivables

	31 December 2016	31 December 2015
Other receivables	1,168,005	1,161,880
Less: Provision for bad debts	(27,872)	(60,541)
	<u>1,140,133</u>	<u>1,101,339</u>

Other receivables mainly include current accounts, petty cash to staff and deposits.

The ageing of other receivables is analysed as follows:

	31 December 2016	31 December 2015
Within 1 year	1,106,995	1,123,870
1 to 2 years	49,445	7,723
2 to 3 years	7,263	8,912
3 to 5 years	4,302	21,375
	<u>1,168,005</u>	<u>1,161,880</u>

Other receivables are analysed by categories as follows:

	31 December 2016				31 December 2015			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
	Amount	% of total balance	Amount	Ratio	Amount	% of total balance	Amount	Ratio
With amounts that are individually significant and that the related provision for bad debts is provided on the individual basis	49,922	4.27%	-	0.00%	13,486	1.16%	1,329	9.85%
That the related provision for bad debts is provided on the age grouping basis	1,112,996	95.29%	26,781	2.41%	1,148,394	98.84%	59,212	5.16%
With amounts that are not individually significant but the related provision for bad debts is provided on the individual basis	5,087	0.44%	1,091	21.45%	-	-	-	-
	<u>1,168,005</u>	<u>100.00%</u>	<u>27,872</u>	<u>2.39%</u>	<u>1,161,880</u>	<u>100.00%</u>	<u>60,541</u>	<u>5.21%</u>

As at 31 December 2016, 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:

	Ending balance	Provision for bad debts	Ratio	Reason
China Securities Depository and Clearing Corporation Limited Shenzhen Branch	49,922	-	0%	Receivables related to share options without bad debt risks

The provision for bad debts reversed in the current year is RMB44,539,000.

Other receivables as written off by the Group in the current year are arising from transactions with third parties and there's no written-off other receivables with amounts that are individually significant.

As at 31 December 2016, the top 5 other receivables assembled by debtors are analysed as follows:

	Amount	Provision for bad debts	% of total balance
Total balance of top 5 other receivables	215,504	2,055	18%

As at 31 December 2016, the Group' has no significant government grants recognised at amounts receivable.

(6) Advances to suppliers

	31 December 2016	31 December 2015
Advances paid for raw materials and others	1,587,366	988,625

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

	31 December 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	1,492,532	94.02%	937,986	94.88%
1 to 2 years	73,736	4.65%	29,852	3.02%
2 to 3 years	14,907	0.94%	7,739	0.78%
Over 3 years	6,191	0.39%	13,048	1.32%
	<u>1,587,366</u>	<u>100.00%</u>	<u>988,625</u>	<u>100.00%</u>

As at 31 December 2016, advances to suppliers over 1 year with a carrying amount of RMB94,834,000 (31 December 2015: RMB50,639,000) are mainly unsettled advances paid for raw materials.

As at 31 December 2016, the top five balances of advances to suppliers assembled by debtors are summarised as follows:

Amount	% of total balance
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Total balance of top 5 advances to suppliers	361,735	23%
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(7) Loans and advances

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

	31 December 2016	31 December 2015
Loans and advances to individuals	417,793	304,230
Loans and advances to corporations	9,995,466	6,323,429
Including: Loans	2,652,425	3,689,104
Discounted bills	7,343,041	2,634,325
	10,413,259	6,627,659
Less: Loan impairment provision (Note4(17))	(139,862)	(18,954)
	10,273,397	6,608,705

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

	31 December 2016	31 December 2015
Unsecured loans	230,097	134,280
Guaranteed loans	524,537	2,306,902
Secured loans by monetary assets	9,658,625	4,186,477
	10,413,259	6,627,659
Less: Loan impairment provision (Note 4(17))	(139,862)	(18,954)
	10,273,397	6,608,705

(8) Inventories

(a) Inventories are classified as follows:

	31 December 2016			31 December 2015		
	Ending balance	Provision for decline in the value of inventories	Carrying amount	Ending balance	Provision for decline in the value of inventories	Carrying amount
Finished goods	11,943,779	(191,147)	11,752,632	8,233,608	(116,047)	8,117,561
Raw materials	2,851,998	(11,237)	2,840,761	1,648,630	(15,030)	1,633,600
Work in progress	792,664	-	792,664	504,454	(742)	503,712
Consigned processing materials	235,633	-	235,633	194,009	(149)	193,860
Low value consumables	5,207	-	5,207	204	-	204
	15,829,281	(202,384)	15,626,897	10,580,905	(131,968)	10,448,937

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

	31 December	Increase in current year	Decrease in current year	Differences on translation of foreign currency financial statements	31 December
	2015	Provision	Reversal or write-off		2016
Finished goods	116,047	304,801	(231,801)	2,100	191,147
Raw materials	15,030	57,681	(62,758)	1,284	11,237
Work in progress	742	2,540	(3,282)	-	-
Consigned processing materials	149	-	(149)	-	-
	<u>131,968</u>	<u>365,022</u>	<u>(297,990)</u>	<u>3,384</u>	<u>202,384</u>

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

	Specific determination basis of net realisable value	Reason for the write-off of provision for decline in the value of inventories in current year
Finished goods	Stated at the lower of cost and net realisable value	Sales
Raw materials	Stated at the lower of cost and net realisable value	Requisition for production

(9) Other current assets

	31 December 2016	31 December 2015
Wealth management products (a)	26,267,067	18,236,831
Structural deposits and swap deposits	14,442,697	12,436,000
Deductible input VAT	1,876,967	1,818,591
Prepaid expenses	467,916	740,354
Others	474,950	595,804
	<u>43,529,597</u>	<u>33,827,580</u>

(a) As at 31 December 2016, wealth management products with floating earnings due within one year are presented as other current assets, mainly including principal non-guaranteed products of RMB26,267,067,000 (31 December 2015: RMB18,136,831,000 and principal guaranteed products of RMB100,000,000) (Note 16(1)).

(b) As at 31 December 2016, wealth management products and assets management plan due more than one year amounting to RMB3,842,000,000 are presented as other non-current assets (31 December 2015: nil).

(10) Available-for-sale financial assets

	31 December 2016	31 December 2015
Measured at fair value		
- Available-for-sale equity instruments (a)	3,518,693	1,862,444
Measured at cost		
- Available-for-sale equity instruments (b)	1,669,039	1,427,510
	<u>5,187,732</u>	<u>3,289,954</u>

- (a) As at 31 December 2016, the cost of available-for-sale financial assets measured at fair value is RMB2,956,118,000, mainly includes stock investment of KUKA Aktiengesellschaft (hereinafter referred to as KUKA Group).
- (b) The available-for-sale financial assets measured at cost mainly include the unlisted equity investments held by the Group, which do not have a quoted market price in an active market and whose fair value cannot be reliably measured as the range of fair value reasonable estimates is large and probabilities for determining these estimates cannot be reasonably determined. The Group has no plan to dispose these investments.

(11) Long-term equity investments

Long-term equity investments are classified as follows:

	31 December 2016	31 December 2015
Investment in associates	2,211,732	2,510,138
Investments in a joint venture	-	378,136
Less: Provision for impairment of long-term equity investments	-	-
	2,211,732	2,888,274

	31 December 2015	Current year movement								31 December 2016	Ending balance of provision for impairment
		Increase in Investment	Decrease in Investment	Share of net profit using the equity method	Adjustments of other comprehensive income	Other changes in equity	Cash dividends or profits declared	Provision for impairment	Others		
Associates -											
Foshan Shunde Rural Commercial Bank Co., Ltd.	1,515,228	-	-	208,385	(41,433)	-	(104,464)	-	-	1,577,716	-
Misr Refrigeration And Air Conditioning Manufacturing Co.	316,506	-	-	(138,533)	(32,357)	-	(8,173)	-	9,439	146,882	-
Shanxi Huaxiang Group Co., Ltd.	280,274	-	(296,524)	16,250	-	-	-	-	-	-	-
Hefei Royalstar Motor Co., Ltd	100,330	-	-	2,245	-	-	-	-	-	102,575	-
Others	297,800	32,700	(12,137)	(1,926)	(21)	134	(2,000)	-	70,009	384,559	-
Joint venture -											
Wanjiang Financial Leasing Co., Ltd.	378,136	-	(425,219)	79,483	-	-	(32,400)	-	-	-	-
	<u>2,888,274</u>	<u>32,700</u>	<u>(733,880)</u>	<u>165,904</u>	<u>(73,811)</u>	<u>134</u>	<u>(147,037)</u>	<u>-</u>	<u>79,448</u>	<u>2,211,732</u>	<u>-</u>

(12) Fixed assets

	Buildings	Land	Machinery and equipment	Motor vehicles	Electronic equipment and other equipment	Total
Cost						
31 December 2015	14,807,945	-	13,987,827	461,966	2,355,860	31,613,598
Increase in current year						
Purchase	435,935	113,459	1,209,019	62,265	388,096	2,208,774
Transfers from construction in progress	213,704	-	338,473	344,168	15,038	911,383
Increase in business combinations	473,642	748,381	1,475,353	24,314	63,112	2,784,802
Transfer from investment prosperities	7,389	-	-	-	-	7,389
Others	5,182	-	-	42	4,064	9,288
Decrease in current year						
Disposal and retirement	(361,192)	-	(477,523)	(83,043)	(159,725)	(1,081,483)
Transfer to investment properties	(424,148)	-	-	-	-	(424,148)
Others	(6)	-	(5,968)	-	-	(5,974)
Differences on translation of foreign currency financial statements	57,486	(21,507)	143,214	(1,918)	10,323	187,598
31 December 2016	15,215,937	840,333	16,670,395	807,794	2,676,768	36,211,227
Accumulated depreciation						
31 December 2015	4,150,347	-	6,691,015	324,228	1,702,719	12,868,309
Increase in current year						
Depreciation charged	959,445	-	1,430,738	82,962	425,392	2,898,537
Others	7,286	-	-	39	1,196	8,521
Decrease in current year						
Disposal and retirement	(204,512)	-	(265,926)	(43,344)	(113,892)	(627,674)
Others	(74,466)	-	(992)	-	-	(75,458)
Differences on translation of foreign currency financial statements	16,132	-	39,714	520	7,068	63,434
31 December 2016	4,854,232	-	7,894,549	364,405	2,022,483	15,135,669
Provision for impairment loss						
31 December 2015	3,918	-	11,165	65	260	15,408
Increase in current year						
Provision	-	-	4,654	-	-	4,654
Decrease in current year						
Disposal and retirement	-	-	(1,210)	(29)	(153)	(1,392)
Differences on translation of foreign currency financial statements	-	-	97	-	-	97
31 December 2016	3,918	-	14,706	36	107	18,767
Carrying amount						
31 December 2016	10,357,787	840,333	8,761,140	443,353	654,178	21,056,791
31 December 2015	10,653,680	-	7,285,647	137,673	652,881	18,729,881

- (a) In 2016, the depreciation of fixed assets amounted to RMB2,898,537,000 (2015: RMB2,216,179,000) and is included in income statement.
- (b) As at 31 December 2016, the Company is still in the course of obtaining the ownership certificate for the fixed asset with a carrying amount of RMB740,297,000.
- (c) Fixed assets held under finance leases

As at 31 December 2016, the fixed assets with a carrying amount of RMB277,634,000 (a cost of RMB309,234,000) are held under finance leases. The analysis is as follows:

31 December 2016	cost	Accumulated depreciation	Differences on translation of foreign currency financial statements	Carrying amount
Machinery and equipment	309,234	(33,967)	2,367	277,634

(13) Construction in progress**(a) Movement of significant projects of construction in progress**

Name of project	31 December 2015 Ending balance	Increase in current year	Transfer to fixed assets in current year	Other decreases	31 December 2016 Ending balance	Accumulative amount of capitalised borrowing costs	Including: borrowing costs capitalised in current year	Capitalisation rate	Source of funds
Meizhi Compressor Project	100,377	10,679	(106,996)	-	4,060	-	-	-	Internal resource
Compressor (Anhui) Project	32,811	899	(31,761)	-	1,949	-	-	-	Internal resource
Guiyang Meian Project	37,689	21,758	(59,447)	-	-	3,859	618	6%	Loans
Guangdong Welling construction in progress	18,708	28,129	(18,708)	-	28,129	-	-	-	Internal resource
Midea 5th Industrial Zone Dormitory Project	120,276	27,747	(148,023)	-	-	-	-	-	Internal resource
Innovation project	311,160	123,013	-	-	434,173	-	-	-	Internal resource
Other projects	333,740	328,856	(546,448)	(3,730)	112,418	1,799	-	-	Loans/ Internal resource
	<u>954,761</u>	<u>541,081</u>	<u>(911,383)</u>	<u>(3,730)</u>	<u>580,729</u>	<u>5,658</u>	<u>618</u>		

As at 31 December 2016, 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.

(14) Intangible assets

	Land use rights	Non-patent technology	Patents	Trademark rights	Trademark use rights	Others	Total
Cost							
31 December 2015	3,845,232	169,867	-	-	-	60,086	4,075,185
Increase in current year							
Purchase	59,965	83,766	17,076	182,454	-	23,098	366,359
Increase in business combinations	130	31,852	160,109	379,836	2,560,329	330,514	3,462,770
Others	-	17,925	-	-	-	4,683	22,608
Decrease in current year							
Disposal	(84,252)	(72,468)	-	-	-	(2,615)	(159,335)
Transfer to investment properties	(6,774)	-	-	-	-	-	(6,774)
Others	-	(16,650)	-	-	-	(17,925)	(34,575)
Differences on translation of foreign currency financial statements	215	6,814	(232)	(6,268)	1,294	(603)	1,220
31 December 2016	3,814,516	221,106	176,953	556,022	2,561,623	397,238	7,727,458
Accumulated amortisation							
31 December 2015	544,852	115,412	-	-	-	22,519	682,783
Increase in current year							
Amortisation charged	113,533	31,125	11,005	2,123	35,420	14,449	207,655
Others	-	772	-	-	-	-	772
Decrease in current year							
Disposal	(18,747)	(24,081)	-	-	-	(76)	(42,904)
Others	(1,064)	(2,696)	-	-	-	(772)	(4,532)
Differences on translation of foreign currency financial statements	212	7,771	-	-	1,098	-	9,081
31 December 2016	638,786	128,303	11,005	2,123	36,518	36,120	852,855
Provision for impairment loss							
31 December 2015	-	-	-	-	-	-	-
Increase in current year							
Provision	-	6,065	-	-	-	-	6,065
Decrease in current year							
Disposal	-	-	-	-	-	-	-
31 December 2016	-	6,065	-	-	-	-	6,065
Carrying amount							
31 December 2016	3,175,730	86,738	165,948	553,899	2,525,105	361,118	6,868,538
31 December 2015	3,300,380	54,455	-	-	-	37,567	3,392,402

- (a) In 2016, the amortisation of intangible assets amounted to RMB207,655,000 (2015: RMB95,495,000) and is included in income statement.
- (b) As at 31 December 2016, there isn't in course of obtaining the title certificates for land use rights (31 December 2015: a carrying amount of RMB20,694,000 and a cost of RMB21,594,000).

(15) Goodwill

The goodwill allocated to the asset groups is summarised by operating segments as follows:

	31 December 2015	Increase in current year	Difference on translation of foreign currency financial statements	Others	31 December 2016
Wuxi Little Swan Company Limited	1,361,306	-	-	-	1,361,306
Clivet Co., Ltd.	-	507,092	(8,368)	-	498,724
Carrier S.A. Co., Ltd	472,813	-	141,915	-	614,728
TLSC	-	2,919,081	(221,791)	-	2,697,290
Others	558,947	-	-	-	558,947
	<u>2,393,066</u>	<u>3,426,173</u>	<u>(88,244)</u>	-	<u>5,730,995</u>

Increase of goodwill in the current year arises from consolidation of Clivet and TLSC (note 5(1)).

(a) Impairment

On 31 December 2016, the Group carried out tests for impairment of goodwill. The recoverable amount of goodwill asset groups is calculated using the estimated cash flows determined according to the five-year budget approved by management. The cash flows beyond the five-year period are calculated based on the estimated growth rates. The weighted average growth rates applied by management are consistent with the industry estimates, and do not exceed the long-term average growth rates of each product. Management determines budgeted gross margin based on past experience and forecast on future market development. The discount rates used by management are the pre-tax interest rates that are able to reflect the risks specific to the related asset groups. The management analysed the recoverable amount of each asset group based on such estimates and believed that no provision for impairment of goodwill was required.

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

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

	31 December 2016		31 December 2015	
	Deductible temporary differences and deductible losses	Deferred income tax assets	Deductible temporary differences and deductible losses	Deferred income tax assets
Deductible losses	763,015	223,187	632,957	173,145
Provision for asset impairments	1,099,118	224,302	637,300	107,608
Employee benefits payable	344,391	69,092	177,487	30,015
Other current liabilities	12,548,142	2,210,590	9,996,930	1,711,198
Others	1,423,137	303,212	1,194,030	202,033
	<u>16,177,803</u>	<u>3,030,383</u>	<u>12,638,704</u>	<u>2,223,999</u>
Including:				
Expected to be reversed within one year (inclusive)		2,810,571		1,704,162
Expected to be reversed after one year		219,812		519,837
		<u>3,030,383</u>		<u>2,223,999</u>

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

	31 December 2016		31 December 2015	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Changes in fair value	7,587	1,071	221,255	33,329
Business combinations not under common control	5,514,103	1,708,006	-	-
Others	423,030	122,896	44,102	7,135
	<u>5,944,720</u>	<u>1,831,973</u>	<u>265,357</u>	<u>40,464</u>
Including:				
Expected to be reversed within one year (inclusive)		217,645		16,192
Expected to be reversed after one year		<u>1,614,328</u>		<u>24,272</u>
		<u>1,831,973</u>		<u>40,464</u>

(c) Deductible temporary differences and tax losses that are not recognised as deferred income tax assets are analysed as follows:

	31 December 2016	31 December 2015
Deductible temporary differences	44,577	97,124
Deductible losses	<u>721,720</u>	<u>547,021</u>
	<u>766,297</u>	<u>644,145</u>

(d) Deductible losses that are not recognised as deferred income tax assets will expire in the following years:

Year	31 December 2016	31 December 2015
2016	-	13,183
2017	58	42,450
2018	16,303	61,360
2019	65,975	138,662
2020	33,293	291,366
2021 and subsequent years	<u>606,091</u>	-
	<u>721,720</u>	<u>547,021</u>

(e) As at 31 December 2016, there's no significant offset item in deferred income tax assets and liabilities.

(17) Details of provision for asset impairments

31 December 2015	Increase in current year	Decrease in current year	Differences on translation of foreign currency financial statements	31 December 2016

			Reversal	Write-off		
Provision for bad debts	685,995	383,499	(121,641)	(77,059)	40,749	911,543
Including: Provision for bad debts of accounts receivable	606,500	228,521	(58,148)	(73,901)	40,837	743,809
Provision for loans and advances	18,954	139,862	(18,954)	-	-	139,862
Provision for bad debts of other receivables	60,541	15,116	(44,539)	(3,158)	(88)	27,872
Provision for decline in the value of inventories	131,968	365,022	(256,787)	(41,203)	3,384	202,384
Provision for impairment of available-for-sale financial assets	100	-	-	-	-	100
Provision for impairment of fixed assets	15,408	4,654	-	(1,392)	97	18,767
Provision for impairment of intangible assets	-	6,065	-	-	-	6,065
Provision for impairment of investment properties	12,576	-	-	-	-	12,576
	<u>846,047</u>	<u>759,240</u>	<u>(378,428)</u>	<u>(119,654)</u>	<u>44,230</u>	<u>1,151,435</u>

(18) Assets with ownership or use right restricted

As at 31 December 2016, details of assets with restricted ownership are as follows:

	31 December 2016	31 December 2015
Cash at bank and on hand	10,178,377	9,421,586
Deposits with central bank	677,011	963,926
Deposits with banks and other financial institutions	3,800,000	1,400,000
Notes receivable	-	4,889,884
	<u>14,655,388</u>	<u>16,675,396</u>

(19) Short-term borrowings

	31 December 2016	31 December 2015
Unsecured borrowings	2,498,727	2,795,967
Guaranteed borrowings (a)	525,699	1,124,966
	<u>3,024,426</u>	<u>3,920,933</u>

(a) As at 31 December 2016, the annual interest rate range of short-term borrowings is 1.77% to 9.38% (31 December 2015: 1% to 8%).

(20) Notes payable

	31 December 2016	31 December 2015
Bank acceptance notes	18,484,939	17,078,520

(21) Accounts payable

	31 December 2016	31 December 2015
Accounts payable for materials	21,453,740	15,521,933
Others	3,903,220	1,926,751
	25,356,960	17,448,684

- (a) As at 31 December 2016, accounts payable with ageing over 1 year with a carrying amount of RMB849,693,000 (31 December 2015: RMB821,705,000) are mainly unsettled accounts payable for materials.

(22) Advances from customers

	31 December 2016	31 December 2015
Advances on sales	10,252,375	5,616,361

- (a) As at 31 December 2016, accounts payable with ageing over 1 year with a carrying amount of RMB165,010,000 (31 December 2015: RMB64,267,000) are mainly unsettled advances on sales.

(23) Employee benefits payable

	31 December 2016	31 December 2015
Short-term employee benefits (a)	3,064,520	2,114,196
Others	89,867	115,136
	3,154,387	2,229,332

- (a) Short-term employee benefits

	31 December 2015	Increase in current year	Decrease in current year	31 December 2016
Wages and salaries, bonus, allowances and subsidies	1,951,015	9,580,569	(8,811,405)	2,720,179
Staff welfare	87,873	751,309	(580,924)	258,258
Social security contributions	13,989	598,842	(595,090)	17,741
Including:				
Medical insurance	12,725	541,128	(537,987)	15,866
Work injury insurance	1,039	36,914	(36,316)	1,637
Maternity	225	20,800	(20,787)	238

insurance				
Housing funds	15,284	242,287	(236,254)	21,317
Labour union funds and employee education funds	17,918	84,253	(82,141)	20,030
Other employee expenses	28,117	368,246	(369,368)	26,995
	<u>2,114,196</u>	<u>11,625,506</u>	<u>(10,675,182)</u>	<u>3,064,520</u>

(24) Taxes payable

	31 December 2016	31 December 2015
Corporate income tax payable	1,656,482	1,188,759
VAT payable	348,991	140,083
Others	358,973	278,339
	<u>2,364,446</u>	<u>1,607,181</u>

(25) 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 31 December 2016, accounts payable with ageing over 1 year with a carrying amount of RMB484,749,000 (31 December 2015: RMB244,788,000) are mainly deposit and security deposit payable, which are unsettled for related projects that are uncompleted.

(26) Other current liabilities

	31 December 2016	31 December 2015
Accrued sales rebate	16,201,044	13,765,370
Accrued installation and maintenance expenses	4,164,399	4,587,651
Accrued sales promotion expenses	985,665	828,535
Accrued transportation expenses	576,821	487,859
Others	2,635,041	2,428,762
	<u>24,562,970</u>	<u>22,098,177</u>

(27) Long-term borrowings

	31 December 2016	31 December 2015
Guaranteed borrowings (a)	2,251,703	83,778
Unsecured borrowings	2,645	6,283
	<u>2,254,348</u>	<u>90,061</u>

- (a) As at 31 December 2016, bank borrowings of RMB71,560,000 (31 December 2015: RMB83,778,000) was guaranteed by the directors of Company's subsidiaries. Interest is payable every month and the principal are due for repayment in August 2018.

- (b) As at 31 December 2016, the annual interest rate range of the long-term borrowings is 0.4% to 5.5% (31 December 2015: 2.09% to 4.5%).

(28) Debentures payable

Name of the debentures	31 December 2015	Issued in current year	Issuance costs	Interest accrued on par value	Amortization of discount and premium	Exchange gains or loss and Differences on translation of foreign currency financial statements	Repaid in current year	31 December 2016
USD Guaranteed Medium Term Note	-	4,605,510	(43,369)	67,274	8,596	248,032	-	4,818,769

Related information is as follows:

Name of the debentures	Par Value	Issuance date	Maturity	Issuance amount
USD Guaranteed Medium Term Note	4,605,510	3 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.

(29) Long-term employee benefits payable

31 December 2016

Supplemental retirement benefit (a)	1,418,921
Others	31,033
	<u>1,449,954</u>

(a) Supplemental retirement benefit

TLSC, a subsidiary of the Group, operates a defined-benefit plan. The defined-benefit plan includes a plan of one-off retirement allowance payment in the form of final salary, and a retirement pension scheme in the form of a life - long guaranteed pension. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement, with proper adjustments by factors such as inflation rate. The due payment for one-off retirement allowance plan is from TLSC's owned funds, while that for retirement pension plan is from trustee-administered funds.

The defined benefit obligation is calculated on the balance sheet date using the projected unit credit method, by Sumitomo Mitsui Bank, the external independent actuary firm.

(i) Defined-benefit liabilities of the Group:

31 December 2016

Defined-benefit obligation	1,716,280
Less: Fair value of planned assets	(297,359)
Defined-benefit liabilities	<u>1,418,921</u>

(ii) The movement in the defined benefit liability is as follows:

	Present value of Defined-benefit obligation	Fair value of planned assets	Net liabilities (net assets) of Defined-benefit plan
30 June 2016	2,021,212	(307,751)	1,713,461
The charges recorded in the statement of profit or loss			
-Current service cost	44,157	-	44,157
-Interest expense/(income)	2,205	(417)	1,788
Remeasurements:			
-Actuarial gain	(99,504)	-	(99,504)
-Return on plan assets, excluding amounts included in interest income	-	17,281	17,281

Others			
-Employer contributions	-	(85,751)	(85,751)
-Benefit payments	(100,828)	55,896	(44,932)
Differences on translation of foreign currency financial statements	(150,962)	23,383	(127,579)
31 December 2016	<u>1,716,280</u>	<u>(297,359)</u>	<u>1,418,921</u>

(iii) The significant actuarial assumptions were as follows:

	31 December 2016
Discount rate	0.381%-0.711%
Inflation rate	1.02%
Salary growth rate	1.5%-7.3%
Pension growth rate	0.627%-8.708%

(iv) The sensitivity analysis of the principal actuarial assumptions used by the group to establish the present value of the benefit obligation is as follows:

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Discount rate	0.10%	(17,287)	17,601
Inflation rate	0.10%	8,713	(8,409)
Salary growth rate	0.10%	2,504	(2,489)
Pension growth rate	0.10%	3,083	3,101

The above sensitivity analysis is based on the assumption that a change occurs while other assumptions remain unchanged. However, the assumptions are usually interrelated in practice. The above sensitivity analysis also uses the projected unit credit method to calculate the present value of defined benefit obligation.

(v) Through these supplemental retirement benefit plans, the group is exposed to a number of risks, which mainly includes the changes in bond yields and inflation risk. A decrease in bond yields rate will increase plan liabilities; the increase in inflation rate will increase plan liabilities as the group pension obligations are linked to inflation rate.

(30) Share capital

	31 December 2015	Current year movement				Subtotal	31 December 2016
		Share capital from capital surplus	Exercise of share options	Desterilization	Repurchase of shares		
RMB-denominated ordinary shares -		(a)	(b)				
RMB-denominated ordinary shares subject to trading restriction	2,026,343	1,013,172	-	(2,760,470)	-	(1,747,298)	279,045
RMB-denominated ordinary shares not subject to trading restriction	2,240,496	1,120,524	58,232	2,760,470	-	3,939,226	6,179,722
	<u>4,266,839</u>	<u>2,133,696</u>	<u>58,232</u>	<u>-</u>	<u>-</u>	<u>2,191,928</u>	<u>6,458,767</u>

	31 December 2014	Current year movement				Subtotal	31 December 2015
		Newly issued	Bonus share	Transferred from reserves	Others		
RMB-denominated ordinary shares -							
RMB-denominated ordinary shares subject to trading restriction	1,973,072	55,000	94	(1,823)	-	53,271	2,026,343
RMB-denominated ordinary shares not subject to trading restriction	2,242,736	-	25,529	1,823	(29,592)	(2,240)	2,240,496
	<u>4,215,808</u>	<u>55,000</u>	<u>25,623</u>	<u>-</u>	<u>(29,592)</u>	<u>51,031</u>	<u>4,266,839</u>

- (a) Pursuant to the share capital transfer from capital surplus plan approved at the general meeting dated 26 April 2016, based on the original 4,267,391,228 shares of the Company, 5 share of share capital is transformed from every 10 shares of capital surplus.
- (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 RMB11.01 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. In 2016, the total number of shares exercised by the granted employees is 37,743,000 and the total amount of capital received is RMB419,246,000, of which RMB37,743,000 is recognised as share capital, RMB381,503,000 recognised as capital surplus (share premium) and RMB111,460,000 transferred from capital surplus (others) to capital surplus (share premium). The weighted average price of share options exercised in current period is RMB19.03 as calculated based on the price of exercise date.
- (c) 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 RMB19.56 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. In 2016, the total number of shares exercised by the granted employees is 20,489,000 and the total amount of capital received is RMB400,772,000, of which RMB20,489,000 is recognised as share capital, RMB380,283,000 recognised as capital surplus (share premium) and RMB133,864,000 transferred from capital surplus (others) to capital surplus (share premium). The weighted average price of share options exercised in current period is RMB22.29 as calculated based on the price of exercise date.

(31) Capital reserve

	31 December 2015	Increase in current year	Decrease in current year	31 December 2016
Share premium (a)	11,088,036	1,007,110	(2,133,696)	9,961,450
Share option incentive plan (b)	388,604	473,958	(245,324)	617,238
Others	3,034,550	-	(16,669)	3,017,881
	<u>14,511,190</u>	<u>1,481,068</u>	<u>(2,395,689)</u>	<u>13,596,569</u>
	31 December 2014	Increase in current year	Decrease in current year	31 December 2015
Share premium	10,391,194	1,667,248	(970,406)	11,088,036
Share option compensation plan	150,991	327,907	(90,294)	388,604
Others	2,482,698	551,852	-	3,034,550
	<u>13,024,883</u>	<u>2,547,007</u>	<u>(1,060,700)</u>	<u>14,511,190</u>

- (a) The increase in share premium arises from the exercise of share options with the amount of RMB1,007,110,000. The decrease in share premium arises from the transfer of capital surplus to share capital of RMB2,133,696,000 (Note 4(30)).

- (b) The increase in share option incentive plan arises from the share option expenses attributable to shareholders' equity of the Company with the amount of RMB473,958,000. The decrease in share option incentive programme arises from the transfer of RMB245,324,000 share options to share premium due to exercise of share option.

(33) Surplus reserve

	31 December 2015	Increase in current year	31 December 2016
Statutory surplus reserve	<u>1,846,523</u>	<u>957,946</u>	<u>2,804,469</u>
	31 December 2014	Increase in current year	31 December 2015
Statutory surplus reserve	<u>1,189,791</u>	<u>656,732</u>	<u>1,846,523</u>

In accordance with the Company Law of the People's Republic of China and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. According to a resolution at the Board of Directors, the Company appropriated 10% of net profit, amounting to approximately RMB957,946,000 in 2016 (2015: 10% of net profit, amounting to approximately RMB656,732,000) to the statutory surplus reserve.

(34) Undistributed profits

	2016	2015
Undistributed profits at the beginning of the year	29,529,827	21,814,316
Add: Net profit attributable to the parent company for current year	14,684,357	12,706,725
Less: Ordinary share dividends payable (a)	(5,120,869)	(4,215,808)
Appropriation to general reserve (b)	(29,978)	(118,624)
Others	-	(50)
Appropriation to statutory surplus reserve (Note 4(33))	(957,946)	(656,732)
Undistributed profits at end of year	<u>38,105,391</u>	<u>29,529,827</u>

(a) Ordinary share dividends distributed in current year

In accordance with the resolution at the Board of Shareholders' meeting, dated on 26 April 2016, the Company distributed a cash dividend to the shareholders at RMB1.20 per share, amounting to RMB5,120,869,000 calculated by 4,267,391,228 issued shares (2015: RMB1.00 per share, amounting to RMB4,215,808,000).

(b) General reserve

According to the Administrative Measures for the Provisioning of Financial Enterprises issued by the Ministry of Finance (MOF), an provision for general risk amounting to RMB29,978,000 was made in 2016 (2015: RMB118,624,000) at 1.5% of the balance of financial enterprise risk assets net of recognised loan impairment provision.

(35) Operating revenue and cost of sales

2016	2015
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Revenue from main operations	147,173,984	128,564,600
Revenue from other operations	11,870,057	9,876,626
	<u>159,044,041</u>	<u>138,441,226</u>
	2016	2015
Cost of sales from main operations	105,091,458	94,681,799
Cost of sales from other operations	10,523,979	7,981,019
	<u>115,615,437</u>	<u>102,662,818</u>

(a) Revenue and cost of sales from main operations

	2016		2015	
	Revenue from main operations	Cost of sales from main operations	Revenue from main operations	Cost of sales from main operations
Large household appliances	97,855,794	69,390,846	87,932,142	63,685,678
Air-conditioner motors	66,780,877	46,372,262	64,491,950	46,270,517
Refrigerator motors	14,955,684	11,506,669	11,422,676	8,774,502
Washing machine motors	16,119,233	11,511,915	12,017,516	8,640,659
Small household appliances	43,282,927	30,431,915	35,445,859	26,574,533
Motor	4,127,517	3,424,075	3,533,842	2,966,665
Logistics services	1,907,746	1,844,622	1,652,757	1,454,923
	<u>147,173,984</u>	<u>105,091,458</u>	<u>128,564,600</u>	<u>94,681,799</u>

In 2016, cost of sales is mainly material costs and labour costs, which accounts for over 80% of total cost of sales from main operations (2015: over 80%).

(b) Revenue and cost of sales from other operations

	2016		2015	
	Revenue from other operations	Cost of sales from other operations	Revenue from other operations	Cost of sales from other operations
Revenue from sales of materials	10,601,700	10,130,655	8,840,147	7,482,344
Others	1,268,357	393,324	1,036,479	498,675
	<u>11,870,057</u>	<u>10,523,979</u>	<u>9,876,626</u>	<u>7,981,019</u>

In 2016, cost of sales from other operations is mainly material costs, which accounts for over 80% of total cost of sales from other operations (2015: over 80%).

(36) Interest income/(expenses)

Interest income and expenses arising from financial business of the Group are presented as follows:

	2016	2015
Interest income from loans and advances	734,109	855,149
Including: Interest income from loans and advances to corporations and	367,454	220,635

individuals		
Interest income from note discounting	366,655	634,514
Interest income from deposits with banks, other financial institutions and central bank	55,305	45,012
Interest income	789,414	900,161
Interest expenses	(439,607)	(561,514)
	<u>349,807</u>	<u>338,647</u>

(37) Business taxes and surcharges

	2016	2015
City maintenance and construction tax	470,582	489,695
Educational surcharge	342,740	356,115
Property tax	123,037	-
Land use tax	66,927	-
Others	73,833	65,520
	<u>1,077,119</u>	<u>911,330</u>

(38) Selling and distribution expenses

	2016	2015
Selling and distribution expenses	<u>17,678,451</u>	<u>14,799,769</u>

In 2016, 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 (2015: over 80%).

(39) General and administrative expenses

	2016	2015
General and administrative expenses	<u>9,620,777</u>	<u>7,441,755</u>

In 2016, 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 (2015: over 80%).

(40) Finance (income)/expenses

The Group's finance (income)/expenses, other than those arising from financial business (Note 4(36)), are presented as follows:

	2016	2015
Interest expenses	370,940	231,938
Less: Interest income	(1,005,495)	(556,617)
Exchange gains or losses	(557,689)	335,281
Others	<u>186,265</u>	<u>128,330</u>

	(1,005,979)	138,932
(41) Asset impairment loss		
	2016	2015
loss/(Reversal) of bad debts (Note 4(5))	140,950	(45,825)
Loss on decline in the value of inventories (Note 4(8))	108,235	119,542
Impairment loss on fixed assets (Note 4(12))	4,654	1,382
Impairment loss on intangible assets (Note 4(14))	6,065	-
loss/(Reversal) of impairment of loans (Note 4(7))	120,908	(70,333)
	<u>380,812</u>	<u>4,766</u>

(42) Gains on changes in fair value		
	2016	2015
Financial instruments at fair value through profit or loss - derivative financial instruments	117,376	81,611

(43) Investment income		
	2016	2015
Investment income from wealth management products	1,270,941	1,309,633
Investment (loss)/income from disposal of financial assets at fair value through profit or loss	(142,784)	286,036
Income from long-term equity investment under equity method	165,904	420,744
Others	(8,100)	(5,144)
	<u>1,285,961</u>	<u>2,011,269</u>

There is no restriction on recovery of investment income.

(44) Non-operating income			
	2016	2015	Amount recognised in non-recurring profit or loss in 2016
Government grants (a)	1,349,217	1,373,128	1,330,065
Gains on disposal of non-current assets	60,789	53,084	60,789
Including: Gains on disposal of fixed assets	51,029	48,160	51,029
Gains on disposal of	9,760	4,924	9,760

intangible assets			
Other income	409,003	280,827	409,003
	<u>1,819,009</u>	<u>1,707,039</u>	<u>1,799,857</u>

(a) Details of government grants

	2016	2015	Assets/income related
Special projects	1,333,302	1,368,522	Related to income
Special projects	15,915	4,606	Related to assets
	<u>1,349,217</u>	<u>1,373,128</u>	

(45) Non-operating expenses

	2015	2014	Amount recognised in non-recurring profit or loss in 2016
Losses on disposal of non-current assets	172,663	287,167	172,663
Including: Losses on disposal of fixed assets	172,663	286,817	172,663
Losses on disposal of intangible assets	-	350	-
Donations	22,122	28,811	22,122
Other expenses	145,596	256,580	140,519
	<u>340,381</u>	<u>572,558</u>	<u>335,304</u>

(46) Income tax expenses

	2016	2015
Current income tax calculated based on tax law and related regulations	3,811,731	923,694
Deferred income tax	(759,040)	1,503,005
	<u>3,052,691</u>	<u>2,426,699</u>

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

	2016	2015
Total profit	18,914,603	16,051,354
Income tax calculated at tax rate of 25%	4,728,651	4,012,839
Effect of different tax rates applicable to subsidiaries	(1,575,087)	(1,427,105)
Effect of income tax annual filing for prior periods	(35,060)	(74,239)
Income not subject to tax	(173,717)	(99,584)

Costs, expenses and losses not deductible for tax purposes	234,535	102,016
Temporary differences for which no deferred income tax asset was recognised in prior years	(190,827)	(116,095)
Others	64,196	28,867
Income tax expenses	<u>3,052,691</u>	<u>2,426,699</u>

(47) 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:

	Unit	2016	2015 (restated)
Consolidated net profit attributable to ordinary shareholders of the parent company	RMB'000	14,684,357	12,706,725
Weighted average number of outstanding ordinary shares	Thousand shares	<u>6,423,317</u>	<u>6,366,071</u>
Basic earnings per share	RMB per share	<u>2.29</u>	<u>2.00</u>

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:

	Currency unit	2016	2015 (restated)
Consolidated net profit attributable to ordinary shareholders of the parent company	RMB'000	14,684,357	12,706,725
Weighted average number of outstanding ordinary shares	Thousand shares	6,423,317	6,366,071
Weighted average number of ordinary shares increased due to share options	Thousand shares	21,439	16,062
Weighted average number of diluted outstanding ordinary shares	Thousand shares	<u>6,444,756</u>	<u>6,382,133</u>
Diluted earnings per share	RMB per share	<u>2.28</u>	<u>1.99</u>

(48) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities

	2016	2015
Non-operating income	1,745,403	1,432,614
Other operating income	1,096,030	777,894
Financial interest income	234,516	132,622
Others	63,337	867,857
	<u>3,139,286</u>	<u>3,210,987</u>

(b) Cash paid relating to other operating activities

	2016	2015
Selling and distribution expenses (excluding employee benefits and taxes and surcharges)	14,375,156	12,878,438
General and administrative expenses (excluding employee benefits and taxes and surcharges)	4,413,704	3,091,282
Others	3,013,869	366,246
	<u>21,802,729</u>	<u>16,335,966</u>

(c) Supplementary information to the consolidated cash flow statement

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

	2016	2015
Net profit	15,861,912	13,624,655
Add: Provision for assets impairment	380,812	4,766
Depreciation and amortisation	3,578,000	2,852,017
Net loss on disposal of non-current assets	111,874	234,083
Gains on changes in fair value	(117,376)	(81,611)
Finance income	(648,949)	(317,043)
Investment income	(1,285,961)	(2,011,269)
Share options expenses	546,914	377,660
(Increase)/decrease deferred income tax assets	(760,228)	1,497,537
(Decrease)/increase in deferred income tax liabilities	(61,501)	5,468
(Increase)/decrease in inventories	(3,741,683)	4,656,838
(Increase)/decrease in operating receivables	(841,862)	3,769,036
Increase in operating payables	13,673,057	2,152,117
Net cash flows from operating activities	<u>26,695,009</u>	<u>26,764,254</u>

Movement in cash and cash equivalents

Cash and cash equivalents at end of year	12,513,730	5,187,317
Less: Cash and cash equivalents at beginning of year	(5,187,317)	(5,272,240)
Net decrease in cash and cash equivalents	<u>7,326,413</u>	<u>(84,923)</u>

(d) Acquisition of subsidiaries

2016

Cash and cash equivalents paid in current year for business combinations occurred in current year		4,596,819
Including: TLSC		3,314,708
Shenzhen Shenzhou Payment Tech Co., Ltd		300,000
Foshan Shunde Midea Petty Loan Co., Ltd.		982,111
Less: Cash and cash equivalents held by the subsidiaries at the acquisition dates		(1,696,563)
Including: TLSC		(1,457,920)
Shenzhen Shenzhou Payment Tech Co., Ltd		(99,182)
Foshan Shunde Midea Petty Loan Co., Ltd.		(139,461)
Net cash paid for acquisition of the subsidiaries		<u>2,900,256</u>

Net assets of the subsidiaries acquired

	As at the acquisition dates in 2016	As at the acquisition dates in 2015
Current assets	5,741,514	1,833,699
Non-current assets	6,524,130	227,348
Current liabilities	(4,430,467)	(1,070,311)
Non-current liabilities	(5,656,951)	(122,894)
Less: Minority interests	(221,651)	-
	<u>1,956,575</u>	<u>867,842</u>

(e) Composition of cash and cash equivalents

	31 December 2016	31 December 2015
Cash on hand	2,315	2,915
Cash at bank that can be readily drawn on demand	7,015,378	2,435,483
Other cash balances that can be readily drawn on demand	-	1,993
Deposits with central bank that can be readily drawn on demand	58,172	84,119
Deposits with banks and other financial institutions that can be readily drawn on	<u>5,437,865</u>	<u>2,662,807</u>

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demand

Cash and cash equivalents at end of year	12,513,730	5,187,317
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(49) Monetary items denominated in foreign currencies

	31 December 2016		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand			
USD	1,473,107	6.9370	10,218,943
JPY	14,192,651	0.0596	845,882
HKD	92,921	0.8945	83,118
EUR	126,051	7.3068	921,029
VND	191,400,000	0.0003	57,420
Other currencies	N/A	N/A	324,572
Subtotal			<u>12,450,964</u>
Deposits with central bank			
USD	12,206	6.9370	84,673
Deposits with banks and other financial institutions			
USD	237,817	6.9370	1,649,737
EUR	7,371	7.3068	53,858
Subtotal			<u>1,703,595</u>
Accounts receivable			
USD	825,815	6.9370	5,728,679
JPY	17,178,725	0.0596	1,023,852
HKD	22,988	0.8945	20,563
EUR	92,007	7.3068	672,277
VND	1,103,126,667	0.0003	330,938
Other currencies	N/A	N/A	996,425
Subtotal			<u>8,772,734</u>
Other receivables			
USD	8,594	6.9370	59,617
JPY	1,644,379	0.0596	98,005
HKD	97,452	0.8945	87,171
EUR	10,544	7.3068	77,043
BRL	42,504	2.1324	90,636
Other currencies	N/A	N/A	78,974
Subtotal			<u>491,446</u>
Total			<u>23,503,412</u>

31 December 2016			
	Foreign currency balance	Exchange rate	RMB balance
Short-term borrowings			
USD	76,497	6.9370	530,660
BRL	228,773	2.1324	487,836
Others	N/A	N/A	119,976
Subtotal			<u>1,138,472</u>
Accounts payable			
USD	184,444	6.9370	1,279,488
JPY	18,234,245	0.0596	1,086,761
HKD	2,932	0.8945	2,623
EUR	22,909	7.3068	167,391
BRL	122,421	2.1324	261,051
Other currencies	N/A	N/A	803,947
Subtotal			<u>3,601,261</u>
Other payables			
USD	17,275	6.9370	119,837
JPY	5,795,805	0.0596	345,430
HKD	104,876	0.8945	93,812
EUR	1,438	7.3068	10,507
Other currencies	N/A	N/A	69,267
Subtotal			<u>638,853</u>
Long-term borrowings			
HKD	80,001	0.8945	71,561
EUR	271,000	7.3068	1,980,143
BRL	1,138	2.1324	2,427
Other currencies	N/A	N/A	218
Subtotal			<u>2,054,349</u>
Debentures payables			
USD	694,647	6.9370	4,818,769
Total			<u>12,251,703</u>

Monetary items denominated in foreign currencies present the material items denominated in currencies other than RMB.

31 December 2015			
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand			
USD	364,436	6.4936	2,366,502
HKD	276,475	0.8378	231,631
EUR	25,956	7.0952	184,163
BRL	37,354	1.6401	61,264
Other currencies	N/A	N/A	140,436
Subtotal			2,983,996
Deposits with central bank			
USD	18,212	6.4936	118,261
Deposits with banks and other financial institutions			
USD	48,674	6.4936	316,069
EUR	6,352	7.0952	45,068
Subtotal			361,137
Accounts receivable			
USD	743,404	6.4936	4,827,368
HKD	103,884	0.8378	87,032
EUR	58,027	7.0952	411,713
BRL	621,229	1.6401	1,018,870
Other currencies	N/A	N/A	474,455
Subtotal			6,819,438
Other receivables			
USD	2,095	6.4936	13,606
HKD	151,578	0.8378	126,989
EUR	9,030	7.0952	64,070
BRL	47,863	1.6401	78,500
Other currencies	N/A	N/A	61,786
Subtotal			344,951
Total			10,627,783

31 December 2015			
	Foreign currency balance	Exchange rate	RMB balance
Short-term borrowings			
USD	398,212	6.4936	2,585,828
EUR	98,534	7.0952	699,118
Others	N/A	N/A	88,661
Subtotal			<u>3,373,607</u>
Accounts payable			
USD	227,104	6.4936	1,474,723
HKD	52,667	0.8378	44,123
EUR	2,167	7.0952	15,375
BRL	54,165	1.6401	88,835
Other currencies	N/A	N/A	133,750
Subtotal			<u>1,756,806</u>
Other payables			
USD	16,244	6.4936	105,482
HKD	13,172	0.8378	11,035
EUR	1,135	7.0952	8,053
BRL	16,251	1.6401	26,653
Other currencies	N/A	N/A	16,390
Subtotal			<u>167,613</u>
Long-term borrowings			
HKD	100,000	0.8378	83,778
BRL	3,577	1.6401	5,867
Other currencies	N/A	N/A	416
Subtotal			<u>90,061</u>
Other non-current liabilities			
USD	54,740	6.4936	355,460
Total			<u>5,743,547</u>

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	Acquisition method	Acquisition dates	Recognition basis of acquisition dates	Revenues of acquirees from the acquisition dates to the year-end	Net profit/(loss) of acquirees from the acquisition dates to the year-end	Cash flows from operating activities of acquirees from the acquisition dates to the year-end	Net cash flows of acquirees from the acquisition dates to the year-end
*TLSC	Production and sale of household appliances	30 June 2016	RMB3,314,708,000	80.10%	Cash consideration	30 June 2016	Effective acquisition of control right	7,523,598	32,181	(194,453)	(287,250)
Shenzhen Payment Co., Ltd.	Tech professional technique service	10 April 2016	50% of interests were acquired in April 2016 with RMB158,325,000	50% of interests were acquired in April 2016	Cash consideration	6 October 2016	Effective acquisition of control right	16,885	(6,837)	(1,503)	(16,949)
Clivet	Production and sale of household appliances	31 October 2016	RMB982,111,000	80.00%	Cash consideration	31 October 2016	Effective acquisition of control right	136,066	(12,835)	(11,581)	(13,149)

*Pursuant to the agreement between the Company and Toshiba Corporation, the Company and Toshiba Corporation have the call option and put option over the remaining shareholding of 19.9% of TLSC to exercise at agreed pre-determined price, respectively. The call option and put option could be exercisable after 8 years since the transaction date. Pursuant to the agreement, the Company has the right to obtain the shareholding of 19.9% at the consideration approximately of RMB666,013,000, therefore, the management accounted for the acquisition and calculated goodwill arising from the business combination assuming 100% shareholding is obtained.

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

	TLSC	Shenzhen Shenzhen Payment Tech Co., Ltd.	Clivet
Costs of combination -			
Cash consideration	3,314,708	141,675	982,111
Fair value of previously held equity at acquisition dates	N/A	158,325	N/A
Future payment of consideration (ii)	666,013	N/A	N/A
Total costs of combination	3,980,721	300,000	982,111
Less: Share of fair value of the identifiable net assets obtained	(1,061,640)	(300,000)	(475,019)
Goodwill (i)	2,919,081	-	507,092

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.

- (i) The Group recognises the differences between costs of combination and the share of fair value of the identifiable net assets of TLSC and Clivet obtained in the combination as goodwill for the period in which the combination incurs.
- (ii) The present value of the future payment of consideration is recognized as other non-current liabilities.

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

(i) TLSC

	Fair value at acquisition dates	Carrying amount at acquisition dates
Current assets	5,006,956	5,006,956
Non-current assets	5,679,267	985,945
Current liabilities	(3,970,368)	(3,970,368)
Non-current liabilities	(5,433,882)	(3,919,876)
Less: Minority interests	(220,333)	(51,206)
Net assets obtained	<u>1,061,640</u>	<u>(1,948,549)</u>

The Group uses valuation techniques to determine the fair value of TLSC's assets and liabilities at the acquisition date. The assessment measures and key assumptions of key assets are listed below:

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.

The fair value of intangible assets (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.

(ii) Shenzhen Shenzhou Payment Tech Co., Ltd.

	Fair value at acquisition dates	Carrying amount at acquisition dates	Carrying amount at 31 December 2016
Current assets	185,751	185,751	152,804
Non-current assets	331,452	2,746	2,907
Current liabilities	(134,697)	(134,697)	(91,822)
Non-current liabilities	(82,506)	(330)	(395)
Net assets obtained	<u>300,000</u>	<u>53,470</u>	<u>63,494</u>

(iii) Clivet

	Fair value at acquisition dates	Carrying amount at acquisition	Carrying amount at 31 December
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		dates	2016
Current assets	548,807	548,807	425,574
Non-current assets	513,411	42,565	94,840
Current liabilities	(325,402)	(325,402)	(239,938)
Non-current liabilities	(141,724)	(9,196)	(23,646)
Less: Minority interests	(1,318)	(1,318)	(778)
Net assets obtained	<u>593,774</u>	<u>255,456</u>	<u>256,052</u>

(d) Cash flows for the period from the acquisition date to 31 December 2016 are as follows:

	For the period from the acquisition dates to 31 December 2016		
	TLSC	Shenzhen Shenzhen Payment Tech Co., Ltd.	Clivet
Net cash flows from operating activities	(194,453)	(1,503)	(11,581)
Net cash flows from investing activities	(64,800)	(2,370)	(1,342)
Net cash flows from financing activities	(27,997)	(13,076)	(226)
	<u>(287,250)</u>	<u>(16,949)</u>	<u>(13,149)</u>

(2) Changes in consolidation scope due to other reasons

(a) Increase of consolidation scope

In January 2016, Foshan Shunde Home Appliance Industrial Co., Ltd., the Company's subsidiary, invested RMB100,000,000 by cash in the establishment of Midea Business Factoring Co.,Ltd., a fully-owned subsidiary.

In January 2016, the Company subscribed contributions of RMB50,000,000 by cash in the establishment of Midea Finance Holding(Shenzhen) Co.,Ltd.

In January 2016, Midea Finance Holding(Shenzhen) Co.,Ltd., the Company's subsidiary, invested RMB50,000,000 by cash in the establishment of Shenzhen Qianhai Midea Assets Management Co., Ltd., a fully-owned subsidiary.

In May 2016, Guangdong Midea Home Appliances Manufacturing Co.,Ltd., the Company's subsidiaries, and CUCHEN CO., Ltd., subscribed contributions of RMB48,414,000 and RMB32,276,000, respectively, in the establishment of Guangdong Midea Cuchen Home Appliances Manufacturing Co.,Ltd, obtaining a shareholding of 60% and 40% respectively.

In May 2016, Midea International Holding CO., Ltd., the Company's subsidiary, established Midea Investment & Development Corporation, a fully-owned subsidiary.

In July 2016, the Company subscribed contributions of RMB20,000,000 by cash in the establishment of Midea Smart Home Technology Co., Ltd., a fully-owned subsidiary.

In July 2016, Midea International Holding CO., Ltd., the Company's subsidiary, invested

HKD10,000 by cash in the establishment of Midea Investment (Asia) Co., Ltd., a fully-owned subsidiary.

In September 2016, the Company invested RMB10,000,000 by cash in the establishment of Midea Intelligent Technology Co., Ltd., a fully-owned subsidiary.

In December 2016, the Company invested RMB13,000,000 by cash in the establishment of Foshan Shunde Meiying Enterprise Management Services Co., Ltd., a fully-owned subsidiary.

In September 2016, Midea Electrics Netherlands B.V., the Company's subsidiary, invested EUR50,000 by cash in the establishment of Midea Heating & Ventilation (Italy) Co., Ltd., a fully-owned subsidiary and additionally invested EUR184,950,000 in October 2016.

(b) Decrease of consolidation scope

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

Name of entity	Disposal method of the equity	Disposal time-point of the equity
Guangdong Midea lighting electric manufacturing Co., Ltd.	Deregistration	April 2016
Foshan Shunde Meihui Management Service Co.,Ltd.	Sale	April 2016
Anhui GMCC Compressor Co., Ltd.	Deregistration	September 2016
Wuxi Hongming materials technology Co., Ltd.	Deregistration	December 2016

6 Interests in other entities

(1) Interests in subsidiaries

(a) Information of significant subsidiaries

Name of Subsidiaries	Major business location	Place of registration	Nature of business	Shareholding (%)		Acquisition method
				Direct	Indirect	
Guandong Midea Air Conditioning Equipment Co., Ltd.	Foshan, PRC	Foshan, PRC	Manufacture of refrigerator	90%	10%	Establishment
Hefei Hualing Co., Ltd.	Hefei, PRC	Hefei, PRC	Manufacture of refrigerator	75%	25%	Business combinations involving enterprises not under common control
TLSC	Japan	Japan	Manufacture of household appliances	-	80.10%	Business combinations involving enterprises not under common control
Foshan Shunde Home Appliance Industrial Co., Ltd.,	Foshan, PRC	Foshan, PRC	Holding investment	100%	-	Establishment
Midea Wuhan Refrigeration Equipments Co., Ltd.,	Foshan, PRC	Foshan, PRC	Manufacture of refrigerator	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	Hongkong	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 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 sale of air conditioner	73%	7%	Business combinations involving enterprises not under common control
Guangdong GMCC Refrigeration Equipment Co., Ltd.	Foshan, PRC	Foshan, PRC	Manufacture of air conditioner	60%	-	Business combinations involving enterprises not under common control
Zhejiang GMCC Compressor Co., Ltd.	Ningbo, PRC	Ningbo, PRC	Manufacture of air conditioner	100%	-	Establishment
Midea Petty Loan Co., Ltd.	Wuhu, PRC	Wuhu, PRC	Petty loan	-	100%	Business combinations involving enterprises not under common control
Midea Electric Appliance (Singapore) Trade Co., Ltd.	Singapore	Singapore	Export trading	-	100%	Establishment
Midea Group Finance Co., Ltd.	Foshan, PRC	Foshan, PRC	Financial industry	95%	5%	Establishment
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	BVI	BVI	Holding Investment	-	100%	Establishment
Midea International Holding Co., Ltd.	Hong Kong	Hong Kong	Holding investment	100%	-	Establishment
Midea Investment & Development Corporation	BVI	BVI	Holding investment	-	100%	Establishment
Midea Investment (Asia) Co., Ltd.	Hong Kong	Hong Kong	Holding investment	-	100%	Establishment

(b) Subsidiaries that have significant minority interests

Name of Subsidiaries	Shareholding of minority shareholders	Total profit or loss attributable to minority shareholders for the year ended 31 December 2016	Dividends distributed to minority interests for the year ended 31 December 2016	Minority interests as at 31 December 2016
Wuxi Little Swan Company Limited	47%	535,102	177,851	2,724,353
Welling Holding Limited	31%	162,728	49,881	1,326,033
Guangdong Midea Refrigeration Equipment Co., Ltd.	20%	123,521	153,975	690,804
Guangdong GMCC Refrigeration Equipment Co., Ltd.	40%	79,807	44,165	745,314

(2) Information of enterprise group

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

	31 December 2016						31 December 2015					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Wuxi Little Swan Company Limited	17,327,867	1,558,120	18,885,987	11,906,121	20,771	11,926,892	12,752,480	1,575,176	14,327,656	8,298,112	41,816	8,339,928
Welling Holding Limited	5,327,043	1,302,187	6,629,230	2,417,136	63,782	2,480,918	4,683,680	1,655,305	6,338,985	2,543,690	35,004	2,578,694
Guangdong Midea Refrigeration Equipment Co., Ltd.	26,783,871	2,330,584	29,114,455	25,652,465	7,972	25,660,437	26,446,641	2,338,070	28,784,711	25,359,562	30,460	25,390,022
Guangdong GMCC Refrigeration Equipment Co., Ltd.	3,217,419	671,471	3,888,890	1,991,784	33,821	2,025,605	3,223,492	668,582	3,892,074	2,127,737	3,870	2,131,607

	2016				2015			
	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Wuxi Little Swan Company Limited	16,334,915	1,342,775	1,383,992	3,896,073	13,131,627	1,053,125	1,101,679	3,598,695
Welling Holding Limited	7,551,297	523,027	523,027	705,310	6,787,530	439,743	439,743	478,801
Guangdong Midea Refrigeration Equipment Co., Ltd.	27,695,208	617,604	617,604	908,249	28,038,917	954,644	954,927	1,358,924
Guangdong GMCC Refrigeration Equipment Co., Ltd.	6,226,294	199,517	196,752	522,566	5,701,596	205,132	209,866	304,826

(3) Interests in associates and a joint venture

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

	2016	2015
Aggregated carrying amount of investments	2,211,732	2,888,274
Aggregate of the following items calculated in proportion to shareholding		
Net profit (i)	165,904	420,744
Other comprehensive income (i)	(73,811)	39,924
Total comprehensive income	92,093	460,668

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

7 Segment information

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

The Group identified 6 reportable segments as follows:

- Air conditioning and parts segment
- Refrigerators and parts segment
- Washing machines and parts segment
- Small appliances segment
- Electric machine segment
- Logistics segment

Inter-segment transfer prices are determined 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.

8 Segment reporting

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

Segment information as at and for the year ended 31 December 2016 is as follows:

	Air conditioning and parts segment	Refrigerators and parts segment	Washing machines and parts segment	Small appliances segment	Electric machine segment	Logistics segment	Other segments and unallocated amount	Elimination	Total
Revenue from external customers	74,331,675	16,200,846	17,669,817	44,027,440	4,855,760	1,909,118	847,045	-	159,841,701
Inter-segment revenue	661,402	17,638	41,482	130,292	3,122,597	3,110,479	1,253,551	(8,337,441)	-
Operating expenses	(68,151,360)	(15,163,145)	(16,170,278)	(38,375,380)	(7,451,305)	(4,879,759)	(1,857,779)	8,239,943	(143,809,063)
Segment profit	6,841,717	1,055,339	1,541,021	5,782,352	527,052	139,838	242,817	(97,498)	16,032,638
Other profit or loss									2,881,965
Total profit									18,914,603
Total assets	75,672,478	13,064,449	20,890,793	54,416,370	8,279,107	3,645,610	66,777,236	(72,145,332)	170,600,711
Total liabilities	51,838,893	8,254,258	13,600,413	42,648,109	2,999,539	2,528,938	55,825,456	(76,071,591)	101,624,015
Long-term equity investments in associates and a joint venture	163,145	-	-	70,567	-	-	1,978,020	-	2,211,732
Investment income from investments in associates and a joint venture	(142,596)	-	-	(2,068)	5,875	-	304,693	-	165,904
Increase in non-current assets (excluding available-for-sale financial assets, long-term equity investments and deferred income tax assets)	2,046,264	1,594,760	1,245,067	3,668,126	582,286	100,516	1,088,104	-	10,325,123
Asset impairment losses/(reversal)	154,348	3,117	92,675	12,832	15,449	(2,357)	46,107	58,641	380,812
Depreciation and amortisation expenses	1,526,358	432,419	227,696	891,866	180,745	112,203	206,713	-	3,578,000

Segment information as at and for the year ended 31 December 2015 is as follows:

	Air conditioning and parts segment	Refrigerators and parts segment	Washing machines and parts segment	Small appliances segment	Electric machine segment	Logistics segment	Other segments and unallocated amount	Elimination	Total
Revenue from external customers	71,080,793	12,296,942	13,204,070	36,330,913	3,841,012	1,654,066	939,328	-	139,347,124
Inter-segment revenue	122,969	10,307	15,951	3,043	2,946,519	2,355,722	1,497,030	(6,951,541)	-
Operating expenses	(65,239,608)	(11,455,116)	(12,116,092)	(31,891,565)	(6,361,320)	(4,047,728)	(2,493,403)	7,081,701	(126,523,131)
Segment profit	5,964,154	852,133	1,103,929	4,442,391	426,211	(37,940)	(57,045)	130,160	12,823,993
Other profit or loss									3,227,361
Total profit									16,051,354
Total assets	82,279,374	9,904,735	14,391,477	39,167,999	7,207,315	3,193,752	50,321,733	(77,624,450)	128,841,935
Total liabilities	60,595,819	5,630,201	8,366,181	27,112,921	2,578,694	2,254,926	49,467,906	(83,196,335)	72,810,313
Long-term equity investments in associates and a joint venture	336,592	-	-	-	303,057	-	2,248,625	-	2,888,274
Investment income from investments in associates and a joint venture	19,624	-	-	-	43,218	-	357,902	-	420,744
Increase in non-current assets (excluding available-for-sale financial assets, long-term equity investments and deferred income tax assets)	1,389,959	300,941	80,557	795,560	196,769	105,821	569,953	-	3,439,560
Asset impairment losses/(reversal)	78,456	(9,293)	22,452	(3,012)	(4,642)	8,422	(2,797)	(84,820)	4,766
Depreciation and amortisation expenses	1,316,771	307,836	129,552	509,380	147,637	130,143	310,698	-	2,852,017

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

Revenue from external customers	2016	2015
Domestic	95,741,436	89,906,850
Other countries/geographical areas	64,100,265	49,440,274
	<u>159,841,701</u>	<u>139,347,124</u>
Total non-current assets	31 December 2016	31 December 2015
Domestic	26,982,944	28,261,309
Other countries/geographical areas	6,835,605	1,698,967
	<u>33,818,549</u>	<u>29,960,276</u>

9 Related parties and significant related party transactions**(1) Information of the parent company**

(a) General information of the parent company

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

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

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

	31 December 2016 and 31 December 2015
Midea Holding Co., Ltd.	<u>330,000</u>

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

	31 December 2016			31 December 2015		
	Shareholding (%)		Voting rights (%)	Shareholding (%)		Voting rights (%)
	Direct	Indirect		Direct	Indirect	
Midea Holding Co., Ltd.	<u>34.75%</u>	-	<u>34.75%</u>	<u>35.07%</u>	-	<u>35.07%</u>

(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
Shanxi Huaxiang Group Co., Ltd.	Associates of subsidiaries controlled by the Company(The equity interest was disposed and it was not an associate since September 2016)

(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 party	Content of related party transactions	Pricing policies of related party transactions	2016	2015
Guangzhou Wellkey Electrician Material Co., Ltd.	Purchase of goods	Agreed price	586,391	672,426
Foshan Micro Midea Filter MFG Co., Ltd.	Purchase of goods	Agreed price	175,112	109,306
Anhui Wellkey Electrician Material Co., Ltd.	Purchase of goods	Agreed price	272,476	247,960
Shanxi Huaxiang Group Co., Ltd.	Purchase of goods	Agreed price	250,495	244,539
Hefei Orinko Plastics Group.	Purchase of goods	Agreed price	240,082	62,091
Guangdong Infore Electronics Co., Ltd.	Purchase of goods	Agreed price	1,592	-
			<u>1,526,148</u>	<u>1,336,322</u>

(b) Investment income

	Content	2016	2015
Foshan Shunde Rural Commercial Bank Co., Ltd.	Wealth management product	<u>20,841</u>	<u>114,461</u>

(c) Remuneration of key management

	31 December 2016	31 December 2015
Remuneration of key management	35,130	31,250

(5) Receivables from and payables to related parties

Receivables from related parties:

Items	Related party	31 December 2016	31 December 2015
Advances to suppliers	Guangzhou Wellkey Electrician Material Co., Ltd.	-	756
	Foshan Micro Midea Filter MFG Co., Ltd.	-	8,000
	Hefei Orinko Plastics Group	41,161	28,756
		<u>41,161</u>	<u>37,512</u>

Items	Related party	31 December 2016	31 December 2015
Other current assets	Foshan Shunde Rural Commercial Bank Co., Ltd.	1,500,000	1,100,000

Items	Related party	31 December 2016	31 December 2015
Cash at bank and on hand	Foshan Shunde Rural Commercial Bank Co., Ltd.	1,201,929	2,030,948

Payables to related parties:

Items	Related party	31 December 2016	31 December 2015
Accounts payable	Guangzhou Wellkey Electrician Material Co., Ltd.	43,132	64,330
	Foshan Micro Midea Filter MFG Co., Ltd.	15,985	32,901
	Shanxi Huaxiang Group Co., Ltd.	-	49,705
	Hefei Huitong New Material Co., Ltd.	12,269	6,153
	Anhui Wellkey Electrician Material Co., Ltd.	55,962	51,755
	Foshan Midea Real Estate Development Co., Ltd.	-	3,677
		<u>127,348</u>	<u>208,521</u>

10 Share-based payment

- (1) Pursuant to the third share option incentive plan (the “Third Share Option Incentive Plan”) approved at the third extraordinary general meeting dated 6 June 2016, the Company granted 127,290,000 share options with exercise price of RMB21.35 to 929 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 28 June 2016.

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

Exercise price of options	RMB21.35
Effective period of options:	5 years
Current price of underlying shares	RMB23.35
Estimated fluctuation rate of share price:	40.81%
Estimated dividend rate:	3.75%
Risk-free interest rate within effective period of options:	2.37%

The fair value of the Third Share Option Incentive Plan calculated pursuant to the above parameters is: RMB661,608,037.

- (2) Movements of share options during the year

	2016 (share options in thousands)	2015 (share options in thousands)
Share options issued at beginning of year	203,595	136,295
Share options granted during the current year	127,290	125,685
Share options exercised during the current year	(58,508)	(38,435)
Share options lapsed during the current year	(21,580)	(19,950)
Share options issued at end of year	250,797	203,595

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.

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

The total share option expenses recognised in 2016 were RMB546,914,000 (2015: RMB377,660,000). As at 31 December 2016, the balance relating to the option incentive plan and provided for in capital surplus was RMB617,238,000 (31 December 2015: RMB388,604,000).

11 Contingencies

The amount in tax disputes involving Brazilian subsidiary with 51% interests held by the Company is about BRL629 million (equivalent to RMB1,341 million) (Some cases have lasted for more than 10 years. The above amount includes the principal and interest). As at 31 December 2016, 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 RMB335 million). With reference to judgements of third-party attorneys, management believes that the probability of losing lawsuits and making

compensation is small, and expects no significant risk of debt default, therefore, no provisions are made and appropriate disclosures are made in the financial statements.

12 Commitments

(1) Capital commitments

Capital expenditures contracted for by the Group at the balance sheet date but are not yet necessary to be recognised on the balance sheet are as follows:

	31 December 2016	31 December 2015
Buildings, machinery and equipment	1,372,700	1,372,126

(2) Operating lease commitments

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

(3) Foreign investment commitments

Pursuant to the acquisition offer for 81.04% shares of KUKA Group in the open market on 16 June 2016, the Company's subsidiary, Mecca International (BVI) Limited committed to acquire the shareholdings of the KUKA Group at the consideration of €115 per share (total consideration of RMB27 billion) by cash. As at 31 December 2016, Mecca International (BVI) Limited had not made the payment.

13 Subsequent events

(1) Significant non-adjusting events

Pursuant to the 11th meeting of the second Board of Directors dated 18 May 2016, 12th meeting of the second Board of Directors dated 25 May 2016 and third extraordinary general meeting dated 6 June 2016, the related proposals to acquire the shares of the KUKA Group were reviewed and approved. The Company approved that Mecca International (BVI) Limited, a wholly overseas subsidiary, acquired the shares of the KUKA Group at a consideration of €115 per share by cash. The three main business segments of the KUKA Group are as follows: 1) the KUKA robot segment is principally engaged in the development, manufacture and sale of core robots and their associated services and controllers; 2) the KUKA system segment is principally engaged in the design and construction of automated manufacturing systems; 3) the Swisslog segment is the main provider of solutions for innovative automation in other areas.

Given the tender offer delivery conditions have been met, the Group completed the delivery of tender offer related to KUKA Group, and fully paid the amount related to this offer, approximately RMB27 billion (paid through offshore bank loans) on 6 January 2017 (the acquisition date). As the Group acquired 81.04% shares in this tender offer and acquired 13.51% shares previously, the Group held a total of 94.55% of the shares of KUKA Group (totaling 37,605,732 shares). The KUKA Group was accounted for as a subsidiary of the Company since the acquisition date. As of the date of the financial statement issued, the evaluation of the identifiable assets and liabilities of the KUKA Group at the acquisition date was still in progress.

(2) Profit distribution

On 29 March 2017, on the basis of the 6,465,677,368 shares of the Company, the Board of Directors proposed a distribution of cash dividends of approximately RMB6,465,677,368 at RMB10 per share (including tax). The distribution of cash dividends proposed subsequent to the balance sheet date is not recognised as liabilities at the balance sheet date.

14 Finance lease

The future lease payments of fixed assets held under finance leases are as follows:

	31 December 2016
Within one year	209,765
Over one year	329,653
	539,418

As at 31 December 2016, the unrecognised financing charge amounts to RMB10,337,000.

15 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 that are not reporting currency. 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 enters into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk.

As at 31 December 2016 and 31 December 2015, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised below:

	31 December 2016				
	USD	EURO	HKD	Others	Total
Financial assets denominated in foreign currency-					
Cash at bank and on hand	9,505,320	700,956	26,677	654,274	10,887,227
Receivables	3,984,272	324,073	20,563	447,536	4,776,444
	13,489,592	1,025,029	47,240	1,101,810	15,663,671

31 December 2015					
	USD	EURO	HKD	Others	Total
Financial liabilities denominated in foreign currency-					
Short-term borrowings	330,129	-	-	191,961	522,090
Payables	1,229,585	20,470	2,094	570,686	1,822,835
Debentures payables	4,818,769	-	-	-	4,818,769
Long-term borrowings	-	1,980,143	-	200,000	2,180,143
	6,378,483	2,000,613	2,094	962,647	9,343,837
Financial assets denominated in foreign currency-					
Cash at bank and on hand	2,035,065	134,089	168,023	140,436	2,477,613
Receivables	2,258,964	411,713	81,828	474,455	3,226,960
	4,294,029	545,802	249,851	614,891	5,704,573
Financial liabilities denominated in foreign currency-					
Short-term borrowings	830,323	699,118	-	88,661	1,618,102
Payables	1,473,826	15,375	44,124	133,748	1,667,073
Other non-current liabilities	355,460	-	-	-	355,460
	2,659,609	714,493	44,124	222,409	3,640,635

As at 31 December 2016, if the currency had strengthened/weakened by 10% against the USD, EURO, HKD and other foreign currencies while all other variables had been held constant, the Group's net profit for the year would have been approximately RMB473,988,000 lower/higher (31 December 2015: RMB175,190,000 higher/lower) for financial assets and liabilities of the Group denominated in USD, EURO, HKD and other foreign currencies.

(b) Interest rate risk

The Group's interest rate risk arises from interest bearing borrowings including long-term borrowings and debentures payable. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2016, the long-term interest bearing borrowings at floating rates of the Group are RMB71,560,000 (31 December 2015: RMB83,778,000) (Note 4(27))

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 31 December 2016, 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 RMB300,000 (31 December 2015: RMB356,000).

(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.

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

	31 December 2016				Total
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	
Short-term borrowings (including interest)	3,104,224	-	-	-	3,104,224
Notes payable	18,484,939	-	-	-	18,484,939
Accounts payable	25,356,960	-	-	-	25,356,960
Interest payable	21,343	-	-	-	21,343
Dividends payable	105,641	-	-	-	105,641
Other payables	1,571,422	-	-	-	1,571,422
Customer deposits and deposits from banks and other financial institutions	36,708	-	-	-	36,708
Derivative financial liabilities	89,838	-	-	-	89,838
Other current liabilities	8,342,926	-	-	-	8,342,926
Debentures payables	115,328	115,328	4,913,564	-	5,144,220
Long-term borrowings (including interest)	60,648	55,613	2,187,389	584	2,304,234
Other non-current liabilities	-	-	222,140	666,012	888,152
	<u>57,289,977</u>	<u>170,941</u>	<u>7,323,093</u>	<u>666,596</u>	<u>65,450,607</u>
	31 December 2015				Total
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	
Short-term borrowings (including interest)	3,996,592	-	-	-	3,996,592
Notes payable	17,078,520	-	-	-	17,078,520
Accounts payable	17,448,684	-	-	-	17,448,684
Interest payable	9,343	-	-	-	9,343
Dividends payable	118,851	-	-	-	118,851
Other payables	1,139,306	-	-	-	1,139,306

Customer deposits and deposits from banks and other financial institutions	52,000	-	-	-	52,000
Derivative financial liabilities	33,377	-	-	-	33,377
Financial assets sold under repurchase agreements	651,784	-	-	-	651,784
Other current liabilities	9,013,566	-	-	-	9,013,566
External guarantee	150,000	-	-	-	150,000
Long-term borrowings (including interest)	23,290	38,908	33,060	120	95,378
	<u>49,715,313</u>	<u>38,908</u>	<u>33,060</u>	<u>120</u>	<u>49,787,401</u>

16 Fair value estimates

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

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

As at 31 December 2016, the assets and liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss -				
Derivative financial assets	-	424,163	-	424,163
Available-for-sale financial assets -				
Other current assets – wealth management products	-	-	26,267,067	26,267,067
Other non-current assets - wealth management products and asset management plans	-	-	3,842,000	3,842,000
Available-for-sale financial assets	3,518,693	-	-	3,518,693
Total assets	<u>3,518,693</u>	<u>424,163</u>	<u>30,109,067</u>	<u>34,051,923</u>
Financial liabilities at fair value through profit or loss -				
Derivative financial liabilities	-	96,102	-	96,102
Total liabilities	<u>-</u>	<u>96,102</u>	<u>-</u>	<u>96,102</u>

As at 31 December 2015, the assets and liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss -				
Derivative financial assets	-	158,822	-	158,822
Available-for-sale financial assets -				
Other current assets - wealth	-	-	18,136,831	18,136,831

management products purchased from financial institutions				
Available-for-sale financial assets	1,862,444	-	-	1,862,444
Total assets	1,862,444	158,822	18,136,831	20,158,097
Financial liabilities at fair value through profit or loss -				
Derivative financial liabilities	-	33,377	-	33,377
Total liabilities	-	33,377	-	33,377

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.

The changes in Level 3 financial assets are analysed below:

	Available-for-sale financial assets -Available-for-sale equity instruments
1 January 2016	18,136,831
Purchases	36,358,900
Sales	(25,706,072)
Total gains of current period	
Investment income recognised in the income statement	1,270,941
Gains recognised in other comprehensive income	48,467
31 December 2016	30,109,067
	Available-for-sale financial assets -Available-for-sale equity instruments
1 January 2015	24,788,080
Purchases	24,041,361
Sales	(32,055,176)
Total gains of current period	
Investment income recognised in the income statement	1,306,890
Gains recognised in other comprehensive income	55,676
31 December 2015	18,136,831

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

	Fair value at 31 December 2016	Valuation technique	Inputs			
			Name	Range	Relationship with fair value	Observable/ unobservable
Available-for-sale financial assets -						
Other current assets	26,267,067	Discounted cash flows	Estimated annual yield	2.2%~7.2%	Positive	Unobservable
Other non-current assets	3,842,000	Discounted cash flows	Estimated annual yield	4%~7.35%	Positive	Unobservable
	<u>30,109,067</u>					

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

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

The Group's financial assets and financial liabilities measured at amortised cost mainly include: cash at bank and on hand, deposits with central bank, deposits with banks and other financial institutions, notes receivable, accounts receivable, loans and advances, other receivables, other current assets (excluding those mentioned in Note 16(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 31 December 2016 and 31 December 2015 approximated their fair value.

17 Capital management

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

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

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

As at 31 December 2016 and 31 December 2015, the Group's gearing ratio is as follows:

	31 December 2016	31 December 2015
Total liabilities	101,624,015	72,810,313
Total assets	170,600,711	128,841,935
Gearing ratio	<u>59.57%</u>	<u>56.51%</u>

18 Notes to the parent company's financial statements

(1) Other receivables

	31 December 2016	31 December 2015
Current accounts	12,584,623	7,460,438
Other	60,707	864
	<u>12,645,330</u>	<u>7,461,302</u>
Less: Provision for bad debts	(738)	(263)
	<u>12,644,592</u>	<u>7,461,039</u>

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

	31 December 2016	31 December 2015
Within 1 year (inclusive)	6,088,475	7,461,224
1 to 2 years (inclusive)	6,556,855	60
2 to 3 years (inclusive)	-	18
	<u>12,645,330</u>	<u>7,461,302</u>
Less: Provision for bad debts	(738)	(263)
	<u>12,644,592</u>	<u>7,461,039</u>

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

	31 December 2016				31 December 2015			
	Carrying amount		Provision for bad debts		Carrying amount		Provision for bad debts	
	Amount	% of total balance	Amount	Ratio	Amount	% of total balance	Amount	Ratio
Provision for bad debts provided on the individual basis	12,633,325	99.91%	-	-	7,456,182	99.93%	-	-
Provision for bad debts provided on the grouping basis	12,005	0.09%	738	6.15%	5,120	0.07%	263	5.14%
	<u>12,645,330</u>	<u>100.00%</u>	<u>738</u>	<u>0.01%</u>	<u>7,461,302</u>	<u>100.00%</u>	<u>263</u>	<u>0.004%</u>

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

	31 December 2016			31 December 2015		
	Carrying amount	Provision for bad debts		Carrying amount	Provision for bad debts	
	Amount	Amount	Ratio	Amount	Amount	Ratio
Within 1 year	9,245	462	5.00%	5,042	252	5.00%
1 to 2 years	2,760	276	10.00%	60	6	10.00%
2 to 3 years	-	-	0.00%	18	5	30.00%
	<u>12,005</u>	<u>738</u>	<u>6.15%</u>	<u>5,120</u>	<u>263</u>	<u>5.14%</u>

(d) As at 31 December 2016, other receivables from the top five debtors are analysed as below:

	Nature	Balance	Ageing	% of total other receivables	Provision for bad debts
Midea International Corporation Company Limited	Current accounts	6,554,095	Within 2 years	52%	-
Midea Electric Appliance (Singapore) Trade Co., Ltd.	Current accounts	2,200,000	Within 1 year	17%	-
Midea Petty Loan Co., Ltd	Current accounts	3,000,000	Within 1 year	24%	-
Shenzhen Qianhai Midea Assets Management Co., Ltd.	Current accounts	500,000	Within 1 year	4%	-
Foshan City Midea Air-conditioners Industrial Investment Co., Ltd.	Current accounts	170,544	Within 1 year	1%	-
		<u>12,424,639</u>		<u>98%</u>	<u>-</u>

(2) Long-term equity investments

Long-term equity investments are classified as below:

	31 December 2016	31 December 2015
Subsidiaries (a)	21,716,662	21,466,087
Associates (b)	1,342,318	1,282,323
Joint venture(b)	-	378,136
	<u>23,058,980</u>	<u>23,126,546</u>
Less: Provision for impairment	-	-
	<u>23,058,980</u>	<u>23,126,546</u>

(a) Subsidiaries

	31 December 2015	Movements for the current year					31 December 2016	Provision for impairment	Cash dividends declared in current year
		Additional investment	Movements due to share option	Reduced investment	Provision for impairment	Others			
Wuxi Little Swan Company Limited	2,668,161	-	31,160	-	-	-	2,699,321	-	143,369
Midea Group Finance Co., Ltd.	1,427,988	-	3,898	-	-	-	1,431,886	-	264,050
Hefei Midea Heating & Ventilation Equipment Co., Ltd.	1,048,377	-	3,891	-	-	-	1,052,268	-	813,339
Hubei Midea Refrigerator Co., Ltd.	833,204	-	2,790	-	-	-	835,994	-	229,198
Anhui GMCC Precision Manufacturing Co., Ltd.	803,508	-	4,524	-	-	-	808,032	-	479,111
Foshan Shunde Midea Home Appliance Industry Co., Ltd.	2,449,000	-	-	-	-	-	2,449,000	-	-
Wuhu Meizhi Air-Conditioning Equipment Co., Ltd.	730,244	-	6,204	-	-	-	736,448	-	798,828
Guangdong Midea Refrigeration Equipment Co., Ltd.	797,083	-	158,162	-	-	-	955,245	-	523,000
Annto Logistics Company Limited	466,642	-	7,749	-	-	-	474,391	-	14,955
Guangdong Midea Commercial Air Conditioning Equipment Co., Ltd.	569,430	-	-	-	-	-	569,430	-	23,431
Ningbo Midea United Material Supply Co., Ltd.	481,635	-	2,871	-	-	-	484,506	-	349,352
Guangzhou Hualing Refrigeration Equipment Co., Ltd.	487,678	-	8,336	-	-	-	496,014	-	116,058
Guangzhou Midea Hualing Refrigerator Co., Ltd.	422,082	-	1,866	-	-	-	423,948	-	60,220
Hefei Midea Refrigerator Co., Ltd.	436,562	-	16,775	-	-	-	453,337	-	-
Guangdong Midea Group Wuhu Refrigeration Equipment Co., Ltd.	345,570	-	4,522	-	-	-	350,092	-	170,184
Anhui GMCC Refrigeration Equipment Co., Ltd.	312,668	-	4,203	-	-	-	316,871	-	-
Guangdong Midea Heating & Ventilation Equipment Co., Ltd.	309,682	-	35,048	-	-	-	344,730	-	716,945
Midea Electric Investment (BVI) Limited	236,543	-	-	-	-	-	236,543	-	-
Midea International Corporation Company Limited	176,974	-	-	-	-	-	176,974	-	-

	Movements for the current year						31 December 2016	Provision for impairment	Cash dividends declared in current year
	31 December 2015	Additional investment	Movements due to share option	Reduced investment	Provision for impairment	Others			
Guangzhou Hualing Refrigeration Equipment Co., Ltd.	136,745	-	-	-	-	-	136,745	-	-
Foshan Midea Carrier Refrigeration Equipment Co., Ltd.	124,030	-	4,703	-	-	-	128,733	-	-
Hefei Midea Material Supplies Co., Ltd.	117,000	-	-	-	-	-	117,000	-	4,147
Midea Group E-commerce Co., Ltd.	105,722	-	10,262	-	-	-	115,984	-	-
Anhui GMCC Compressor Sales Co., Ltd.	95,000	-	-	(95,000)	-	-	-	-	474,110
Guangdong GMCC Refrigeration Equipment Co., Ltd.	115,946	-	19,386	-	-	-	135,332	-	67,993
Hefei Hualing Co., Ltd.	96,712	-	11,284	-	-	-	107,996	-	231,608
Midea Group Wuhan Refrigeration Equipment Co., Ltd.	69,870	-	9,461	-	-	-	79,331	-	168,445
Foshan City Midea Material Supplies Co., Ltd.	54,000	-	-	-	-	-	54,000	-	15,988
Zhejiang GMCC Compressor Co., Ltd.	50,817	-	2,003	-	-	-	52,820	-	501,624
Chongqing Midea Refrigeration Equipment Co., Ltd.	53,276	-	6,338	-	-	-	59,614	-	105,579
Wuhu Little Swan Refrigeration Equipment Co., Ltd.	47,500	-	-	-	-	-	47,500	-	-
Guangdong GMCC Precision Manufacturing Co., Ltd.	38,438	-	-	-	-	-	38,438	-	35,606
Foshan City Midea Air-conditioners Industrial Investment Co., Ltd.	36,062	-	-	-	-	-	36,062	-	357,459
Chongqing Midea General Refrigeration Equipment Co., Ltd.	35,204	-	5,384	-	-	-	40,588	-	-
Ningbo Meimei Jiayuan Electric Service Co., Ltd.	38,205	-	-	(38,205)	-	-	-	-	-
Foshan City Shunde District Midea Electronic Technology Co., Ltd.	13,736	-	2,567	-	-	-	16,303	-	18,254
Midea Holdings (BVI) Ltd.	82	-	-	-	-	-	82	-	-
Handan Midea Refrigeration Equipment Co., Ltd.	124,542	-	6,537	-	-	-	131,079	-	130,876
Midea Group Payment Technology Co., Ltd.	100,000	-	213	-	-	-	100,213	-	1,330

	31 December 2015	Movements for the current year					31 December 2016	Provision for impairment	Cash dividends declared in current year
		Additional investment	Movements due to share option	Reduced investment	Provision for impairment	Others			
Media Innovation Investment Co., Ltd.	35,000	-	-	-	-	-	35,000	-	-
Guangdong Midea Microwave Electric Manufacturing Co., Ltd.	1,880,041	-	-	-	-	-	1,880,041	-	714,550
Wuhu Midea Kitchen Appliances Manufacturing Co., Ltd.	20,000	-	-	-	-	-	20,000	-	5,623
Jiangsu Midea Chunhua Electric Co., Ltd.	93,527	-	3,373	-	-	-	96,900	-	54,742
Guangdong Witt Vacuum Electronics Manufacturing Co., Ltd.	196,196	-	231	-	-	-	196,427	-	81,005
Guangdong Midea Life Electric Appliance Manufacturing Co., Ltd.	985,464	-	18,209	-	-	-	1,003,673	-	-
Wuhu Midea Electric Appliance Manufacturing Co., Ltd.	56,223	-	-	-	-	-	56,223	-	43,738
Foshan Shunde Water machine manufacturing co., LTD.,	34,468	-	2,190	-	-	-	36,658	-	-
Foshan Midea Qinghu purification equipment co., LTD	56,836	-	2,550	-	-	-	59,386	-	3,000
Guangdong midea boutique electrical appliance manufacturing co., LTD	60,015	-	-	(60,015)	-	-	-	-	-
Wuhan Midea electric appliance manufacturing co., LTD	80,000	-	-	-	-	-	80,000	-	-
Guangdong Midea Environmental Electric Appliance Manufacturing Co., Ltd.	292,317	-	15,372	-	-	-	307,689	-	116,083
Foshan Shunde Midea Washing Appliance Manufacturing Co., Ltd.	404,716	-	10,171	-	-	-	414,887	-	169,958
Guangdong Midea Kitchen & Bathroom Electric Manufacturing	79,551	-	1,113	-	-	-	80,664	-	39,846
Wuhu Midea Kitchen & Bathroom Electric Manufacturing Co., Ltd.	61,337	-	17,982	-	-	-	79,319	-	539,273
Guangdong Midea lighting electric manufacturing co., LTD	100,000	-	-	(100,000)	-	-	-	-	-
Jiangxi Midea Guiya lighting co., LTD	161,270	-	3,560	-	-	-	164,830	-	-
Guangdong Midea Household Appliances Import and Export Trade Co., Ltd.	53,207	-	-	-	-	-	53,207	-	-
JV MIDEA-HORIZONT Co., Ltd.	41,357	-	-	-	-	-	41,357	-	1,540

	Movements for the current year						31 December 2016	Provision for impairment	Cash dividends declared in current year
	31 December 2015	Additional investment	Movements due to share option	Reduced investment	Provision for impairment	Others			
Guangdong MIDEA-YASKAWA Service Robotics Ltd.	12,020	-	-	-	-	-	12,020	-	-
Foshan Shunde District Midea Petty Loan Co., Ltd.	67,635	-	709	-	-	-	68,344	-	-
Midea Petty Loan Co., Ltd.	55,031	-	142	-	-	-	55,173	-	1,812
Midea Robotics Industry Development Co., Ltd.	7,000	-	-	-	-	-	7,000	-	-
Wuhu Midea Household Consultation Service Co., Ltd.	100,759	-	783	-	-	-	101,542	-	-
Hefei Midea Washing Machine Co., Ltd.	73,769	-	4,273	-	-	-	78,042	-	-
Chinese Refrigerator Industry Co., Ltd.	2,430	-	-	-	-	-	2,430	-	-
Guangdong Midea Intelligent Technology Co., Ltd.	-	10,000	-	-	-	-	10,000	-	-
Foshan Shunde Meiyang Enterprise Management Services Co., Ltd.	-	13,000	-	-	-	-	13,000	-	-
Midea Smart Home Technology Co., Ltd.	-	20,000	-	-	-	-	20,000	-	-
Midea Finance Holding (Shenzhen) Co., Ltd.	-	50,000	-	-	-	-	50,000	-	-
Total	21,466,087	93,000	450,795	(293,220)	-	-	21,716,662	-	8,586,229

(b) Associates and joint venture

	31 December 2015	Movements for the current year					31 December 2016	Provision for impairment
		Additional or reduced investments	Net profit or loss adjusted under equity method	Adjustments of other comprehensive income	Cash dividends or profits declared	Others		
Associates -								
Foshan Shunde Rural Commercial Bank Co., Ltd.	926,792	-	150,531	(29,929)	(75,463)	-	971,931	-
Hefei Royalstar Motor Co., Ltd.	100,331	-	2,245	-	-	-	102,576	-
GE Fund Management Co., Ltd.	34,367	-	8,763	(95)	-	-	43,035	-
Foshan Micro Midea Filter MFG Co., Ltd.	31,672	-	7,107	-	(2,000)	-	36,779	-
Anhui Efort Intelligent Equipment Co., Ltd.	179,391	-	(782)	(51)	-	-	178,558	-
Guangdong YASKAWA-MIDEA Industrial Robotics System Ltd.	9,770	-	(331)	-	-	-	9,439	-
Joint venture -								
Wanjiang Financial Leasing Co., Ltd.,	378,136	(425,219)	79,483	-	(32,400)	-	-	-
	<u>1,660,459</u>	<u>(425,219)</u>	<u>247,016</u>	<u>(30,075)</u>	<u>(109,863)</u>	<u>-</u>	<u>1,342,318</u>	<u>-</u>

(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

	2016	2015
Income from long-term equity investment under cost method	8,586,229	5,755,223
Investment income from wealth management products purchased from financial institutions	1,031,257	1,091,191
Income from long-term equity investment under equity method	247,016	273,974
Losses on disposal of long-term equity investment	(11,144)	(12,936)
	<u>9,853,358</u>	<u>7,107,452</u>

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

MIDEA GROUP CO., LTD.**SUPPLEMENTARY INFORMATION**

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

[English translation for reference only]

1 Details of non-recurring profit or loss.

	2016	2015
Disposal losses of non-current assets	(134,258)	(242,814)
Government grants recognised in profit or loss for the current period	1,330,065	1,348,652
Profit or loss on entrusted investments or assets under entrusted management	-	1,008,770
Enterprise restructuring expenses including staff resettlement expenses and integration expenses	-	-
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 (negative goodwill)	-	19,513
Gains or losses on changes in fair value of financial assets and liabilities held for trading and investment income arising from disposal of financial assets and liabilities held for trading and available-for-sale financial assets other than effective hedging businesses relevant to normal course of business of the company.	(25,408)	369,806
Reversal of impairment provision for receivables individually assessed for impairment	-	45,752
Other operating income and expenses other than the above mentioned	246,361	(16,398)
	<u>1,416,760</u>	<u>2,533,281</u>
Less: Income tax effect	(272,925)	(505,642)
Minority interests effect (after tax)	47,656	(232,255)
	<u>1,191,491</u>	<u>1,795,384</u>

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

Pursuant to the requirements of the "Explanatory Announcement for Information Disclosure of Companies Offering Securities to the Public No.1 - Non-recurring Profit or Loss (2008)" issued by China Securities Regulatory Commission ("CSRC"), non-recurring profit or loss refers to profit or loss arising from transactions and events that are not directly related to the Company's normal course of business and that are related to the Company's normal course of business but have impact on the right judgement of the Company's operation performance and profitability of users of the financial statements due to special nature and occasional occurrence.

2 Return on net asset and earnings per share

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

	Weighted average		Earnings per share (RMB Yuan)			
	Return on net asset (%)		Basic earnings per share		Diluted earnings per share	
	2016	2015	2016	2015	2016	2015
Net profit attributable to shareholders of the parent company	26.88%	29.06%	2.29	2.00	2.28	1.99
Net profit attributable to shareholders of the parent company net of non-recurring profit or loss	<u>24.70%</u>	<u>24.96%</u>	<u>2.10</u>	<u>1.71</u>	<u>2.09</u>	<u>1.71</u>

Section XI Documents Available for Reference

1. The original of *The 2016 Annual Report of Midea Group Co., Ltd.* signed by the legal representative;
2. Financial statements signed and stamped by the legal representative, the financial head and the accounting supervisor;
3. The original of the auditor's report with the seal of the accounting firm, and signed and stamped by CPAs;
4. The originals of all company documents and announcements that are disclosed to the public via newspaper designated for information disclosure during the Reporting Period; and
5. The electronic version of *The 2016 Annual Report* that is released on <http://www.cninfo.com.cn>.

Midea Group Co., Ltd.

Legal Representative: Fang Hongbo

31 March 2017