

**Midea Group Co., Ltd.**

**The 2019 Annual Report**



**30 April 2020**

## **Section I Important Statements, Contents and Definitions**

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

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

**The financial statements for 2019 have been audited by PricewaterhouseCoopers China (LLP) and have obtained an unqualified audit report.**

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

**The Board has considered and approved the following dividend payout plan for the year 2019: based on the 6,957,181,058 shares at the disclosure date of this report (the total share capital of 6,999,467,315 shares minus the repurchased 42,286,257 shares in the repo securities account at that date), it is proposed that the Company should distribute a cash dividend of RMB16 (tax inclusive) per 10 shares to all the shareholders and should not convert capital surplus into share capital. When the profit distribution plan is implemented, if any change occurs to the total shares eligible for profit distribution, the profit distribution plan shall be based on the total shares eligible for profit distribution at the book closure date of the profit distribution, and the dividend per share shall be adjusted under an unchanged total distribution**

**amount.**

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

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

## Letter to Shareholders

While a heart-shaking fight against the pandemic is now on globally, this once-in-a-century “black swan” incident has casted tremendous changes to the lives of everyone. We sincerely hope everyone stays safe and healthy. And we have strong belief that the haze will eventually disappear and there will always be bright light.

In this nationwide operation, Midea was amongst the first companies to respond and participate in frequent support missions, reflecting the heritage of utmost importance from Midea's development history of 50 years—taking rapid actions amid crises and changes, bearing responsibilities amid challenges and chaos.

Now, as the world is faced with changes that have not been seen for a century, history-making global economic fluctuations and a continuous stream of uncertainties come thick and fast. In light of this unprecedented time, by committing to its unhesitating strategies and responsibilities, Midea has managed to maintain steady growth in business performance. In 2019, Midea achieved revenue of RMB279.381 billion, marking a year-on-year increase of 6.71%; and achieved RMB24.211 billion in net profit attributable to shareholders of the Company, recording a year-on-year increase of 19.68%. Midea was ranked 312th among Fortune Global 500 in 2019, moving up by 169 places since its debut in 2016. As for Fortune China 500, Midea was ranked 36th, topping the industry chart for 5 consecutive years. In addition, Midea was ranked 33rd among BrandZ™ Top 100 Most Valuable Chinese Brands in 2019 with an increase of brand value by 20%. Midea ranked 27th on the list of Brand Finance Tech 100 in 2019, moving up 16 places in comparison to the year before, leading its industry peers throughout the country.

2019 was yet another year that gave us the feeling that time flies. As market iteration cycles become more rapid, one may say this is a tempestuous era with so many tides. Things change drastically, yet vision, dreams, perspectives and ambitious setup will always persist. No one could stay young forever, but young people will always be there. Companies decline and fall, but there are always some firms which are thriving. For us, nothing is more critical



than upholding our long-term perspective mindset and adapting to external uncertainties with determined strategic focus.

We are devoted to the three strategic focuses of "Product Leadership, Efficiency Driven, Global Operations" to continue to set the stage for our business. Today, such three strategic focuses have already become our guidelines for daily business and operations. Business performance is, therefore, said to be continuously improving. Moreover, we increased investments in weaker product categories and made bold moves on new product categories and new business models in 2019. Whereas our international layout increases in clarity over time, we do look forward to business prosperity in the days to come.

We uphold our user-centric strategy and promote business reforms. We continued to break through stereotype in 2019 and placed interests and needs of users first in the top-down systematic and comprehensive business model reforms across the Group to enhance connections between our services and products and users.

We are committed to building future-oriented innovation capabilities and R&D scaling advantages. In 2019, we kicked off our plan to build a global R&D network of "4+2", promoting the Shanghai Global Innovation Center, Midea America Research Center, Midea Germany Research Center and Midea Japan Research Center as comprehensive technology R&D centers, and Midea Milan Design Center as Industrial Design Center. We progressed in promoting global R&D resources integration and enhancing the world's R&D layout plus innovation mechanisms.

We insist that human capital is the most essential component for an enterprise, taking further steps to strengthen employee rights and interests and invest in employee care. Over the past year, the core management and all employees have maintained an excellent fighting spirit, learning ability, as well as accountability. With rapid growth in the mid-level young managers and non-stop inflow of fresh blood, we have created a diverse internal culture that fuels the Company's long-term development.

These long-term layouts and investments, together with the unwavering commitment to sticking to and promoting Midea's culture, are all Midea's wealth of tomorrow. They also provide the confidence for us to believe in Midea's achievement in long-term steady growth and safeguard the interests of our shareholders.

Actually it is not the changing world, but how we interpret the changing that affects us most. With merely past knowledge, we will never be able to reach further future. The manufacturing industry's underlying logic for achieving growth from the past has been profoundly altered. The most active business pulse in the digitalization era is the speed and ability to create value.

Like the stirring melody in a grand and complex symphony, Midea will renew and refocus our strategies amidst the vast changing world. We will launch and strengthen the next round transformation of comprehensive digitalization and intellectualization. As we have learned from the past, every successful transformation requires the courage to risk life, through devotion, persistence and perseverance. By promoting comprehensive digitalization and intellectualization, Midea's product models and business value chain are going to observe groundbreaking changes, whereas Midea will evolve from a hardware-based company to a data-driven innovative technology group that takes affirmative steps forward.

We shall strive to achieve changes in the format of products and thus transform our traditional business of simply selling hardware to a software-driven business, intensifying contents and services at the same time.

It is in our list to achieve changes in business methodology and promote reforms in research, production and sales. And with digitalization tools and approaches, we are going to promote online and offline integration, decentralization and flat management.

The goals are to foster changes in business models, achieve direct communication, direct contact and high-frequency interaction with users, in order to uncover user value and transform to an Internet mindset.

When the going gets tough, the tough get going. In the face of a series of challenges brought forth by the coronavirus epidemic, we shall remain true to our original aspiration and carry our dreams through long distances. Let us be prepared for strategic deployment, resource investments and team building efforts—all in the long term. They do not have to be magnificent fireworks that echo down in history but can still become the sparkling lights in our unique stories!

Future is defined by the path we've been through! At this moment, Midea is flourishing and the most shining Midea is still ahead of us and far from being achieved.

We hereby express our gratitude for all shareholders' support all the way along.

Board of Directors, Midea Group

April 2020

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## Definitions

| Term   | Definition  |
|--|---|
| The “Company”, “Midea”, “Midea Group” or the “Group” | Midea Group Co., Ltd.                             |
| Midea Holding  | Midea Holding Co., Ltd.                           |
| Little Swan  | Wuxi Little Swan Company Limited                  |
| TLSC   | Toshiba Lifestyle Products & Services Corporation |
| KUKA   | KUKA Aktiengesellschaft                           |
| Reporting Period                                     | 1 January 2019 to 31 December 2019                |

## 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   | <a href="http://www.midea.com">http://www.midea.com</a>  |            |        |
| 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 | <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>         |
| Place where the Annual Report of the Company is kept   | Company Investor Relations Department                                   |

### 4. Company Registration and Alteration

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

### 5. Other Relevant Information

Accounting firm engaged by the Company

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

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

Applicable N/A

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

Applicable N/A

| Name of the financial advisor | Business office of the financial advisor   | Representative of the financial advisor                           | Supervisory period   |
|-------------------------------|--|---|----------------------|
| CITIC Securities Co., Ltd.    | CITIC Securities Tower, No.8 Zhongxin 3rd Road, Futian District, Shenzhen, 518048, PRC | Wu Renjun, Chen Jianjian, Li Haoran, Li Chang, Li Wei and Liu Kun | 2019.6.21-2020.12.31 |

## 6. Key Accounting Data and Financial Indicators

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

Yes  No

|  | 2019                | 2018                | 2019-over-2018<br>change (%)                              | 2017                |
|--|---------------------|---------------------|---|---------------------|
| Operating revenue (RMB'000)  | 278,216,017         | 259,664,820         | 7.14%   | 240,712,301         |
| Net profit attributable to shareholders of the Company (RMB'000)                                       | 24,211,222          | 20,230,779          | 19.68%  | 17,283,689          |
| Net profit attributable to shareholders of the Company before non-recurring gains and losses (RMB'000) | 22,724,392          | 20,058,155          | 13.29%  | 15,614,103          |
| Net cash flows from operating activities (RMB'000)   | 38,590,404          | 27,861,080          | 38.51%  | 24,442,623          |
| Basic earnings per share (RMB/share)   | 3.60                | 3.08                | 16.88%  | 2.66                |
| Diluted earnings per share (RMB/share)   | 3.58                | 3.05                | 17.38%  | 2.63                |
| Weighted average ROE (%)   | 26.43%              | 25.66%              | 0.77%   | 25.88%              |
|  | 31 December<br>2019 | 31 December<br>2018 | Change of 31<br>December 2019<br>over 31 December<br>2018 | 31 December<br>2017 |
| Total assets (RMB'000)   | 301,955,419         | 263,701,148         | 14.51%  | 248,106,858         |
| Net assets attributable to shareholders of the Company (RMB'000)                                       | 101,669,163         | 83,072,116          | 22.39%  | 73,737,437          |

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) | 6,999,467,315 |
|--|---------------|

Fully diluted earnings per share based on the latest share capital above:

|  |      |
|--|------|
| Dividend paid to preference shareholders   | 0    |
| Fully diluted earnings per share based on the latest share capital above (RMB/share) | 3.46 |



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

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

Applicable N/A

No such differences for the Reporting Period.

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

Applicable N/A

No such differences for the Reporting Period.

### 7.3 Reasons for the differences

Applicable N/A

## 8. Key Financial Results by Quarter

RMB'000

|  | 2019 Q1    | 2019 Q2    | 2019 Q3    | 2019 Q4    |
|--|------------|------------|------------|------------|
| Operating revenue  | 75,205,780 | 78,564,520 | 67,147,862 | 57,297,855 |
| Net profit attributable to shareholders of the Company                                       | 6,129,026  | 9,058,043  | 6,128,898  | 2,895,255  |
| Net profit attributable to shareholders of the Company before non-recurring gains and losses | 6,084,881  | 8,470,793  | 6,042,274  | 2,126,444  |
| Net cash flows from operating activities   | 11,842,782 | 9,945,108  | 8,002,389  | 8,800,125  |

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

Yes No

## 9. Non-recurring Profits and Losses

Applicable N/A

RMB'000

| Item  | 2019      | 2018      | 2017      | Note |
|---|-----------|-----------|-----------|------|
| Profit or loss from disposal of non-current assets  | -131,131  | 222,204   | 1,363,041 |      |
| 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 financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities, other non-current financial assets and available-for-sale financial assets, as well as investment profit or loss produced from the disposal of the aforesaid financial assets and liabilities | 676,430   | -842,408  | 77,484    |      |
| Other non-operating income and expenses except above-mentioned items  | 1,347,788 | 1,091,473 | 1,094,058 |      |
|   |           |           |           |      |
| Less: Corporate income tax  | 394,095   | 207,870   | 702,139   |      |
| Minority interests (after tax)  | 12,162    | 90,775    | 162,858   |      |
| Total   | 1,486,830 | 172,624   | 1,669,586 | --   |

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

Applicable N/A

No such cases for the Reporting Period.

## Section III Business Profile

### 1. Business Scope in the Reporting Period

#### 1.1 Summary of business scope

Midea is a global technologies group in HVAC systems, consumer appliances, robotics & industrial automation systems, and digital business. Midea offers diversified products and services, including HVAC centered on residential air-conditioning, commercial air-conditioning, heating & ventilation systems; consumer appliances centered on laundry appliances, refrigerators, kitchen appliances, and various small home appliances; robotics and industrial automation systems centered on KUKA and Guangdong Midea Intelligent Robotics Co., Ltd.; and the digital business centered on smart supply chains, Industrial Internet of things (IIOT) and silicon chips.

With “Bring Great Innovations to Life” as its corporate vision, “Integrate with the World, to Inspire Your Future” as its mission, and “Embrace what’s next - Aspiration、Dedication、Collaboration、Innovation” as its values, Midea integrates global resources and promotes technological innovation to create a better life for over 400 million users, major customers and strategic partners in different areas worldwide every year with satisfying products and services.

Midea, a global operating company, has now established a global platform with around 200 subsidiaries, 28 R&D centers, 34 major manufacturing bases, and approximately 150,000 employees. Its business covers more than 200 countries and regions. Overseas, Midea has 18 R&D centers and 17 manufacturing bases in more than ten countries, with over 30,000 employees. 22 currencies are used by Midea in settlement. In addition, Midea is the majority shareholder of KUKA, a Germany-based world-leading company in robotics and automation, with a stake of approximately 95%.

#### 1.2 Position in the household appliance industry

Midea ranks No. 312 on the *2019 Fortune Global 500* list, moving up 169 places since its debut on the list in 2016, and ranks No. 36 on the *2019 Fortune China 500* list, the highest-ranking among the home

appliance industry in the country for five consecutive years. It also ranks highly on the *Top 500 Most Credible Chinese Enterprises* list, the *Top 100 Most Credible Chinese Manufacturers* list, the *Top 100 Most Credible Chinese Private Enterprises* list and the *Top 500 Most Credible Chinese Listed Companies* list of 2018 released by the 2019 China Enterprise Credit Development Forum & the 10th Good Faith Public Welfare Ceremony. In addition, Midea ranks No. 33 on the *2019 BrandZ™ Top 100 Most Valuable Chinese Brands* list, with its brand value up 20%. Also, Midea takes the lead among domestic home appliance makers by ranking No. 27 on the *2019 Brand Finance Tech 100* list released by Brand Finance, a British brand assessment institution, moving up 16 places from last year. Midea has been given excellent credit ratings by the three major international credit rating agencies, Standard & Poor's, Fitch Ratings and Moody's. The ratings are in a leading position among home appliance manufacturers worldwide as well as among Chinese non-state-owned enterprises.

According to data from AVC, Midea's major home appliances all took up a larger share in the domestic market 2019. Its residential air-conditioners, in particular, saw a much bigger share in all channels, with an online market share of 30% and an offline market share of nearly 29%.

The table below shows the offline market shares and rankings of the Company's primary home appliance products (by retail sales) in 2019:

| Product category             | Market share | Ranking |
|------------------------------|--------------|---------|
| Residential air conditioners | 28.9%        | 2       |
| Laundry appliances           | 27.4%        | 2       |
| Refrigerators                | 12.6%        | 2       |
| Rice cookers                 | 43.9%        | 1       |
| Electric pressure cookers    | 44.3%        | 1       |
| Electric kettles             | 38.6%        | 1       |
| Induction cookers            | 48.5%        | 1       |
| Blender                      | 37.7%        | 1       |
| Electric fans                | 39.3%        | 1       |
| Electric radiators           | 42.9%        | 1       |

|                            |       |   |
|----------------------------|-------|---|
| Water dispensers           | 42.3% | 1 |
| Gas water heaters          | 11.6% | 2 |
| Water purifiers            | 22.2% | 2 |
| Countertop microwave ovens | 44.5% | 2 |
| Countertop electric ovens  | 36.2% | 2 |
| Dishwashers                | 9.2%  | 3 |
| Electric water heaters     | 20.7% | 3 |
| Range hoods                | 8.7%  | 4 |
| Gas stoves                 | 7.0%  | 4 |
| Robot vacuum cleaners      | 4.6%  | 4 |
| Push-rod vacuum cleaners   | 3.4%  | 4 |

Midea's online retail sales during 2019 were close to RMB70 billion, up by over 30% YoY, remaining the best-selling home appliance manufacturer on major e-commerce channels such as JD, Tmall and Suning.

The table below shows the online market shares and rankings of the Company's primary home appliance products (by retail sales) in 2019:

| Product category             | Market share | Ranking |
|------------------------------|--------------|---------|
| Residential air conditioners | 30.0%        | 1       |
| Commercial air conditioners  | 50.0%        | 1       |
| Laundry appliances           | 31.2%        | 2       |
| Refrigerators                | 17.7%        | 2       |
| Microwave ovens              | 53.0%        | 1       |
| Pressure cookers             | 41.0%        | 1       |
| Rice cookers                 | 29.6%        | 1       |
| Electric ovens               | 22.7%        | 1       |
| Induction cookers            | 39.0%        | 1       |
| Electric water heaters       | 30.6%        | 1       |
| Gas water heaters            | 18.0%        | 1       |

|                           |       |   |
|---------------------------|-------|---|
| Electric kettles          | 23.0% | 1 |
| Electric fans             | 19.2% | 1 |
| Electric radiators        | 16.9% | 1 |
| Vacuum cleaners           | 10.3% | 2 |
| Water dispensers          | 18.9% | 2 |
| Water purifiers           | 13.1% | 2 |
| Dishwashers               | 24.6% | 2 |
| Sterilizing cabinets      | 10.8% | 2 |
| Range hood + stove suites | 10.4% | 4 |

## 2. Significant Changes in the Main Assets

### 2.1 Significant changes in the main assets

| Main assets                         | Reasons for any significant change  |
|-------------------------------------|---|
| Construction in progress            | Down 42% YoY, primarily driven by the completion of construction projects   |
| Cash at bank and on hand            | Up 154% YoY, primarily driven by an increase in fixed deposits  |
| Notes receivable                    | Down 62% YoY, primarily driven by the reclassification to receivables financing   |
| Available-for-sale financial assets | Down 100% YoY, primarily driven by the reclassification to financial assets held for trading and other non-current financial assets |
| Long-term receivables               | Up 3,370% YoY, primarily driven by an increase in finance lease   |
| Other non-current assets            | Up 799% YoY, primarily driven by an increase in structural deposits with a maturity of over one year                                |

### 2.2 Main assets overseas

Applicable N/A

## 3. Core Competitiveness Analysis

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

As a white goods and HVAC enterprise with a whole industrial chain and full product line, Midea Group has developed a complete industrial chain combining R&D, manufacturing and sales of key components and finished products, supported by an industry-leading R&D center and manufacturing technologies of core components (such as compressors, electrical controls, magnetrons and controllers), and ultimately based on its powerful capabilities in logistics and services. Midea is widely known as a top brand of household appliance and HVAC in China. Its dominance in the major appliance and HVAC markets means that it can provide a wide range of competitive product sets. It also means internal synergies in brand awareness, price negotiation as a whole, customer needs research and R&D investments. Compatibility, coordination and interaction among household appliances have become increasingly important since smart home is gaining popularity. With a full product line, Midea has had a head start in providing a combined and compatible smart 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 close to RMB40 billion invested in R&D over the past five years (over RMB10 billion in 2019), the Group has set up a total of 28 research centers in 11 countries to gradually build up a “4+2” global R&D network and gain the advantage of scale in this respect. Domestically, with the core being Midea Global Innovation Center in Shunde District, Foshan City, Midea has also started to build a global innovation center in Shanghai. Overseas, with Midea America Research Center, Midea Germany Research Center, Midea Japan Research Center and Midea Milan Design Center as the cores, Midea makes use of the regional advantages, integrates global R&D resources and refines its global R&D network. It has over 10,000 R&D employees and over 500 senior foreign senior experts. While establishing its own research centers around the world, the Group has also cooperated with domestic and foreign scientific research institutions, such as MIT, UC Berkeley, UIUC, Stanford, Purdue University, University of Maryland, The University of Sheffield, Polytechnic University of Milan, Tsinghua University, Shanghai Jiao Tong University, Zhejiang University, the Chinese Academy of Sciences, Harbin Institute of Technology, Xi’an Jiaotong University, Huazhong University of Science and Technology and South China University of Technology, in order to establish joint labs for deepening technological innovation. The Group also carries out strategic

cooperation with tech giants such as BASF and Honeywell to build a global innovation ecosystem. The Group's long-term focus on building technology, marketing, product, design and open innovation systems, building a cutting-edge research system and building reserves in technology for mid/long term, has provided a solid foundation for the Group to maintain technical superiority across the globe.

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

The success of a series of global acquisitions and new business expansion moves has further solidified Midea's global operations and leading advantages in robotics and automation. With the world's leading production capacity and experience, and a wide variety of products as well as its production bases all over the world, the Group has been able to expand rapidly into the emerging overseas markets and is becoming a stronger competitor in those mature overseas markets. The Group is one of the biggest manufacturers in the world for many product categories, which gives it competitive edges in efficiency improving and cost reducing that its overseas competitors are unable to achieve. Overseas sales of the Group accounts for more than 40% of the total sales revenue. Its products have been exported to over 200 countries and regions, and it owns 17 overseas manufacturing bases and 24 overseas operating agencies. Midea's global operations system has been further improved through the reform of international business organizations changing from a platform unit to a business entity. It also increases investments in overseas business operations, focuses on the needs of the local customers and enhances product competitiveness in a bid to promote growth in its Own Branding & Manufacturing (OBM) business. In addition, with a deep knowledge and understanding on product characteristics and product demands in overseas market, Midea is promoting worldwide branding and expansion through global collaboration and cooperation. In this way, the global competitiveness of Midea is increasing steadily.

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

By virtue of years of development and investments, Midea Group has formed an all-dimensional market coverage. In the mature first and second-tier markets, the Company has developed and maintained good



partnerships with large home appliance retail chains. While in the broad third and fourth-tier markets, the Company uses flagship stores, specialty shops, traditional channels and new channels as effective supplements. Currently, the Company has already covered the markets at all tiers. Additionally, the Company's dominance in branding, products, offline channels and logistics distribution have also created powerful guarantees for the Company's rapid expansion of its e-commerce business and channels. Achieving the highest online sales among China's household appliance manufacturers, Midea's online retail sales were close to RMB70 billion in 2019, up by over 30% YoY, maintaining the highest sales on China's mainstream e-commerce platforms such as JD, Tmall and Suning in various home appliance categories.

Making full use of the digital technology, Annto Logistics Technology Co., Ltd. (Annto), a subsidiary of Midea, refines its offline logistics network through the big data technology to build a smart and digital distribution platform. Relying on nearly 140 urban distribution centers nationwide, Annto concentrates its resources on urban distribution. It is able to provide fully visualized direct distribution services covering every town and village of the country. It can finish the delivery to 19,692 (or 46%) towns and villages within 24 hours and to 35,944 (or around 85%) towns and villages within 48 hours in the country. Additionally, Annto works closely with Midea's post-sale service network to provide one-stop services of delivery and installation, which has effectively improved user experience.

### **3.5 A user experience-oriented reform of “Comprehensive Digitalization and Comprehensive Intellectualization” to make Midea an icon in digitalization**

Midea has put forward a user experience-oriented strategic objective of “Comprehensive Digitalization and Comprehensive Intellectualization”. On one hand, it promotes deep integration of the digital technology and business in the whole value chain, with the view to becoming an icon in digitalization. On the other hand, with foresight, it plans for whole new products, services and business models centering on smart technologies, products and scenes, so as to outcompete Internet companies. With continual investment and research in artificial intelligence (AI), silicon chip, sensor, big data, cloud computing and other new technologies, Midea has built the biggest AI team in the household appliance industry, which is committed to enabling products, machines, production processes and systems to sense, perceive, understand and judge, driven by the combination of big data and AI, in order to reduce obstacles for man-

machine interaction to the minimum and create smart appliances without any assistance in interaction. Focusing on “people and their family”, Midea builds a whole value chain of IoT. Breakthroughs have been made in user data protection, content operation for smart scenes, smart connection technology, the smart home ecosystem, cloud platforms, the smart voice function, the big data-based cloud housekeeper services, etc. By doing so, Midea is able to offer complete smart home solutions for users, as well as to empower its business partners.

Upon years of a digitalized reform characterized by “One Midea, One System, One Standard”, Midea has successfully materialized operations driven by software and data through its value chain, connecting end to end and covering R&D, PO, scheduling, flexible manufacturing, procurement, follow-up of product quality, logistics, installation & post-sale services, etc. The Group’s cloud platform has made come true C2M flexible manufacturing, platform-based and modularized R&D, digitalized production techniques and simulation, intelligent logistics, digital marketing, digital customer service, etc. “M.IoT”, the Midea IIOT Platform, has become China’s first complete IIOT platform provider covering industrial knowledge, software and hardware. M.IoT focuses on building the SCADA platform, the industrial cloud platform, the industrial big data platform and the industrial SaaS service to provide the standardized, cloud-based and platform service, including C2M, supply coordination and solutions. It has developed over 20 platform products so far. In addition to applying these IIOT platform solutions to its manufacturing bases across the world and various products, the Group has also provided these solutions for over 200 customers in different industries. Therefore, it is safe to say that Midea has built a solid foundation regarding IIOT systems.

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

Paying close attention to the construction of a governance framework, regarding its corporate control, centralization and decentralization systems, the Group formed a mature management system for professional managers. The divisional system has been in operation for many years, and its performance-oriented evaluation and incentive mechanism featuring full decentralization has become a training and growth platform for the Group's professional managers. The Group's primary senior management team consists of professional managers who have been trained and forged in the operational practices of Midea

Group. They have been working for Midea on average for more than 15 years, all with rich professional and industrial experience, deep understanding of the home appliance industry throughout both China and the world, and accurate understanding of the industry environment and corporate operations management. The Company's advantages in such systems and mechanisms have laid a solid foundation for the efficient and effective business operations, as well as the promising, stable and sustainable future development of the Company. At present, the Company has launched six Stock Option Incentive Schemes, three Restricted Share Incentive Schemes, five Global Partner Stock Ownership Schemes and two Business Partner Stock Ownership Schemes for key managerial and technical personnel, marking the establishment of a governance structure aligning the interests of senior management and core business backbones with that of all shareholders, as well as the formulation of an incentive scheme comprising long and short-term incentives and restrains.

## Section IV Performance Discussion and Analysis

### 1. Overview

#### 1.1 Industry Overview

##### A. Home Appliance Industry

According to the statistics published by the China Household Electric Appliance Research Institute (CHEARI) and the National Household Electrical Appliance Industry Information Center, in 2019, the domestic retail sales of home appliances was RMB803.2 billion, down 2.2% year-on-year; and the exports of home appliances reached RMB303.4 billion, up 0.9% year on year. This was primarily driven by internal and external factors such as a steep slowdown in global economic and trade growth, the full-scale escalation of the China-U.S. trade conflict, a slowdown in domestic economic growth and the sluggish real estate market. Affected by the COVID-19 outbreak, 2020 is expected to see increasing uncertainties and fluctuations at home and abroad. Nevertheless, in the medium and long run, upgrading of the industrial structure, stable increase of household income, diversified consumption, the national policy support for the green and smart industries, as well as upgrading of the standards for home appliances will create new opportunities and growth points. According to the 2019 Annual Report of China's Household Electrical Appliance Industry published by CHEARI and the National Household Electrical Appliance Industry Information Center together, in terms of market size, the growth of traditional categories of home appliances slowed down while new categories were still burgeoning. Manufacturers continued to pursue high-end, smart and healthy home appliances in upgrading their products. Meanwhile, consumer needs for healthy home appliances were intensified because of the COVID-19 outbreak. Air purifiers and fresh air systems, washing machines with sterilization and drying function, as well as dishwashers and light-wave stoves with an emphasized function of sterilization, etc. gained increasing market attention.

In 2019, the domestic retail sales of air conditioners was RMB191.2 billion, down 3.4% year-on-year. In terms of product performance, the market shares of variable-frequency and high energy-efficiency air

conditioners kept growing. On one hand, the market share of variable-frequency air conditioners rose to over 85%, among which the market share of variable-frequency air conditioners with AFP Level I Energy Efficiency increased by 8% to reach 57.3%. On the other hand, the higher energy efficiency standards in 2020 will boost energy efficiency upgrading and integration in the air conditioning industry.

In 2019, the domestic retail sales of laundry appliances was RMB70.5 billion, up 1.2% year-on-year. The slight growth was attributed to significant product upgrading. In regard to product performance, the market share of high-end products was increasing in a steady way, of which the market share of laundry appliances with a unit price of above RMB6,000 was beyond 23%; clothes dryers were gaining consumer attention, of which heat-pump clothes dryers took up a much bigger share in retail sales.

In 2019, the domestic retail sales of refrigerators was RMB95.7 billion, down 1.2% year-on-year. Nevertheless, product upgrading was prominent. The sales of multi-door refrigerators continued to grow with the market share being over 50% for the first time, and the functions such as sterilization, fresh-keeping and odor-removing attracted attention in the industry. In the background of full-scale consumption upgrading, innovative smart refrigerators represented by Midea's Pesticide-Residue-Free Series (the first of its kind in the world) that can degrade pesticide residue, Odor-Free Series that feature fast odor removal and sterilization, and Micro-Crystalline Series are leading the market towards high-end, high-quality and smart refrigerators.

In 2019, the domestic retail sales of kitchen appliances was RMB175.9 billion, down 0.6% year-on-year. By product category, the sales of traditional products such as range hoods, stoves and water heaters declined, while dishwashers excelled in sales. Driven by policies, the sales of kitchen waste disposers rose evidently with great growth potential. The retail sales of dishwashers amounted to RMB6.8 billion, up 21.5%, of which the built-in dishwashers were the mainstream with the function upgraded from "cleaning" to "cleaning and drying". Functions such as "sterilization" and "drying" have emerged as the new upgrading trends. Although the retail sales of water heaters slightly went down 1.7%, the technological upgrading trend was still prominent. For instance, the remote control function of electric water heaters and the zero cold water function of gas water heaters, among others, have become increasingly popular on the market.

In 2019, the domestic retail sales of small domestic appliances was RMB128.9 billion, up 3.6% year-on-year. As new product categories kept popping up, the overall sales of small domestic appliances maintained a steady growth. Vacuum cleaners, rice cookers and blenders increased 3.2%, 3.5% and 1.4% respectively in retail sales from last year. Meanwhile, both online and offline retail sales of handheld vacuum cleaners recorded growth in the technological re-upgrading trend featuring intelligent recognition, intelligent display and sweeping-mopping integration. With people's increasing awareness for a healthy life, the sales of hair-related and personal-care appliances also saw a remarkable growth.

In 2019, the online sales of home appliances continued to expand and squeeze the offline sales. According to the data from the National Household Electrical Appliance Industry Information Center, the online retail sales of home appliances in China amounted to RMB310.8 billion, up 4.2% year-on-year, accounting for a market share of 38.7%; while the offline retail sales amounted to RMB492.4 billion, down 5.8% year-on-year, accounting for 61.3%. In light of the changes in the channel retail sales, most product categories achieved growth in the online market, while various categories declined in the offline market. Therefore, the online market is playing an important role in the consumer market of China. However, the offline market still has superiority for high-end products and product suites, and remains the mainstream channel for air conditioners, refrigerators, laundry appliances, kitchen and bathroom appliances, etc. While e-commerce platforms are setting up offline physical stores one after another, traditional offline channels are trying to develop their own business through e-commerce. The accelerated integration of online and offline channels will gradually form a relatively stable channel structure.

## **B. Robotics and Industrial Automation Industry**

According to the World Robotics Report 2019 published in September 2019 by the International Federation of Robotics (IFR), global installations of industrial robotics slowed down in growth in 2018 for the first time since 2012 and installations in 2019 were expected to be flat with the level in 2018. Meanwhile, analyzing from distribution in different countries and regions, China remained the largest market of industrial robotics, accounting for 36% of global installations, which was more than the installations in Europe and America combined. Installations in the U.S. reached a record high for the eighth consecutive year, with the installations in 2018 up 22% year-on-year. In 2018, the installations in Germany, the fifth largest robotics market in the world, increased 26%. By product category, installations

of AGV robotics were up by 60% from the 111,000 units in 2018. And installations of medical robotics also rose 50% year-on-year. Although there may be fluctuations in the global market of industrial robotics in the short run, IFR predicts that the total installations of industrial robotics worldwide will increase by 12% per year from 2020 to 2022 and reach up to 584,000 units in 2022 with the growing trend of automation and technological upgrading.

According to GGII, the output of industrial robotics reached 186,900 units in China in 2019, down 6.1% year-on-year. It is worth mentioning that the operating environment for the manufacturing industry has improved and China's output of industrial robotics kept increasing for the three months of Q4 2019, ending a string of year-on-year declines in the last 13 months. By product category, delta robotics grew nearly 20% in unit sales in 2019, with breakthroughs in food, pharmaceuticals, household chemicals, logistics and other industries; and collaborative robotics saw a growth of approximately 30% in unit sales against the headwind in 2019. In terms of policy support, MIIT issued the 2019 Work Plan for the Task Force of Industrial Internet to further promote the popularization and application of industrial internet and intelligent manufacturing technology; NDRC and the Ministry of Commerce issued the Catalogue of Encouraged Industries for Foreign Investment (2019) on June 30, in which the manufacturing sector remains a key orientation for encouraging foreign investment, with more than 80% of added or amended items in the national catalogue being within the manufacturing sector, and foreign investment in high-end, intelligent and green manufacturing is encouraged. On November 15, 15 government departments including the National Development and Reform Commission jointly released the Implementation Opinions on Deepening the Integrated Development of Advanced Manufacturing and Modern Service Industries, with the objectives of fostering new business models by integrating the two said industries, propelling the construction of smart factories, accelerating innovative application of the Industrial Internet and promoting flexible customization while at the same time deepening the integrated development of the manufacturing, service and Internet industries, as well as promoting efficient integration of modern logistics and manufacturing.

According to the latest statistics of IFR, in terms of industrial robotic density (the average number of industrial robotics per 10,000 workers), Singapore ranks No.1 in the world with 831 robotics while South Korea drops to second place. The robotic density of China has risen to 140, up 30% compared with that

in 2017 and far beyond the global average of 99, indicating great potential and prospects. Supported by diverse factors such as flexible demands of the manufacturing sector, declining demographic dividend, emerging markets and the development of innovative technologies, industrial robotics will be applied to more and more areas.

## **1.2 Analysis of the Company's Main Business**

In 2019, guided by the core strategic objectives of “Leading Products, Efficiency Driven and Global Operations” in a complicated political and economic environment at home and abroad, Midea focused on improving products, implementing the core strategy of “Comprehensive Digitalization and Comprehensive Intellectualization”, promoting high-performance operations in the whole value chain, continuously optimizing its product mix according to the consumption upgrade trends, and constructing sustainable competitiveness for the future through internal growth. As a result, the business objectives set for 2019 were successfully fulfilled, with higher profitability, further improving indicators such as own funds and channel inventories, better product quality and reputation, as well as strengthened competitiveness in various product categories and global operation synergies. For 2019, Midea achieved, on a consolidated basis, total revenue of RMB279.381 billion, up 6.71% YoY; and a net profit attributable to shareholders of the Company of RMB24.211 billion, up 19.68% YoY.

**In 2019, the Company carried out the following main tasks:**

### **A. Focused on users, developed innovative products and improved user experience, strengthened product competitive advantages**

In order to bring about the “customer-oriented” strategic reform, Midea focuses on product, service and market touchpoints for users and markedly improves user experience in all the links. It builds a customer-oriented innovative R&D system, involves customers in the whole R&D process, taps potential demand of customers in different scenes, and offers customers better-than-expected product experience through innovation. A digital user experience management system and an experience information platform have been put in place to connect experience information and data at all touchpoints of a product life cycle, boost customer satisfaction and loyalty, and achieve leadership in product experience. The system of



customers with membership has been reformed. Through continual online and offline operation of customer groups, Midea encourages its existing customers to introduce new customers as a way to achieve fission expansion of the customer base. Online platforms provide individualized shopping experience by way of refining shopping paths and improving online consultation, while offline stores adopt new retail, electronic and smart technologies to build whole-new flagship, home decoration, combo, new retail and other stores. Meanwhile, by means of digital service, as well as platform-based and modularized R&D and production, Midea takes the lead to explore the C2M model for its home appliance products, offering single product customization and product suite customization for the whole house with the house decoration considered. In terms of service, with the help of Internet tools, Midea goes beyond the traditional service model to build a “service + Internet” platform, enhance the entire service team and improve smart product experience, so as to increase customer satisfaction. In terms of innovation in industrial design, Midea won a total of 93 international design awards during 2019, including 27 Red Dot Awards, 34 iF Awards, 20 IDEA Awards and 12 G-mark Awards.

—— **Residential Air Conditioners:** Midea DF Air Conditioner Series, characterized by Dual Flow Tech - counter-rotating airflow technology originating from aviation turbine, is another major innovative breakthrough in the breezeless technology field, which has won the 2019 AWE Top Award. Through a study on user demands for breezeless air experience tailored to “multiple family members and large residential space”, and based on the application of three unique technologies, including disrotatory turbine multi-vector softened disturbance, double-layer distance circulating air, and rectification and supercharging, it achieves lower power consumption than conventional air conditions, free adjustment of breezeless zones, and uniform room temperature up to 20 meters. Midea Freshness Air Conditioner Series offers coziness in four dimensions, namely, air temperature, sensation, cleanness and freshness. This product features intelligent dual washing technology and dual hybrid power new wind technology, which enable the dust intercepted by the natural water dust filter to go through the dual cleaning by washing and brushing, so as to keep the filter clean and achieve intelligent control of the room air quality; it achieves large-range circulation of indoor air and enables room temperature to reach the set degree quickly by using a high-performance heat exchanger system and carrying an independent double duct structure; and it ensures slightly higher indoor air pressure than outdoor by adopting an innovative micro positive pressure new wind approach to prevent outdoor air from coming into the room without being

processed. In 2019, Midea launched the first All-Time (Offline) Voice-Based Floor-Standing Air Conditioner without a remote controller. Equipped with the pioneering Edge Intelligence Interaction (EII) technology, this product can be controlled and connected through Local Area Network (LAN) when the Internet is off, with a response time of only 1/4 of the industry average.

—**Commercial Air Conditioners:** As a leading HVAC provider worldwide, Midea Commercial Air Conditioners is a leader in R&D strength, product technology and market performance. And the largest domestic market share remained with Midea Commercial Air Conditioners in 2019 according to ChinaIOL.com and the *Mechanical and Electrical Information-Central Airconditioning Market* magazine. In recent years, Midea Commercial Air Conditioners have won the bids for a significant number of major programmes. These programmes include the Beijing Daxing International Airport, Terminal 3 of Beijing Capital International Airport, Terminal 2 of Guangzhou Baiyun International Airport, Shanghai Metro, Jilin Railway Station, etc.

In 2019, Midea Commercial Air Conditioners showcased in Shanghai its technological innovation achievements in the green airport area. Midea SR Residential Central Air Conditioner unveiled at the same time has multiple industry-wide advanced key indicators, improving user experience with its key functions of fast warm air, strong heating, temperature and humidity control, cozy wind sensation, strong coolness in a high temperature and convenient control. In April 2019, Midea Commercial Air Conditioners completed the production of its homegrown Maglev Variable Frequency Centrifugal Unit, which makes Midea the first AC maker in China who is able to manufacture the maglev bearing, the maglev compressor and the high power inverter all by itself. This marks the industrialization of yet another independent innovation achievement by Midea Commercial Air Conditioners. In October 2019, Midea unveiled MDV7 Series All DC Variable Frequency Smart Cloud VRF featuring the first adoption of a homegrown large-displacement DC variable-frequency enhanced vapor injection scroll compressor. This means that Midea has once again broken the technology monopoly of foreign brands over key components of high-end commercial VRF. In addition, Midea Commercial Air Conditioners' "Wide-Ambient-Temperature Energy-Efficient Air-Source Heat Pump Technology and Its Industrialization" won China Machinery Industry Federation Sci-Tech Progress Award (Second Prize), "Efficient Air-Source Heat Pump-Based Heating System and Its Application" won Ministry of Education of the People's Republic of China Scientific

Progress Award (First Prize), “Research and Application of the Energy-Efficient Technology for the Midea Building Management System (M-BMS)” won China Energy Conservation Association Sci-Tech Progress Award in Energy Conservation and Emission Reduction (Second Prize), “Efficient Centrifugal Heat Pump Unit” and “Research of the Dual-Tube Heating and Heat Recovery Technology and Its Application to VRF” are both recognized as “Innovation Achievement in the HVAC and Refrigeration Industry at the 70<sup>th</sup> Anniversary of the Founding of the People’s Republic of China” by Chinese Association of Refrigeration. Midea is also given an Outstanding Contribution Award in the air-source heat pump industry during the “Clean Winter Heating” program for its excellent performance in the heat pump market. In addition, by virtue of its outstanding product and technological strength and market influence, Midea wins the title of the “First-Choice Central Air-Conditioner Brand for Procurement by Chinese Real Estate Enterprises”.

——**Laundry Appliances:** Little Swan under Midea has launched Water Magic Cube II Washing Machine, which adopts the unique “Ultra Fine Bubble” technology. Its unique Ultra Fine Bubble generator transforms water and air into billions of nano bubbles, which permeate into fiber and release huge energy to peel off dirt. This approach helps reduce the consumption of chemical detergent through greater micromechanical force while removing dirt in an efficient and fast manner. It has been proved by an authoritative national testing institution to be able to save around 50% detergent. Little Swan has launched the “One-Tub Tech (OTT)” Top-Loading Washing Machine, featuring the revolutionary “One-Tub Tech (OTT)” + “No-Hanger-Rod Damping Pyramid System”. The no-outer-tub design goes beyond the inner-and-outer-tub structure of a conventional top-loading washing machine, offers a big capacity in a compact size, and saves energy and 30% water for the same capacity. With the entire inner tub made from stainless steel, the no-outer-tub design, the UV sterilization technology and the nano silver ion technology, it creates a 100% clean washing environment. As the first of its kind in China, Beverley Heat Pump Washer-Dryer adopts intelligent sterilization breathing light technology and has passed the authoritative certification of SGS, a world-leading testing and certification institution. The ultra low temperature heat pump washing-drying technology applied in this product has passed the German VDE certification, which is considered the Nobel Prize in the electrical appliance sector. It offers professional washing of clothes made from high-end fabrics. Beverly Household Washing Care Center is the world’s first heat pump intelligent washing care center with separate drying and washing sections and the washer-dryer with the largest capacity (12KG for the upper dryer+ 12KG for the lower washer). While the upper

dryer is a maximum heat pump washer-dryer that works efficiently, saves water, performs drying in low temperature and effectively removes acarids and bacteria, the lower washer adopts the “Ultra Fine Bubble” technology. Midea Chujian Front-Loading Washing Machine Series adopts the revolutionary ventilation, Toshiba direct drive and micro steam air washing technologies to solve consumers’ pain point of being unable to wear the clothes immediately after washing. Meanwhile, the Water Magic Cube cold washing technology protects clothes from wear and tear through smart control of the washing pace, and can automatically put in the right amount of detergent by sensing the water volume and the weight of clothes in a smart manner.

——**Refrigerators:** In June 2019, Midea unveiled three whole-new refrigerator series. The Micro-Crystalline Series adopts the V-Tech Smart Fresh-Keeping Chip, as well as the “Five-Dimensional Radar Temperature Sensing” and “Light Freezing Smart Cool Air Distribution” technologies. Meanwhile, the upgraded micro-crystalline technology it carries can do better in freshness preservation for different food characteristics. It also features better technique and quality, as well as a more stylish appearance, satisfying different needs of more families. The Pesticide-Residue-Free Series is the first refrigerator with both functions of fresh keeping and pesticide residue degradation. It adopts the core technologies of “Space Deep UV Light Wave” and “Titanium Photolyase” with massive active photoions to achieve thorough degradation of pesticide residue. It can remove hundreds of pesticides in 13 major categories. According to the laboratory test result of the authoritative institution SGS, it can degrade 98.5% pesticide residue at the most. The Ultra Odor-Free Series features the globally pioneering PST + super magnetic electrolysis odor-free technology, which is the third-generation technology of its kind jointly developed by Midea and a research institute of China State Shipbuilding Co., Ltd. It releases more active ions to quickly degrade and kill odor and bacteria with a groundbreaking super magnetic induction electrolysis device, and quickens the degradation of odor through high-activity metal catalyst, which takes only 19 minutes.

——**Kitchen Appliances:** In 2019, Midea Variable Frequency Smart Smoke Control Series Range Hood (E62S/E88) made its debut in China. Its Smart Smoke Control system can automatically identify smoke changes and provide a right exhaust mode, saving the trouble of manual operation in the middle of cooking. Also, the AI chip it carries is able to automatically adjust the fan system to reduce the noise based on its smoke curve algorithm, so as to offer a better cooking environment. Meanwhile, Midea has

launched the first smart gas stove featuring automatic cooking in China. It can automatically fry, make soup, steam, etc. The technology to match the right duration and degree of heating with the food, together with the before-boiling heating switch and bipolar emulsion technologies, can help increase nutritional content such as protein, amino acid and sarcosine in the food. Midea Storm Series P30 Dishwasher is the first smart combo of washing, sterilization, drying and storage with a large capacity. Supported by key patented technologies such as hot air drying and silver ion anti-bacteria storage, its 72-hour anti-bacteria storage function is VDE certified. Midea has successfully developed a universal global dishwasher platform with the pioneering 5MAX deep cleaning system, as well as key innovative technologies including separate washing, UV multi-sterilization, double-pump hot air drying, long-term anti-bacteria storage of tableware, etc. This platform is dedicated to developing Chinese-style dishwashers integrating washing, sterilization, drying and storage. Midea MRO1890-600G Reverse Osmosis Water Purifier with the pioneering “Large-Capacity Integrated Filter Technology” features a 5-times larger capacity, representing another technological breakthrough subsequent to the small-capacity integrated filter technology. Also, it can show water quality, distribution and the status of filter life, as well as automatically change the filter without interrupting the normal water purification process. It has won the Annual Technological Innovation Award at the 15<sup>th</sup> China Household Appliances Innovation Award. The industry’s first Purifier-Dishwasher E500B with the micro nano bubble function released by Midea uses a double pressure transducer system to generate pure physical micro nano bubble water, which removes dirt and pesticide residue from fruits and vegetables in a more thorough manner. Its tank-free large capacity of 500 gallons satisfies the whole family’s demand for healthy water. Midea MNF1979-50G, the first countertop pump-free power-free water purifier, adopts the ultra-low pressure hydrophilic film that needs no power. It also features an innovative 180°rotatable base, super-low noise, convenient installation, a super-large capacity of 2.5L, etc. Midea Magnetic Purification Water Heater 32QE6 is the first of its kind to have a full-star certificate. It displays the inner tank cleaning time on the screen in real time and reminds of timely cleaning. Meanwhile, its function of intelligent power conservation of 40% is VDE certified. Midea T3 Series Gas Water Heater is the first water heater with a dual-duty pump that enables instant heating. In addition to instant heating, it features smart pressurization, which solves the waiting and not enough hot water problems for users in a disruptive manner. It has won China Household Appliance Industry Jinshi Award. Beverly Constant Temperature I8 Water Heater can maintain a constant water temperature during a shower with its temperature buffering technology. It also features TFT big-screen smart control

and an outstanding appearance. It has won the AWE Product Award and the IFA Technical Innovation Award. Midea Intelligent Micro Combi Steamer PG2310 Cooking Oven has been released into market integrating the functions of microwave, steamer and oven. The ZOPPAS direct-spray steam technology it uses enables quick generation of plentiful steam and the five-switch intelligent variable frequency heating technology brings precision heating. It also carries a smart menu. On top of the aforesaid, Midea has been making breakthroughs in key component technologies including the magnetron, the heater-vent-air module and the steam generator.

—**Small Domestic Appliances:** In 2019, Midea unveiled a variety of disruptive lifestyle appliances with the brand value concept of “technology, fashion, convenience and durability”. The products include the industry’s first low-sugar rice cooker specifically designed for people with hyperglycemia, which is certified by China Household Electric Appliances Research Institute (CHEAR). It adopts the innovative sugar leaching technology to reduce the reducing sugar by 50%. The fuzzy logic algorithm technique based on precise temperature control and the multi-staged pressure regulation technology based on precise pressure control carried in this product help offer a healthy cooking system. Midea High-Speed Variable Pressure Boiling Series Pressure Cooker with Midea’s innovative maglev air compressing technology offers 12 pressure choices to enable continuous boiling under different pressures for different food. Midea’s unique Ultra Thin Noise-Free Blender carries three key technologies, namely, eccentric blending (a homegrown technology that has won the China Patent Gold Award), smart frequency blending and high-power three-dimensional uniform heating. It blends food ingredients thoroughly and finely to help release more nutrition. Midea Seasons Fan Heater is an innovative combo of fan, humidifier and heater for all seasons. It is equipped with the patented heating-and-cooling switching technology. It can cover a large space and rapidly increase the sensible temperature by over 20% through “heating+humidification” and a wide-angle swing. Meanwhile, supported by the Archimedes spiral air channel and a 90mm ultra-large cross-flow rotor, it can reach a speed of 185m/min, which is five times faster than the ordinary fan heaters. The humid wind enabled by its humidification function can bring much more coolness than an ordinary tower fan. Midea P6 Wireless Handheld Vacuum Cleaner adopts a high-power digital motor and a large-capacity lithium battery pack to enable it to continuously work for 60 minutes. The exclusive fallout system in the dirt cup equipped with the patented two-stage single-cone filtration technology can apply micropressure on the indrawn dust and hair so that they will fall on the

bottom of the dirt cup instead of intertwining. Midea Smart Robot Cleaner i5E features a strong suction of 4000Pa, G-SLAM autonomous path planning, a wet-mopping function with three water volumes, anti-bumping, anti-falling and automatic recharging. Carrying a 360° HD camera, it is capable of smart control, video recording and voice communication through a mobile App for smart cleaning planning for the entire house.

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

Midea continued to invest in R&D, made innovations with respect to mechanism, and developed more leading products through both excellent user experience and differentiated technologies. It kept reforming its product development model according to the strategic objective of “Leading Products”. An innovative R&D model of “Three Generations” has been put in place, namely, “Generation I product development, Generation II platform research, Generation III technologies and product concepts research”. Innovation research is carried out on innovative product development, cutting-edge platforms, key components, differentiated selling points and basic product performance improvement. Through development of product groups across the world and building of a global product platform, Midea is building “Leading Products”.

While carrying out the core technology research, Midea has attached great importance to the transformation of R&D achievements. In 2019, 25 scientific and technological achievements made under the leadership of Midea were all certified as “Internationally Advanced” upon authoritative technical review, including “the Research and Industrialization of Key Technology of Body Sensing and Interaction of Room Air Conditioners”, a key R&D project under the national 13th Five-Year Plan - “the Integrated Technology of High Seasonal Energy Efficiency Heat Pump Room Air Conditioners for Areas with Hot Summers and Cold Winters and the Application”, “the Research and Application of the Monolithic Highly-Integrated Intelligent Power Module”, “the Research and Application of Key Technology of the R290 Room Air Conditioner Working in an Ultra-High Temperature”, “the Research and Application of Key Technology of Breezy Room Air Conditioners”, “the Research and Application of Key Technology of Smart Cleaning and Ventilation of Room Air Conditioners”, “the Research and Application of Technology of High Efficiency Opposed Variable Frequency Centrifugal Compressors”, “the Research and Application of Micro Channel

Refrigerant Heat Dissipation Variable Frequency Technology”, “the Research and Industrial Application of the Big-Inch Integral Axial Flow Fan for Central AC”, “the Research of the Three-Tube Heating and Heat Recovery Technology and Its Application to VRF”, “Midea Vandelo Strong-Drive Fast-Cleaning Front-Loading Washing Machine”, “the Research and Industrial Application of Key Technology of Cooking Healthy Food to Control Blood Sugar”, “the Research on the Precision Diet Management System and its Application in Intelligent Household Appliances”, “the Application of Electromagnetic Isolation Technology in Power Frequency Microwaves”, “the Application of Micro Perforated Plate Noise Reduction Technology in Household Appliances”, “the Research and Application of Key Technology of Vision Inspection and Clothes Washing of Smart Washing Machines”, “the Research and Application of the Food Sensing and Directed Heating Technologies of Smart Ovens”, “the Research and Application of the Voice Interaction Technology of Smart Household Appliances”, “the Research of Galvano-Cautery Inhibition Technology for Bearings of Brushless DC Motor”, “the Research and Application of the Energy-Efficient Technology Featuring Self-Learning Based on Water Using Habits for Household Electric Water Heaters”, “The Research of the Electronic Thermostatic Technology and Its Application to Household Electric Water Heaters”, “the Research and Application of Key Technology for Exhausting Steam, Removing Fog and Reducing Humidity in Steaming, Baking and Cooking Products”, “the Research and Application of Vacuum Cleaner High Speed BLDC Drive Technology and Integrated Master Controller”, “the Research and Application of Technology for the Quality of Microwaved Food”, and “the Research and Application of Miniaturized Hot Air Technology Based on Baking Uniformity”. Additionally, Midea has 12 scientific research projects winning the China Light Industry Association Sci-Tech Progress Award, the China Association for Promotion of Private Sci-Tech Enterprises Sci-Tech Progress Award, the China Machinery Industry Federation Sci-Tech Progress Award, the China Energy Conservation Association Sci-Tech Progress Award in Energy Conservation and Emission Reduction, the Ministry of Education of the People’s Republic of China Sci-Tech Progress Award, and certain provincial sci-tech awards. At the 41st Meeting of the Parties to the Montreal Protocol in July 2019, the UN agency highly praised Midea’s R290 air conditioner technology for promoting the implementation of the Kigali Amendment, which has made important contributions towards enhancing the role of the air conditioner industry in global environmental protection.

In 2019, against the backdrop of the patent quality improvement campaign, the Company focused on the



quality instead of quantity in terms of patents and achieved remarkable results. 2,704 invention patents were granted to Midea by the Chinese patent office during the year, the largest number among home appliance makers. Also in the year, Midea lodged 13,525 patent applications at home and abroad, of which over 50% were invention-related and overseas applications more than doubled the number of last year. By the end of 2019, the total number of patent applications of Midea (inclusive of TLSC) exceeded 140,000 and 57,000 patents were granted. As shown in the “Public Announcement on the Results of the 21st China Patent Awards” issued in 2019, Midea’s “High-Frequency Fast Cooling and Heating AC Technology” won a China Patent Gold Award. In addition, the “Intelligent Power Module” and other technologies of Midea won 2 China Patent Silver Awards and 15 China Patent Excellence Awards, as well as 2 Invention Gold Awards at the 6th Guangdong Patent Awards. These awards signify that Midea’s strong capability of innovation is widely recognized.

Midea Group has been sticking to the double drivers of “product innovation + standard innovation” and making active steps towards contributing to the standardization of industrial technologies. In 2019, Midea Group took part in the formulation/revision of 554 standards, including 21 international standards, 213 national standards, 128 industry standards and 192 group standards. These standards include the national standard of the *Minimum Allowable Value of the Energy Efficiency and Energy Efficiency Grades for Room Air Conditioners* which brings about a new round of energy efficiency upgrade in the air conditioning industry, as well as national and industry standards such as the *Interoperability of Smart Household Appliances System—Parts 1~5*, the *Technical Specifications of Voice Module*, the *Technical Specifications of WiFi Module*, the *Safe Service Life Standard for Air Conditioners*, the *Installation Rules for Protective Tubes of Room Air Conditions*, the *Clothes Washing Machines for Household Use - Methods for Measuring the Performance* (IEC 60456), the *Tumble Dryers for Household Use-Methods for Measuring the Performance* (GB/T 20292-2019), the *Micro-Bubble Washing Machine* (T/CAS 367-2019), the *Technical Requirement and Test Method for Low Temperature Washing Performance of Washing Machines* (T/CAQI 84—2019), the *Technical Requirement and Test Method for Non-Washing Pesticide Residue Removing Appliances*, the *Technical Requirement and Test Method for Freshness Preservation in High Humidity in the Freezing Chamber of Refrigerator*, the *Requirement and Test Method for Freshness Preservation of Meat in Refrigerator*, the *Proposal on Electric Dishwashers for Household Use—Methods for Measuring the Performance for Asian Tableware* (IEC 60436), the *Household Electric*

*Cooking Appliances—Part 2 (GB/T 38051.2-2019), the Residential Gas-Fired Heating and Hot Water Appliances with Auxiliary Energy (GB/T 38350-2019), the Minimum Allowable Values of the Energy, Water Consumption and Grades for Dishwashers (GB 38383-2019), and the Technical Requirements and Test Methods of Household and Similar Saving Water Dishwasher (QB/T 5428-2019).* Meanwhile, Midea works with China Electric Apparatus Research Institute to establish an IEC/TC72/WG13 smart home appliance controller workgroup to push forward the formulation and implementation of the relevant international standards. Additionally, Midea and China Household Electric Appliances Research Institute together have completed the upgrade and implementation of the new technical specifications for the certification of breezeless air conditioner.

### **C. Deepened the channel transformation, further improved the channel efficiency and rebuilt the retail service ability**

Midea continued to promote channel reform and transformation, flatten offline channel hierarchies, propelled the optimized integration and empowerment of distributors, firmly continued to reduce inventories, optimize structure and streamline SKU, and substantially improve channel efficiency. It strengthened the synergy of domestic sales of full product categories; Midea has established over 30 regional market operation centers nationwide; by carrying out more precise joint promotional activities for diverse categories, it drove the synergy of domestic sales towards improvements and upgrading and reinforced the long-term sustainable development capacity of channels. Midea strove to expand the sales in the engineering channel and enhance its B2B competitiveness. To better cater to the needs of corporate users, it has established long-term strategic cooperation for procurement with the domestic top 50 companies in the real estate industry, long-term leasing apartment chain operators and financial and insurance companies. Midea aims to provide corporate customers with one-stop smart product solutions. At the same time, Midea attaches great importance to improving the service quality of strategic procurement projects. Through the systemic management of “Selection, Appointment, Cultivation and Retainment” over regional service providers, Midea builds a localized service network for all of its product categories covering the entire China. It integrates installation service resources, identifies user needs in an accurate manner, boosts customer satisfaction and builds up its core competitiveness for the B2B business.

With the rising of different consumer circles and fragmented communication, online and offline markets integrate at a faster speed, and Midea rebuilds its retail and service capabilities to meet different user needs. With user demands driving the retail transformation, Midea speeds up the integration of online and offline networks, focuses on the demands of different user groups, and restructures the retail operations system. This mainly involves three aspects. Firstly, it provides one-stop, intelligent product and service solutions for users with house decoration demands. It has opened more than 260 Midea Smart Life Experience Centers in China and upgraded over 770 flagship stores into Midea Smart Life Experience Centers, providing products and services for more than 200,000 families. Secondly, Midea studies the whole new lifestyles of young consumers and develops a more efficient service delivery approach for the Millennial Generation. It provides products featuring both good experience and functions by better understanding user demands through data platforms. Meanwhile, it focuses on user data analysis, opens up the channel for converting entrance products to related products through advertisement placement on new media, steadily increases the ratio of packaged purchase, and builds the ability to market home appliance packages. Thirdly, by identifying the characteristics of different markets and distributing more resources, Midea builds a full-coverage and high-penetration retail network targeting users in different cities and regions to enhance the retail service experience, renew and upgrade its retail system and extend the reach of its network. Specifically, on one hand, it promotes the project of deep collaboration of supply chains together with e-commerce platforms, achieves accurate prediction, intelligent distribution of inventory and automatic restocking through data support and system connectivity, and develops smart supply chains for fast response to user demands. On the other hand, in terms of the offline channels, it brings one-stop services to users by closely cooperating with large chains and shopping malls in various first- and second-tier cities. In the vast third- and fourth-tier cities, in addition to providing full-category products and services through flagship store and exclusive store systems, Midea builds over 1,000 new multi-category exclusive stores to further improve the market coverage of its retail system. In less developed markets, it offers convenient products and services to users through a network of nearly 100,000 retail stores.

Midea enhances the quality of its user service system. On one hand, it builds an operations platform internally based on user data assets, develops a layered operations system facing users, links online and offline data, unifies Midea members' identity, entitlement and assets, establishes unified member profiles,

provides more member privilege services and strengthens members' identity awareness. Different operations for different levels and scenes are made possible based on user data integration, and joint services for multiple scenes are realized through targeted introduction of customers and acquisition of customers by way of live streaming. In 2019, the cumulative number of Midea members exceeded 35 million, contributing over RMB5.5 billion of sales. On the other hand, it further improves the delivery-installation integrated service network, which offers users one-stop after-sales service solutions in respect of all household appliances. By 2019, it has completed the delivery-installation integrated service network which covers over 2,600 districts and counties across the country. In addition to the existing traditional door-to-door service and delivery-installation service, Midea has also launched various individualized services including send-for-repair, exchange and pick-an-engineer-for-door-to-door-service in an effort to satisfy differentiated needs of customers in different scenes. Meanwhile, it beefs up its effort in eliminating poor services by publicizing service standards and fees and establishing channels for user communication and feedback to ensure fast response to and closed-loop processing of user needs.

In 2019, under the background of Midea Group promoting the T+3 business model deep reform, Annto further promoted the logistics reform and completed the implementation of the unified warehousing and distribution strategy across the country, which has provided a strong support for the improvement of circulation efficiency of the sales channels. Focusing on the construction of the e-commerce logistics network, Annto established 99 pre-warehouses for e-commerce and completed the basic work for an online and offline stock sharing system, which has greatly improved its distribution capability. In terms of business expansion outside Midea Group, Annto closely focused on its core business of integrated warehousing and distribution services. With warehousing networks at different levels being connected, Annto can distribute from one warehouse and multiple warehouses to anywhere in the country for clients outside Midea Group. A logistics service platform covering various industries, product categories and scenes has been put in place. Meanwhile, client service experience has further improved through enhancing direct purchase of transport capacity. In 2019, the urban distribution and home distribution business scale of Annto saw a year-on-year increase of nearly 350%, with a steadily increasing market share. During its engagement in the Double 11 project of Tmall, Annto ranked among the top large piece delivery cooperators of Cainiao in the ratings by Tmall buyers, ranked first among these large piece delivery cooperators of Cainiao in all the five service indicators, and won the "Double 11 Top Award". In

addition, due to its excellent services, Annto was granted the 2019 Red-Top Award—“Excellent High-End Home Appliances Logistics Service Provider”.

#### **D. Steadily promoted Midea’s globalized business layout, enhanced localized operations overseas and accelerated the cooperative integration of Toshiba Project**

Midea further promoted its global business layout to solidify its global competency. It formulated a global supply cooperative mechanism, strengthened localized operations overseas, and promoted product globalization. Its overseas business spans more than 200 countries and regions in North America, South America, Europe, Asia, Africa and Oceania. Meanwhile, guided by the market and focusing on users, Midea builds a global user research network with foresight. Midea Germany Research Center is newly established to strengthen research on the needs of European users. And more resources have been provided for user research centers in the U.S., Italy, Brazil, India and Singapore. In 2019, Midea continued to advance international corporate governance by adjusting measures to local conditions, reinforced the integration of R&D, production and sales systems in regional markets, and further strengthened cohesion effects. Midea proactively expanded and reasonably planned overseas production layout, beefed up the management of overseas production bases and the enhancement of efficiency, enriched the product portfolio for overseas markets, improved local manufacturing capacity to deal with uncertainties in global trade. Meanwhile, it strengthened its ability of allocating resources to production bases worldwide according to global trade changes. Continuous efforts were made to expand marketing channels and reinforce the retail capability. The number of retail outlets overseas has surpassed 30,000. Meanwhile, digital management has been achieved at the retail end through the IRMS system and shopping guides have been trained for 12,000 person-times cumulatively, with an increasing retail channel share. A portfolio of Midea’s own brands for overseas markets comprising COLMO, TOSHIBA, MIDEA and COMFEE has been established. Each brand has their positioning, target users and product portfolio. They enter major markets and channels, boost consumer recognition and expand their influence in the overseas markets. The construction of the overseas e-commerce network was completed, and the middle- and back-end systems have taken shape. Midea keeps working on the traditional American and European markets, carries out planning for emerging markets in a swift manner and fully prepares for development in the overseas e-commerce market. Midea has successfully launched popular products for

all major categories of home appliances, some of which have become the most popular of their respective kinds and have been granted the “Bestseller” and “Amazon Choice” marks. Based on the “International 632 Project”, Midea integrated overseas business systems and processes to build a digital data platform for operating decision-making, which can help improve the abilities to seize business opportunities and identify risks through data connection and sharing on the platform. It strengthened the consistency of such processes as the PSI (Purchase Sales Inventory) management model, the management of product life cycle, and spare parts management and services of overseas branches and promoted the consistency and collaboration of Midea’s commercial languages and systems to increase its operational efficiency. It set up the global service platform and accelerated the building of overseas service capacity. A global platform integrating the call center, service quality tracking, spare parts deployment and technical training has been put in place as a way to improve the global service response capability and the proactive service capability.

In 2019, TLSC continued to focus on the core white goods business, promoted the synergy and unification of value chains with the business divisions of Midea Group on all fronts, optimized product structure to increase gross profits and continually improved profitability. It recorded a considerable year-on-year growth in the profit before tax and a profit for two consecutive years. In particular in the Japanese market with fierce competition, TLSC saw continual increases in its market shares of air conditioners, refrigerators and washing machines. It implements a business division system to further simplify functional departments, boost management flexibility and enhance the matching of powers and responsibilities. Meanwhile, it works with relevant business divisions of Midea in global market planning and strengthens their synergistic effects in brand building, channel development, R&D and innovation, integration of supply chain and quality improvement. The revenue generated by these cooperation projects worldwide saw a remarkable growth in 2019.

#### **E. Stepped up the industrial internet and digitalization programmes to thoroughly improve operational efficiency of the whole value chain**

Focusing on users and user experience, Midea continued to promote industrial digitalization, deepened C2M and the T+3 business model in the whole value chain, promoted innovation synergy of 5G and the Industrial Internet platform “M.IoT”, and built iconic Industrial Internet factories. It kept promoting digital

transformation in the 3D digital model, Digital Twin, intelligent scheduling, self-developed MRP, intelligent logistics, EHS, energy management, etc. M.IoT supports equipment access, protocol analysis and edge data processing through the SCADA system to provide data support for production management, production process refinement, equipment maintenance, etc. Based on the 5G, intelligent gateway and other technologies, M.IoT simplifies the underlying connection to be accessible to industrial equipment in various scenes. A digital closed-loop management system—TPM has been put in place to enable fast response and upgrade, automatically analyze malfunctions, improve the fault database, effectively reduce the abnormal downtime of equipment, monitor the equipment status in real time, automatically remind about maintenance plans as well as the turn-on-and-off time, and increase the uptime and output rate of equipment. So far, the M.IoT platform has been applied to Midea's AC, laundry product and microwave oven production lines, among others.

Midea continued to optimize and extend the applications of the Channel Collaboration System (CCS) 2.0, the Midea Cloud Sales and the Retail Management System (RMS) in its direct supply to retailers in counties and towns, KA/TOP, e-commerce platforms, home decoration stores, etc., so as to support the T+3 business model reform program. The WeChat mini app of "Midea Home Delivery" provides offline stores with an instrument of online channeling, terminal sales and member operation, in order to facilitate the digital transformation of terminal stores. Multiple digital system tools are used to support the retail coordination program and improve user experience in every link. Transparent and uniform rates of installation and repair are made possible by deepening the smart customer service application in a bid to improve customer service experience. Meanwhile, to encourage repeat purchases, a "backpacker" model is promoted in after-sales service through the WeChat mini app of "Midea Home Delivery". The Company introduces house decoration design software, develops the suite design capacity of household scenario, and builds an app for one-stop buying needs of various household appliances to provide consumers with all household appliance solutions and one-stop shopping experience. In the user experience reform program, relying on tools such as CMS, big data, the Midea Engine app and CSS, Midea focuses on home decoration store transformation, shopping guide reform and retail system building, after-sales service innovation, product suite sales, and integration of the entire chain, so as to improve the business model. Based on inventory transparency and synergy of physical goods on the whole channel, Midea opens up the information flow of synergistic warehouse, establishes whole-channel inventory sharing and

digestion rules, and enables the automatic adjustment system of the channel inventory level, so as to implement shared inventory management and increase inventory turnover ratio.

Midea continues with international digitalization. With the “International 632 Project” as the core, full digitalization support is provided for finance, R&D, the supply chain, marketing, after-sales service and operation. The “International 632 Project” was promoted in 17 overseas operating units in 2019 to boost the efficiency of the whole value chain. Closed-loop management and budget control have been achieved in all the financial systems across the world, and financial and accounting standards in different regions have been connected. Empowerment of overseas channels has been accelerated, with the channel management system covering over 1,000 distributors overseas. The global big-data-based analysis platform helps monitor more than 50 indicators in 8 major areas, which breaks the boundaries of space and time to provide operating service support around the clock. Meanwhile, the global order processing mechanism (OPM) was launched for test. Based on visualized production capacity, the mechanism can carry out order scheduling through multi-dimensional computing and distribute orders to manufacturing bases across the world in a smart, efficient and accurate manner. It can also effectively connect overseas marketing and manufacturing in a digitalized and visualized manner.

Midea continues to further promote the business application of AI by fully covering the business scenarios of intelligent manufacturing, intelligent operations and intelligent offices based on the three AI platforms of quality testing, facial recognition and optical character recognition (OCR). While rapidly reproducing and promoting such pilot projects as PCB testing and ink-jet testing, it proactively explores the application of vocal print quality testing and digital fool-proof of accessories. The quality testing platform has optimized the efficiency and accuracy of quality testing through visual and auditory simulations. The facial recognition platform has incubated a number of individualized applications, including multi-person recognition sensor-free door access control, gate machine access control, key post recognition, intelligent conference room and facial recognition payment, empowering Midea’s business innovation in buildings, logistics and marketing. The OCR platform enables document digitization and office automation, in which only a few employees are required to efficiently and accurately process the notes that used to be processed by over 300 office centers nationwide, saving massive resources and manpower.

Midea continues to deepen data application. It sets up the Group’s data decision-making center by



combining internal data and external internet data, and develops the digital operation platform and the operations analysis module at the mobile terminal. It builds the data consistency platform for the entire group. Following the white paper for data operation, a data driven closed-loop system has been put in place, which covers business breakdown, early warning, improvement and resumption. Midea achieves the visualization of whole-range operations data through the digital operation platform to identify operational problems immediately. Meanwhile, it establishes the early warning and urging mechanism to provide a powerful data driven tool for operation and management.

Midea fully promotes the application of cloud computing. Through its platform cloud program, Midea formulates clouds of Infrastructure as a Service (IaaS), Platform as a Service (PaaS) and Software as a Service (SaaS) to support its strategy of digital transformation. Through the building of container cloud and hybrid cloud, with container cloud providing unified software delivery standards as well as the separated application and running environment, the IaaS platform is able to transfer business applications seamlessly among container services of Nanhai Data Center and public clouds. As a result, multi-cloud services are formed to reduce costs, increase stability and enhance the capacity of processing massive data flow during business peak periods such as “Double 11” and “618”. Upon the integration and refinement of Midea’s IT system technology and business capability, the PaaS platform with a uniform microservice framework and gateway, provides uniform services of 22 technology components and 11 business components for Midea’s internal systems, which has successfully helped reduce costs and improve quality. While extending to more components, the PaaS cloud also starts to provide service externally through a developer program. The SaaS platform targets corporate customers. Based on IaaS and PaaS, the SaaS platform provides complete management of applications through their entire life cycles and full customer service. It lowers the threshold for small- and medium-sized enterprises to gain cloud access. It also provides a one-touch function to active business applications. With purchasing cloud as a trial program, Midea has provided SRM cloud, sourcing cloud, risk control cloud and other SaaS services for over 3,000 corporate customers.

#### **F. In view of consumption stratification, launched multiple new brands and product suites to empower retail sales, enhanced the retail performance**

Since late 2018, Midea has launched a number of new brands, including COLMO targeting high-end

consumers, BUGU targeting online consumers, WAHIN targeting young consumers. Integrating cutting-edge technology and rational aesthetics, COLMO launched multiple new products for high-end customers in 2019. It released the BLANC product suite at Appliance&electronics World Expo (AWE) in March 2019, new AI-powered home appliances for various scenes including the TURING Air Conditioner, the Mantle Lava Series Refrigerator and the Phase Change Water Heater at Internationale Funkausstellung Berlin (IFA) in September 2019, and the TURING Commercial AC in Shanghai in November 2019. Cumulatively, COLMO has launched 23 new products for the high-end market, covering living room, laundry, kitchen and bathroom scenes to create a new smart life of connected home appliances for high-end consumers. COLMO equips its products with advanced technologies. All the five products of the BLANC product suite are certified by China's Ministry of Light Industry as internationally advanced, of which the BLANC Washing Machine has won the first Wu Wen Jun AI Science & Technology Award in the washing machine industry, the top AI award. In 2019, COLMO won a significant number of design and technological innovation awards at home and abroad, including the iF Award, the Red Dot Award, the AWE Product Award, the AWE Innovation Award, the IDG Technical Innovation Gold Award, the IDEA Award, the Good Design Award and the Red Star Award. At the 2019 World Artificial Intelligence Conference (WAIC), COLMO unveiled the White Paper on AI-Powered Home Appliances, initiating a reform of the "AI-Powered Future". In terms of channel expansion, COLMO made active efforts to explore online and offline new retail models in 2019. For online channels, it has established flagship stores on various platforms. For offline channels, it has put in place a national network with focus on the first- and second-tier cities, which comprises nearly 2,000 outlets including exclusive stores and flagship stores. By the end of 2019, these outlets had a total of nearly 100,000 members in approximately 80,000 families. In branding, COLMO keeps working on its target customers. Through sports event sponsorship and commercial events, it aims to build a high-end brand image and convey its brand spirit. In 2020, upholding the brand philosophy of "Technology Serve the Nature of Life and Design Maximize the Value of Rationalism", COLMO will, on the basis of AI-powered home appliances, place more emphasis on design with rational aesthetics and launch whole new product suites.

To meet the needs of modern users in the Internet era, the internet brand BUGU was unveiled at AWE Shanghai in March 2019, with its first batch of products launched in Beijing in April 2019. Upholding the brand philosophy of "Technological Aesthetics, Smart and Fun-Filled Life", BUGU builds up smart eco-

scenes primarily comprising three life scenes and two professional scenes. In order to expand the product portfolio and ecosystem, BUGU carries out strategic cooperation with Honor to jointly build smart life scenes, and gradually introduces more quality resources to improve the eco-chain of scenes. BUGU persists in taking the joint creation with users as its core strategy. Through the joint creation platform—the “BUGU Research Institute”, users can take part in the whole product process from conceptual design to public testing. It continues to win recognition for its product design in the industry. The Intelligent IH Rice Cooker, Aesthetic Electric Kettle and Intelligent Sweeping and Mopping Robot of BUGU all won the iF Award 2020, and the Aesthetic Electric Kettle, which is a bestseller, was granted the DFA Design for Asia Excellence Award. In 2019, BUGU products achieved a remarkable market performance and were chosen for the 2019 Tmall “Emerging Brands” Program. During the 618 Shopping Festival in 2019, BUGU Intelligent Dishwasher ranked among the top ten list of dishwashers on JD.com; on JD.com’s Appliances Higou Day on June 10, BUGU Intelligent Dishwasher won double championships in both sales volume and sales, and BUGU Intelligent Rice Cooker (3L) ranked among the top ten in rice cooker sales; on June 11, BUGU Intelligent Electric Fan won the championship in sales among electric fan products with a price of above RMB300; on June 16, BUGU achieved over RMB1 million in sales on the Taobao shopping system, and BUGU Intelligent Electric Fan ranked among the top three among electric fan products with a price of above RMB199. On its first “Double 11” shopping festival, BUGU saw a single day record sales of over RMB10 million, users increase by 50,000, limited star products sold out in 12 seconds, and sales exceed RMB10 million in the first 24 hours.

Unveiled in 2019, WAHIN dedicates to offering surprises to young people with “Trendy Designs, Practical Functions and Fun Interactions”. It establishes connections through a diversity of marketing activities with the young circles characterized by AGC and pop cultures. The brand stands out with its performances in sales. Since its launch, WAHIN has been focusing on online channels. In 2019, WAHIN expanded cooperation from just one e-commerce platform to all the major e-commerce platforms. Its AC sales exceeded RMB400 million in the year, and ranked 7<sup>th</sup> and 6<sup>th</sup> on JD.com during the “618” and “Double 11” shopping festivals respectively.

### **G. Promoted innovation in robotic product development, accelerated integration and expansion of the robotics business for the China market**

KUKA, a subsidiary of Midea, is the first robotic manufacturer in the world to introduce sensitive lightweight robots into the production plant, as well as the first manufacturer with a product range covering cooperative robots, mobile robots and industrial heavy-duty robots. In the automotive sector, KUKA continues to maintain its advantages and unveiled the world's first industrial robot with digital motion model - the new-generation high-load versatile robot KR QUANTEC-2 in 2019. The robot can effectively reduce costs for customers and offers substantially enhanced performances, precision and speed. At AMTS 2019, KUKA demonstrated its one-stop solutions consisting of electric drive assembly and testing model lines, square shell battery assembly model lines, LBR iiwa cell loading and testing, KUKA Connect big data and virtual image systems. Meanwhile, it's worth mentioning that KUKA took part in a large-scale joint research platform program of Germany—ARENA2036 in 2019 for the first time. It is responsible for developing and testing streamline production techniques of Industry 4.0 to explore streamline car factories for the future. In the general industrial sector, KUKA has newly launched the KR IONTEC Series robots with a load ranging from 30 kg to 70 kg, which can be used in traditional and digital production environments. In addition to the largest working range of its kind (3,100 mm), it takes less floor space and interference contours, as well as boasts the lowest maintenance cost of its kind (average malfunction interval: about 400,000 running hours). Meanwhile, at K-Show 2019, KUKA showcased its KR10 R900-2 robot designed to work with an injection molder and the robot-assisted thermoplastic elastomer (TPE) extrusion solution. In the logistics sector, targeting the industrial status where an increasing number of orders are placed online, the new-generation robot-based order sorting solution ItemPiQ, as a perfect example of the integration of know-hows by KUKA and Swisslog, combines new robotic technology and intelligent visual system and features efficient sorting performances and machine-learning functions. With regard to human-robot collaboration, KUKA's Cobot LBR iisy is a sensitive, precise and easy-to-use robot with more intuitive automation design, which has developed a new field for human-robot collaboration. In the electronics sector, KUKA launched a chip carrying solution in a clean-room environment in semiconductor manufacturing, which is the world's first one-stop solution for automatic carrying of semiconductor boxes. In the medical sector, KUKA's LBR Med Series robots have yielded remarkable results. Carrying LBR Med, medical devices Cold Ablation and Robot-guided Laser Ostetome developed by the Swiss company Advanced Osteotomy Tools AG were put into clinical practice for the first time, which is the first robot-based osteotomy in the world. Additionally, equipped with the integrated sensitive seven-axis robot of KUKA's LBR Med Series, Sculptura™, a mobile robot assistance system developed by the

American company Sensus Healthcare, is the only medical device with which a doctor can apply targeted radiation to the tumor during a surgery. Additionally, KUKA makes active steps to explore robot application in new areas. The Brazilian company Bionicook uses KUKA's KR3 AGILUS robot to cook, which can finish an order in three minutes and 100 orders in an hour at the most. KUKA won a significant number of awards and honors in 2019, including the renowned iF Award 2019 for KUKA LBR iisy and KUKA KMP 1500, the German Design Award 2019 for KUKA smartPAD, KUKA AGILUS and LBR iisy, the 2019 German Innovation Award and the Robotics Award (at HANNOVER MESSE 2019) for the car charging assistant robot of which KUKA took part in the development, and the "Excellent Partner Award" granted by Faw-Volkswagen as the customer's recognition of KUKA for its persistence in providing efficient and stable products and automation solutions on a long-term basis.

According to IFR statistics, 2019 saw a harsher market for the global industrial robotics industry as compared with 2018. However, KUKA performed rather stable and continued to make breakthroughs in new areas. In 2019, KUKA received an order of tens of millions of euros from Faw-Volkswagen involving assembly lines used to manufacture MEB platform batteries, which is KUKA's first whole battery line order in the Chinese market. In addition, KUKA obtained orders of automatic production equipment of welding robots used in electric vehicle production lines respectively from SAIC Volkswagen and Donghee Group (South Korea), with the respective amounts reaching tens of millions of euros and millions of euros. In the fourth quarter of 2019, KUKA won a contract worth as much as tens of millions of euros to supply a batter assembly line, which will be used to produce battery systems for high-end electric vehicles. KUKA also received an order worth millions of euros from Guangdong Shaoneng Group for 300 units of KR QUANTEC Series robots and an automated handling solution for mechanical equipment. Furthermore, it secured an order of 22 units of KMP 1,500 mobile platform equipment used to process body in white from an automobile manufacturer. In the healthcare sector, KUKA received an order from the North American customer Restoration Robotics to supply LBR Med lightweight robots for their intelligent repair and hair transplant system. In 2019, KUKA's Swisslog business continued to expand, with an order of approximately 43 million euros from the Malaysian customer IKEA Supply Malaysia Sdn Bhd for an automated logistics solution, and an order from the Finland customer Broman Group for an automated logistics system and the related software.

The integration of KUKA's robotics business in China has been accelerated. On one hand, under KUKA's new organizational structure, the KUKA China Division was established in 2019, covering robotics, flexible systems, general industrial automation, intelligent logistics automation and intelligent medical automation. On the other hand, the collaborative advantages of Midea and KUKA have started to show in various aspects, including development of business opportunities, technology sharing, customer service, purchase collaboration and management improvement, laying a foundation for the fast growth of the industrial automation business on all fronts. In 2019, the KUKA China Division formulated the business development planning for the next five years and established a 432+X product system for the domestic market, i.e. 4 product families, 3 digital platforms, 2 production lines for fast iteration and the whole new business layout. With regard to business expansion, KUKA China maintains its leadership in the auto sector and takes active steps to explore new areas including general industrial manufacturing, electronics, medical care and logistics, services, etc. Concerning internal management, it concentrates on R&D, supply chain management, high-performance operations and digitalization, among others, as well as commits more resources to build the core competitiveness of Midea's robotics and industrial automation business in a faster manner. In 2019, KUKA China further improved its organizational structure by connecting the R&D, production and marketing departments. It has put in place a "customer-oriented" system to promote high-performance operations in the whole value chain. Its R&D department focused on new product development, product upgrade, localization, software development and digitalization. And an OKR management tool has been introduced to build a matrix structure based on professionalism. Meanwhile, KUKA China completed the construction of the Product R&D and Testing Center covering an area of nearly 5,000 m<sup>2</sup>, which has been put into operation to support R&D and testing.

As an industrial robotic brand trusted by many auto makers around the world, KUKA China continued to see the highest unit sales in the auto sector of China in 2019. In addition to continued cooperation with a significant number of foreign-funded, Sino-foreign jointly funded and domestic traditional auto makers, it secured orders from multiple renowned makers of new energy vehicles at home and abroad, further enlarging the market share. In the general industrial sector, automation orders kept increasing from the food and beverage industry, the household chemicals and pharmaceuticals industry and other industries, and there were new customers from the glass industry. With respect to medical robotics, 2019 saw a year-on-year growth of 200% and dozens of new customers in need of surgical robotics mostly.

Concerning logistics automation, KUKA won the logistics renovation projects of several notable companies, the fifth AutoStore system launched to e-commerce customers proved a great help in their business development, and KUKA is currently the only robotics maker in the area of logistics automation who can integrate the six-axis mechanical arm with a mobile robot, with noticeable technological superiority. In 2019, KUKA enhanced development of localized products for the China market. It launched the AC-fin tube-inserting machine, and its homegrown fully automated bathroom appliance assembly line, which is the first of its kind in China, has been put into operation. KUKA's application development team launched a packaged robot polishing application and a packaged 3D sighted robot shoe-sole gumming application. And its Swisslog team has secured the first batch of orders of nearly RMB20 million for the piler that the team has developed for the local market. Servotronix released a new rotary servo product—BDHD2, and a new linear servo product—CDHD2 STD. Mass production of both has commenced. In addition, KUKA has effectively helped enhance Midea Group's intelligent manufacturing level. As of now, the robot density of Midea has exceeded 220 units per 10,000 persons. In the coming three years, this number is expected to surpass 300 units per 10,000 persons.

#### **H. Created a new smart lifestyle with the MSmartLife App as the gateway**

Capitalizing on the Group's advantage of various household appliance categories, Midea IoT is able to cover various smart scenes. 68 smart scenes have been launched on Midea MSmartLife App, including whole-house scenes such as "Secure Home", "Healthy Home", "Convenient Home" and "Personalized Home". "Healthy Home" provides complete smart healthy life solutions from three major aspects, namely, healthy food, healthy washing and healthy air. Supported by the AI technology, MSmartLife App 6.0 has introduced 18 new functions including AI-based voice control and recipe pictures and videos, built the first smart-scene AI-based interaction platform in the industry, and realized multi-screen smart voice interaction. Up to the end of 2019, Midea Group has sold a total of over 70,000,000 smart household appliances across the globe. Tens of millions of household users receive smart services through the MSmartLife App, with interaction on smart equipment and cloud exceeding one trillion times. Meanwhile, Midea Smart Cloud Housekeeper App, which is based on the big data technology, is making home appliances smarter through AI algorithms. It has provided more than ten million times of spontaneous smart services for users.

Midea IoT keeps building its cloud capability. Upon system architecture refinement, hybrid cloud deployment, multi-address disaster preparedness, etc., its cloud platforms have reached an industry-wide advanced level in availability and can be connected to more than 100 million pieces of devices. Meanwhile, the Company jointly develops chips for household appliances, and launches high-performance low-cost smart connection modules together with solutions. It joined hands with Ziroom, a notable long-term rental apartment operator, in user operation and commercial promotion. Also, it cooperates with Alibaba, JD, Huawei, OPPO, VIVO, Baidu, Tencent, Google, Amazon, Apple, Skyworth, Bull, etc. to offer whole-house smart solutions supported by a brand ecosystem.

With respect to technological innovation in smart home, in order to solve pain points such as the difficulties in network distribution and a long connecting time of smart appliances, Midea IoT has independently developed a series of connection modules including Wi-Fi, Bluetooth and NB-IoT. As such, it is the first to shorten the time used from network distribution to a successful connection to 4.62 seconds. On top of that, it has materialized more stable connection and more efficient development through M-Smart agreement refinement, code refactoring, fixing compatibility bugs, etc. It also takes the lead in launching home appliances that can be directly connected to the 5G network. Protecting user privacy and data security is a top priority in the application of smart technologies. Midea IoT takes the lead to pass the TRUSTe certification with respect to privacy data compliance. It also complies with the EU General Data Protection Regulation (“GDPR”) and other data protection regulations. Meanwhile, with regard to overall information security management, Midea IoT has passed the ISO27001 Certification for Information Security Management Systems (ISMS). And the MSmartLife App App has been certified by the globally recognized ePrivacyApp due to the multiple layers of protection of user privacy data. Therefore, Midea has reached an internationally advanced level in user data protection.

### **I. Deepened the long-term incentive and protected the interests of shareholders**

In 2019, Midea continued to encourage the core management to take responsibility for the Company’s long-term development and growth by further enhancing its long-term incentive schemes. In this year, Midea launched the Sixth Stock Option Incentive Scheme, the Third Restricted Share Incentive Scheme, the Fifth Global Partner Stock Ownership Scheme and the Second Business Partner Stock Ownership Scheme, which have helped, in a more effective manner, to align the long-term interests of senior



management and core business backbones with that of all shareholders.

Midea Group protects its shareholders' interests by ensuring a consistent dividend policy. It shares its growth with shareholders by putting forward cash dividend plans with a total amount of as much as RMB46.8 billion (2019 profit distribution plan included) since Group listing in 2013. In addition to the consistent dividend payouts, the Company has carried out a string of share repurchase plans. Subsequent to a share repurchase of RMB4 billion in 2018, to further stabilize the market capitalization and protect the shareholders' interests, the Company launched another share repurchase plan in 2019. And the repurchased shares would be used for equity incentive schemes and/or employee stock ownership schemes. As of 31 December 2019, Midea has used approximately RMB3.1 billion for the share repurchase.

## 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 revenue

Unit: RMB'000

|                     | 2019        |  | 2018        |  | YoY Change (%) |
|---------------------|-------------|--|-------------|--|----------------|
|                     | Amount      | As a percentage of total operating revenue (%) | Amount      | As a percentage of total operating revenue (%) |                |
| Total               | 278,216,017 | 100%   | 259,664,820 | 100%   | 7.14%          |
| By business segment |             |  |             |  |                |
| Manufacturing       | 254,286,134 | 91.40%   | 238,065,376 | 91.68%   | 6.81%          |
| By product category |             |  |             |  |                |
| HVAC                | 119,607,379 | 42.99%   | 109,394,649 | 42.13%   | 9.34%          |

|                                 |             |        |             |        |        |
|---------------------------------|-------------|--------|-------------|--------|--------|
| Consumer appliances             | 109,486,791 | 39.35% | 102,992,803 | 39.66% | 6.31%  |
| Robotics and automation systems | 25,191,964  | 9.05%  | 25,677,924  | 9.89%  | -1.89% |
| By geographical segment         |             |        |             |        |        |
| PRC                             | 161,432,313 | 58.02% | 149,257,311 | 57.48% | 8.16%  |
| Outside PRC                     | 116,783,704 | 41.98% | 110,407,509 | 42.52% | 5.78%  |

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

## 2.2.2 Business segments, products or geographical segments contributing over 10% of the operating revenue or profit

√Applicable □N/A

Unit: RMB'000

|                                 | Operating Revenue | Cost of sales | Gross profit margin | YoY change of operating revenue (%) | YoY change of cost of sales (%) | YoY change of gross profit margin (%) |
|---------------------------------|-------------------|---------------|---------------------|-------------------------------------|---------------------------------|---------------------------------------|
| By business segment             |                   |               |                     |                                     |                                 |                                       |
| Manufacturing                   | 254,286,134       | 176,594,422   | 30.55%              | 6.81%                               | 4.71%                           | 1.39%                                 |
| By product category             |                   |               |                     |                                     |                                 |                                       |
| HVAC                            | 119,607,379       | 81,626,941    | 31.75%              | 9.34%                               | 7.56%                           | 1.12%                                 |
| Consumer appliances             | 109,486,791       | 75,014,044    | 31.49%              | 6.31%                               | 2.82%                           | 2.33%                                 |
| Robotics and automation systems | 25,191,964        | 19,953,437    | 20.79%              | -1.89%                              | 0.72%                           | -2.06%                                |
| By geographical segment         |                   |               |                     |                                     |                                 |                                       |
| PRC                             | 161,432,313       | 110,867,529   | 31.32%              | 8.16%                               | 6.93%                           | 0.79%                                 |
| Outside PRC                     | 116,783,704       | 87,046,399    | 25.46%              | 5.78%                               | 3.04%                           | 1.98%                                 |

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                   | 2019       | 2018       | YoY Change (%) |
|------------------|-----------|------------------------|------------|------------|----------------|
| Home appliances  | Sales     | In thousand units/sets | 456,680.20 | 416,926.40 | 9.53%          |
|                  | Output    | Ditto                  | 465,063.30 | 421,938.40 | 10.22%         |
|                  | Inventory | Ditto                  | 59,169.30  | 50,972.20  | 16.08%         |

Note: The aforementioned statistics about output, sales and inventory were calculated based on internal standards.

Lighting products and robotics and automation systems are excluded.

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

Applicable √N/A

**2.2.4 Execution of significant sales contracts in the Reporting Period**

Applicable √N/A

**2.2.5 Breakdown of cost of sales**

By business segment

Unit: RMB'000

| Business segment | Item          | 2019        |  | 2018        |  | YoY Change (%) |
|------------------|---------------|-------------|--|-------------|--|----------------|
|                  |               | Amount      | As a percentage of total cost of sales (%) | Amount      | As a percentage of total cost of sales (%) |                |
| Home appliances  | Raw materials | 134,231,337 | 85.69%                                     | 127,402,508 | 85.59%                                     | 5.36%          |
|                  | Labor costs   | 9,711,741   | 6.20%                                      | 9,154,016   | 6.15%                                      | 6.09%          |
|                  | Depreciation  | 2,673,507   | 1.71%                                      | 2,599,999   | 1.75%                                      | 2.83%          |
|                  | Energy        | 2,255,630   | 1.44%                                      | 2,188,033   | 1.47%                                      | 3.09%          |

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

√Yes No

For the main subsidiaries included in the consolidated financial statements of the current year, please refer to Note 5 and Note 6 to the Financial Statements in "Section IX Financial Report". For the newly consolidated companies, see Note 5, 5.1, (a), and they primarily include: Midea Electrics Egypt, Anhui Welling Auto Parts Co., Ltd., Wuxi Little Swan Electric Co., Ltd., Guangdong Swisslog Technology Co.,

Ltd., Guangdong Yueyun Industrial Internet Innovation Technology Co., Ltd., Midea Refrigeration Equipment (Thailand) Co., Ltd. and Tianjin Midea Commercial Factoring Co., Ltd. For the companies deconsolidated in the current year, see Note 5, 5.1, (b).

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

Applicable N/A

## 2.2.8 Main customers and suppliers

### Major customers of the Company

|   |            |
|---|------------|
| Total sales to top five customers (RMB'000)   | 35,762,605 |
| Total sales to top five customers as a percentage of the total sales for the year (%)                       | 12.86%     |
| Total sales to related parties among top five customers as a percentage of the total sales for the year (%) | 0          |

### Information on top five customers

| No.   | Customer   | Sales revenue (RMB'000) | As a percentage of the total sales revenue (%) |
|-------|------------|-------------------------|--|
| 1     | Customer A | 19,971,771              | 7.18%  |
| 2     | Customer B | 8,257,101               | 2.97%  |
| 3     | Customer C | 2,950,842               | 1.06%  |
| 4     | Customer D | 2,450,884               | 0.88%  |
| 5     | Customer E | 2,132,007               | 0.77%  |
| Total | --         | 35,762,605              | 12.86%   |

### Major suppliers of the Company

|   |           |
|---|-----------|
| Total purchases from top five suppliers (RMB'000)   | 9,916,145 |
| Total purchases from top five suppliers as a percentage of the total purchases for the year (%)                       | 5.42%     |
| Total purchases from related parties among top five suppliers as a percentage of the total purchases for the year (%) | 0         |

### Information on top five suppliers of the Company

| No. | Supplier   | Purchase (RMB'000) | As a percentage of the total purchases (%) |
|-----|------------|--------------------|--|
| 1   | Supplier A | 3,134,243          | 1.71%                                      |
| 2   | Supplier B | 1,730,001          | 0.95%                                      |
| 3   | Supplier C | 1,717,144          | 0.94%                                      |

|       |            |           |       |
|-------|------------|-----------|-------|
| 4     | Supplier D | 1,671,119 | 0.91% |
| 5     | Supplier E | 1,663,638 | 0.91% |
| Total | --         | 9,916,145 | 5.42% |

## 2.3 Expense

Unit: RMB'000

|                                     | 2019       | 2018       | YoY Change (%) | Reason for any significant change |
|-------------------------------------|------------|------------|----------------|-----------------------------------|
| Selling and distribution expenses   | 34,611,231 | 31,085,879 | 11.34%         |                                   |
| General and administrative expenses | 9,531,361  | 9,571,639  | -0.42%         |                                   |
| Finance costs                       | -2,231,636 | -1,823,040 | -22.41%        |                                   |
| Research and development expenses   | 9,638,137  | 8,377,201  | 15.05%         |                                   |

## 2.4 R&D investment

√Applicable □N/A

The Group is focused on building a competitive, multi-layered global R&D system centering on user experience and product functions, which represents world-class R&D input and strength. With close to RMB40 billion invested in R&D over the past five years (over RMB10 billion in 2019), the Group has set up a total of 28 research centers in 11 countries including China to gradually build up a “4+2” global R&D network and gain advantage of scale in this respect. Domestically, with the core being Midea Global Innovation Center at the company headquarters in Shunde District, Foshan City, Midea has also started to build the Shanghai Global Innovation Center. Overseas, with R&D Center in Louisville, USA, R&D Center in Stuttgart, Germany, R&D Center in Osaka, Japan and Design Center in Milan, Italy as the cores, Midea makes use of the regional advantages, integrates global R&D resources and refines its global R&D network. It has over 10,000 R&D employees and over 500 senior foreign experts. While establishing its own research centers around the world, the Group has also cooperated with domestic and foreign scientific research institutions, such as MIT, UC Berkeley, UIUC, Stanford, Purdue University, University of Maryland, The University of Sheffield, Polytechnic University of Milan, Tsinghua University, Shanghai Jiao Tong University, Zhejiang University, the Chinese Academy of Sciences, Harbin Institute of

Technology, Xi'an Jiaotong University, Huazhong University of Science and Technology and South China University of Technology, in order to establish joint labs for deepening technological innovation. The Group also carries out strategic cooperation with tech giants such as BASF and Honeywell to build a global innovation ecosystem. The Group's long-term focus on building technology, marketing, product, design and open innovation systems, building a cutting-edge research system and building reserves in technology for mid/long term, has provided a solid foundation for the Group to maintain technical superiority across the globe.

#### Information about R&D investment

|  | 2019      | 2018      | YoY Change (%) |
|--|-----------|-----------|----------------|
| Number of R&D personnel                          | 13,727    | 12,321    | 11.41%         |
| R&D personnel as a percentage of total employees | 10.18%    | 10.74%    | -0.56%         |
| R&D expense (RMB'000)                            | 9,638,137 | 8,377,201 | 15.05%         |
| R&D expense as a percentage of operating revenue | 3.46%     | 3.23%     | 0.23%          |

Note: The R&D personnel in the table above exclude those of KUKA.

## 2.5 Cash flow

Unit: RMB'000

| Item  | 2019        | 2018        | YoY Change (%) |
|---|-------------|-------------|----------------|
| Subtotal of cash inflows from operating activities    | 252,123,178 | 226,341,706 | 11.39%         |
| Subtotal of cash outflows due to operating activities | 213,532,774 | 198,480,626 | 7.58%          |
| Net cash flows from operating activities              | 38,590,404  | 27,861,080  | 38.51%         |
| Subtotal of cash inflows from investing activities    | 89,004,610  | 67,998,046  | 30.89%         |
| Subtotal of cash outflows due to investing activities | 112,112,311 | 86,640,334  | 29.40%         |
| Net cash flows from investing activities              | -23,107,701 | -18,642,288 | -23.95%        |
| Subtotal of cash inflows from financing activities    | 20,015,594  | 5,237,681   | 282.15%        |
| Subtotal of cash outflows due to financing activities | 23,289,195  | 18,624,845  | 25.04%         |
| Net cash flows from financing activities              | -3,273,601  | -13,387,164 | 75.55%         |
| Net increase in cash and cash equivalents             | 12,489,478  | -3,879,371  | 421.95%        |

Explanation of why the data above varied significantly

Applicable N/A

a. Primarily driven by an increase in cash received from sales of goods or rendering of services, net cash flows from operating activities increased 38.51% from last year.

b. Primarily driven by an increase in cash received from borrowings, net cash flows from financing activities increased 75.55% from last year.

c. Primarily driven by increases in net cash flows from operating and financing activities, net increase in cash and cash equivalents increased 421.95% from 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

The Company first adopted the new accounting standards governing financial instruments in 2019 and adjusted the relevant financial statement items at the beginning of the year accordingly.

Unit: RMB'000

|                          | 31 December 2019 |                                     | 1 January 2019 |                                     | 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 | 70,916,841       | 23.49%                              | 27,888,280     | 10.58%                              | 12.91%                   |                                       |
| Accounts receivable      | 18,663,819       | 6.18%                               | 18,641,979     | 7.07%                               | -0.89%                   |                                       |
| Inventories              | 32,443,399       | 10.74%                              | 29,645,018     | 11.24%                              | -0.50%                   |                                       |
| Other current assets     | 65,011,027       | 21.53%                              | 74,952,820     | 28.42%                              | -6.89%                   |                                       |
| Investment properties    | 399,335          | 0.13%                               | 391,765        | 0.15%                               | -0.02%                   |                                       |
| Long-term                | 2,790,806        | 0.92%                               | 2,713,316      | 1.03%                               | -0.11%                   |                                       |

|                          |            |        |            |        |        |  |
|--------------------------|------------|--------|------------|--------|--------|--|
| equity investments       |            |        |            |        |        |  |
| Fixed assets             | 21,664,682 | 7.17%  | 22,437,212 | 8.51%  | -1.34% |  |
| Construction in progress | 1,194,650  | 0.40%  | 2,077,621  | 0.79%  | -0.39% |  |
| Short-term borrowings    | 5,701,838  | 1.89%  | 870,390    | 0.33%  | 1.56%  |  |
| Long-term borrowings     | 41,298,377 | 13.68% | 32,091,439 | 12.17% | 1.51%  |  |

#### 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 | Amount provided for impairment in the period | Purchased in the period | Sold in the period | Other changes | Closing balance |
|---|-----------------|--|--|--|-------------------------|--------------------|---------------|-----------------|
| Financial assets  |                 |  |  |  |                         |                    |               |                 |
| 1. Financial asset held for trading (excluding derivative financial assets) | 2,654,045       | -742   | -  | -  | 3,706,340               | 5,272,795          | 503           | 1,087,351       |
| 2. Derivative financial assets  | 259,019         | 32,877   | -24,718  | -  | 30,417                  | -                  | -1,611        | 295,984         |
| 3. Receivables financing  | 2,254,950       | -  | -  | -  | 5,310,826               | -                  | -             | 7,565,776       |
| 4. Other non-current financial assets                                       | 784,269         | 418,219  | -  | -  | 593,234                 | 68,418             | 22,803        | 1,750,107       |
| 5. Other investments  | -               | 491,232  | -  | -  | 62,310,000              | 12,243,714         | -             | 50,557,518      |
| Sub-total of financial assets   | 5,952,283       | 941,586  | -24,718  | -  | 71,950,817              | 17,584,927         | 21,695        | 61,256,736      |
| Investment properties   |                 |  |  |  |                         |                    |               |                 |
| Productive living assets  |                 |  |  |  |                         |                    |               |                 |
| Others  |                 |  |  |  |                         |                    |               |                 |
|   |                 |  |  |  |                         |                    |               |                 |



|                        |           |          |          |   |            |            |        |            |
|------------------------|-----------|----------|----------|---|------------|------------|--------|------------|
| Sub-total of the above | 5,952,283 | 941,586  | -24,718  | - | 71,950,817 | 17,584,927 | 21,695 | 61,256,736 |
| Financial liabilities  | 902,795   | -729,771 | -145,568 | - | -          | -          | -324   | 27,132     |

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

Yes  No

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

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

### 5. Investment made

#### 5.1 Total investment amount

Applicable  N/A

| Total investment amount of Reporting Period (RMB'000) | Total investment amount of last year (RMB'000) | YoY Change (%) |
|---|--|----------------|
| 112,112,311   | 86,640,334                                     | 29.40%         |

#### 5.2 Significant equity investment made in the Reporting Period

Applicable  N/A

#### 5.3 Significant non-equity investments ongoing in the Reporting Period

Applicable  N/A

### 5.4 Financial investments

#### 5.4.1 Securities investments

Applicable  N/A

Unit: RMB'000

| Type of securities | Code of securities | Abbreviation of securities | Initial investment cost | Measurement method | Opening carrying amount | Profit or loss from change in fair value | Cumulative fair value change charged to equity | Purchased in the period | Sold in the period | Profit or loss in the period | Closing carrying amount | Accounting title | Funding source |
|--------------------|--------------------|----------------------------|-------------------------|--------------------|-------------------------|--|--|-------------------------|--------------------|------------------------------|-------------------------|------------------|----------------|
|--------------------|--------------------|----------------------------|-------------------------|--------------------|-------------------------|--|--|-------------------------|--------------------|------------------------------|-------------------------|------------------|----------------|

|                                  |            |                      |               |                                 |               | during<br>the<br>period |     |            |   |   |               |  |                  |
|----------------------------------|------------|----------------------|---------------|---------------------------------|---------------|-------------------------|-----|------------|---|---|---------------|--|------------------|
| Overseas<br>listed<br>stock      | 181<br>0   | XIAOMI-<br>W         | 1,272,58<br>4 | Fair<br>valu<br>e<br>met<br>hod | 1,122,6<br>09 | -<br>186,754            | 503 | -          | - | - | 936,358       | Financial<br>asset held<br>for trading | Own<br>fund<br>s |
| Domestic<br>ally listed<br>stock | 688<br>018 | Espressif<br>Systems | 14,625        | Fair<br>valu<br>e<br>met<br>hod | -             | 94,653                  | -   | 56,34<br>0 | - | - | 150,993       | Financial<br>asset held<br>for trading | Own<br>fund<br>s |
| Total                            |            |                      | 1,287,20<br>9 | --                              | 1,122,6<br>09 | -92,101                 | 503 | 56,34<br>0 | - | - | 1,087,3<br>51 | -                                      | --               |

#### 5.4.2 Derivatives investments

√Applicable □N/A

Unit: RMB'000

| Opera<br>ting<br>party     | Rela<br>tio<br>nshi<br>p<br>with<br>the<br>Co<br>mpa<br>ny | Rela<br>ted<br>tran<br>sac<br>tion | Type<br>of<br>deriva<br>tive | Initial<br>investme<br>nt<br>amount | Starting<br>date | Ending<br>date | Opening<br>investme<br>nt<br>amount | Purch<br>ased<br>in<br>Repor<br>ting<br>Perio<br>d | Sold<br>in<br>Repor<br>ting<br>Perio<br>d | Amou<br>nt<br>provid<br>ed for<br>impair<br>ment<br>(if<br>any) | Closing<br>investme<br>nt<br>amount | Closing<br>investme<br>nt<br>amount<br>as a<br>percenta<br>ge of the<br>Company<br>'s closing<br>net<br>assets | Actual<br>gain/loss in<br>Reporting<br>Period |
|----------------------------|--|------------------------------------|------------------------------|-------------------------------------|------------------|----------------|-------------------------------------|--|---|---|-------------------------------------|--|---|
| Futur<br>es<br>comp<br>any | No   | No                                 | Futur<br>es<br>contra<br>cts | 276                                 | 01/01/20<br>19   | 31/12/2<br>019 | 276                                 | -  | -   | -   | 1,377                               | 0.001%   | 8,683   |
| Bank                       | No   | No                                 | FX<br>deriva<br>tives        | -644,052                            | 01/01/20<br>19   | 31/12/2<br>019 | -644,052                            | 30,41<br>7   | -   | -   | 267,475                             | 0.263%   | -419,519                                      |
| Total                      |  |                                    |                              | -643,776                            | --               | --             | -643,776                            | 30,41<br>7   | -   | -   | 268,852                             | 0.264%   | -410,836                                      |
| Source of derivatives      |  |                                    |                              | All from the Company's own funds    |                  |                |                                     |  |   |   |                                     |  |   |

|  |   |
|--|---|
| investment funds   |   |
| Litigation involved (if applicable)  | N/A   |
| Disclosure date of the announcement about the board's consent for the derivative investment (if any)   | 20/04/2019  |
| Disclosure date of the announcement about the general meeting's consent for the derivative investment (if any)   | 14/05/2019  |
| Risk analysis of positions held in derivatives during the Reporting Period and explanation of control measures (Including but not limited to market risk, liquidity risk, credit risk, operational risk, legal risk, etc.) | <p>For the sake of eliminating the cost risk of the Company's bulk purchases of raw materials as a result of significant fluctuations in raw material prices, the Company not only carried out futures business for some of the materials, but also made use of bank financial instruments and promoted forex funds business, with the purpose of avoiding the risks of exchange and interest rate fluctuation, realizing the preservation and appreciation of forex assets, reducing forex liabilities, as well as achieving locked-in costs. The Company has performed sufficient evaluation and control against derivatives investment and position risks, details of which are described as follows:</p> <p>1. Legal risk: The Company's futures business and forex funds businesses shall be conducted in compliance with laws and regulations, with clearly covenanted responsibility and obligation relationship between the Company and the agencies.</p> <p>Control measures: The Company has designated relevant responsible departments to enhance learning of laws and regulations and market rules, conducted strict examination and verification of contracts, defined responsibility and obligation well, and strengthened compliance check, so as to ensure that the Company's derivatives investment and position operations meet the requirements of the laws and regulations and internal management system of the Company.</p> <p>2. Operational risk: Imperfect internal process, staff, systems and external issues may cause the Company to suffer from loss during the course of its futures business and forex funds business.</p> <p>Control measures: The Company has not only developed relevant management systems that clearly defined the assignment of responsibility and approval process for the futures business and forex funds business, but also established a comparatively well-developed monitoring mechanism, aiming to effectively reduce operational risk by strengthening risk control over the business, decision-making and trading processes.</p> <p>3. Market risk: Uncertainties caused by changes in the prices of bulk commodity and exchange rate fluctuations in foreign exchange market could lead to greater market risk in the futures business and forex funds business. Meanwhile, inability to timely raise sufficient funds to</p> |

|   |   |
|---|---|
|   | <p>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 &amp; 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 prices or fair value of derivative products during the Reporting Period, specific methods used and relevant assumption and parameter settings shall be disclosed for analysis of fair value of derivatives</p> | <ol style="list-style-type: none"> <li>1. Gain from futures contracts during the Reporting Period was RMB8,683,000.</li> <li>2. Loss from FX derivatives during the Reporting Period was RMB-419,519,000.</li> <li>3. Public quotations in futures market or forward forex quotations announced by the Bank of China are used in the analysis of derivatives fair value.</li> </ol>   |
| <p>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</p>         | <p>No change</p>  |
| <p>Special opinions expressed by independent directors concerning the Company's derivatives</p>   | <p>The Company's independent directors are of the view that the futures hedging business is an effective instrument for the Company to eliminate price volatility and implement risk prevention measures through enhanced internal control, thereby improving the operation and management of the Company; the Company's foreign exchange risk management capability can be further improved through the forex funds business, so as to maintain and increase the value of foreign</p>  |

|                             |   |
|-----------------------------|---|
| investment and risk control | exchange assets and the abovementioned investment in derivatives can help the Company to fully bring out its competitive advantages. Therefore, it is practicable for the Company to carry out derivatives investment business, and the risks are controllable. |
|-----------------------------|---|

## 5.5 Use of funds raised

Applicable  N/A

No such cases in the Reporting Period.

## 6. Sale of Major Assets and Equity Interests

### 6.1 Sale of major assets

Applicable  N/A

No such cases in the Reporting Period.

### 6.2 Sale of major equity interests

Applicable  N/A

## 7. Analysis of Major Subsidiaries

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

| Company name  | Company type | Business scope                    | Registered capital | Total assets (in RMB million) | Net assets (in RMB million) | Operating revenue (in RMB million) | Operating profit (in RMB million) | Net profit (in RMB million) |
|---|--------------|-----------------------------------|--------------------|-------------------------------|-----------------------------|------------------------------------|-----------------------------------|-----------------------------|
| Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.                | Subsidiary   | Manufacturing of home appliances  | USD72 million      | 12,783.83                     | 4,637.34                    | 12,895.01                          | 2,071.61                          | 1,791.33                    |
| GD Midea Air-Conditioning Equipment Co., Ltd.                             | Subsidiary   | Manufacturing of air conditioners | RMB854 million     | 33,719.06                     | 4,363.47                    | 44,243.11                          | 664.31                            | 610.71                      |
| Foshan Shunde Midea Electrical Heating Appliances Manufacturing Co., Ltd. | Subsidiary   | Manufacturing of home appliances  | USD42 million      | 11,916.97                     | 6,290.75                    | 11,233.27                          | 1,784.25                          | 1,547.26                    |
| Wuhu Midea Kitchen & Bath Appliances Mfg. Co., Ltd.                       | Subsidiary   | Manufacturing of water heaters    | RMB60 million      | 10,348.48                     | 1,303.52                    | 11,860.65                          | 1,245.40                          | 1,084.87                    |

## Acquisition and disposal of subsidiaries during the Reporting Period

Applicable N/A

For the main subsidiaries included in the consolidated financial statements of the current year, please refer to Note 5 and Note 6 to the Financial Statements in “Section IX Financial Report”. For the newly consolidated companies, see Note 5, 5.1, (a), and they primarily include: Midea Electrics Egypt, Anhui Welling Auto Parts Co., Ltd., Wuxi Little Swan Electric Co., Ltd., Guangdong Swisslog Technology Co., Ltd., Guangdong Yueyun Industrial Internet Innovative Technology Co., Ltd., Midea Refrigeration Equipment (Thailand) Co., Ltd. and Tianjin Midea Commercial Factoring Co., Ltd. For the companies deconsolidated in the current year, see Note 5, 5.1, (b).

## 8. Structured Bodies Controlled by the Company

Applicable N/A

## 9. Outlook for the Future Development of the Company

### 9.1 Development strategies of the Company

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

### 9.2 Key operation points in 2020

a. Midea will firmly increase R&D investment in basic technologies, digitalization and intellectualization in particular. Driven by technology as the fundamental approach, it will beef up product innovation and efficiency improvement, and put in place a customer-oriented value chain system. It will deepen the R&D model of “Three Generations” and implement the strategy of “being the Number One or the Only One” to build product leadership. In the meantime, top talent will be brought in to help refine the R&D organizational structure and build up an R&D-centric management model.

b. Midea will keep a high-quality development direction and stick to internal, sustained and effective organic growth. It will promote the T+3 business model reform and high-performance operations in the whole value chain in every link from product planning to after-sales service, so as to increase profitability. In order to win in competition, it is important to develop high-end products to refine the product mix. It will also maintain effective investments, control non-operating expenses, increase labor productivity, improve human resource allocation efficiency, promote lean management and provide fresh impetus for continual growth through relentless innovation.

c. For the domestic market, Midea will enhance the basic systems to set up a unified business language and rules, strengthen “One Midea, One System, One Standard”, make use of the advantages of synergies, reinforce the result-oriented process control and improve operating efficiency. It will also promote transformation in domestic marketing to rebuild a user-oriented retail system, set up a standardized store management system and improve the ability of offline stores to attract customers. It will enhance product synergies, focus on the end market, lower the inventory level, streamline the channel hierarchy, and promote better channel efficiency. By promoting interactive marketing ways based on scenes and experience, as well as enhancing the operation of star products, it strives to build better recognition of the Midea brand among users. Making use of multi-category synergistic advantages, it will continuously deepen the channel layout, further promote e-commerce channel optimization and integration, work on social e-commerce, and proactively expand and build new retail channels. It will promote the transformation of sales agents towards operators, and in the meantime materialize transparent and visualized information through the whole trading process. It will also improve the after-sales service experience, optimize the delivery-installation integration service, and improve the member service system. Meanwhile, it will continue to increase the efficiency of the supply chain system, enhance the advantage

of Midea's all-channels coverage, rebuild business processes and push forward the construction of a shared inventory system.

d. For the overseas market, Midea will adhere to the strategies of being user-oriented and product leadership. Leveraging its advantageous global R&D and user research networks, as well as benchmarking to other top brands across the globe, Midea will continue to launch differentiated and innovative products to solve users' painpoints, enlarge the mainstream market share and give play to its advantage of various product categories. It will continue to improve the ability to operate multiple brands in the overseas market, refine the differentiated product portfolios of the brands, and carry out global and regional branding activities through digital marketing to boost the brands' presence and reputation. Also, it will promote retail transformation, further expand channels, improve the brand image and consumer experience at the retail end, empower the retail end with digital tools, enable real-time tracking of retail data, and improve the retail performance. A global system comprising the professional global headquarters, the coordinative regional hubs and the aggressive enterprises in various countries will be put in place, with clear responsibilities and positioning for each organization, as well as effective teamwork among them. Meanwhile, Midea will improve its overseas infrastructure, and build the four major global delivery systems of manufacturing, services, components and logistics, so as to enable adequate contract fulfillment and service on a global basis. Both approaches of "China-Based Supply for the World" and "Local Supply" will help boost the competitiveness of Midea's supply chain and its ability to deal with uncertainties in the market. Midea will also firmly promote transformation of TLSC's business, focus on the Japan market, as well as carry on with the work in user research, product development, channel reform, organizational management, etc.

e. Midea will improve its multi-brand system according to different needs from different consumer groups. COLMO, the brand targeting high-end consumers, will launch whole new product suites and expand its channel network in the first- and second-tier cities. BUGU, the brand targeting online consumers, will integrate internal and external resources to provide individualized experience for users, and establish all-scene ecosystem cooperation with external manufacturers to create innovative marketing and business models. Additionally, Midea will give play to its multi-category synergistic advantages and improve its product suites and families, including the real-estate before-market product suites, to provide customized



and integrated home solutions with full categories of the household appliances.

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

g. Following the integration of KUKA's robotics business in China, Midea will beef up localized operations in China, increase investment in the development and application of robotics, foster R&D innovation of core components and software systems, as well as promote the "432+X" product system. In terms of marketing, Midea will maintain leadership in the auto sector and take active steps to explore new areas including general industrial manufacturing, electronics, medical care and logistics, services, etc. Concerning internal management, it will concentrate on R&D, supply chain management, high-performance operations and digitalization, among others, so as to build the core competitiveness of the robotics and industrial automation business in a faster manner.

h. Midea will continue to increase its investment in the R&D of IoT basic technology to improve user experience and security. In the meantime, guided by the strategy of "Comprehensive Intellectualization", it will build up a cooperation ecosystem to keep improving the performance of its smart home IoT modules through cooperating with external parties. Guided by users' thinking model, Midea will connect to more users through its MSmartLife App, carry out lean operations and provide safe, convenient and smart life experience for users. Meanwhile, it will promote smart products by providing smart scene experience, upgrading the store network, providing training in relation to smart products, increasing the percentage of smart home appliances, etc.

### **9.3 Key capital expenditure plan in future**

To adapt to changes in the industry environment, the Company will focus its 2020 investments on technological innovation, product quality improvement, robotics and industrial automation systems, digitalization, e-commerce channel expansion and new retail channels construction, new brand marketing,

global operations capability improvement and the smart home strategy. Meanwhile, the Company will strictly control investment in infrastructure and capacity expansion, as well as non-operating expenditures. The capital expenditures will primarily come from the Company's own funds.

#### **9.4 Main risks in future development**

##### **a. Risk associated with the COVID-19 outbreak**

Domestic consumption and production are expected to be affected to some degree in the short run by the COVID-19 outbreak in early 2020. Therefore, the offline retail stores of the Company are expected to see lower footfall in the short run. Meanwhile, the COVID-19 has been spreading overseas since late February 2020. Should the epidemic last for a long time, the Company could face a challenge in 2020.

##### **b. Risk of macro economy fluctuation**

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

##### **c. 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.

d. Risk in global asset allocation and overseas market expansion

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

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

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

f. Market risks brought by trade frictions and tariff barriers

Due to the rise of anti-globalization and trade protectionism, China will see more uncertainties in export in 2020. The trade barriers and frictions of some major markets will affect the export business in the short run, as well as marketing planning and investment in the medium and long run. Political and compliance risks are rising in international trade. These can mainly be seen on compulsory safety certificates, international standards and requirements, and product quality and management systems certification, energy-saving requirements, the call for increasingly strict environmental protection requirements, as well as with rigorous requirements for recycling household appliances waste. Trade frictions caused by anti-dumping measures implemented by some countries and regions aggravate the burden in costs and expenses for household appliance enterprises, and have brought about new challenges to market planning and business expansion for enterprises.

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

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

### 10.1 In the Reporting Period

√Applicable □N/A

| Date of visit        | Way of visit       | Type of visitor | Index to main inquiry information  |
|----------------------|--------------------|-----------------|--|
| 14-15 January 2019   | One-on-one meeting | Institution     | Log Sheet of Investor Relations Activities for 14-15 January 2019 disclosed on www.cninfo.com.cn   |
| 17 January 2019      | Ditto              | Ditto           | Log Sheet of Investor Relations Activities for 17 January 2019 disclosed on www.cninfo.com.cn      |
| 21-22 February 2019  | Ditto              | Ditto           | Log Sheet of Investor Relations Activities for 21-22 February 2019 disclosed on www.cninfo.com.cn  |
| 15 May 2019          | Ditto              | Ditto           | Log Sheet of Investor Relations Activities for 15 May 2019 disclosed on www.cninfo.com.cn          |
| 17 May 2019          | Ditto              | Ditto           | Log Sheet of Investor Relations Activities for 17 May 2019 disclosed on www.cninfo.com.cn          |
| 23 May 2019          | Ditto              | Ditto           | Log Sheet of Investor Relations Activities for 23 May 2019 disclosed on www.cninfo.com.cn          |
| 19 June 2019         | Ditto              | Ditto           | Log Sheet of Investor Relations Activities for 19 June 2019 disclosed on www.cninfo.com.cn         |
| 27-28 June 2019      | Ditto              | Ditto           | Log Sheet of Investor Relations Activities for 27-28 June 2019 disclosed on www.cninfo.com.cn      |
| 4-5 July 2019        | Ditto              | Ditto           | Log Sheet of Investor Relations Activities for 4-5 July 2019 disclosed on www.cninfo.com.cn        |
| 22-26 July 2019      | Ditto              | Ditto           | Log Sheet of Investor Relations Activities for 22-26 July 2019 disclosed on www.cninfo.com.cn      |
| 17-18 September 2019 | Ditto              | Ditto           | Log Sheet of Investor Relations Activities for 17-18 September 2019 disclosed on www.cninfo.com.cn |
| 24 September 2019    | Ditto              | Ditto           | Log Sheet of Investor Relations Activities for 24 September 2019 disclosed on www.cninfo.com.cn    |
| 20-21 November 2019  | Ditto              | Ditto           | Log Sheet of Investor Relations Activities for 20-21 November 2019 disclosed on www.cninfo.com.cn  |
| 4 December 2019      | Ditto              | Ditto           | Log Sheet of Investor Relations Activities for 4 December 2019 disclosed on www.cninfo.com.cn      |
| 19 December 2019     | Ditto              | Ditto           | Log Sheet of Investor Relations Activities for 19 December 2019 disclosed on www.cninfo.com.cn     |

|   |       |
|---|-------|
| Times of visit  | 240   |
| Number of visiting institutions                                   | 2,540 |
| Number of visiting individuals                                    | 130   |
| Number of other visitors  | 0     |
| Significant undisclosed information disclosed, revealed or leaked | No    |

## Section V Significant Events

### 1. Profit Distribution and Converting Capital Surplus 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 surplus into share capital for common shareholders for the past three years (including the Reporting Period)

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

b. For 2018, based on the 6,585,838,349 shares at the disclosure date of the 2018 Annual report (the total share capital minus the then repurchased shares in the repo securities account), it was proposed that the Company should distribute a cash dividend of RMB13 (tax inclusive) per 10 shares to all the shareholders and should not convert capital surplus into share capital. When the profit distribution plan was implemented, if any change occurred to the total shares eligible for profit distribution, the profit distribution plan should be based on the total shares eligible for profit distribution at the book closure date of the profit distribution, and the dividend per share should be adjusted under an unchanged total distribution amount.

When the profit distribution plan was implemented, based on 6,565,827,689 shares (the then repurchased 40,014,998 shares in the special securities account for repurchase subtracted from the total share capital of 6,605,842,687 shares), under an unchanged total distribution amount, the Company distributed a cash dividend of RMB13.039620 (tax inclusive) per 10 shares to all the shareholders. The book closure day was 29 May 2019 and the ex-dividend day 30 May 2019.

c. For 2019, based on the 6,957,181,058 shares at the disclosure date of this report (the total share

capital of 6,999,467,315 shares minus the repurchased 42,286,257 shares in the repo securities account at that date), it is proposed that the Company should distribute a cash dividend of RMB16 (tax inclusive) per 10 shares to all the shareholders and should not convert capital surplus into share capital. When the profit distribution plan is implemented, if any change occurs to the total shares eligible for profit distribution, the profit distribution plan shall be based on the total shares eligible for profit distribution at the book closure date of the profit distribution, and the dividend per share shall be adjusted under an unchanged total distribution amount.

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

Unit: RMB

| Year | Cash dividends (tax included) | Net profit attributable to common shareholders of the Company in the consolidated statement in the year | Ratio of cash dividends to net profit attributable to common shareholders in the consolidated statement in the year | Cash dividends in other forms (such as share repurchase) | Ratio of cash dividends in other forms to net profit attributable to common shareholders in the consolidated statement in the year | Total cash dividends (inclusive of those in other forms) | Ratio of total cash dividends (inclusive of those in other forms) to net profit attributable to common shareholders in the consolidated statement in the year |
|------|-------------------------------|---|---|--|--|--|---|
| 2019 | 11,131,489,692.80             | 24,211,222,000.00   | 45.98%  | -  | -  | 11,131,489,692.80  | 45.98%  |
| 2018 | 8,561,589,853.70              | 20,230,779,000.00   | 42.32%  | 4,000,000,000  | 19.77%   | 12,561,589,853.70  | 62.09%  |
| 2017 | 7,900,827,088.80              | 17,283,689,000.00   | 45.71%  | -  | -  | 7,900,827,088.80   | 45.71%  |

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 Surplus 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)  | 16                |
| Additional shares converted from capital surplus for every 10 shares (share)                               | 0                 |
| Total shares as the basis for the preliminary plan for profit distribution (share)                         | 6,957,181,058     |
| Cash dividends (RMB) (tax inclusive)   | 11,131,489,692.80 |
| Cash dividends in other forms (such as share repurchase) (RMB)   | 0                 |
| Total cash dividends (inclusive of those in other forms) (RMB) (tax inclusive)                             | 11,131,489,692.80 |
| Distributable profits (RMB)  | 23,249,372,000.00 |
| Percentage of total cash dividends (inclusive of those in other forms) in the total distributed profit (%) | 100%              |

### Details about the preliminary plan for profit distribution and converting capital surplus into share capital

As audited by PricewaterhouseCoopers China (LLP), the Company realized a net profit of RMB13,685,619,000 for 2019. Pursuant to the relevant provisions under the Articles of Association, it provided 10% as statutory surplus reserve, namely RMB1,368,562,000. Plus undistributed profits at the beginning of the year of RMB19,486,212,000 and minus the profit distributed in the year of RMB8,553,897,000, the actual distributable profit would be RMB23,249,372,000.

For 2019, based on the 6,957,181,058 shares at the disclosure date of this report (the total share capital of 6,999,467,315 shares minus the repurchased 42,286,257 shares in the repo securities account at that date), it is proposed that the Company should distribute a cash dividend of RMB16 (tax inclusive) per 10 shares to all the shareholders and should not convert capital surplus into share capital. When the profit distribution plan is implemented, if any change occurs to the total shares eligible for profit distribution, the profit distribution plan shall be based on the total shares eligible for profit distribution at the book closure date of the profit distribution, and the dividend per share shall be adjusted under an unchanged total distribution amount.

The said plan shall be submitted to the Company's 2019 annual general meeting of shareholders for further consideration.

### 3. Performance of Undertakings

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

√ Applicable □ N/A

| Undertaking  | Undertaking giver                             | Type of undertaking                      | Details of undertaking   | Undertaking date | Term          | Particulars on the performance                             |
|--|---|--|--|------------------|---------------|--|
| Undertaking made in offering documents or shareholding alternation documents | Controlling shareholder and actual controller | Maintenance of independence              | 1. Midea Holding and He Xiangjian have undertaken as follows: He Xiangjian, Midea Holding and their controlled enterprises will remain independent from Midea Group in respect of personnel, finance, assets, business and institutions, in accordance with relevant laws and regulations and regulatory documents. They will faithfully fulfill the above undertaking, and assume the corresponding legal liability. If they fail to fulfill their obligations and responsibilities conferred by the undertaking, they will bear the corresponding legal liabilities according to relevant laws, rules, regulations and regulatory documents. | 28/03/2013       | Long-standing | <b>1. There has been no violation of this undertaking.</b> |
|  | Controlling shareholder and actual controller | Avoiding competition within the industry | 2. In order to avoid possible competition within the industry between Midea Group and Midea Holding and its controlled enterprises as well as He Xiangjian, his immediate family and his controlled companies, Midea Holding and He Xiangjian have undertaken as follows:<br><br>(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                             | 28/03/2013       | Long-standing | <b>2. There has been no violation of this undertaking.</b> |



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|--|--|--|--|--|--|
|  |  | <p>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 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</p> |  |  |  |
|--|--|--|--|--|--|

|   |                                    |  |            |               |  |
|---|------------------------------------|--|------------|---------------|--|
|   |                                    | laws, rules, regulations and regulatory documents.   |            |               |  |
| Controlling shareholder and actual controller | Regulation of related transactions | <p>3. In order to regulate matters of related transactions that may occur in the future between Midea Group and Midea Holding and its controlled companies as well as He Xiangjian, his immediate family and his controlled companies, Midea Holding and He Xiangjian have undertaken as follows:</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 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</p> | 28/03/2013 | Long-standing | <b>3. There has been no violation of this undertaking.</b> |

|   |   |   |            |               |  |
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|   |   | <p>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 and actual controller | On Midea Trade Union Committee transferring its limited equity of Midea Group | <p>4. On 4 January 2001, the Midea Trade Union Committee signed the "Equity Transfer Contract" with five people, namely He Xiangjian, Chen Dajiang, Feng Jingmei, Chen Kangning and Liang Jieyin, where it transferred all its limited equity of Midea Group (22.85%) respectively to those five people. According to the confirmation letter issued by members of the Midea Trade Union Committee at that time, the equity transfer price was determined after mutual discussion on the basis of their true opinions, therefore there was no dispute or potential dispute.</p> <p>On 28 June 2013, Foshan Shunde Beijiao General Union, superior department of Midea Trade Union Committee, issued a confirmation letter to the fact that the Midea Trade Union Committee funded the establishment of Midea Group Co., Ltd. In addition the letter also confirmed that the council of Midea Trade Union Committee is entitled to dispose any property of the committee, and such property disposal does not need any</p> | 28/03/2013 | Long-standing | <p><b>4. So far, this shareholding transfer has not brought about any loss caused by any dispute or potential disputes. There has been no violation of this undertaking.</b></p> |

|   |   |  |            |               |   |
|---|---|--|------------|---------------|---|
|   |   | agreement from all staff committee members.<br><br>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.  |            |               |   |
| Controlling shareholder and actual controller | Issues about Payment of the Staff Social Insurance and the Housing Provident Fund involved in Midea Group's Overall Listing | 5. Midea Holding and He Xiangjian have undertaken to be liable for (1) paying such expenses and related expenses on time based on the requirements of relevant state departments if Midea Group is required to be liable for the payment of staff social insurance, housing provident fund and the payment required by relevant state authorities prior to this merger, (2) paying corresponding compensation for all direct and indirect losses incurred by Midea Group and its subsidiaries due to this merger, (3) indemnifying and holding harmless Midea Group and its subsidiaries in time from such expenses when Midea Group and its subsidiaries are required to pay them in advance. | 28/03/2013 | Long-standing | <b>5. So far, the payment of the staff social insurance and the housing provident fund has not brought about any controversy or potential disputes. There has been no violation of this undertaking.</b>  |
| Controlling shareholder and actual controller | Issues about asset alteration, asset flaw and   | 6. Undertakings on issues about asset alteration, asset flaw and house leasing of Midea Group and its subsidiaries<br>Midea Holding and He Xiangjian have undertaken as follows:<br>(1) Midea Holding will do its utmost to assist and urge Midea  | 28/03/2013 | Long-standing | <b>6. So far, the issues about asset alteration, asset flaw and house leasing of Midea Group and its subsidiaries have not brought about any controversy or potential disputes. There has been no violation of this undertaking. And Midea Holding shall honor this undertaking</b> |

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| er | house<br>leasing of<br>Midea<br>Group<br>and its<br>subsidiari<br>es | <p>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 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</p> |  |  | <p><b>before its expiration.</b></p> |
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|  |  | <p>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 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.</p> |  |  |  |
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|   |                         |   |  |            |                       |   |
|---|-------------------------|---|--|------------|-----------------------|---|
| Undertaking made in time of asset restructuring | Actual controller       | The Opinion in Principle on the Merger in a Share Swap & the Statement and Commitment Letter on any Shareholding Reduction Plan | 1. I agree to this merger in a share swap in principle.<br>2. I do not plan to and will not reduce my shareholding in Midea Group and/or Little Swan during the period from the share trading resumption date to the completion date of this merger in a share swap.<br>3. I'm legally bound by this commitment letter since the date of my signature. Where any loss occurs to Midea Group or Little Swan due to me violating any contents of this commitment letter, I shall bear the corresponding compensation liability according to law. | 23/10/2018 | 23/10/2018-21/06/2019 | <b>This undertaking has been fulfilled and there has been no violation of this undertaking.</b> |
|   | Controlling shareholder | The Opinion in Principle on the Merger in a Share Swap & the Statement and Commitment   | 1. The company agrees to this merger in a share swap in principle.<br>2. The company does not plan to and will not reduce its shareholding in Midea Group during the period from the share trading resumption date to the completion date of this merger in a share swap.<br>3. The company is legally bound by this commitment letter since the date of signature. Where any loss occurs to Midea Group due to the company violating any contents of this commitment letter, the company shall bear the corresponding compensation            | 23/10/2018 | 23/10/2018-21/06/2019 | <b>This undertaking has been fulfilled and there has been no violation of this undertaking.</b> |

|             |  |  |            |                       |   |
|-------------|--|--|------------|-----------------------|---|
|             | ent Letter on any Shareholding Reduction Plan                | liability according to law.  |            |                       |   |
|             | Statement on Irregularities Committed in the Past Five Years | Up to the issue date of this statement, none of the company or any of its incumbent senior management personnel received any administrative or criminal punishment (exclusive of those not related to the securities market), or was involved in any material civil lawsuit or arbitration in relation to any economic dispute, in the past five years; or is being investigated by a judicial authority for involvement in any criminal case or by the China Securities Regulatory Commission for any irregularity.   | 23/10/2018 | 23/10/2018-21/06/2019 | <b>This undertaking has been fulfilled and there has been no violation of this undertaking.</b> |
| The Company | Statement on any Shareholding Reduction Plan                 | <p>1. The Company does not plan to and will not reduce its shareholding in Little Swan during the period from the share trading resumption date to the completion date of this merger in a share swap. The shares held by the Company in Little Swan will be retired upon the completion of this merger in a share swap.</p> <p>2. The Company is legally bound by this commitment letter since the date of signature. Where any loss occurs to Little Swan due to the Company violating any contents of this commitment letter, the Company shall bear the corresponding compensation liability according to law.</p> | 23/10/2018 | 23/10/2018-21/06/2019 | <b>This undertaking has been fulfilled and there has been no violation of this undertaking.</b> |
|             | Commitment Letter on the                                     | The Company will provide relevant information to the intermediary agencies hired for this merger in a share swap in a timely manner; warrant that the information provided is true,  | 23/10/2018 | 23/10/2018-21/06/2019 | <b>This undertaking has been fulfilled and there has been no violation of this undertaking.</b> |



|                                   |            |   |                   |                              |  |
|-----------------------------------|------------|---|-------------------|------------------------------|--|
|                                   |            | <p>Truthfulness, Accuracy and Completeness of the Information Provided</p> <p>accurate, complete and free of any misrepresentations, misleading statements or material omissions; and shall together be wholly liable for the truthfulness, accuracy and completeness of such information. Where any loss occurs to any investor due to any misrepresentations, misleading statements or material omissions in the information provided, the Company shall bear the corresponding compensation liability according to law.</p>  |                   |                              |  |
|                                   |            | <p>Statement on Punishments Received and Credibility Issues</p> <p>1. Up to the issue date of this statement, the Company is not being investigated by a judicial authority for involvement in any criminal case or by the China Securities Regulatory Commission for any irregularity.</p> <p>2. Up to the issue date of this statement, the Company received no administrative or criminal punishments (exclusive of those not related to the securities market) and was not involved in any material civil lawsuit or arbitration in relation to any economic dispute; nor did it receive any administrative supervision measures from the China Securities Regulatory Commission or disciplinary punishments from the stock exchange for failing to repay any debt of a large amount on time or fulfill any commitment, or have any other material credibility issue, in the past five years.</p> | <p>23/10/2018</p> | <p>23/10/2018-21/06/2019</p> | <p><b>This undertaking has been fulfilled and there has been no violation of this undertaking.</b></p> |
| <p>Whether the undertaking is</p> | <p>Yes</p> |   |                   |                              |  |

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

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

Applicable N/A

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

Applicable N/A

No such cases in the Reporting Period.

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

Applicable N/A

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

Applicable N/A

For changes in accounting policies, accounting estimates and accounting methods, see Note 2, (32) in "Section IX Financial Report" of this report.

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

Applicable N/A

No such cases in the Reporting Period.

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

Applicable N/A

For the main subsidiaries included in the consolidated financial statements of the current year, please refer to Note 5 and Note 6 to the Financial Statements in "Section IX Financial Report". For the newly consolidated companies, see Note 5, 5.1, (a), and they primarily include: Midea Electrics Egypt, Anhui

Welling Auto Parts Co. , Ltd., Wuxi Little Swan Electric Co., Ltd., Guangdong Swisslog Technology Co., Ltd., Guangdong Yueyun Industrial Internet Innovative Technology Co., Ltd., Midea Refrigeration Equipment (Thailand) Co., Ltd. and Tianjin Midea Commercial Factoring Co., Ltd. For the companies deconsolidated in the current year, see Note 5, 5.1, (b).

## 9. Engagement and Disengagement of CPA Firm

CPA firm at present

|  |                                    |
|--|------------------------------------|
| Name of the domestic CPA firm  | PricewaterhouseCoopers China (LLP) |
| The Company's payment to the domestic CPA firm   | RMB8.965 million                   |
| Consecutive years of the audit service provided by the domestic CPA firm                                       | Five years                         |
| Names of the certified public accountants from the domestic CPA firm   | Huang Meimei and Qiu Xiaoying      |
| Consecutive years of the audit service provided by the certified public accountants from the domestic CPA firm | Five years                         |

Whether the CPAs firm was changed in the current period

Yes  No

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

Applicable  N/A

The Company appointed PricewaterhouseCoopers China (LLP) as the internal control auditor for the current year. The total amount paid by the Company to PricewaterhouseCoopers China (LLP) for its financial statement and internal control audit services for 2019 was RMB8.965 million.

Midea Group appointed CITIC Securities Co., Ltd. to be the independent financial advisor for its merger with Little Swan in a share swap via A-share offering and the related transaction. On 21 June 2019, the total 323,657,476 new shares issued by the Company for this merger were allowed for public trading at the Shenzhen Stock Exchange. Upon the completion of this merger, Little Swan would be delisted and de-registered as a corporate body, and Midea Group or its wholly-owned subsidiary would take over all the assets, liabilities, business, personnel, contracts and all the other rights and obligations of Little Swan.

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

Applicable N/A

## **11. Bankruptcy and Reorganization**

Applicable N/A

No such cases in the Reporting Period.

## **12. Material Litigation and Arbitration**

Applicable N/A

No such cases in the Reporting Period.

## **13. Punishments and Rectifications**

Applicable N/A

No such cases in the Reporting Period.

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

Applicable N/A

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

Applicable N/A

### **A. Overview of the First Stock Option Incentive Scheme**

a. The Company convened the 10th Meeting of the 3rd Board of Directors on 18 April 2019, at which the Proposal for the Retirement of Unexercised Stock Options upon Expiry was reviewed and approved. As the First Stock Option Incentive Scheme expired on 17 February 2019, the Company agreed to retire the 56,250 and 90,000 stock options that had been previously granted to Chen Lingzhi and Yang Hui respectively but was unexercised upon expiry.

During the Reporting Period, 2,666,976 shares were exercised under the First Stock Option Incentive Scheme.

## **B. Overview of the Second Stock Option Incentive Scheme**

a. The Company disclosed the Announcement on the 2018 Annual Profit Distribution on 23 May 2019. Based on the total 6,565,827,689 shares eligible for profit distribution (the total share capital of 6,605,842,687 shares minus the repurchased 40,014,998 shares), and in accordance with the principle of an unchanged total profit amount to be distributed, the Company would distribute RMB13.039620 in cash per 10 shares to shareholders. The record date was 29 May 2019 and the ex-date was 30 May 2019.

b. The Company convened the 12th Meeting of the 3rd Board of Directors on 30 May 2019, at which the Proposal for the Adjustments to the Exercise Price for the Second Stock Option Incentive Scheme was reviewed and approved. As the 2018 Annual Profit Distribution had been carried out, the exercise price for the Second Stock Option Incentive Scheme was revised from RMB17.36 to RMB16.06 per share.

During the Reporting Period, 17,546,786 shares were exercised under the Second Stock Option Incentive Scheme.

## **C. Overview of the Third Stock Option Incentive Scheme**

a. The Company convened the 12th Meeting of the 3rd Board of Directors on 30 May 2019, at which the Proposal for the Adjustments to the Exercise Price for the Third Stock Option Incentive Scheme was reviewed and approved. As the 2018 Annual Profit Distribution had been carried out, the exercise price for the Third Stock Option Incentive Scheme was revised from RMB19.15 to RMB17.85 per share.

b. The Company convened the 13th Meeting of the 3rd Board of Directors on 1 July 2019, at which the Proposal for the Adjustments to the Incentive Receivers and Their Exercisable Stock Options of the Third Stock Option Incentive Scheme was reviewed and approved. As such, it was agreed to adjust the incentive receivers and their exercisable stock options for the Third Stock Option Incentive Scheme due to the departure, positional changes, low performance appraisals or other factors of some incentive

receivers. Upon the adjustments, the number of incentive receivers decreased from 848 to 735, and the number of locked-up stock options granted to them was also reduced from 38,070,000 to 32,905,000.

The Proposal for Matters Related to the Stock Option Exercise for the Third Exercise Period of the Third Stock Option Incentive Scheme was also considered and approved. Because the exercise conditions have grown mature for the third exercise period, a total of 735 incentive receivers who have been verified for the Third Stock Option Incentive Scheme have been allowed to exercise 32,905,000 stock options in the third exercise period (ended 27 June 2021).

The Proposal for the Retirement of Unexercised Stock Options upon Expiry was also reviewed and approved. As the first exercise period of the Third Stock Option Incentive Scheme expired, the Company agreed to retire the 59,999 and 65,000 stock options that had been previously granted to Yang Hui and Yuan Dong respectively but was unexercised upon expiry.

During the Reporting Period, 33,192,625 shares were exercised under the Third Stock Option Incentive Scheme.

#### **D. Overview of the Fourth Stock Option Incentive Scheme**

a. The Company convened the 12rd Meeting of the 3rd Board of Directors on 30 May 2019, at which the Proposal for the Adjustments to the Exercise Price, Incentive Receivers and Their Exercisable Stock Options for the Fourth Stock Option Incentive Scheme was reviewed and approved. As the 2018 Annual Profit Distribution had been carried out, the exercise price for the Fourth Stock Option Incentive Scheme was revised from RMB31.52 to RMB30.22 per share. Meanwhile, it was agreed to adjust the incentive receivers and their exercisable stock options for the Fourth Stock Option Incentive Scheme due to the departure, positional changes, low individual or business division performance appraisals or other factors of some incentive receivers. Upon the adjustments, the number of incentive receivers decreased from 1,354 to 1,196, and the number of locked-up stock options granted to them was also reduced from 60,676,000 to 51,122,200.

b. The Proposal for Matters Related to the Stock Option Exercise for the Second Exercise Period of the Fourth Stock Option Incentive Scheme was also considered and approved. Because the exercise

conditions have grown mature for the second exercise period, a total of 1,152 incentive receivers who have been verified for the Fourth Stock Option Incentive Scheme have been allowed to exercise 24,382,200 stock options in the first exercise period (ended 11 May 2020).

During the Reporting Period, 29,308,811 shares were exercised under the Fourth Stock Option Incentive Scheme.

### **E. Overview of the Fifth Stock Option Incentive Scheme**

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

The Company originally intended to grant 5,540,000 reserved stock options to 100 incentive receivers. However, due to two incentive receivers failing to open a securities account on time and one incentive receiver's departure from the Company before the registration of the grant, they were no longer eligible for the Fifth Stock Option Incentive Scheme. Therefore, the number of incentive receivers who were registered for the reserved stock options of the Fifth Stock Option Incentive Scheme was 97, down from 100, with 5,340,000 stock options, down from 5,540,000. On 10 May 2019, the Company completed the registration of the grant of reserved stock options under the Fifth Stock Option Incentive Scheme.

b. The Company convened the 12th Meeting of the 3rd Board of Directors on 30 May 2019, at which the Proposal for the Adjustments to the Exercise Price for the Fifth Stock Option Incentive Scheme was reviewed and approved. As the 2018 Annual Profit Distribution had been carried out, the exercise price for the first phase of the grant was revised from RMB56.34 to RMB55.04 per share, and the exercise price for the reserved stock options from RMB47.17 to RMB45.87 per share.

### **F. Overview of the Sixth Stock Option Incentive Scheme**

a. On 18 April 2019, the Sixth Stock Option Incentive Scheme (Draft) of Midea Group Co., Ltd (hereinafter



referred to as the “Sixth Stock Option Incentive Scheme (Draft)”) and its abstract were reviewed and approved at the 10th Meeting of the 3rd Board of Directors, and the incentive receiver list for the Sixth Stock Option Incentive Scheme (Draft) was examined at the 7th Meeting of the 3rd Supervisory Committee.

b. On 13 May 2019, the Company convened the 2018 Annual General Meeting of Shareholders, at which the Proposal on the Sixth Stock Option Incentive Scheme (Draft) and Its Abstract, the Proposal on the Implementation and Appraisal Measures for the Sixth Stock Option Incentive Scheme, the Proposal for Asking the Meeting of Shareholders to Authorize the Board to Handle Matters Related to the Sixth Stock Option Incentive Scheme and other relevant proposals were reviewed and approved.

For this Incentive Scheme, the Company intended to grant 47,240,000 stock options to 1,150 incentive receivers with the exercise price being RMB54.17 per share.

c. In light of the authorization given at the 2018 Annual General Meeting of Shareholders, the Company convened the 12th Meeting of the 3rd Board of Directors on 30 May 2019, at which the Proposal for the Adjustments to the Exercise Price, Incentive Receiver List and Number of Stock Options to Be Granted for the Sixth Stock Option Incentive Scheme, the Proposal for the Determination of the Grant Date for the Sixth Stock Option Incentive Scheme and the Proposal for the Grant-Related Matters for the Sixth Stock Option Incentive Scheme were reviewed and approved. As such, the Company agreed to grant 47,140,000 stock options to 1,146 incentive receivers on 30 May 2019 with the exercise price revised from RMB54.17 per share to RMB52.87 per share.

The Company originally intended to grant 47,140,000 stock options to 1,146 incentive receivers. However, due to 15 incentive receivers’ departure from the Company or position change, they were no longer eligible for the Sixth Stock Option Incentive Scheme. Therefore, the Board adjusted the number of incentive receivers from 1,146 to 1,131, and the number of stock options from 47,140,000 to 46,540,000. On 5 July 2019, the Company completed the registration of the grant of stock options under the Sixth Stock Option Incentive Scheme.

## G. Overview of the 2017 Restricted Share Incentive Scheme

a. The Proposal on the Repurchase and Retirement of Certain Incentive Shares under the 2017 and 2018 Restricted Share Incentive Schemes was approved at the 5th Meeting of the 3rd Board of Directors on 21 January 2019. As such, it was agreed to repurchase and retire 1,775,917 restricted shares that had been granted to 30 personnel but were still in lockup under the 2017 Restricted Share Incentive Scheme, for the reasons of their departure from the Company, violation of company rules, business unit's 2017 performance appraisal result being "just so-so", position change or other factors.

Also, the Proposal on the Satisfaction of the Conditions for the First Unlocking Period for the Reserved Restricted Shares of the 2017 Restricted Share Incentive Scheme was approved at the aforesaid meeting. A total of 50 personnel were eligible for this unlocking, with 1,629,000 restricted shares unlocked and allowed for public trading on 20 February 2019.

b. The Company submitted the application to China Securities Depository and Clearing Co., Ltd. (Shenzhen branch) (hereinafter referred to as "CSDC Shenzhen") for the retirement of the 1,775,917 restricted shares under the 2017 Restricted Share Incentive Scheme that had been granted but were still in lockup. On 3 April 2019, as confirmed by CSDC Shenzhen, the retirement of the said restricted shares had been completed.

c. The Company convened the 12th Meeting of the 3rd Board of Directors on 30 May 2019, at which the Proposal for the Adjustments to the Repurchase Price for the 2017 Restricted Share Incentive Scheme was reviewed and approved. As the 2018 Annual Profit Distribution had been carried out, the repurchase price for the first phase of the grant was revised from RMB14.66 to RMB13.36 per share, and the repurchase price for the reserved restricted shares from RMB26.79 to RMB25.49 per share.

Also, the Proposal on the Repurchase and Retirement of Certain Incentive Shares under the 2017 Restricted Share Incentive Scheme was approved at the said meeting. As such, it was agreed to repurchase and retire 1,580,750 restricted shares that had been granted to 35 personnel but were still in lockup, for the reasons of their departure from the Company, business unit's 2018 performance appraisal result being "just so-so" or "bad", position change, individual performance appraisal result being

“substandard” or other factors.

Also, the Proposal on the Satisfaction of the Conditions for the Second Unlocking Period for the First Phase of the 2017 Restricted Share Incentive Scheme was approved at the aforesaid meeting. A total of 100 personnel were eligible for this unlocking, with 5,564,583 restricted shares unlocked and allowed for public trading on 28 June 2019.

d. The Company submitted the application to CSDC Shenzhen for the retirement of the 1,580,750 restricted shares under the 2017 Restricted Share Incentive Scheme that had been granted but were still in lockup. On 23 July 2019, as confirmed by CSDC Shenzhen, the retirement of the said restricted shares had been completed.

#### **H. Overview of the 2018 Restricted Share Incentive Scheme**

a. The Proposal on the Repurchase and Retirement of Certain Incentive Shares under the 2017 and 2018 Restricted Share Incentive Schemes was approved at the 5th Meeting of the 3rd Board of Directors on 21 January 2019. As such, it was agreed to repurchase and retire 2,237,500 restricted shares that had been granted to 47 personnel but were still in lockup under the 2018 Restricted Share Incentive Scheme, for the reasons of their departure from the Company, position change or other factors.

b. The Company submitted the application to CSDC Shenzhen for the retirement of the 2,237,500 restricted shares under the first phase of the 2018 Restricted Share Incentive Scheme that had been granted but were still in lockup. On 3 April 2019, as confirmed by CSDC Shenzhen, the retirement of the said restricted shares had been completed.

c. In light of the authorization given at the 2017 Annual General Meeting of Shareholders, the Company convened the 8th Meeting of the 3rd Board of Directors on 11 March 2019, at which the Proposal on Grant of 2018 Reserved Restricted Shares to Incentive Receivers was reviewed and approved. As such, the Company agreed to grant 2,560,000 reserved restricted shares to 34 incentive receivers on 11 March 2019 at the price of RMB23.59 per share.

d. The Company had intended to grant 2,560,000 reserved restricted shares to 34 incentive receivers.

However, after the date of grant, two incentive receivers gave up subscription and the 140,000 reserved restricted shares that had been granted to them were cancelled. As such, the Company actually granted 2,420,000 reserved restricted shares to 32 incentive receivers. Zhonghui Certified Public Accountants LLP issued on 27 April 2019 the Capital Verification Report ZHKY [2019] No. 2446, verifying the corresponding increases in the Company's registered capital and share capital and the payments thereof as of 23 April 2019, which resulted from the private placement of restricted A-shares as reserved restricted shares to 32 personnel under the 2018 Restricted Share Incentive Scheme. As verified, as of 23 April 2019, the Company had received RMB57,087,800.00 from 32 incentive receivers for reserved restricted share subscription, representing an increase of RMB2,420,000.00 in share capital and an increase of RMB54,667,800.00 in capital reserves.

e. As per the CSRC's Measures for the Administration of Equity Incentives of Listed Companies, and as confirmed by the Shenzhen Stock Exchange and CSDC Shenzhen, the reserved shares in the Company's 2018 Restricted Share Incentive Scheme had been registered and were allowed for public trading on 10 May 2019.

f. The Proposal on the Cancellation of the Remaining Reserved Restricted Shares for 2018 was approved at the 10th Meeting of the 3rd Board of Directors on 18 April 2019. The Company decided to cancel the remaining 240,000 such shares as there were no other personnel that met the conditions for the restricted share incentives within the effective period.

g. The Company convened the 12th Meeting of the 3rd Board of Directors on 30 May 2019, at which the Proposal for the Adjustments to the Repurchase Price for the 2018 Restricted Share Incentive Scheme was reviewed and approved. As the 2018 Annual Profit Distribution had been carried out, the repurchase price for the first phase of the grant was revised from RMB27.57 to RMB26.27 per share, and the repurchase price for the reserved restricted shares from RMB23.59 to RMB22.29 per share.

Also, the Proposal on the Repurchase and Retirement of Certain Incentive Shares under the 2018 Restricted Share Incentive Scheme was approved at the said meeting. As such, it was agreed to repurchase and retire 1,238,500 restricted shares that had been granted to 21 personnel but were still in lockup, for the reasons of their departure from the Company, position change or other factors.

h. The Company submitted the application to CSDC Shenzhen for the retirement of the 1,238,500 restricted shares under the first phase of the 2018 Restricted Share Incentive Scheme that had been granted but were still in lockup. On 23 July 2019, as confirmed by CSDC Shenzhen, the retirement of the said restricted shares had been completed.

### **I. Overview of the 2019 Restricted Share Incentive Scheme**

a. On 18 April 2019, the Proposal on the 2019 Restricted Share Incentive Scheme (Draft) and Its Abstract (hereinafter referred to as the “2019 Restricted Share Incentive Scheme (Draft)”) was reviewed and approved at the 10th Meeting of the 3rd Board of Directors, and the incentive receiver list for the 2019 Restricted Share Incentive Scheme (Draft) was examined at the 7th Meeting of the 3rd Supervisory Committee.

b. On 13 May 2019, the Company convened the 2018 Annual General Meeting of Shareholders, at which the Proposal on the 2019 Restricted Share Incentive Scheme (Draft) and Its Abstract, the Proposal on the Implementation and Appraisal Measures for the 2019 Restricted Share Incentive Scheme, the Proposal for Asking the Meeting of Shareholders to Authorize the Board to Handle Matters Related to the 2019 Restricted Share Incentive Scheme and other relevant proposals were reviewed and approved. For this scheme, the Company intended to grant 30,350,000 restricted shares to 451 incentive receivers with the price being RMB27.09/share.

c. In light of the authorization given at the 2018 Annual General Meeting of Shareholders, the Company convened the 12th Meeting of the 3rd Board of Directors on 30 May 2019, at which the Proposal for the Adjustments to the Grant Price of the 2019 Restricted Share Incentive Scheme, the Proposal for the Determination of the Grant Date for the 2019 Restricted Share Incentive Scheme and the Proposal for the Grant-Related Matters for the 2019 Restricted Share Incentive Scheme were reviewed and approved. As such, the Company agreed to grant 30,350,000 restricted shares to 451 incentive receivers on 30 May 2019 under the said scheme with the price revised from RMB27.09 per share to RMB25.79 per share.

d. The Company had intended to grant 30,350,000 restricted shares to 451 incentive receivers. However, after the date of grant, 28 incentive receivers left the Company, experienced position change or gave up

subscription, and the 1,790,000 restricted shares that had been granted to them were cancelled. As such, the Company actually granted 28,560,000 restricted shares to 423 incentive receivers. Zhonghui Certified Public Accountants LLP issued on 25 June 2019 the Capital Verification Report ZHKY [2019] No. 3970, verifying the payments as of 24 June 2019 by the 423 incentive receivers for share subscription under the 2019 Restricted Share Incentive Scheme. As verified, as of 24 June 2019, the Company had received RMB736,562,400.00 from the 423 incentive receivers for restricted share subscription. After the grant, the total share capital of the Company remained the same, and the restricted shares rose by 28,560,000 due to the equity incentive and the unrestricted public shares decreased by 28,560,000.

e. As per the CSRC's Measures for the Administration of Equity Incentives of Listed Companies, and as confirmed by the Shenzhen Stock Exchange and CSDC Shenzhen, the shares under the Company's 2019 Restricted Share Incentive Scheme had been registered and were allowed for public trading on 10 July 2019.

#### **J. Overview of the First Global Partner Stock Ownership Scheme**

a. The Proposal on the Extended Duration of the First Global Partner Stock Ownership Scheme was approved at the 7th Meeting of the 3rd Board of Directors on 22 February 2019. As proposed by the administrative committee of this scheme, the Board agreed to extend the duration of this scheme from four years to five years, i.e. to 21 April 2020.

b. The Company disclosed on 2 July 2019 the Announcement on the Completion of Share Clearing & Early Termination of the First Global Partner Stock Ownership Scheme. As per the relevant provisions of the First Core Management and Global Partner Stock Ownership Scheme of Midea Group Co., Ltd. (Draft), this scheme was completed and terminated ahead of schedule.

#### **K. Overview of the Second Global Partner Stock Ownership Scheme**

a. The Company disclosed the Reminder of the Completion of Vesting under the Second Global Partner Stock Ownership Scheme on 30 April 2019. As such, the final 30% installment of shares under the Second Global Partner Stock Ownership Scheme had been vested, marking the completion of this scheme. A total of 1,684,540 shares had been vested in the Company's incumbent senior management (Fang

Hongbo, Yin Bitong, Gu Yanmin, Wang Jianguo and Wang Jinliang), and a total of 1,179,170 shares had been vested in other incentive receivers, totaling 2,863,710 shares. The remaining unvested 1,010,880 shares and the corresponding dividends (if any) had been taken back by the administrative committee of this scheme for no compensation, and would be sold at a proper timing before this scheme expired. The earnings on the sale would belong to the Company.

#### **L. Overview of the Third Global Partner Stock Ownership Scheme**

a. The Company disclosed the Announcement on the Share Allocation and Vesting under a Partner Stock Ownership Scheme on 22 May 2019. As such, the second 30% installment of shares under the Third Global Partner Stock Ownership Scheme was vested. A total of 478,724 shares were vested in the Company's incumbent senior management (Fang Hongbo, Yin Bitong, Gu Yanmin, Wang Jianguo, Xiao Mingguang and Wang Jinliang), and a total of 215,640 shares were vested in other incentive receivers.

Due to certain incentive receivers' position change or departure from the Company before the second vesting period, the unvested 138,005.5 shares of the second installment of shares under the Third Global Partner Stock Ownership Scheme and the corresponding dividends (if any) had been taken back by the administrative committee of this scheme for no compensation, and would be sold at a proper timing before this scheme expired. The earnings on the sale would belong to the Company.

#### **M. Overview of the Fourth Global Partner Stock Ownership Scheme**

a. The Company's performance requirement for the Fourth Global Partner Stock Ownership Scheme is a weighted average ROE not lower than 20% for 2018. According to the 2018 Annual Auditor's Report for Midea Group Co., Ltd. issued by PricewaterhouseCoopers China (LLP), this ROE requirement has been met at 25.66%.

b. The Company disclosed the Announcement on the Share Allocation and Vesting under a Partner Stock Ownership Scheme on 22 May 2019. A total of 3,318,540 of the Company's shares were purchased for this scheme. As per the Fourth Global Partner Stock Ownership Scheme (Draft), the administrative committee of this scheme confirmed the number of shares to be granted to each partner, with the total shares to be granted being 2,714,700 shares (1,564,200 shares for senior management Fang Hongbo,

Yin Bitong, Gu Yanmin, Wang Jianguo and Wang Jinliang, and the other 1,150,500 shares for other core management personnel).

c. Due to certain incentive receivers' position change or departure from the Company in the duration of the Fourth Global Partner Stock Ownership Scheme, there are remained 603,840 shares unallocated under this scheme. As per the Fourth Global Partner Stock Ownership Scheme (Draft), these unallocated shares and the corresponding dividends (if any) had been taken back by the administrative committee of this scheme for no compensation, and would be sold at a proper timing before this scheme expired. The earnings on the sale would belong to the Company.

#### **N. Overview of the First Business Partner Stock Ownership Scheme**

a. The Company's performance requirement for the First Business Partner Stock Ownership Scheme is a weighted average ROE not lower than 20% for 2018. According to the 2018 Annual Auditor's Report for Midea Group Co., Ltd. issued by PricewaterhouseCoopers China (LLP), this ROE requirement has been met at 25.66%.

b. The Company disclosed the Announcement on the Share Allocation and Vesting under a Partner Stock Ownership Scheme on 22 May 2019. A total of 1,779,300 of the Company's shares were purchased for this scheme. As per the First Business Partner Stock Ownership Scheme (Draft), the administrative committee of this scheme confirmed the number of shares to be granted to each partner, with the total shares to be granted being 1,151,687 shares (182,566 shares for senior management Zhang Xiaoyi, Xiao Mingguang, Hu Ziqiang, Liu Min and Jiang Peng, and the other 969,121 shares for other core management personnel).

c. Due to certain incentive receivers' position change or departure from the Company in the duration of the First Business Partner Stock Ownership Scheme, there are remained 627,613 shares unallocated under this scheme. As per the First Business Partner Stock Ownership Scheme (Draft), these unallocated shares and the corresponding dividends (if any) had been taken back by the administrative committee of this scheme for no compensation and belonged to the Company. In this case, the Company still had to return the performance bonuses corresponding to these unallocated shares under this scheme to the



relevant senior management.

### **O. Overview of the Fifth Global Partner Stock Ownership Scheme**

a. The Fifth Core Management and Global Partner Stock Ownership Scheme was approved at the 10th Meeting of the 3rd Board of Directors on 18 April 2019 and the 2018 Annual General Meeting of Shareholders on 13 May 2019. The shares for this scheme would be obtained from the Company's securities account for repurchase in a non-transaction transfer and put into the securities account of "Midea Group Co., Ltd.—the Fifth Employee Stock Ownership Scheme" for management.

b. As of 30 June 2019, the Company cumulatively repurchased 40,014,998 shares (0.5764% of the Company's total share capital as of that date) through centralized bidding in its securities account for repurchase at an average price of RMB49.79/share (RMB1,992,451,807.06 in total, exclusive of trading fees), which was funded by the Company's special fund of RMB185.82 million for this scheme. With the said average repurchase price as the price for transferring the shares in the repurchase securities account to the securities account of the Fifth Global Partner Stock Ownership Scheme, the shares to be transferred would be 3,732,075.

c. According to the Confirmation of Securities Transfer received by the Company from CSDC Shenzhen on 9 July 2019, 3,732,075 shares (0.0537% of the Company's total share capital) had been transferred from the Company's securities account for repurchase to the securities account of "Midea Group Co., Ltd.—the Fifth Employee Stock Ownership Scheme" in a non-transaction transfer on 8 July 2019. As required by the Fifth Global Partner Stock Ownership Scheme (Draft), the shares transferred shall be locked up for no less than 12 months from the disclosure date of the announcement on the completion of the transfer from the Company's securities account for repurchase. Therefore, the shares transferred to the securities account of the Fifth Global Partner Stock Ownership Scheme would be locked up from 11 July 2019 to 10 July 2020.

### **P. Overview of the Second Business Partner Stock Ownership Scheme**

a. The Second Core Management and Business Partner Stock Ownership Scheme was approved at the 10th Meeting of the 3rd Board of Directors on 18 April 2019 and the 2018 Annual General Meeting of

Shareholders on 13 May 2019. The shares for this scheme would be obtained from the Company's securities account for repurchase in a non-transaction transfer and put into the securities account of "Midea Group Co., Ltd.—the Sixth Employee Stock Ownership Scheme" for management.

b. The Second Business Partner Stock Ownership Scheme was funded by the Company's special fund and the performance bonuses for senior management of RMB93 million. With the average repurchase price as the price for transferring the shares in the repurchase securities account to the securities account of the Second Business Partner Stock Ownership Scheme, the shares to be transferred would be 1,867,845.

c. According to the Confirmation of Securities Transfer received by the Company from CSDC Shenzhen on 15 July 2019, 1,867,845 shares (0.0269% of the Company's total share capital) had been transferred from the Company's securities account for repurchase to the securities account of "Midea Group Co., Ltd.—the Sixth Employee Stock Ownership Scheme" in a non-transaction transfer on 12 July 2019. As required by the Second Business Partner Stock Ownership Scheme (Draft), the shares transferred shall be locked up for no less than 12 months from the disclosure date of the announcement on the completion of the transfer from the Company's securities account for repurchase. Therefore, the shares transferred to the securities account of the Second Business Partner Stock Ownership Scheme would be locked up from 16 July 2019 to 15 July 2020.

## 16. Significant Related Transactions

### 16.1 Related transactions arising from routine operation

√Applicable □N/A

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

|  |  |             |                      |  |    |           | (%)   |           |    |                        |   |           |                   |
|--|--|-------------|----------------------|--|----|-----------|-------|-----------|----|------------------------|---|-----------|-------------------|
| Inforenvironment Technology Group Co., Ltd.  | Controlled by family member of Company's actual controller | Procurement | Procurement of goods | Market price   | -  | 1,163,650 | 0.64% | 1,500,000 | No | Payment after delivery | - | 2019-4-20 | www.cninfo.com.cn |
| Orinko Plastics Group  | Controlled by family member of Company's actual controller | Procurement | Procurement of goods | Market price   | -  | 1,159,700 | 0.63% | 1,700,000 | No | Payment after delivery | - | 2019-4-20 | www.cninfo.com.cn |
| Midea Real Estate Holding Limited  | Controlled by Company's actual controller                  | Sale        | Sale of goods        | Market price   |    | 105,380   | 0.04% | 150,000   | No | Payment after delivery | - | 2019-4-20 | www.cninfo.com.cn |
| Total  |  |             |                      | --   | -- | 2,428,730 | --    | 3,350,000 | -- | --                     |   | --        | --                |
| Details of any sales return of a large amount  |  |             |                      | Zero   |    |           |       |           |    |                        |   |           |                   |
| Give the actual situation in the Reporting Period (if any) where a forecast had been made for the total amounts of routine related-party transactions by type to occur in the current period |  |             |                      | The line for routine related transactions between the Company and the related parties and their subsidiaries did not exceed the total amount of routine related transactions estimated by the Company by type. |    |           |       |           |    |                        |   |           |                   |
| Reason for any significant difference between the transaction price and the market reference price (if applicable)   |  |             |                      | N/A  |    |           |       |           |    |                        |   |           |                   |

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

Applicable N/A

No such cases in the Reporting Period.

## 16.3 Related 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 transactions

Applicable N/A

a. The Proposal for Related Transactions Regarding Making Deposits in and Obtaining Loans from Shunde Rural Commercial Bank in 2019 was reviewed and approved at the 10th Meeting of the 3rd Board of Directors held on 18 April 2019 and later at the 2018 Annual General Meeting of Shareholders held on 13 May 2019.

In 2019, the deposit balance of the Company in Shunde Rural Commercial Bank shall not exceed RMB5 billion and neither shall the credit balance provided by the bank to the Company exceed RMB5 billion.

b. In order to diversify the Group's portfolio of long-term assets, as well as promote technological innovation and development in emerging industries, Midea Innovation Investment Co., Ltd., a wholly-owned subsidiary of the Company, took part in the establishment of an industry investment fund, Guangdong Midea Smart Technology Industry Investment Fund (LLP), in January 2019 as one of the limited partners.

In order to further optimize its business layout, foster quality programs for its strategies and business,

and boost its comprehensive competitiveness, the Company intended to increase the subscribed capital contribution by RMB300 million via Midea Innovation Investment, bringing the cumulatively subscribed capital contribution to the aforesaid industry investment fund to RMB600 million.

Index to the announcement about the said related transactions disclosed

| Title of announcement   | Disclosure date | Disclosure website |
|---|-----------------|--------------------|
| Announcement on Related Transactions Regarding Making Deposits in and Obtaining Loans from Shunde Rural Commercial Bank in 2019                     | 20/04/2019      | www.cninfo.com.cn  |
| Announcement on A Wholly-Owned Subsidiary Taking Part in the Establishment of an Industry Investment Fund and the Related Transaction               | 09/01/2019      | www.cninfo.com.cn  |
| Announcement on A Wholly-Owned Subsidiary Increasing the Subscribed Capital Contribution to an Industry Investment Fund and the Related Transaction | 11/01/2020      | www.cninfo.com.cn  |

## 17. Significant Contracts and Their Execution

### 17.1 Trusteeship, contracting and leasing

#### 17.1.1 Trusteeship

Applicable N/A

No such cases in the Reporting Period.

#### 17.1.2 Contracting

Applicable N/A

No such cases in the Reporting Period.

#### 17.1.3 Leasing

Applicable N/A

No such cases in the Reporting Period.

### 17.2 Major Guarantees

Applicable N/A

## 17.2.1 Guarantees provided

Unit: RMB'000

| Guarantees provided by the Company and its subsidiaries for external parties (excluding those for subsidiaries) |  |                   |  |                         |   |                   |            |                                      |
|---|--|-------------------|--|-------------------------|---|-------------------|------------|--------------------------------------|
| Guaranteed party  | Disclosure date of the guarantee line announcement | Line of guarantee | Actual occurrence date (date of agreement signing) | Actual guarantee amount | Type of guarantee   | Term of guarantee | Due or not | Guarantee for a related party or not |
| No such cases   |  |                   |  |                         |   |                   |            |                                      |
| Total external guarantee line approved during the Reporting Period (A1)   |  |                   |  | 0                       | Total actual external guarantee amount during the Reporting Period (A2)         | 0                 |            |                                      |
| Total approved external guarantee line at the end of the Reporting Period (A3)                                  |  |                   |  | 0                       | Total actual external guarantee balance at the end of the Reporting Period (A4) | 0                 |            |                                      |
| Guarantees provided by the Company for its subsidiaries   |  |                   |  |                         |   |                   |            |                                      |
| Guaranteed party  | Disclosure date of the guarantee line announcement | Line of guarantee | Actual occurrence date (date of agreement signing) | Actual guarantee amount | Type of guarantee   | Term of guarantee | Due or not | Guarantee for a related party or not |
| Midea Group Finance Co., Ltd.   | 2019-4-20  | 9,900,000         | -  | -                       | Joint liability   | One year          | No         | No                                   |
| GD Midea Air-Conditioning Equipment Co.,Ltd.  | 2019-4-20  | 12,426,000        | 2019-1-10  | 1,147,910               | Joint liability   | One year          | No         | No                                   |
| Guangzhou Hualing Refrigerating Equipment Co.,Ltd.  | 2019-4-20  | 1,163,000         | -  | -                       | Joint liability   | One year          | No         | No                                   |
| Foshan Midea Carrier Air-Conditioning Equipment Co., Ltd.   | 2019-4-20  | 418,000           | -  | -                       | Joint liability   | One year          | No         | No                                   |
| Guangdong Midea Precision Molding Technology Co., Ltd.  | 2019-4-20  | 98,400            | -  | -                       | Joint liability   | One year          | No         | No                                   |
| Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.  | 2019-4-20  | 3,854,000         | 2019-1-10  | 756,060                 | Joint liability   | One year          | No         | No                                   |
| Guangdong Witol Vacuum Electronic Manufacture Co.,Ltd   | 2019-4-20  | 120,000           | 2019-1-16  | 16,470                  | Joint liability   | One year          | No         | No                                   |

|   |           |           |           |           |                 |          |    |    |
|---|-----------|-----------|-----------|-----------|-----------------|----------|----|----|
| Guangdong De Yi Jie Appliances Co., Ltd.                                  | 2019-4-20 | 360,000   | -         | -         | Joint liability | One year | No | No |
| GD Midea Heating & Ventilating Equipment Co., Ltd.                        | 2019-4-20 | 1,789,800 | 2019-1-9  | 117,840   | Joint liability | One year | No | No |
| Guangdong Midea-SIIX Electronics Co., Ltd.                                | 2019-4-20 | 172,000   | 2019-1-31 | 70        | Joint liability | One year | No | No |
| Guangdong Midea Commercial Air-Conditioning Equipment Co., Ltd.           | 2019-4-20 | 200,000   | -         | -         | Joint liability | One year | No | No |
| Guangdong Midea Consumer Electric Manufacturing Co., Ltd.                 | 2019-4-20 | 385,000   | 2019-1-10 | 267,360   | Joint liability | One year | No | No |
| Foshan Shunde Midea Electrical Heating Appliances Manufacturing Co., Ltd. | 2019-4-20 | 540,000   | 2019-1-23 | 589,430   | Joint liability | One year | No | No |
| GD Midea Environment Appliances Mfg. Co.,Ltd.                             | 2019-4-20 | 752,000   | 2019-1-10 | 1,630     | Joint liability | One year | No | No |
| Guangdong Midea Cuchen Company Ltd.                                       | 2019-4-20 | 54,000    | -         | -         | Joint liability | One year | No | No |
| GD Midea Caffitaly Coffee Machine Manufacturing Co., Ltd.                 | 2019-4-20 | 30,000    | -         | -         | Joint liability | One year | No | No |
| Main Power Inno Tech (Shenzhen) Manufacturing Co., Ltd.                   | 2019-4-20 | 24,000    | -         | -         | Joint liability | One year | No | No |
| Foshan Shunde Midea Washing Appliances Manufacturing Co., Ltd.            | 2019-4-20 | 2,080,000 | 2019-1-10 | 120,070   | Joint liability | One year | No | No |
| Guangdong Midea Kitchen & Bath Appliances Manufacturing Co., Ltd.         | 2019-4-20 | 24,000    | -         | -         | Joint liability | One year | No | No |
| Foshan Shunde Midea Water Dispenser Manufacturing Company Limited         | 2019-4-20 | 694,000   | 2019-3-5  | 2,430     | Joint liability | One year | No | No |
| Foshan Midea Chungho Water Purification Equipment. Co., Ltd.              | 2019-4-20 | 81,000    | -         | -         | Joint liability | One year | No | No |
| Guangdong Meizhi Compressor Limited                                       | 2019-4-20 | 150,000   | 2019-1-16 | 1,700     | Joint liability | One year | No | No |
| Guangdong Meizhi Precision-Manufacturing Co., Ltd                         | 2019-4-20 | 80,000    | 2019-1-10 | 1,127,220 | Joint liability | One year | No | No |
| Guangdong Welling Motor Manufacturing Co., Ltd.                           | 2019-4-20 | 192,000   | 2019-1-4  | 412,470   | Joint liability | One year | No | No |
| Foshan Welling Washer Motor Manufacturing Co., Ltd.                       | 2019-4-20 | 222,000   | 2019-2-19 | 13,730    | Joint liability | One year | No | No |
| Guangdong Midea Environmental   | 2019-4-20 | 46,000    | -         | -         | Joint liability | One      | No | No |

|   |           |           |           |         |                 |          |    |    |
|---|-----------|-----------|-----------|---------|-----------------|----------|----|----|
| Technologies Co., Ltd.                                    |           |           |           |         |                 | year     |    |    |
| Guangdong Welling Auto Parts Co., Ltd.                    | 2019-4-20 | 40,000    | -         | -       | Joint liability | One year | No | No |
| Ningbo Midea United Materials Supply Co. Ltd.             | 2019-4-20 | 924,000   | 2019-1-25 | 147,330 | Joint liability | One year | No | No |
| Guangzhou Kaizhao Commercial and Trading Co.,Ltd          | 2019-4-20 | 70,400    | -         | -       | Joint liability | One year | No | No |
| Guangdong Midea Intelligent Robotics Co., Ltd.            | 2019-4-20 | 50,000    | -         | -       | Joint liability | One year | No | No |
| Servotronix Motion Technology Development (Shenzhen) Ltd. | 2019-4-20 | 10,000    | -         | -       | Joint liability | One year | No | No |
| Midea Group E-Commerce Co., Ltd.                          | 2019-4-20 | 130,000   | -         | -       | Joint liability | One year | No | No |
| Annto Logistics Technology Co., Ltd.                      | 2019-4-20 | 70,000    | 2019-2-19 | 63,580  | Joint liability | One year | No | No |
| Guangdong Midea Smart Link Technologies Co., Ltd.         | 2019-4-20 | 9,200     | -         | -       | Joint liability | One year | No | No |
| GD Midea Group Wuhu Air-Conditioning Equipment Co.,Ltd.   | 2019-4-20 | 2,000,000 | 2019-1-29 | 500,720 | Joint liability | One year | No | No |
| Wuhu Maty Air-Conditioning Equipment Co., Ltd             | 2019-4-20 | 326,000   | -         | -       | Joint liability | One year | No | No |
| Wuhu Midea Kitchen Appliances Manufacturing Co., Ltd.     | 2019-4-20 | 164,000   | -         | -       | Joint liability | One year | No | No |
| Hefei Hualing Co., Ltd.                                   | 2019-4-20 | 914,000   | 2019-4-30 | -       | Joint liability | One year | No | No |
| Hubei Midea Refrigerator Co., Ltd.                        | 2019-4-20 | 250,800   | 2019-5-21 | -       | Joint liability | One year | No | No |
| Hefei Midea Refrigerator Co., Ltd.                        | 2019-4-20 | 920,000   | -         | -       | Joint liability | One year | No | No |
| Guangzhou Midea Hualing Refrigerator Co., Ltd.            | 2019-4-20 | 1,154,000 | -         | -       | Joint liability | One year | No | No |
| Hefei Midea Heating & Ventilating Equipment Co., Ltd.     | 2019-4-20 | 548,000   | 2019-3-28 | -       | Joint liability | One year | No | No |
| Hefei Midea-SIIX Electronics Co.,Ltd.                     | 2019-4-20 | 230,000   | 2019-1-29 | -       | Joint liability | One year | No | No |
| Hefei M&B Air Conditioning Equipment Co., Ltd.            | 2019-4-20 | 40,800    | -         | -       | Joint liability | One year | No | No |
| Wuhu Midea Life Appliances Mfg Co., Ltd.                  | 2019-4-20 | 200,000   | -         | -       | Joint liability | One year | No | No |



|  |           |           |           |         |                 |          |    |    |
|--|-----------|-----------|-----------|---------|-----------------|----------|----|----|
| Wuhu Midea Kitchen & Bath Appliances Mfg. Co., Ltd.        | 2019-4-20 | 1,761,600 | 2019-3-1  | 5,900   | Joint liability | One year | No | No |
| Anhui Meizhi Compressor Co., Ltd.                          | 2019-4-20 | 30,000    | 2019-4-22 | -       | Joint liability | One year | No | No |
| Anhui Meizhi Precision Manufacturing Co., Ltd.             | 2019-4-20 | 72,000    | 2019-2-2  | 14,580  | Joint liability | One year | No | No |
| Welling (Wuhu) Motor Manufacturing Co., Ltd.               | 2019-4-20 | 24,000    | -         | -       | Joint liability | One year | No | No |
| Wuhu Welling Motor Sales Co., Ltd.                         | 2019-4-20 | 1,200,000 | -         | -       | Joint liability | One year | No | No |
| Wuxi Little Swan Company Limited                           | 2019-4-20 | 3,109,600 | 2019-6-19 | 490     | Joint liability | One year | No | No |
| Hefei Midea Laundry Appliance Co., Ltd.                    | 2019-4-20 | 1,598,960 | 2019-3-15 | 269,180 | Joint liability | One year | No | No |
| Jiangsu Midea Cleaning Appliances Co., Ltd                 | 2019-4-20 | 510,000   | 2019-1-1  | 3,000   | Joint liability | One year | No | No |
| Midea Group Wuhan Refrigeration Equipment Co.,Ltd.         | 2019-4-20 | 7,200     | -         | -       | Joint liability | One year | No | No |
| Handan Midea Air-Conditioning Equipment Co.,Ltd.           | 2019-4-20 | 120,000   | 2019-2-22 | 1,830   | Joint liability | One year | No | No |
| Chongqing Midea General Refrigeration Equipment Co., Ltd.  | 2019-4-20 | 148,000   | 2019-4-16 | 1,860   | Joint liability | One year | No | No |
| Midea Intelligent Lighting & Controls Technology Co., Ltd. | 2019-4-20 | 250,000   | 2019-3-28 | 580     | Joint liability | One year | No | No |
| Changzhou Welling Motor Manufacturing Co., Ltd.            | 2019-4-20 | 24,000    | -         | -       | Joint liability | One year | No | No |
| Huaian Welling Motor Manufacturing Co., Ltd.               | 2019-4-20 | 20,000    | 2019-2-2  | -       | Joint liability | One year | No | No |
| Zhejiang Meizhi Compressor Co., Ltd.                       | 2019-4-20 | 2,000,000 | 2019-1-10 | -       | Joint liability | One year | No | No |
| Ningbo Annto Logistics Co., Ltd.                           | 2019-4-20 | 15,000    | -         | -       | Joint liability | One year | No | No |
| Reis Robotics (Kunshan) Co., Ltd.                          | 2019-4-20 | 120,750   | -         | -       | Joint liability | One year | No | No |
| KUKA Systems (China) CO., Ltd.                             | 2019-4-20 | 145,000   | -         | -       | Joint liability | One year | No | No |
| KUKA Robotics Manufacturing China Co.,Ltd                  | 2019-4-20 | 115,000   | -         | -       | Joint liability | One year | No | No |

|  |           |            |           |           |                 |          |    |    |
|--|-----------|------------|-----------|-----------|-----------------|----------|----|----|
| KUKA Robotics (Shanghai) Co.,Ltd.                                      | 2019-4-20 | 115,000    | -         | -         | Joint liability | One year | No | No |
| Shanghai Swisslog Healthcare Co., Ltd.                                 | 2019-4-20 | 8,000      | -         | -         | Joint liability | One year | No | No |
| Swisslog (Shanghai) Co., Ltd.  | 2019-4-20 | 110,000    | -         | -         | Joint liability | One year | No | No |
| Shanghai Swisslog Logistics Automation Co. Ltd.                        | 2019-4-20 | 60,000     | -         | -         | Joint liability | One year | No | No |
| Midea International Corporation Company Limited                        | 2019-4-20 | 11,480,000 | 2019-4-23 | 6,312,120 | Joint liability | One year | No | No |
| Midea International Trading Company Limited                            | 2019-4-20 | 2,222,430  | 2019-1-1  | 279,670   | Joint liability | One year | No | No |
| Midea Investment Development Company Limited                           | 2019-4-20 | 4,900,000  | 2019-1-1  | 4,575,160 | Joint liability | One year | No | No |
| Welling International Hong Kong Ltd                                    | 2019-4-20 | 126,000    | -         | -         | Joint liability | One year | No | No |
| Midea Electric Trading (Singapore) Co.,Pte. Ltd.                       | 2019-4-20 | 5,384,000  | 2019-1-3  | 634,490   | Joint liability | One year | No | No |
| Toshiba Lifestyle Products & Services Corporation and its subsidiaries | 2019-4-20 | 4,608,000  | 2019-1-1  | 593,500   | Joint liability | One year | No | No |
| Midea Consumer Electric Vietnam  | 2019-4-20 | 112,000    | 2019-2-13 | 41,540    | Joint liability | One year | No | No |
| Concepcion Midea Inc.  | 2019-4-20 | 112,000    | -         | -         | Joint liability | One year | No | No |
| Midea Italia S.r.l.  | 2019-4-20 | 140,000    | -         | -         | Joint liability | One year | No | No |
| Midea Scott & English Electronics Sdn. Bhd.                            | 2019-4-20 | 206,500    | -         | -         | Joint liability | One year | No | No |
| Midea Mexico, S. DE R.L. DE C.V.                                       | 2019-4-20 | 105,000    | -         | -         | Joint liability | One year | No | No |
| Midea Electric Trading (Thailand) Co., Ltd.                            | 2019-4-20 | 105,000    | -         | -         | Joint liability | One year | No | No |
| Midea America Corp   | 2019-4-20 | 669,000    | -         | -         | Joint liability | One year | No | No |
| Pt. Midea Planet Indonesia   | 2019-4-20 | 56,000     | -         | -         | Joint liability | One year | No | No |
| Midea Electrics Egypt  | 2019-4-20 | 175,000    | -         | -         | Joint liability | One year | No | No |

| Midea Europe GmbH   | 2019-4-20  | 70,000            | -  | -                       | Joint liability   | One year          | No         | No                                   |
|---|--|-------------------|--|-------------------------|---|-------------------|------------|--------------------------------------|
| Servotronix Motion Control Ltd.   | 2019-4-20  | 34,000            | -  | -                       | Joint liability   | One year          | No         | No                                   |
| Midea Austria GmbH  | 2019-4-20  | 35,000            | -  | -                       | Joint liability   | One year          | No         | No                                   |
| Clivet SPA  | 2019-4-20  | 73,500            | -  | -                       | Joint liability   | One year          | No         | No                                   |
| Clivet Mideast Fzco   | 2019-4-20  | 31,500            | -  | -                       | Joint liability   | One year          | No         | No                                   |
| Midea Electric Netherland (I)   | 2019-4-20  | 29,600,000        | -  | -                       | Joint liability   | One year          | No         | No                                   |
| Total guarantee line for subsidiaries approved during the Reporting Period (B1)         |  | 115,715,440       |  |                         | Total actual guarantee amount for subsidiaries during the Reporting Period (B2)         |                   |            | 42,090,640                           |
| Total approved guarantee line for subsidiaries at the end of the Reporting Period (B3)  |  | 115,715,440       |  |                         | Total actual guarantee balance for subsidiaries at the end of the Reporting Period (B4) |                   |            | 40,506,410                           |
| 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)                    |  | 115,715,440       |  |                         | Total actual guarantee amount during the Reporting Period (A2+B2+C2)                    |                   |            | 42,090,640                           |
| Total approved guarantee line at the end of the Reporting Period (A3+B3+C3)             |  | 115,715,440       |  |                         | Total actual guarantee balance at the end of the Reporting Period (A4+B4+C4)            |                   |            | 40,506,410                           |
| Proportion of the total actual guarantee amount (A4+B4+C4) in net assets of the Company |  |                   |  | 39.84%                  |   |                   |            |                                      |
| 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) | 33,472,060 |
| 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)   | 33,472,060 |
| Joint responsibilities possibly borne for undue guarantees (if any)   | N/A        |
| Provision of external guarantees in breach of the prescribed procedures (if any)                                    | N/A        |

### 17.2.2 Illegal provision of guarantees for external parties

Applicable  N/A

No such cases in the Reporting Period.

### 17.3 Entrusted cash management

#### 17.3.1 Entrusted asset management

Applicable  N/A

No such cases in the Reporting Period.

#### 17.3.2 Entrusted loans

Applicable  N/A

No such cases in the Reporting Period.

### 17.4 Other significant contracts

Applicable  N/A

No such cases in the Reporting Period.

## 18. Social Responsibility (CSR)

### 18.1 Measures taken to fulfill CSR commitment

The Company has voluntarily disclosed its CSR work. Attaching great importance to protecting the legal rights and interests of its shareholders, employees, consumers and business partners, as well as the

government, the community and other stakeholders, the Company sticks to harmonious common growth with them, honors its commitments, abides by law and moral principles, and continue to contribute to the sustainable development of the society and the environment. For further information, see the Company's Corporate Social Responsibility Report 2019 released on [www.cninfo.com.cn](http://www.cninfo.com.cn).

## **18.2 Measures taken for targeted poverty alleviation**

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

In 2019, the decisive year for the battle against poverty, Midea Group readily responded to the government's poverty alleviation policy and took targeted poverty alleviation as the top priority in fulfilling its social responsibility.

In January 2019, Midea donated RMB10 million to the Beijiao Charity Federation for the 10th consecutive year, which were used for poverty alleviation, education and other charitable activities in the local community.

In June 2019, Midea made another donation of RMB10 million for improving education, medical care and housing in poor villages of Guangdong Province. This was the 10th consecutive year of Midea's participation in this event since the "Guangdong Poverty Alleviation Day" was founded in 2010.

In June 2019, in a charity event held by China Social Welfare Foundation and ShenZhen Dream Inspiration Foundation, Midea made a donation of RMB200,000 to the "Support Education Project" to equip schools in the poor areas of Guizhou Province with professional teachers, with a view to alleviating the shortage of educational resources in remote villages.

### **B. Targeted poverty alleviation plans for the coming future**

In 2020, in order to win the decisive battle against poverty, Midea Group will readily respond to the call of the CPC Committee and the Government of Guangdong Province to make further efforts with greater determination and devotion, overcome the impact of the COVID-19 outbreak in a continuous and serious manner, and help accomplish the great cause of poverty alleviation, which is of enormous significance to the Chinese people and even all mankind. Midea Group will donate yet another RMB10 million to the Beijiao Charity Federation to improve education, medical care, housing, etc. for the impoverished people.

### 18.3 Environmental protection

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

Yes  N/A

| Name of the Company or subsidiary  | Major pollutants   | Discharge method  | Number of discharge outlets | Distribution of discharge outlets  | Concentration of the discharge (unit: mg/m <sup>3</sup> ) | Pollutant discharge standards   | Total discharge (ton) | Approved total discharge (ton) | Excess discharge |
|--|--------------------|---|-----------------------------|--|---|---|-----------------------|--------------------------------|------------------|
| Foshan Shunde Midea Washing Appliances Manufacturing Co., Ltd. (the Washing and Sterilizing Appliances Park) | COD                | Discharge after being treated by wastewater treatment system and reaching the standard      | 1                           | The southern side of 2# plant in the Washing and Sterilizing Appliances Park | 52  | The discharge limits of water pollutants in Guangdong (DB44/26-2001)                        | 0.22                  | 0.228                          | No               |
|  | SS                 |   |                             |  | 24  |   | 0.10                  | /                              | No               |
|  | BOD5               |   |                             |  | 16  |   | 0.07                  | /                              | No               |
|  | Petroleum          |   |                             |  | 3.5   |   | 0.1                   | /                              | No               |
| Foshan Shunde Midea Washing Appliances Manufacturing Co., Ltd. (the Washing and Sterilizing Appliances Park) | Benzene            | High altitude discharge after being treated by waste gas treatment station                  | 1                           | The southern side of 2# plant in the Washing and Sterilizing Appliances Park | 0.36  | Emission standard of volatile organic compounds for furniture manufacturing (DB44/814-2010) | 0.04                  | /                              | No               |
|  | Toluene and xylene |   |                             |  | 5.98  |   | 0.62                  | /                              | No               |
|  | VOCS               |   |                             |  | 19.2  |   | 1.11                  |                                | No               |
| Foshan Shunde Midea Washing  | COD                | Discharge to the municipal sewage system after being treated by wastewater treatment system | 1                           | The northeastern side of 2# plant in the Third Industrial Zone               | 61  | The discharge standard of water pollutants for electroplating in Guangdong (DB441597-       | 0.72                  | 2.41                           | No               |
|  | SS                 |   |                             |  | 11  |   | 0.13                  | /                              | No               |
|  | BOD5               |   |                             |  | 20  |   | 0.26                  | /                              | No               |
|  | Petroleum          |   |                             |  | 0.3   |   | 0.003                 | /                              | No               |

|  |                       |  |    |   |                             |  |           |         |    |
|--|-----------------------|--|----|---|-----------------------------|--|-----------|---------|----|
| Appliances<br>Manufactur<br>ing Co.,<br>Ltd. (the<br>Range<br>Hood and<br>Stove<br>Park) | Ammonia<br>nitrogen   |  |    |   | 0.5                         | 2015)  | 0.04      | 0.45    | No |
|  | Benzene               | High altitude discharge after being<br>treated by waste gas treatment<br>station             | 4  | The northern and eastern<br>sides of 2# plant in the<br>Third Industrial Zone | 0.10                        | Emission standard of air<br>pollutants for industrial kiln<br>and furnace (GB-9078-<br>1996) / The emission limit<br>of gas pollutants in<br>Guangdong (DB-44/27-<br>2007) | 0.008     | /       | No |
|  | Toluene<br>and xylene |  |    |   | 3.43                        |  | 0.25      | /       | No |
|  | VOCS                  |  |    |   | 10.9                        |  | 0.63      | /       | No |
|  | Soot                  |  |    |   | 8.1                         |  | 0.03      | /       | No |
|  | Sulfur<br>dioxide     |  |    |   | Less than the<br>limit of 3 |  | 0.01      | 0.114   | No |
|  | Nitrogen<br>oxide     |  |    |   | 24                          |  | 0.13      | 0.726   | No |
|  |                       |  |    |   |                             |  |           |         |    |
| Wuhu<br>Midea<br>Kitchen &<br>Bath<br>Appliances<br>Mfg. Co.,<br>Ltd.                    | COD                   | Discharge after being treated by<br>wastewater treatment system and<br>reaching the standard | 1  | Western gate of the Wuhu<br>plant   | 198                         | Integrated wastewater<br>discharge standard<br>(GB8978-1996)   | 1,1642.61 |         | No |
|  | Ammonia<br>nitrogen   |  |    |   | 1.35                        |  | 11.20     | /       | No |
|  | BOD <sub>5</sub>      |  |    |   | 48                          |  | 398.21    | /       | No |
|  | Petroleum             |  |    |   | 0.26                        |  | 2.16      | /       | No |
|  | Soot                  | 15m high altitude discharge  | 45 | Plants  | <20                         | Emission standard of air<br>pollutants for boiler<br>(GB13271-2014)  | 666.20    | /       | No |
|  | Sulfur<br>dioxide     |  |    |   | <50                         |  | 476.90    | 1,658   | No |
|  | Nitrogen<br>oxide     |  |    |   | <150                        |  | 1,532.20  | 4,074.5 | No |
|  | Soot                  |  |    |   | <50                         |  | 3,361.24  | 35,049  | No |
|  | Xylene                | High altitude discharge after being<br>treated by waste gas treatment<br>station             |    |   | <10                         | Integrated emission<br>standards for atmospheric<br>pollutants (GB16297-<br>1996)  | 174.16    | /       | No |
|  | VOCs                  |  |    | <20   | 224.90                      |  | 29,650    | No      |    |

|   |                  |  |    |   |       |   |        |        |    |
|---|------------------|--|----|---|-------|---|--------|--------|----|
| Hefei Midea Heating & Ventilating Equipment Co., Ltd.     | COD              | Discharge after being treated by wastewater treatment system and reaching the standard | 1  | The eastern side of 1# plant  | 97    | Implementation of the takeover standards of the Western Hefei Group wastewater treatment plant and integrated wastewater discharge standard (GB8978-1996) third-level | 955    | 3,920  | No |
|   | Ammonia nitrogen | Discharge after being treated by wastewater treatment system and reaching the standard |    |   | 19.7  |   | 380    | 390    | No |
|   | Nitrogen oxide   | High altitude discharge after being treated by waste gas treatment station             | 1  | 2# plant  | 5     | Integrated emission standards for atmospheric pollutants (GB16297-1996)   | 98     | /      | No |
|   | NMHC             |  | 11 | 3 outlets at 1# plant, 4 outlets at 2# plant, 2 outlets at 3# plant and 2 outlets at 4# plant | 28.97 |   | 968    | /      | No |
|   | Soot             |  | 11 | 3 outlets at 1# plant, 4 outlets at 2# plant, 2 outlets at 3# plant and 2 outlets at 4# plant | 101.5 |   | 3,400  | /      | No |
| Hefei Midea Laundry Appliance Co., Ltd. (monitored by the | COD              | Discharge after being treated by wastewater treatment station                          | 1  | The eastern side of wastewater treatment station  | 107   | Implementation of the takeover standards of the Western Hefei Group wastewater treatment plant and integrated wastewater discharge standard (GB8978-1996) third-level | 36,000 | 58,150 | No |
|   | Ammonia nitrogen |  |    | The eastern side of wastewater treatment station  | 8.48  |   | 1,800  | /      | No |



|  |                  |  |   |  |       |  |          |       |    |
|--|------------------|--|---|--|-------|--|----------|-------|----|
| municipal government)                        | Particles        | 15m high altitude discharge after being treated by cyclone + filter cartridge dust collector                     | 2 | 1 outlet at 2# plant, 1 outlet at 6# plant | <20   | Integrated emission standards for atmospheric pollutants GB16297-1996 second-level                 | 3,168    | /     | No |
|  | Particles        | 15m high altitude discharge after being treated by water spraying + dedusting + UV photolysis + activated carbon | 1 | 1 outlet at 3# plant                       | <20   |  | 1,267.2  | /     | No |
|  | NMHC             |  |   |  | 1.46  |  | 92.51    | /     | No |
|  | NMHC             | 15m high altitude discharge after being treated by waste gas treatment station                                   | 3 | 3 outlets at 2# plant                      | 2.25  |  | 1,995.84 | /     | No |
|  | NMHC             | 15m high altitude discharge after being treated by waste gas treatment station                                   | 6 | 6 outlets at 6# plant                      | 1.11  |  | 3692.30  | /     | No |
|  | NMHC             | 15m high altitude discharge after being treated by low-temperature plasma  | 2 | 1 outlet at 1# plant, 1 outlet at 5# plant | 2.215 |  | 122.80   | /     | No |
|  | NMHC             | 15m high altitude discharge after being treated by photocatalyst and activated carbon                            | 1 | 1 outlet at 3# plant                       | 1.27  |  | 140.82   | /     | No |
| GD Midea Air-Conditioning Equipment Co.,Ltd. | COD              | Discharge after being treated by wastewater treatment station  | 1 | The southeastern side of 4# plant          | 46    | The discharge standard of water pollutants for electroplating (DB441597-2015) chart 2 PRD standard | 10.00    | 9,590 | No |
|  | Ammonia nitrogen |  |   |  | 0.22  |  | 0.05     | 1,510 | No |
|  | SS               |  |   |  | 28    |  | 6.05     | /     | No |
|  | Petroleum        |  |   |  | 1.55  |  | 0.33     | /     | No |
|  | COD              | Discharge after being treated by   | 1 | The eastern side of 2#                     | 87    | The discharge limits of  | 3.90     | 1,160 | No |

|   |   |   |           |  |        |  |         |       |    |
|---|---|---|-----------|--|--------|--|---------|-------|----|
|   | SS  | wastewater treatment station  |           | plant  | 25     | water pollutants (DB44/26-2001)  | 0.90    | /     | No |
|   | LAS   |   |           |  | 0.18   |  | 0.06    | /     | No |
|   | Petroleum   |   |           |  | 1.84   |  | 0.61    | /     | No |
|   | VOCs (dusting)  | 15m high altitude discharge after being treated by spray tower + activated carbon | 3         | 4# plant   | 20     | Emission standard of volatile organic compounds for furniture manufacturing (DB44/814-2010) the second time period | 548.00  | 5,930 | No |
|   | VOCs (screen printing)  | 15m high altitude discharge after being treated by green facilities               | 4         | 1#, 5#, 9#, 11# plants   | 4.6    | Emission standard of volatile organic compounds for printing industry (DB44/815-2010)                              | 312.00  |       | No |
|   | NMHC (evaporator & condenser)   | 15m high altitude discharge after being treated by green facilities               | 6         | 2#, 5# plants  | 10     | Emission limits of air pollutants (DB44/27-2001) the second time period  | 590.00  | /     | No |
| NMHC (electronic)                             | 15m high altitude discharge after being treated by catalytic combustion | 2   | 10# plant | 6.2  | 134.00 |  | /       | No    |    |
|   |   |   |           |  |        |  |         |       |    |
| Wuhu Maty Air-Conditioning Equipment Co., Ltd | COD   | Discharge after being treated by wastewater treatment station                     | 2         | The northern side of the Maty Park, the eastern side of the Sheet Metal Park | 82.5   | Integrated wastewater discharge standard (GB8978-1996) chart 4 third-level   | 12403.7 | /     | No |
|   | SS  | Discharge after being treated by wastewater treatment station                     | 2         |  | 21.5   |  | 3232.5  | /     | No |
|   | BOD   | Discharge after being treated by wastewater treatment station                     | 2         |  | 29.5   |  | 4435.3  | /     | No |

|  |                    |  |   |   |      |  |          |         |    |
|--|--------------------|--|---|---|------|--|----------|---------|----|
|  | Ammonia nitrogen   | Discharge after being treated by wastewater treatment station                          | 2 |   | 8.9  |  | 1338.1   | /       | No |
|  | Petroleum          | Discharge after being treated by wastewater treatment station                          | 2 |   | 1.81 |  | 272.1    | /       | No |
|  | Particles          | 15m high altitude discharge after being treated by green facilities                    | 6 | 2# plant of the Maty Park, 1# plant of the Sheet Metal Park                   | <20  | Integrated emission standards for atmospheric pollutants (GB16297-1996)                          | 1.55     | /       | No |
|  | VOCs               | 16m high altitude discharge after being treated by green facilities                    | 8 | 2# and 3# plants of the Maty Park, 1# plant of the Sheet Metal Park           | 4.34 | Emission Control Standard for Industrial Enterprises Volatile Organic Compounds (DB13-2322-2016) | 0.31     | /       | No |
|  | Nox                | 17m high altitude discharge after being treated by green facilities                    | 2 | 1# plant of the Sheet Metal Park  | 142  | Integrated emission standards for atmospheric pollutants (GB16297-1996)                          | 10.92    | /       | No |
|  | SO <sub>2</sub>    | 18m high altitude discharge after being treated by green facilities                    | 2 | 2# plant of the Sheet Metal Park  | 19   |  | 1.53     | /       | No |
| Foshan Shunde Midea Electrical Heating Appliances Manufactur | CODcr              | Discharge after being treated by wastewater treatment system and reaching the standard | 2 | Waste water treatment stations 1 and 2 of 3# plant                            | 47.9 | The discharge standard of water pollutants for electroplating (DB44/1597-2015)                   | 4,190.16 | 106,520 | No |
|  | Petroleum          |  |   |   | 0.77 |  | 67.30    | /       | No |
|  | Ammonia nitrogen   |  |   |   | 3.1  |  | 278.38   | 21,300  | No |
|  | Toluene and xylene | High altitude discharge after being treated by waste gas treatment station             | 7 | Waste gas sprayers 1 and 2 at 3# plant, outlets 1, 2 and 3 for waste gas from | 1.4  | Table 1 of the Discharge Standard of Volatile Organic Chemical                                   | 57.62    | /       | No |

|                          |                |  |   |  |              |   |        |        |    |
|--------------------------|----------------|--|---|--|--------------|---|--------|--------|----|
| ing Co.,<br>Ltd.         | VOCs           | High altitude discharge after being treated by waste gas treatment station             |   | wave-soldering, painting and drying at 6# plant, outlets 1 and 2 for waste gas from reflow soldering at 6# plant                         | 8.11         | Compounds in the Furniture Making Industry (DB44/814-2010): Discharge Limits for VOCs through Exhaust Funnel/for Time Period II               | 333.02 | /      | No |
|                          | NMHC           | High altitude discharge after being treated by waste gas treatment station             | 2 | Outlet of injection molding waste gas in the south side of 1# plant, outlet of injection molding waste gas in the south side of 9# plant | 3.98         | Table 4 of the Emission Standards of Industrial Pollutants in the Synthetic Resin Industry (GB 31572-2015): Emission Limits of Air Pollutants | 109.49 | /      | No |
|                          | Particles      | Pulsed jet cloth filtering   | 4 | Outlets 1 and 2 of sanding waste gas at 3# plant, outlets 1 and 2 of polishing waste gas at 3# plant                                     | Not detected | Table 2 of the Emission Limits of Air Pollutants (DB44/27-2001): Emission Limits of Industrial Waste Gas (Time Period 2), Level 2             | -      | /      | No |
|                          | Sulfur dioxide | High altitude discharge after being treated by waste gas treatment station             | 2 | Oxidation wire roof of 3# plant  | Not detected |   | -      | 585.95 | No |
|                          |                |  |   | Drying furnace of 3# plant   | Not detected | -   | No     |        |    |
|                          | Cooking fume   | Discharge after being treated by waste gas treatment station                           | 2 | South and east section canteens  | 1.13         | Emission Standard of Cooking Fume (Trial) (GB 18483-2001)   | 41.4   | /      | No |
| Guangdong Midea Consumer | CODcr          | Discharge after being treated by wastewater treatment system and reaching the standard | 1 | Wastewater treatment station   | 68           | The discharge standard of water pollutants for electroplating (DB44/1597-   | 4,917  | 48,000 | No |
|                          | Petroleum      |  |   |  | 0.4125       |   | 29.81  | /      | No |
|                          | ss             |  |   |  | 20           |   | 1,450  | /      | No |

|                                  |                    |  |   |  |        |  |       |       |    |
|----------------------------------|--------------------|--|---|--|--------|--|-------|-------|----|
| Electric Manufacturing Co., Ltd. | Ammonia nitrogen   |  |   |  | 7.2875 | 2015)  | 526.7 | 9,600 | No |
|                                  | Benzene            | High altitude discharge after being treated by waste gas treatment station | 1 | Spraying waste gas outlet at 1# plant  | 0.5    | Table 1 of the Discharge Standard of Volatile Organic Chemical Compounds in the Furniture Making Industry (DB44/814-2010): Discharge Limits for VOCs through Exhaust Funnel/for Time Period II | 50    | /     | No |
|                                  | Toluene            | High altitude discharge after being treated by waste gas treatment station |   |  | 0.137  |  | 13.7  | /     | No |
|                                  | Xylene             | High altitude discharge after being treated by waste gas treatment station |   |  | 0.914  |  | 91.4  | /     | No |
|                                  | Toluene and xylene | High altitude discharge after being treated by waste gas treatment station |   |  | 1.05   |  | 105   | /     | No |
|                                  | VOCs               | High altitude discharge after being treated by waste gas treatment station |   |  | 15     |  | 1,500 | /     | No |
|                                  | NMHC               | High altitude discharge after being treated by waste gas treatment station | 2 | Injection molding waste gas outlet in the southern side of 2# plant, injection molding waste gas outlet in the northern side of 2# plant | 2.81   | Table 4 of the Emission Standards of Industrial Pollutants in the Synthetic Resin Industry (GB 31572-2015): Emission Limits of Air Pollutants  | 758.7 | /     | No |
|                                  | Particles          | Pulsed jet cloth filtering   | 2 | Sanding waste gas outlet at 1# plant, polishing waste gas outlet at 1# plant   | 1.47   | Table 2 of the Emission Limits of Air Pollutants (DB44/27-2001): Emission Limits of Industrial Waste   | 2.94  | /     | No |

|   |                  |  |   |  |       |  |        |        |    |
|---|------------------|--|---|--|-------|--|--------|--------|----|
|   | Sulfur dioxide   | High altitude discharge after being treated by waste gas treatment station | 1 | Drying furnace at 1# plant   | 3     | Gas (Time Period 2), Level 2   | 300    | /      | No |
|   | Nitrogen oxide   | High altitude discharge after being treated by waste gas treatment station |   |  | 19    |  | 1,900  | /      | No |
|   | Cooking fume     | Discharge after being treated by waste gas treatment facility              | 1 | Canteen of 1# plant  | 1.2   | Emission Standard of Cooking Fume (Trial) (GB 18483-2001)  | 1.61   | /      | No |
| Guangdong Meizhi Precision-Manufacturing Co., Ltd | COD              | Discharge after being treated by wastewater treatment station              | 1 | Near the wastewater treatment station in the north side of the plant | 26.15 | The discharge limits of water pollutants in Guangdong DB-44/26-2001 the second time period first-level | 11,525 | 19,880 | No |
|   | Ammonia nitrogen |  | 1 | Near the wastewater treatment station in the north side of the plant | 1.04  |  | 476    | 2,210  | No |
| Guangdong Meizhi Compressor Limited               | COD              | Discharge after being treated by wastewater treatment station              | 1 | Near the wastewater treatment station in the north side of the plant | 49    | The discharge standard of water pollutants for electroplating DB-441597-2015, before 1 September 2012  | 1,073  | 1,152  | No |
|   | Ammonia nitrogen | Discharge after being treated by wastewater treatment station              | 1 | Near the wastewater treatment station in the north side of the plant | 0.375 |  | 224    | 230.4  | No |
| Anhui   | COD              | Discharge after being treated by   | 1 | Near the wastewater  | 128   | Implementation of the  | 16,027 | 30,708 | No |

|   |                  |   |    |   |     |   |       |        |    |
|---|------------------|---|----|---|-----|---|-------|--------|----|
| Meizhi Compress or Co., Ltd.  | Ammonia nitrogen | wastewater treatment system and reaching the standard                   |    | treatment station in the north side of the plant                                    | 0.9 | takeover standards of the Western Hefei Group wastewater treatment plant and integrated wastewater discharge standard (GB8978-1996) third-level | 361   | 1,770  | No |
|   | Particles        | Collected by gas trap hood+15m high exhaust cylinder                    | 14 | No. 1 workshop welding soot discharge outlet for waste gas                          | <20 | Integrated emission standards for atmospheric pollutants (GB16297-1996)   | 9,547 | 12,820 | No |
|   |                  |   |    | No. 3 workshop welding 1#-8# discharge outlet for the welding waste gas             | <20 |   |       |        | No |
|   |                  |   |    | No.2 workshop 1#Chugai furnace and 2#Chugai furnace discharge outlet for waste gas  | <20 | Emission standard of air pollutants for industrial kiln and furnace (GB9078-1996)   |       |        | No |
|   |                  |   |    | No.2 workshop 4#Chugai furnace and Samchully furnace discharge outlet for waste gas | <20 |   |       |        | No |
| No. 4 workshop 3# Chugai furnace discharge outlet for waste gas and die-casting molten aluminum I/J/F discharge outlet for waste gas combined with a discharge outlet | <20              | Integrated emission standards for atmospheric pollutants (GB16297-1996) | No |   |     |   |       |        |    |

|  |                |  |   |  |       |   |       |       |    |
|--|----------------|--|---|--|-------|---|-------|-------|----|
|  |                |  |   | No.4 workshop BAB boiler discharge outlet for waste gas  | <20   | Emission standard of air pollutants for industrial kiln and furnace (GB9078-1996) |       |       | No |
|  |                |  |   | No.2 workshop die-casting molten aluminum A/B/E discharge outlet for waste gas                         | <20   |   |       |       | No |
|  |                |  |   | No.2 workshop die-casting molten aluminum C/D discharge outlet for waste gas                           | <20   |   |       |       | No |
|  |                |  |   | No. 4 workshop centrifugal pouring G/H and rotor furnace combined with a discharge outlet              | <20   |   |       |       | No |
|  |                |  |   | The tail of 3# and 4# stator furnace and the general discharge outlet of four melting aluminum furnace | <20   |   |       |       | No |
|  |                |  |   | Furnace 1#-3# discharge outlet for waste gas   | <20   |   |       |       | No |
|  | Sulfur dioxide | Collected by gas trap hood+15m high exhaust cylinder | 3 | Furnace 1#-3# discharge outlet for waste gas   | 10.07 | Emission standard of air pollutants for boiler (GB13271-2014)                     | 330   | 4,120 | No |
|  | Nitrogen oxide |  |   |  | 108   |   | 3,548 | 9,000 | No |



|  |                    |   |     |   |       |  |           |        |    |
|--|--------------------|---|-----|---|-------|--|-----------|--------|----|
|  | VOCs               | Direct-fired waste gas incinerator+15m high exhaust cylinder                                | 3   | No.1 workshop of discharge outlet for drying waste gas  | 7.38  | Integrated emission standards for atmospheric pollutants (GB16297-1996)  | 702       | 5,740  | No |
|  |                    |   |     | No.3 workshop 1# discharge outlet for drying waste gas  | 8.65  |  |           |        | No |
|  |                    |   |     | No.3 workshop 2# discharge outlet for drying waste gas  | 8.4   |  |           |        | No |
| Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd. | COD                | Discharge to the municipal sewage system after being treated by wastewater treatment system | 1   | The eastern side of wastewater treatment station in Malong base   | 40    | The discharge limits of water pollutants in Guangdong (DB-44/26-201)   | 14,159.60 | 22,770 | No |
|  | Ammonia nitrogen   |   |     |   | 3.77  |  | 724.60    | 4,554  | No |
|  | Particles          | 20m high altitude discharge   | 116 | 26 outlets at A1 plant, 50 outlets at A2 plant, 21 outlets at B2 plant, 9 outlets at C2 plant, 2 outlets at C3 plant, 1 outlet at wastewater treatment station and 7 outlets at canteen | 32.2  | Emission standard of air pollutants for industrial kiln and furnace (GB-9078-1996) / The emission limit of gas pollutants in Guangdong (DB-44/27-2007) | 20,164.06 | /      | No |
|  | Sulfur dioxide     |   |     |   | 32    |  | 17.88     | 1,055  | No |
|  | Nitrogen oxide     |   |     |   | 17    |  | 458.88    | 10,314 | No |
|  | Benzene            | High altitude discharge after being treated by waste gas treatment station                  | 116 |   | 0.773 |  | 52.63     | /      | No |
|  | Toluene and Xylene |   |     |   | 13.5  |  | 5,557.60  | /      | No |
|  | VOCs               |   |     |   | 67.6  |  | 28,564.34 | /      | No |
|  | NMHC               |   |     |   | 6.3   |  | 2,453.60  | /      | No |
|  | Styrene            |   |     |   | 0.396 |  | 72.45     | /      | No |

|   |                    |  |   |   |      |  |         |        |    |
|---|--------------------|--|---|---|------|--|---------|--------|----|
|   | Fume               |  |   |   | 1.46 |  | 214.56  | /      | No |
| Foshan Welling Washer Motor Manufacturing Co., Ltd. | Benzene            | Activated carbon + UV photolysis + catalytic combustion                | 3 | Waste gas outlet near 2# plant                    | 0.03 | Emission standard of volatile organic compounds for furniture manufacturing (DB44/814-2010) the second time period | 15.5013 | /      | No |
|   | Toluene and xylene | Activated carbon + UV photolysis + catalytic combustion                | 3 | Waste gas outlet near 2# plant                    | 4.25 | Emission standard of volatile organic compounds for furniture manufacturing (DB44/814-2010) the second time period | 1,420.3 | /      | No |
|   | VOCs               | Activated carbon + UV photolysis + catalytic combustion                | 3 | Waste gas outlet near 2# plant                    | 22.5 | Emission standard of volatile organic compounds for furniture manufacturing (DB44/814-2010) the second time period | 5,810   | /      | No |
| Welling (Wuhu) Motor Manufacturing Co., Ltd.        | Particles          | Collected by gas trap hood + dust collector +15m high exhaust cylinder | 1 | Exhaust funnel 1 for mold injection               | <20  | Integrated emission standards for atmospheric pollutants (GB16297-1996)  | 1,200   | 7,200  | No |
|   | VOCs               | Collected by gas trap hood +15m high exhaust cylinder                  | 4 | Waste gas outlets 1-4 of the die casting workshop | <20  | Emission standard of air pollutants for industrial kiln and furnace (GB9078-1996)                                  | 2,400   | 14,400 | No |

|   |                  |  |                                  |  |       |  |        |        |    |
|---|------------------|--|----------------------------------|--|-------|--|--------|--------|----|
|   | VOCs             | Collected by gas trap hood + activated carbon +15m high exhaust cylinder               | 1                                | Waste gas outlets 1-4 of the die casting workshop                                | 2     | Integrated emission standards for atmospheric pollutants (GB16297-1996)                        | 352    | 1,200  | No |
|   | VOCs             | Collected by gas trap hood + activated carbon +15m high exhaust cylinder               | 1                                | Exhaust funnel 2 for mold injection  | 2.2   | Integrated emission standards for atmospheric pollutants (GB16297-1996)                        | 39.6   | 160    | No |
| GD Midea Group Wuhu Air-Conditioning Equipment Co.,Ltd. | VOCs             | 15m high altitude discharge after being treated by environmental protection facilities | 3                                | The south side of 1# plant and the north side of 2# plant                        | 1.72  | Emission Control Standard for Industrial Enterprises Volatile Organic Compounds DB13-2322-2016 | 151    | /      | No |
| Anhui Meizhi Precision Manufacturing Co., Ltd.          | COD              | Discharge after being treated by wastewater treatment system and reaching the standard | 1                                | The south side of Building 6 for night shift at the north side of the plant area | 61    | Integrated wastewater discharge standard (gb8978-1996) , chart 4, level 3                      | 20,115 | 33,000 | No |
|   | Ammonia nitrogen |  |                                  |  | 0.052 |  | 17     | 3,300  | No |
|   | BOD              |  |                                  |  | 15.5  |  | 511    | 16,500 | No |
|   | SS               |  |                                  |  | 14    |  | 4,616  | 16,500 | No |
|   | Petroleum        |  |                                  |  | 0.14  |  | 46     | 6,600  | No |
|   | Particles        | Collected by gas trap hood +21m high exhaust cylinder                                  | 9                                | 1-8# welding waste gas outlets   | <20   | 120 (Integrated emission standards for atmospheric pollutants GB16297-1996, chart 2, level 2)  | 11,330 | 36,000 | No |
|   |                  |  | 9#-10# welding waste gas outlets | <20  |       |  |        |        |    |

|  |                |   |   |   |              |   |       |        |    |
|--|----------------|---|---|---|--------------|---|-------|--------|----|
|  |                |   |   | 2# outlet of stator + rotor heat-treating furnace   | <20          | 200 (Emission standard of air pollutants for industrial kiln and furnace GB9078-1996, chart 2, level 2) | 322   |        | No |
|  |                |   |   | 3# outlet of 2# stator heat-treating furnace  | <20          |   |       |        |    |
|  |                |   |   | 1# outlet of stator + rotor heat-treating furnace   | <20          |   |       |        |    |
|  |                |   |   | Outlet at the head of 3# stator furnace   | <20          |   |       |        |    |
|  |                |   |   | Outlets at the head of 2# stator furnace and 4# rotor furnace   | <20          |   |       |        |    |
|  |                |   |   | Outlets at the tail of 3# and 4# stator furnaces and comprehensive outlet for 4 aluminum melting furnaces | <20          |   |       |        |    |
|  |                |   |   | Waste gas outlet of aluminum melting furnace  | <20          |   |       |        |    |
|  | Sulfur dioxide | Collected by gas trap hood +21m high exhaust cylinder | 7 | 2# outlet of stator + rotor heat-treating furnace   | 28           | 850 (Emission standard of air pollutants for industrial kiln and furnace GB9078-1996, chart 2, level 2) | 4,145 | 20,000 | No |
|  |                |   |   | 3# outlet of 2# stator heat-treating furnace  | 40           |   |       |        |    |
|  |                |   |   | 1# outlet of stator + rotor heat-treating furnace   | Not detected |   |       |        |    |
|  |                |   |   | Outlet at the head of 3# stator furnace   | 128          |   |       |        |    |

|   |                |  |   |   |     |   |       |        |    |
|---|----------------|--|---|---|-----|---|-------|--------|----|
|   |                |  |   | Outlets at the head of 2# rotor furnace and 4# stator furnace   | 35  |   |       |        |    |
|   |                |  |   | Outlets at the tail of 3# and 4# stator furnaces and comprehensive outlet for 4 aluminum melting furnaces | 24  |   |       |        |    |
|   |                |  |   | Waste gas outlet of aluminum melting furnace  | 34  |   |       |        |    |
|   | Nitrogen oxide | Collected by gas trap hood +21m high exhaust cylinder        | 3 | 2# outlet of stator + rotor heat-treating furnace   | 154 | 120 (Integrated emission standards for atmospheric pollutants GB16297-1996, chart 2, level 2) | 8,553 | 18,000 | No |
| 3# outlet of 2# stator heat-treating furnace      |                |  |   | 95  |     |   |       |        |    |
| 1# outlet of stator + rotor heat-treating furnace |                |  |   | 206   |     |   |       |        |    |
|   | VOCs           | Direct-fired waste gas incinerator+21m high exhaust cylinder | 3 | 1-4# outlets for waste gas from drying  | 7.4 | 120 (Integrated emission standards for atmospheric pollutants GB16297-1996, chart 2, level 2) | 3,033 | 5,000  | No |
| 5-8# outlets for waste gas from drying            |                |  |   | 43.8  |     |   |       |        |    |
| 9-10# outlets for waste gas from drying           |                |  |   | 25.3  |     |   |       |        |    |

### The construction of pollution prevention facilities and their operation

During the Reporting Period, all subsidiaries have strictly abided by the laws and regulations related to environment protection, and no major

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

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

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

**C. Prevention and control of noise pollution:** Noise produced in the operating process of the main noise equipment in the production processes of

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

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

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

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

#### **Contingency plans for environmental accidents**

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

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

### **Environment self-monitoring plans**

All the subsidiaries have formulated their own environment self-monitoring plans according to China's relevant laws and regulations, , which include: 1) Waste gas pollution source monitoring: Sampling points are set at various discharge ports of waste gas for monitoring on a quarterly basis; 2) Waste water pollution source monitoring: Samples are fetched at intake and outlet ports of waste water treatment stations to monitor changes of pollution source of waste water and up-to-standard emission of waste water after being treated at the waste water treatment stations. Monitoring items include CODcr, SS and petroleum, etc. The data is uploaded to the governmental monitoring authority online and the government authority conducts real-time monitoring; 3) Noise monitoring: Noise monitoring points are set at noise sensitive points and on the border of factories. Noise is monitored once in spring and summer respectively and at daytime and at nighttime respectively each time; 4) Solid waste pollution source monitoring: Hazardous waste produced from the subsidiaries is handed over to the units with qualifications for treatment, monitoring systems are established, and related management forms and accounts are set up. Meanwhile, 11 factories have been equipped with an online waste water monitoring system, and such a system is underway for other operations.

### **Other environment-related information that should be made public**



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

**Other environment-related information**

None

## 19. Other Significant Events

√Applicable □N/A

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

A. On 12 March 2019, the Company received the CSRC Reply on the Approval of the Merger of Midea Group Co., Ltd. with Wuxi Little Swan Company Limited (ZJXK [2019] No. 352), approving the issuance of 342,130,784 shares by Midea Group to merge with Little Swan.

B. On 22 April 2019, the Company received the Reply of the Foshan Central Sub-Branch of the State Administration of Foreign Exchange on the Foreign Exchange Affairs in Midea Group Co., Ltd.'s Merger with Wuxi Little Swan Company Limited in a Share Swap via A-share Offering (FHF [2019] No. 1), according to which the Board of the Company would assist investors in handling the relevant foreign exchange affairs.

C. Trading in the Company's stock was suspended from 8 May 2019 for the implementation of the appraisal rights of dissenting shareholders. During the declaration period for the appraisal rights (15 May 2019 to 21 May 2019), no investor declared the exercise of appraisal rights.

D. As Little Swan and Midea Group conducted profit distribution before the completion of the merger, the following adjustments were made:

The swap prices for a Little Swan-A share and a Little Swan-B share were adjusted to RMB46.91 and RMB38.07, respectively. The issue price of a Midea Group share was adjusted from RMB42.04 to RMB40.74. The respective swap ratios for Little Swan-A and Little Swan-B shares became 1:1.15144821 and 1:0.93446244. And the shares to be issued by Midea Group for this merger became 323,657,476.

E. On 21 June 2019, the total 323,657,476 new shares issued by the Company for this merger were allowed for public trading at the Shenzhen Stock Exchange. Upon the completion of this merger, Little Swan would be delisted and de-registered as a corporate body, and Midea Group or its wholly-owned subsidiary would take over all the assets, liabilities, business, personnel, contracts and all the other rights

and obligations of Little Swan.

## **20. Significant Events of Subsidiaries**

Applicable N/A

## Section VI Changes in Shares and Information about Shareholders

### 1. Changes in Shares

#### 1.1 Changes in shares

Unit: share

|   | Before      |                | Increase/decrease in Reporting Period (+/-) |   |  |             |            | After       |                |
|---|-------------|----------------|---|---|--|-------------|------------|-------------|----------------|
|   | Shares      | Percentage (%) | New issue                                   | Shares as dividend converted from retained earnings | Shares as dividend converted from capital reserves | Other       | Subtotal   | Shares      | Percentage (%) |
| 1. Restricted shares                              | 147,174,760 | 2.22           | 33,359,376                                  |   |  | -15,131,623 | 18,227,753 | 165,402,513 | 2.37           |
| 1.1 Shares held by the state                      |             |                |   |   |  |             |            |             |                |
| 1.2 Shares held by state-owned corporations       |             |                |   |   |  |             |            |             |                |
| 1.3 Shares held by other domestic investors       | 145,424,760 | 2.19           | 32,539,376                                  |   |  | -14,594,623 | 17,944,753 | 163,369,513 | 2.34           |
| Among which: Shares held by domestic corporations | 0           | 0              | 2,363,601                                   |   |  |             | 2,363,601  | 2,363,601   | 0.03           |
| Shares held by domestic individuals               | 145,424,760 | 2.19           | 30,175,775                                  |   |  | -14,594,623 | 15,581,152 | 161,005,912 | 2.31           |

|  |               |       |             |  |  |             |             |               |       |
|--|---------------|-------|-------------|--|--|-------------|-------------|---------------|-------|
| 1.4 Shares held by foreign investors                 | 1,750,000     | 0.03  | 820,000     |  |  | -537,000    | 283,000     | 2,033,000     | 0.03  |
| Among which: Shares held by foreign corporations     |               |       |             |  |  |             |             |               |       |
| Shares held by foreign individuals                   | 1,750,000     | 0.03  | 820,000     |  |  | -537,000    | 283,000     | 2,033,000     | 0.03  |
| 2. Non-restricted shares                             | 6,515,855,746 | 97.79 | 406,007,374 |  |  | 115,366,059 | 290,641,315 | 6,806,497,061 | 97.63 |
| 2.1 RMB common shares                                | 6,515,855,746 | 97.79 | 406,007,374 |  |  | 115,366,059 | 290,641,315 | 6,806,497,061 | 97.63 |
| 2.2 Domestically listed shares for foreign investors |               |       |             |  |  |             |             |               |       |
| 2.3 Overseas listed shares for foreign investors     |               |       |             |  |  |             |             |               |       |
| 2.4 Other  |               |       |             |  |  |             |             |               |       |
| 3. Total shares                                      | 6,663,030,506 | 100   | 439,366,750 |  |  | 130,497,682 | 308,869,068 | 6,971,899,574 | 100   |

## Reasons for the changes in shares

√Applicable □N/A

a. As the conditions for the first unlocking period for the reserved restricted shares of the 2017 Restricted Share Incentive Scheme had been satisfied, the 1,629,000 restricted shares of a total of 50 eligible employees were unlocked and allowed for public trading on 20 February 2019, including 60,000 restricted shares of foreign employees.

b. As the conditions for the second unlocking period for the first phase of the 2017 Restricted Share Incentive Scheme had been satisfied, the 5,564,583 restricted shares of a total of 100 eligible employees were unlocked and allowed for public trading on 28 June 2019, including 150,000 restricted shares of foreign employees.

c. For the reason of certain incentive receivers' departure from the Company, violation of company rules, business unit's 2017 performance appraisal result being "just so-so", position change or other factors, the Company repurchased and retired 1,775,917 shares of 30 incentive receivers under the 2017 Restricted Share Incentive Scheme on 3 April 2019, and 2,237,500 shares of 47 incentive receivers under the 2018 Restricted Share Incentive Scheme, totaling 4,013,417 restricted shares.

d. 2,420,000 reserved restricted shares were granted to 32 employees for the Company's 2018 Restricted Share Incentive Scheme. These shares would be allowed for public trading on 10 May 2019.

e. The Company issued a total of 323,657,476 new A-shares for the merger with Little Swan in a share swap, including 321,278,100 non-restricted public shares and 2,379,376 restricted public shares (inclusive of such shares held by senior management). These shares would be allowed for public trading on 21 June 2019.

f. 28,560,000 restricted shares (repurchased shares) were granted to 423 employees for the Company's 2019 Restricted Share Incentive Scheme, with no change to the total share capital of the Company. These shares would be allowed for public trading on 10 July 2019.

g. For the reason of certain incentive receivers' departure from the Company, business unit's 2018 performance appraisal result being "just so-so", individual performance appraisal result of 2018 being "substandard" or other factors, the Company repurchased and retired 1,580,750 shares of 35 incentive receivers under the 2017 Restricted Share Incentive Scheme on 23 July 2019, and 1,238,500 shares of 21 incentive receivers under the 2018 Restricted Share Incentive Scheme, totaling 2,819,250 restricted shares.

h. In 2019, the incentive receivers of stock options chose to exercise 84,729,274 shares, which have been registered into the Company's share capital.

i. In 2019, locked-up shares held by senior management decreased by 1,089,598 shares.

Approval of share changes

Applicable  N/A

On 12 March 2019, the Company received the CSRC Reply on the Approval of the Merger of Midea Group Co., Ltd. with Wuxi Little Swan Company Limited (ZJXK [2019] No. 352), approving the issuance of 342,130,784 shares by Midea Group to merge with Little Swan.

Transfer of share ownership

Applicable  N/A

Progress of any share repurchase

Applicable  N/A

a. The Proposal on the Plan for the Repurchase of Some Public Shares (hereinafter referred to as the “2019 Repurchase Plan”) was approved at the 7th Meeting of the 3rd Board of Directors on 22 February 2019. As such, the Company was agreed to repurchase, with its own funds, no less than 60,000,000 shares and no more than 120,000,000 shares by way of centralized bidding at a price not exceeding RMB55/share within 12 months starting from the approval of the repurchase plan by the Board of Directors. All the repurchased shares would be used for the Company’s equity incentive schemes and/or employee stock ownership schemes. As disclosed in the Announcement on the Expiry of the Repurchase Period & the Completion of the Implementation of the Repurchase Plan dated 22 February 2019, during the repurchase period, the Company cumulatively repurchased 62,181,122 shares by way of centralized bidding. With the highest trading price being RMB55.00/share and the lowest being RMB45.62/share, the total payment amounted to RMB3,200,329,932.45 (exclusive of trading fees). The 2019 Repurchase Plan has expired and the number of shares repurchased has reached the lower limit of the repurchase plan. Therefore, the implementation of the repurchase plan has been completed. So far, cumulatively 34,159,920 repurchased shares have been transferred.

b. The Proposal on the Plan for the Repurchase of Some Public Shares (hereinafter referred to as the “2020 Repurchase Plan”) was approved at the 18th Meeting of the 3rd Board of Directors on 21 February 2020. As such, the Company was agreed to repurchase, with its own funds, no less than 40,000,000 shares and no more than 80,000,000 shares by way of centralized bidding at a price not exceeding RMB65/share within 12 months starting from the approval of the repurchase plan by the Board of Directors. All the repurchased shares would be used for the Company’s equity incentive schemes and/or employee stock ownership schemes. As disclosed in the Announcement on the Share Repurchase

Progress dated 2 April 2020, as of 31 March 2020, the Company had repurchased 14,265,055 shares (0.2038% of the Company's total share capital as of that date) by way of centralized bidding. With the highest trading price being RMB54.18/share and the lowest being RMB46.30/share, the total payment amounted to RMB701,292,302.13 (exclusive of trading fees). The repurchase was in line with the requirements of applicable laws and regulations, as well as the repurchase plan of the Company.

Progress of any repurchased share reduction through centralized price bidding

Applicable  N/A

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

Applicable  N/A

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

Applicable  N/A

## 1.2 Changes in restricted shares

Applicable  N/A

Unit: share

| Name of shareholder  | Opening restricted shares | Unlocked in current period | Increased in current period | Closing restricted shares | Reason for change              | Date of unlocking |
|--|---------------------------|----------------------------|-----------------------------|---------------------------|--------------------------------|-------------------|
| Incentive receivers of 2017 Restricted Share Incentive Scheme (first phase) ①                    | 14,380,000                | 5,564,583                  | 0                           | 6,140,000                 | Lockup according to the Scheme | 28 June 2019      |
| Incentive receivers of reserved restricted shares under 2017 Restricted Share Incentive Scheme ② | 5,235,000                 | 1,629,000                  | 0                           | 2,924,750                 | Lockup according to the Scheme | 20 February 2019  |
| Incentive receivers of 2018 Restricted Share Incentive Scheme (first phase) ③                    | 20,570,000                | 0                          | 0                           | 17,094,000                | Lockup according to the Scheme | 21 June 2020      |



|  |            |           |            |            |  |               |
|--|------------|-----------|------------|------------|--|---------------|
| Incentive receivers of reserved restricted shares under 2018 Restricted Share Incentive Scheme | 0          | 0         | 2,420,000  | 2,420,000  | Lockup according to the Scheme   | 10 May 2021   |
| Incentive receivers of 2019 Restricted Share Incentive Scheme                                  | 0          | 0         | 28,560,000 | 28,560,000 | Lockup according to the Scheme   | 10 July 2021  |
| Restricted shares before Share Offering<br>④   | 0          | 0         | 2,363,601  | 2,363,601  | Lockup before Share Offering   | -             |
| Zhang Xiaoyi   | 138,100    | 0         | 135,775    | 273,875    | Lockup for senior management position  | -             |
| Jiang Peng   | 566,250    | 107,775   | 0          | 458,475    | Lockup for senior management position  | -             |
| Xiao Mingguang   | 0          | 0         | 66,250     | 66,250     | Lockup for senior management position  | -             |
| Zhong Zheng  | 0          | 0         | 11,152     | 11,152     | Lockup of new shares for senior management position  | -             |
| Li Feide   | 1,195,000  | 1,195,000 | 0          | 0          | Unlocking of locked-up shares of former senior management  | 26 March 2019 |
| Zhu Fengtao ⑤  | 765,300    | 255,100   | 255,100    | 765,300    | Lockup of all the shares held by a former senior management within the half year from his departure from the Company | 26 March 2022 |
| Total  | 42,849,650 | 8,751,458 | 33,811,878 | 61,077,403 | --   | --            |

Notes: ① 2,675,417 restricted shares for the first phase of the 2017 Restricted Share Incentive Scheme that had been granted but were still in lockup were retired on 3 April and 23 July 2019, reducing the closing restricted shares by 2,675,417 shares.

② 681,250 reserved restricted shares under the 2017 Restricted Share Incentive Scheme that had been

granted but were still in lockup were retired on 3 April and 23 July 2019, reducing the closing restricted shares by 681,250 shares.

③ 3,476,000 restricted shares for the first phase of the 2018 Restricted Share Incentive Scheme that had been granted but were still in lockup were retired on 3 April and 23 July 2019, reducing the closing restricted shares by 3,476,000 shares.

④ These are new restricted shares before share offering upon the share swap in Midea Group's merger with Little Swan via A-share offering.

⑤ Zhu Fengtao quit as a Director and Vice President of the Company on 22 March 2019. Therefore, all the shares held by him in the Company were locked up within the half year from his departure.

## 2. Issuance and Listing of Securities

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

√ Applicable □ N/A

| Name of stock or its derivative securities | Issue date   | Issue price (or interest rate) | Issue number | Date of public trading | Number allowed for public trading | Date of termination of trading | Index to disclosed information   | Disclosure date |
|--|--------------|--------------------------------|--------------|------------------------|-----------------------------------|--------------------------------|--|-----------------|
| Stock                                      |              |                                |              |                        |                                   |                                |  |                 |
| Midea Group (000333)                       | 21 June 2019 | RMB40.74/share                 | 323,657,476  | 21 June 2019           | 323,657,476                       | -                              | Announcement of Midea Group Co., Ltd. on the A-share Offering for the Merger with Wuxi Little Swan Company Limited in a Share Swap & the Implementation of the Related-Party Transaction & the Listing of New Shares | 19 June 2019    |

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

√ Applicable □ N/A

The total shares of the Company were 6,663,030,506 at the beginning of the Reporting Period. During

the Reporting Period, 84,729,274 awarded stock options were exercised and registered; 95,105,015 repurchased shares were retired in early 2019; 2,420,000 reserved restricted shares were granted to 32 incentive receivers under the 2018 Restricted Share Incentive Scheme, which were allowed for public trading on 10 May 2019; 323,657,476 new shares were issued for the merger with Little Swan in a share swap via A-share offering, which were allowed for public trading on 21 June 2019; and a total of 6,832,667 restricted shares under the 2017 and 2018 Restricted Share Incentive Schemes were repurchased and retired. As such, total shares are 6,971,899,574 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 | 172,279                              | Total number of common shareholders at the prior month-end before the disclosure date of the annual report | 246,617                                    | Total number of preference shareholders with resumed voting rights at the period-end (if any) | 0                                       | Total number of preference shareholders with resumed voting rights at the prior month-end before the disclosure date of the annual report (if any) | 0                        |             |
|--|--------------------------------------|--|--|---|---|--|--------------------------|-------------|
| 5% or greater common shareholders or top 10 common shareholders        |                                      |  |  |   |   |  |                          |             |
| Name of shareholder  | Nature of shareholder                | Shareholding percentage (%)  | Total common shares held at the period-end | Increase/decrease during the Reporting Period   | Number of restricted common shares held | Number of non-restricted common shares held  | Pledged or frozen shares |             |
|  |                                      |  |  |   |   |  | Status                   | Shares      |
| Midea Holding Co., Ltd.  | Domestic non-state-owned corporation | 31.73%   | 2,212,046,613                              | 0   | 0                                       | 2,212,046,613  | Pledged                  | 215,000,000 |
| Hong Kong Securities Clearing  | Foreign corporation                  | 16.89%   | 1,177,308,444                              | 277,188,277   | 0                                       | 1,177,308,444  |                          |             |

| Company Limited   |   |       |                  |               |             |             |         |            |
|---|---|-------|------------------|---------------|-------------|-------------|---------|------------|
| China Securities Finance Co., Ltd.  | State-owned corporation                                       | 2.84% | 198,145,134      | 0             | 0           | 198,145,134 |         |            |
| Fang Hongbo   | Domestic individual   | 1.96% | 136,990,492      | 0             | 102,742,869 | 34,247,623  |         |            |
| Canada Pension Plan Investment Board— own funds (stock exchange)  | Foreign corporation   | 1.73% | 120,379,067      | 19,371,811    | 0           | 120,379,067 |         |            |
| Central Huijin Asset Management Ltd.  | State-owned corporation                                       | 1.29% | 90,169,354       | 11,694,454    | 0           | 90,169,354  |         |            |
| Huang Jian  | Domestic individual   | 1.26% | 88,032,200       | 25,100        | 0           | 88,032,200  |         |            |
| Merrill Lynch International   | Foreign corporation   | 0.84% | 58,830,294       | 58,830,294    | 0           | 58,830,294  |         |            |
| Yuan Liqun  | Domestic individual   | 0.76% | 52,873,570       | 254,270       | 0           | 52,873,570  | Pledged | 15,884,900 |
| Li Jianwei  | Foreign individual  | 0.74% | 51,700,000       | -91,941       | 0           | 51,700,000  |         |            |
| Strategic investors or general corporations becoming top-ten common shareholders due to placing of new shares (if any) (see note 3) |   | N/A   |                  |               |             |             |         |            |
| Related-parties or acting-in-concert parties among the shareholders above   |   | N/A   |                  |               |             |             |         |            |
| Top 10 non-restricted common shareholders   |   |       |                  |               |             |             |         |            |
| Name of shareholder   | Number of non-restricted common shares held at the period-end |       | Type of shares   |               |             |             |         |            |
|   |   |       | Type             | Shares        |             |             |         |            |
| Midea Holding Co., Ltd.   | 2,212,046,613   |       | RMB common stock | 2,212,046,613 |             |             |         |            |
| Hong Kong Securities Clearing Company Limited   | 1,177,308,444   |       | RMB common stock | 1,177,308,444 |             |             |         |            |
| China Securities Finance Co., Ltd.  | 198,145,134   |       | RMB common stock | 198,145,134   |             |             |         |            |
| Canada Pension Plan Investment  | 120,379,067   |       | RMB common stock | 120,379,067   |             |             |         |            |

|  |  |                  |            |
|--|--|------------------|------------|
| Board— own funds (stock exchange)  |  |                  |            |
| Central Huijin Asset Management Ltd.   | 90,169,354   | RMB common stock | 90,169,354 |
| Huang Jian   | 88,032,200   | RMB common stock | 88,032,200 |
| Merrill Lynch International  | 58,830,294   | RMB common stock | 58,830,294 |
| Yuan Liqun   | 52,873,570   | RMB common stock | 52,873,570 |
| Li Jianwei   | 51,700,000   | RMB common stock | 51,700,000 |
| He Xiangjian   | 45,008,871   | RMB common stock | 45,008,871 |
| Related-parties or acting-in-concert parties among the top ten non-restricted common shareholders and between the top ten non-restricted common shareholders and the top ten common shareholders | He Xiangjian is the controlling shareholder of Midea Holding Co., Ltd., which makes them parties acting in concert.  |                  |            |
| Explanation on the top 10 common shareholders participating in securities margin trading (if any) (see note 4)   | <p>1. The Company's shareholder Huang Jian holds 88,022,200 shares in the Company through his common securities account and 10,000 shares in the Company through his account of collateral securities for margin trading, representing a total holding of 88,032,200 shares in the Company.</p> <p>2. The Company's shareholder Yuan Liqun holds 43,028,290 shares in the Company through her common securities account and 9,845,280 shares in the Company through her account of collateral securities for margin trading, representing a total holding of 52,873,570 shares in the Company.</p> |                  |            |

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

Yes  No

No such cases in the Reporting Period.

### 3.2 Controlling shareholder

| Name of controlling shareholder | Legal representative / company principal | Date of establishment | Credibility code | Main business scope |
|---------------------------------|--|-----------------------|------------------|---------------------|
|                                 |  |                       |                  |                     |

|   |   |            |                    |  |
|---|---|------------|--------------------|--|
| Midea Holding Co., Ltd.   | He Xiangjian  | 2002-08-05 | 914406067429989733 | Manufacture and commerce investment; domestic commerce and materials supply and marketing industry (excluding state-designated monopoly); CP software and hardware development; industrial product design; information technology consulting services, providing investment consultant and consulting services; installation, maintenance and after-sales service of electric appliances; real estate intermediary service and forwarding agent service. |
| Shareholdings of the controlling shareholder in other controlled or non-controlled listed companies at home or abroad during the Reporting Period | Apart from a direct control over the Company, Midea Holding does not directly control or have shares in other listed companies at home or abroad. |            |                    |  |

#### Change of the controlling shareholder during the Reporting Period

Applicable N/A

No such cases in the Reporting Period.

### 3.3 Actual controller and acting-in-concert parties thereof

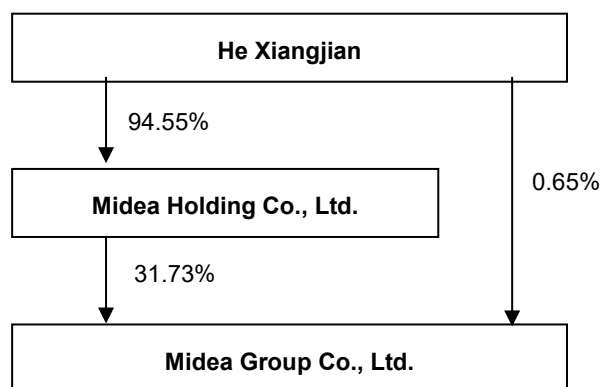
| Name of the actual controller  | Relationship with the actual controller   | Nationality                    | Right of residence in other countries or regions |
|--|---|--------------------------------|--|
| He Xiangjian   | Actual controller himself   | The People's Republic of China | No   |
| Main occupation and duty   | Incumbent board chairman of Midea Holding Co., Ltd.   |                                |  |
| Used-to-be-holding listed companies home and abroad in the last 10 years | Midea Group (000333.SZ), KUKA (KU2.DE), Little Swan (A: 000418.SZ; B: 200418) (delisted in 2019), and Welling Holding (00382.HK) (delisted in 2018) |                                |  |

#### 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 Information about Directors, Supervisors, Senior Management and Employees

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

| Name         | Office title                          | Incumbent/Former | Gender | Age | Starting date of tenure | Ending date of tenure | Shares held at the year-begin (share) | Shares increased at the Reporting Period (share) | Shares decreased at the Reporting Period (share) | Other increase/decrease (share) | Shares held at the period-end (share) |
|--------------|---------------------------------------|------------------|--------|-----|-------------------------|-----------------------|---------------------------------------|--|--|---------------------------------|---------------------------------------|
| Fang Hongbo  | Chairman of the Board and CEO         | Incumbent        | Male   | 53  | 2012-8-25               | 2021-9-25             | 136,990,492                           | 0  | 0  | 0                               | 136,990,492                           |
| He Jianfeng  | Director                              | Incumbent        | Male   | 53  | 2012-8-25               | 2021-9-25             | 0                                     | 0  | 0  | 0                               | 0                                     |
| Yin Bitong   | Director and Vice President           | Incumbent        | Male   | 52  | 2016-12-16              | 2021-9-25             | 2,109,655                             | 0  | 0  | 0                               | 2,109,655                             |
| Gu Yanmin    | Director and Vice President           | Incumbent        | Male   | 57  | 2014-4-21               | 2021-9-25             | 0                                     | 0  | 0  | 0                               | 0                                     |
| Yu Gang      | Director                              | Incumbent        | Male   | 61  | 2018-9-26               | 2021-9-25             | 0                                     | 0  | 0  | 0                               | 0                                     |
| Xue Yunkui   | Independent Director                  | Incumbent        | Male   | 56  | 2018-9-26               | 2021-9-25             | 0                                     | 0  | 0  | 179,914                         | 179,914                               |
| Guan Qingyou | Independent Director                  | Incumbent        | Male   | 43  | 2018-9-26               | 2021-9-25             | 0                                     | 0  | 0  | 0                               | 0                                     |
| Han Jian     | Independent Director                  | Incumbent        | Female | 48  | 2018-9-26               | 2021-9-25             | 0                                     | 0  | 0  | 0                               | 0                                     |
| Liu Min      | Chairman of the Supervisory Committee | Incumbent        | Female | 43  | 2016-2-1                | 2021-9-25             | 0                                     | 0  | 0  | 0                               | 0                                     |



|                |                             |           |        |    |            |           |             |   |         |         |             |
|----------------|-----------------------------|-----------|--------|----|------------|-----------|-------------|---|---------|---------|-------------|
| Zhao Jun       | Supervisor                  | Incumbent | Male   | 45 | 2014-4-21  | 2021-9-25 | 0           | 0 | 0       | 0       | 0           |
| Liang Huiming  | Employee Supervisor         | Incumbent | Female | 37 | 2017-3-30  | 2021-9-25 | 0           | 0 | 0       | 0       | 0           |
| Wang Jianguo   | Vice President              | Incumbent | Male   | 44 | 2017-12-15 | 2021-9-25 | 0           | 0 | 0       | 0       | 0           |
| Zhang Xiaoyi   | Vice President              | Incumbent | Male   | 47 | 2018-4-23  | 2021-9-25 | 470,800     | 0 | 0       | 115,775 | 586,575     |
| Xiao Mingguang | Vice President              | Incumbent | Male   | 50 | 2019-3-22  | 2021-9-25 | 280,000     | 0 | 0       | 75,000  | 355,000     |
|                | Director of Finance         | Former    |        |    | 2016-7-16  | 2019-3-22 |             |   |         |         |             |
| Hu Ziqiang     | Vice President              | Incumbent | Male   | 63 | 2014-8-18  | 2021-9-25 | 0           | 0 | 0       | 0       | 0           |
| Wang Jinliang  | Vice President              | Incumbent | Male   | 53 | 2014-8-18  | 2021-9-25 | 0           | 0 | 0       | 120,000 | 120,000     |
| Helmut Zodl    | Chief Financial Officer     | Incumbent | Male   | 47 | 2019-10-22 | 2021-9-25 | 0           | 0 | 0       | 0       | 0           |
| Zhong Zheng    | Director of Finance         | Incumbent | Female | 38 | 2019-3-22  | 2021-9-25 | 0           | 0 | 0       | 201,152 | 201,152     |
| Jiang Peng     | Board Secretary             | Incumbent | Male   | 47 | 2013-10-30 | 2021-9-25 | 611,300     | 0 | 152,700 | 0       | 458,600     |
| Zhu Fengtao    | Director and Vice President | Former    | Male   | 52 | 2014-4-21  | 2019-3-22 | 1,020,400   | 0 | 0       | 0       | 1,020,400   |
| Total          | --                          | --        | --     | -- | --         | --        | 141,482,647 | 0 | 152,700 | 691,841 | 142,021,788 |

## 2. Changes in Directors, Supervisors and Senior Management

√Applicable □N/A

| Name           | Office title                | Type of change | Date      | Reason          |
|----------------|-----------------------------|----------------|-----------|-----------------|
| Zhu Fengtao    | Director and Vice President | Resigned       | 2019-3-22 | Personal reason |
| Xiao Mingguang | Director of Finance         | Dismissed      | 2019-3-22 | Job change      |

## 3. Brief Biographies

Professional backgrounds, main work experience and current responsibilities in the Company of the

incumbent directors, supervisors and senior management

**Mr. Fang Hongbo**, male, holder of a Master's degree, is the Chairman and CEO of the Company. He joined Midea in 1992 and previously served as the General Manager of Midea Air-Conditioning Business Unit, CEO of Midea Refrigeration Electric Appliances Group, Chairman and CEO of GD Midea Holding Co., Ltd.

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

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

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

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

**Mr. Xue Yunkui**, male, is a holder of a Doctoral degree given by the Southwest University and a holder of a Post-Doctoral degree given by the Shanghai University of Finance and Economics. He used to be the associate dean and a doctoral supervisor at the School of Accountancy of Shanghai University of Finance and Economics, a Founding Vice President of Shanghai National Accounting Institute and Cheung Kong Graduate School of Business, the Secretary-General of China Association of Accounting

Professors, a Vice Chairman of the Steering Committee of the National Accounting Institute under the Ministry of Finance, etc. He is now an accounting professor of Cheung Kong Graduate School of Business, and an Independent Director of Midea Group.

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

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

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

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

**Ms. Liang Huiming**, female, is a holder of a Bachelor's degree. Joining Midea in 2007, she used to serve as the Chief Business Administration Commissioner in Midea Group's Administration and Human

Resources Department. She is now the Employee Supervisor of Midea Group.

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

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

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

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

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

**Mr. Helmut Zodi**, male, holder of a Master's degree, joined Midea in 2019. For the period from 2000 to 2005, he worked in IBM as the Financial Manager for the Austrian operations, as well as the Director of Finance for the European, Middle East and African operations. For the period from 2005 to 2017, he served in Lenovo as the Director of Finance, the Vice President and Chief Financial Officer for the Asia Pacific and Latin American operations, the Vice President and Chief Financial Officer for the Global Commercial Business and the American operations, the Vice President and Chief Financial Officer for

the Global Service Business. For the period from 2017 to 2019, he was the Senior Vice President of Financial Affairs in Advance Auto Parts Inc. And he is now the Chief Financial Officer of Midea Group and a member of the Supervisory Board of KUKA.

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

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

#### Posts held in shareholding entities

Applicable N/A

| Name        | Shareholding entity     | Position            | Beginning date of office term | Ending date of office term | Allowance from the shareholding entity |
|-------------|-------------------------|---------------------|-------------------------------|----------------------------|--|
| He Jianfeng | Midea Holding Co., Ltd. | President           | 2016-01                       | -                          | No                                     |
| Zhao Jun    | Midea Holding Co., Ltd. | Director of Finance | 2012-09                       | -                          | Yes                                    |
|             |                         | Vice President      | 2015-12                       |                            |  |
| Note        | N/A                     |                     |                               |                            |  |

#### Posts held in other entities

Applicable N/A

| Name        | Other entity                               | Position                        | Beginning date of office term | Ending date of office term | Allowance from the entity |
|-------------|--|---------------------------------|-------------------------------|----------------------------|---------------------------|
| Fang Hongbo | KUKA                                       | Member of the Supervisory Board | 2017-03                       | 2019-05                    | Yes                       |
| He Jianfeng | Infore Investments Holding Group Co., Ltd. | Chairman of the Board and       | 1995-06                       | -                          | Yes                       |

|              |   |                                   |         |         |     |
|--------------|---|-----------------------------------|---------|---------|-----|
|              |   | President                         |         |         |     |
| Gu Yanmin    | KUKA  | Chairman of the Supervisory Board | 2017-01 | 2024-06 | Yes |
| Yu Gang      | 111, Inc.   | Executive Chairman of the Board   | 2011-04 | -       | Yes |
| Xue Yunkui   | Aeon Life Insurance Company, Ltd.                               | Independent Director              | 2019-01 | 2022-01 | Yes |
|              | Ouyeel Co., Ltd.  | Independent Director              | 2019-08 | 2022-08 | Yes |
|              | Dalian Wanda Commercial Management Group Co., Ltd.              | Independent Director              | 2020-02 | 2023-02 | Yes |
| Guan Qingyou | Beijing Rushi Research Information Consulting Service Co., Ltd. | Chairman of the Board             | 2017-12 | -       | Yes |
|              | Shaanxi International Trust Co., Ltd.                           | Independent Director              | 2019-07 | 2022-07 | Yes |
|              | Nanhua Futures Co., Ltd.  | Independent Director              | 2019-02 | 2022-02 | Yes |
| Liu Min      | KUKA  | Member of the Supervisory Board   | 2017-01 | 2024-06 | Yes |
| Helmut Zodl  | KUKA  | Member of the Supervisory Board   | 2020-01 | 2024-06 | Yes |
| Note         | N/A   |                                   |         |         |     |

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

Applicable N/A

#### 4. Remuneration of Directors, Supervisors and Senior Executives

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

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

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

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

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

Unit: RMB'000

| Name        | Position                         | Gender | Age | Incumbent/<br>Former | Total before-tax<br>remuneration<br>from the<br>Company | Remuneration<br>from related<br>parties of the<br>Company |
|-------------|----------------------------------|--------|-----|----------------------|---|---|
| Fang Hongbo | Chairman of the Board<br>and CEO | Male   | 53  | Incumbent            | 9,630   |   |
| He Jianfeng | Director                         | Male   | 53  | Incumbent            | -   | Yes   |
| Yin Bitong  | Director and Vice<br>President   | Male   | 52  | Incumbent            | 7,650   |   |
| Gu Yanmin   | Director and Vice<br>President   | Male   | 57  | Incumbent            | 3,480   |   |

|                |                                   |        |    |           |        |     |
|----------------|-----------------------------------|--------|----|-----------|--------|-----|
| Yu Gang        | Director                          | Male   | 61 | Incumbent | 450    |     |
| Xue Yunkui     | Independent Director              | Male   | 56 | Incumbent | 450    |     |
| Guan Qingyou   | Independent Director              | Male   | 43 | Incumbent | 450    |     |
| Han Jian       | Independent Director              | Female | 48 | Incumbent | 450    |     |
| Liu Min        | Chairman of the Supervisory Board | Female | 43 | Incumbent | 2180   |     |
| Zhao Jun       | Supervisor                        | Male   | 45 | Incumbent | -      | Yes |
| Liang Huiming  | Employee Supervisor               | Female | 37 | Incumbent | 210    |     |
| Wang Jianguo   | Vice President                    | Male   | 44 | Incumbent | 4,340  |     |
| Zhang Xiaoyi   | Vice President                    | Male   | 47 | Incumbent | 4,460  |     |
| Hu Ziqiang     | Vice President                    | Male   | 63 | Incumbent | 4,710  |     |
| Wang Jinliang  | Vice President                    | Male   | 53 | Incumbent | 4,120  |     |
| Xiao Mingguang | Vice President                    | Male   | 50 | Incumbent | 3,270  |     |
| Helmut Zodl    | Chief Financial Officer           | Male   | 47 | Incumbent | 2,200  |     |
| Zhong Zheng    | Director of Finance               | Female | 38 | Incumbent | 2,400  |     |
| Jiang Peng     | Board Secretary                   | Male   | 47 | Incumbent | 2,410  |     |
| Zhu Fengtao    | Director and Vice President       | Male   | 52 | Former    | 4,940  |     |
| Total          | --                                | --     | -- | --        | 57,800 | --  |

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

√Applicable □N/A

| 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 |
|---------------|----------------|--|---|--|---|---|---|---|--|---|
| Wang Jinliang | Vice President | 0  | 0   | -  | 58.25   | 0   | 0                                       | 120,000   | 25.79  | 120,000   |
| Hu Ziqiang    | Vice President | 0  | 0   | -  | 58.25   | 200,000   | 100,000                                 | 0   | 15.86  | 100,000   |
|               |                |  |   |  |   | 100,000   | 0                                       | 0   | 27.57  | 100,000   |



|                |                     |         |         |       |       |         |         |         |       |         |
|----------------|---------------------|---------|---------|-------|-------|---------|---------|---------|-------|---------|
| Xiao Mingguang | Vice President      | 245,000 | 35,000  | 17.85 | 58.25 | 100,000 | 0       | 0       | 27.57 | 100,000 |
|                |                     |         |         |       |       | 150,000 | 50,000  | 0       | 27.99 | 100,000 |
| Zhong Zheng    | Director of Finance | 116,000 | 41,000  | 19.15 | 58.25 | 120,000 | 60,000  | 0       | 15.86 | 60,000  |
|                |                     |         |         |       |       | 80,000  | 0       |         | 27.57 | 80,000  |
| Zhang Xiaoyi   | Vice President      | 180,000 | 90,000  | 17.36 | 58.25 | 140,000 | 70,000  | 0       | 15.86 | 70,000  |
|                |                     |         | 10,000  | 16.06 | 58.25 | 100,000 | 0       | 0       | 27.57 | 100,000 |
| Total          | --                  | 541,000 | 176,000 | --    | --    | 990,000 | 280,000 | 120,000 | --    | 830,000 |
| Note (if any)  | N/A                 |         |         |       |       |         |         |         |       |         |

## 5. Staff in the Company

### 5.1 Number, functions and educational backgrounds of the staff

|  |                 |
|--|-----------------|
| Number of in-service staff of the Company  | 1,491           |
| Number of in-service staff of main subsidiaries  | 133,406         |
| Total number of in-service staff   | 134,897         |
| Total number of staff with remuneration in the period  | 134,897         |
| Number of retirees to whom the Company or its main subsidiaries need to pay retirement pension | 2,280           |
| <b>Functions</b>   |                 |
| Function   | Number of staff |
| Production   | 110,568         |
| Sales  | 7,424           |
| Technical/R&D  | 13,727          |
| Financial  | 1,783           |
| Administrative   | 1,395           |
| Total  | 134,897         |
| <b>Educational backgrounds</b>   |                 |
| Educational background   | Number of staff |
| Master and doctor  | 4,422           |
| Bachelor   | 26,867          |
| College, technical secondary school  | 51,855          |
| Others   | 51,753          |
| Total  | 134,897         |

Note: The data above have not yet included the staff of KUKA, which are around 14,000.

## 5.2 Staff remuneration policy

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

## 5.3 Staff trainings

The attendances at internal training sessions were 637,007 in the Reporting Period, of which 27,411 were management personnel, 283,869 technical and marketing personnel and 325,727 operational personnel.

The trainings included:

- a. Building Leadership Development Programs such as the Sailor-Voyager-Pilot program and a High-Potential Leaders Training system to facilitate talent management and training. 53 talent training programs were carried out, where 2,916 highly skilled managerial staff were trained for a total of 54,288 man-hours.
- b. Building a professionalism promotion system. 817 such programs were carried out, where 344,920 staff were trained for a total of 2,862,836.5 man-hours.
- c. Providing channels for common skill improvement. 662 such programs such as the Lecture for Staff and language trainings were launched, where 71,482 staff were trained for a total of 252,402 man-hours.
- d. Improving individual comprehensive ability. 151 external trainings for individuals at junior, middle and senior levels were organized, where 655 staff were trained for a total of 10,926 man-hours.
- e. In order to help new graduates develop themselves fast and foster a new power for the Company, 72 relevant programs such as the Re-Education of New Graduates and the Training Camp for New Graduates were organized, where 10,310 new graduates were trained for a total of 273,922 man-hours.

f. Facilitating organizational learning. 1,368 internal sharing sessions were held, where 50,511 employees were trained for 89,909 man-hours. With the addition of 860 new internal trainers, annual teaching time reached 7,231.3 hours in total. And a total of 920 courses were designed in the year.

g. 13,217 key technical staff and working team leaders were trained for a total of 278,189 hours.

h. 54,965 staff visited M-Learning, a mobile app developed by Midea for online training, for a total of 228,232 times in 2019.

#### **5.4 Labor outsourcing**

Applicable N/A

## Section VIII Corporate Governance

### 1. Basic Situation of Corporate Governance

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

Yes No

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

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

In 2019, the Company won the following honors:

No. 312 of “2019 Fortune Global 500”; No. 253 of “The World’s 2,000 Largest Public Companies” released by the Forbes; No. 33 of the “BrandZ™ Top 100 Most Valuable Chinese Brands” jointly released by WPP and Kantar Millward Brown; No. 149 of the “2019 Brand Finance Global 500”; the “Best Responsibility Advancement Award” at “China ESG Golden Awards 2019” presented by finance.sina.com.cn; and “The Enterprise with Excellent Governance” at “The Golden Round Table Awards 2019” presented by the *Directors & Boards* magazine.

## **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  |
|---|---------------------------------|------------------------------|------------------|------------------|---|
| 2019 First Special Meeting of Shareholders  | Special meeting of shareholders | 55.2068%                     | 15 February 2019 | 16 February 2019 | Announcement No. 2019-020, disclosed on www.cninfo.com.cn |
| 2018 Annual Meeting of Shareholders         | Annual meeting of shareholders  | 57.1694%                     | 13 May 2019      | 14 May 2019      | Announcement No. 2019-071, disclosed on www.cninfo.com.cn |
| 2019 Second Special Meeting of Shareholders | Special meeting of shareholders | 51.6877%                     | 18 November 2019 | 19 November 2019 | Announcement No. 2019-127, 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 |
| Xue Yunkui  | 12   | 1                        | 11                                    | 0                                | 0               | No                                |
| Guan Qingyou  | 12   | 1                        | 11                                    | 0                                | 0               | No                                |
| Han Jian  | 12   | 1                        | 11                                    | 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 2018 Final Account Report, The 2018 Annual Report & Its Abstract, The Report of the Audit Committee on Concluding and Appraising the 2018 Annual Audit Work, The Proposal for Appointing an Auditor for the 2019 Annual Result, The Proposal for Appointing an Auditor for the Internal Control in 2019, The Proposal for Writing off Asset Impairment Provisions, The Report on the First Quarter of 2019, The 2019 Semi-Annual Report and The Report on the Third Quarter of 2019.*

6.2 The Remuneration and Appraisal Committee under the Board convened three meetings in the Reporting Period, at which the following proposals were considered and approved: *The Proposal on the Repurchase and Retirement of Certain Incentive Shares under the 2017 and 2018 Restricted Share Incentive Schemes, The Proposal on the Satisfaction of the Conditions for the First Unlocking Period for the Reserved Restricted Shares of the 2017 Restricted Share Incentive Scheme, The Proposal for Matters Related to the Stock Option Exercise for the Second Exercise Period of the Fourth Stock Option Incentive Scheme, The Proposal on the Satisfaction of the Conditions for the Second Unlocking Period for the First Phase of the 2017 Restricted Share Incentive Scheme, and The Proposal for Matters Related to the Stock Option Exercise for the Third Exercise Period of the Third Stock Option Incentive Scheme.*

6.3 The Nomination Committee under the Board convened two meetings in the Reporting Period, at which the following proposals were considered and approved: *The Proposal for Vice President Appointment, The Proposal for the Appointment of Director of Finance and The Proposal for the Appointment of Chief Financial Officer.*

## 7. Performance of Duties by the Supervisory Committee

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

Yes  No

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



Reporting Period.

## 8. Assessment and Incentive Mechanism for the Senior Management

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

## 9. Internal Control

### 9.1 Serious internal control defects found in the Reporting Period

Yes No

### 9.2 Self-evaluation report on internal control

| Disclosure date of the internal control self-evaluation report                                 | 30 April 2020  |  |
|--|--|--|
| Index to the disclosed internal control self-evaluation report                                 | For details, please refer to the 2019 Self-Evaluation Report on Internal Control, which has been disclosed on <a href="http://www.cninfo.com.cn">www.cninfo.com.cn</a>   |  |
| Ratio of the total assets of the appraised entities to the consolidated total assets           | 70%  |  |
| Ratio of the operating revenue of the appraised entities to the consolidated operating revenue | 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 2019 Self-Evaluation Report on Internal Control disclosed on <a href="http://www.cninfo.com.cn">www.cninfo.com.cn</a> dated 30 | For details, please refer to “(c) Basis for internal control evaluation and identification standards for internal control defects” under Section III of The 2019 Self-Evaluation Report on Internal Control disclosed on <a href="http://www.cninfo.com.cn">www.cninfo.com.cn</a> dated 30 |

|  |   |   |
|--|---|---|
|  | April 2020.   | April 2020.   |
| 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 2019 Self-Evaluation Report on Internal Control disclosed on www.cninfo.com.cn dated 30 April 2020. | For details, please refer to “(c) Basis for internal control evaluation and identification standards for internal control defects” under Section III of The 2019 Self-Evaluation Report on Internal Control disclosed on www.cninfo.com.cn dated 30 April 2020. |
| Number of serious financial-report-related defects       | 0   |   |
| Number of serious non-financial-report-related defects   | 0   |   |
| Number of important financial-report-related defects     | 0   |   |
| Number of important non-financial-report-related defects | 0   |   |

## 10. Auditor’s Report on Internal Control

Applicable  N/A

| Opinion paragraph in the auditor’s report on internal control  |   |
|--|---|
| The internal control auditor holds the view that on 31 December 2019, Midea Group maintained an effective internal control of a financial report in all significant aspects based on the General Specifications of Company Internal Control and relevant specifications. |   |
| Auditor’s report on internal control disclosed or not  | Disclosed on www.cninfo.com.cn  |
| Date of disclosing the full text of the auditor’s report on internal control   | 30 April 2020   |
| Index to the disclosed full text of the auditor’s report on internal control   | For details, please refer to the 2019 Auditor’s Report on Internal Control, which has been disclosed on www.cninfo.com.cn |
| Type of the auditor’s opinion  | Standard & unqualified  |
| 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 IX Financial Report

### 1. Auditor's report

|                                       |                                    |
|---------------------------------------|------------------------------------|
| Type of the auditor's opinion         | Unqualified opinion                |
| Signing date of the auditor's report  | 28 April 2020                      |
| Name of the auditor                   | PricewaterhouseCoopers China (LLP) |
| No. of the auditor's report           | PwC ZT Shen Zi (2020) No. 10017    |
| Names of certified public accountants | Huang Meimei and Qiu Xiaoying      |

[English Translation for Reference Only]

## **Auditor's Report**

PwC ZT Shen Zi (2020) No. 10017  
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To the shareholders of Midea Group Co., Ltd.,

### **Opinion**

#### *What we have audited*

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

- the consolidated and company balance sheets as at 31 December 2019;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

#### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Group as at 31 December 2019, and their financial performance and cash flows for the year then ended in accordance with the requirements of the Accounting Standards for Business Enterprises (“CASs”).

### **Basis for Opinion**

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

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

### **Key Audit Matters**

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

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

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

| Key Audit Matters(Cont'd)  | How our audit addressed the Key Audit Matters   |
|--|---|
| <p><b>Recognition of revenue from sales of household appliances</b></p> <p>Please refer to Note 2(26)(a) “Revenue - sales of goods” and Note 4(42) “Operating revenue” to the financial statements.</p> <p>Revenue is recognised when it’s probable that the economic benefits associated with the transaction will flow to the Group, the related revenue can be reliably measured, and the specific criteria of revenue recognition have been met for each type of the Group’s activities. In 2019, the Group’s consolidated operating revenue was RMB278,216,017,000 and the revenue from sales of household appliances accounted for over 80% of the consolidated operating revenue.</p> <p>We focused on recognition of revenue from sales of household appliances mainly due to the Group’s numerous clients and big sales volume at home and abroad achieved by its varied distribution channels.</p> | <p>Regarding the Group’s revenue from sales of household appliances, we performed procedures as follows:</p> <p>We interviewed management from operation and financial departments in terms of sales processes of all distribution channels to understand and evaluate the internal control of processes relating to the revenue from sale of household appliances designed by management and tested the operating effectiveness of key controls;</p> <p>We checked the household appliance sales contract template entered into by and between the Group and the clients from all distribution channels, and analysed and evaluated the Group’s accounting policies on the revenue from sales of household appliances based on our interview with management, understanding of the Group’s selling operation and audit experience.</p> <p>Regarding the sales of household appliances through all distribution channels, we performed the procedures as follows:</p> <ol style="list-style-type: none"> <li>1. We performed such risk assessment procedures as analysis of fluctuation in revenue from sales of household appliances on a monthly basis and analysis of fluctuation in gross profit rates;</li> <li>2. We checked supporting documents relevant to recognition of revenue from sales of household appliances on sample basis, including sales contracts, orders, sales invoices, shipping orders, acknowledgement of goods receipts signed by customers, billing agreements with customers, etc.;</li> <li>3. We checked the amount of revenue by sending confirmations to customers on a sampling basis;</li> <li>4. We checked revenue from sales of household appliances recognised around the balance sheet date against acknowledgement of goods receipts signed by customers, billing agreements with customers or other supporting documents to evaluate if the revenue was recognised over appropriate period.</li> </ol> <p>We concluded that the Group’s recognition of revenue from sales of household appliances complied with its applicable accounting policies based on the audit procedures performed.</p> |

| Key Audit Matters (Cont'd)  | How our audit addressed the Key Audit Matters   |
|---|---|
| <p><b>Impairment testing of goodwill</b></p> <p>Please refer to Note 4(17) “Goodwill” to the financial statements.</p> <p>As at 31 December 2019, the goodwill recorded in the consolidated balance sheet of the Group amounted to RMB28,207,065,000, including RMB22,240,132,000 and RMB2,984,110,000 arising from business acquisition of KUKA Aktiengesellschaft (“KUKA Group”) and Toshiba Lifestyle Products &amp; Services Corporation (“TLSC”), respectively. Management believed that it was not necessary to make impairment provision for the goodwill based on the impairment testing prepared in accordance with the accounting policies stated in Note 2(19) to the consolidated financial statements. The impairment testing is performed by assessing the recoverable amount of the groups of assets containing the relevant goodwill, based on the present value of cash flows forecasts. Key assumptions adopted in the impairment testing of goodwill included expected revenue growth rates, EBITDA margins, perpetual annual growth rates, discount rates, etc. which required key accounting estimates and judgement.</p> <p>We focused on the impairment risk of the goodwill totalling RMB25,224,242,000 arising from the business acquisition of KUKA Group and TLSC because the amount is significant and the impairment testing of goodwill involved key accounting estimates and judgements.</p> | <p>Regarding the impairment testing of goodwill arising from the acquisition of KUKA Group and TLSC, we performed the procedures as followings:</p> <ol style="list-style-type: none"> <li>1. We understood and evaluated the internal controls relevant to the impairment testing of goodwill, and tested the operating effectiveness of key control, including review and approval of key assumptions applied and internal control of calculation of the recoverable amounts of the asset groups containing the allocated goodwill.</li> <li>2. We evaluated the appropriateness of methodologies of impairment testing of goodwill adopted by management with the assistance of internal valuers, and evaluated and recalculated the discount rates adopted in the test by comparing industry or market data;</li> <li>3. We tested the accuracy of arithmetic applied in the calculating process during the impairment testing of goodwill;</li> <li>4. We evaluated the accuracy of historical estimates on future cash flows by comparing the actual financial performance of current year with the forecasts of prior year, so as to check whether there was any bias from management during the evaluation of the impairment testing of goodwill;</li> <li>5. We evaluated the reasonableness of key assumptions on expected revenue growth rates, EBITDA margins, perpetual annual growth rates, discount rates, etc. adopted in the impairment testing of goodwill by interviewing with management and considering the market developments.</li> </ol> <p>We concluded that the audit evidence we have obtained could support the accounting estimates and judgement applied by management in the evaluation of impairment testing of goodwill based on the audit procedures performed.</p> |

### **Other Information**

Management of the Group is responsible for the other information. Other information comprises all the information included in the 2019 annual report of the Group other than the financial statements and our auditor's report thereon.

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

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

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

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

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation (including the disclosures), structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



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

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

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

PricewaterhouseCoopers Zhong Tian LLP

Signing CPA

Shanghai , the People’s Republic of China  
28 April 2020

Signing CPA

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Huang MeiMei  
(Engagement Partner)

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Qiu XiaoYing

**MIDEA GROUP CO., LTD.**

**CONSOLIDATED AND COMPANY BALANCE SHEETS**

**AS AT 31 DECEMBER 2019**

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

[English translation for reference only]

| ASSETS                              | Note        | 31 December<br>2019<br>Consolidated | 31 December<br>2018<br>Consolidated | 31 December<br>2019<br>Company | 31 December<br>2018<br>Company |
|-------------------------------------|-------------|-------------------------------------|-------------------------------------|--------------------------------|--------------------------------|
| <b>Current assets</b>               |             |                                     |                                     |                                |                                |
| Cash at bank and on hand            | 4(1)        | 70,916,841                          | 27,888,280                          | 52,291,056                     | 15,361,626                     |
| Financial assets held for trading   | 4(2)        | 1,087,351                           | —                                   | -                              | —                              |
| Derivative financial assets         |             | 197,412                             | 220,197                             | -                              | -                              |
| Notes receivable                    | 4(3)        | 4,768,520                           | 12,556,294                          | -                              | -                              |
| Accounts receivable                 | 4(4)        | 18,663,819                          | 19,390,174                          | -                              | -                              |
| Receivables financing               | 4(6)        | 7,565,776                           | —                                   | -                              | —                              |
| Advances to suppliers               | 4(7)        | 2,246,177                           | 2,215,888                           | 36,877                         | 55,069                         |
| Loans and advances                  | 4(8)        | 10,869,396                          | 11,328,392                          | -                              | -                              |
| Other receivables                   | 4(5),17(1)  | 2,712,974                           | 2,971,368                           | 18,369,865                     | 11,593,020                     |
| Inventories                         | 4(9)        | 32,443,399                          | 29,645,018                          | -                              | -                              |
| Other current assets                | 4(10)       | 65,011,027                          | 76,473,827                          | 42,665,884                     | 55,052,256                     |
| <b>Total current assets</b>         |             | <b>216,482,692</b>                  | <b>182,689,438</b>                  | <b>113,363,682</b>             | <b>82,061,971</b>              |
| <b>Non-current assets</b>           |             |                                     |                                     |                                |                                |
| Available-for-sale financial assets |             | —                                   | 1,906,878                           | —                              | 56,579                         |
| Long-term receivables               | 4(11)       | 1,208,079                           | 34,815                              | -                              | -                              |
| Loans and advances                  | 4(8)        | 790,101                             | -                                   | -                              | -                              |
| Long-term equity investments        | 4(12),17(2) | 2,790,806                           | 2,713,316                           | 52,605,859                     | 28,236,295                     |
| Other non-current financial assets  | 4(13)       | 1,750,107                           | —                                   | 487,564                        | —                              |
| Investment properties               |             | 399,335                             | 391,765                             | 518,828                        | 560,954                        |
| Fixed assets                        | 4(14)       | 21,664,682                          | 22,437,212                          | 878,239                        | 1,056,790                      |
| Construction in progress            | 4(15)       | 1,194,650                           | 2,077,621                           | 155,681                        | 51,872                         |
| Intangible assets                   | 4(16)       | 15,484,179                          | 16,186,675                          | 700,836                        | 712,454                        |
| Goodwill                            | 4(17)       | 28,207,065                          | 29,100,390                          | -                              | -                              |
| Long-term prepaid expenses          | 4(18)       | 1,267,127                           | 1,191,373                           | 123,548                        | 174,684                        |
| Deferred tax assets                 | 4(19)       | 5,768,993                           | 4,421,313                           | 189,888                        | 202,703                        |
| Other non-current assets            | 4(20)       | 4,947,603                           | 550,352                             | 4,359,507                      | 4,576                          |
| <b>Total non-current assets</b>     |             | <b>85,472,727</b>                   | <b>81,011,710</b>                   | <b>60,019,950</b>              | <b>31,056,907</b>              |
| <b>TOTAL ASSETS</b>                 |             | <b>301,955,419</b>                  | <b>263,701,148</b>                  | <b>173,383,632</b>             | <b>113,118,878</b>             |

**MIDEA GROUP CO., LTD.**

**CONSOLIDATED AND COMPANY BALANCE SHEETS (CONT'D)**

**AS AT 31 DECEMBER 2019**

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

[English translation for reference only]

| <b>LIABILITIES AND OWNERS'<br/>EQUITY</b>                                  | <b>Note</b> | <b>31 December<br/>2019<br/>Consolidated</b> | <b>31 December<br/>2018<br/>Consolidated</b> | <b>31 December<br/>2019<br/>Company</b> | <b>31 December<br/>2018<br/>Company</b> |
|--|-------------|--|--|---|---|
| <b>Current liabilities</b>   |             |  |  |   |   |
| Short-term borrowings  | 4(23)       | 5,701,838                                    | 870,390                                      | 4,550,064                               | 575,000                                 |
| Borrowings from the Central Bank   |             | -  | 99,754                                       | -                                       | -                                       |
| Customer deposits and deposits from banks and other financial institutions |             | 62,477                                       | 44,386                                       | -                                       | -                                       |
| Derivative financial liabilities   |             | 27,100                                       | 756,299                                      | -                                       | -                                       |
| Notes payable  | 4(24)       | 23,891,600                                   | 23,325,115                                   | -                                       | -                                       |
| Accounts payable   | 4(25)       | 42,535,777                                   | 36,901,626                                   | -                                       | -                                       |
| Advances from customers  | 4(26)       | 16,231,854                                   | 16,781,666                                   | -                                       | -                                       |
| Employee benefits payable  | 4(27)       | 6,436,109                                    | 5,788,004                                    | 566,861                                 | 573,632                                 |
| Taxes payable  | 4(28)       | 5,096,267                                    | 3,875,298                                    | 1,059,246                               | 280,499                                 |
| Other payables   | 4(29)       | 3,800,568                                    | 3,346,129                                    | 103,624,998                             | 74,714,012                              |
| Current portion of non-current liabilities                                 | 4(30)       | 1,460,117                                    | 7,122,712                                    | -                                       | -                                       |
| Other current liabilities  | 4(31)       | 39,074,777                                   | 31,319,709                                   | 19,539                                  | 44,414                                  |
| <b>Total current liabilities</b>   |             | <b>144,318,484</b>                           | <b>130,231,088</b>                           | <b>109,820,708</b>                      | <b>76,187,557</b>                       |
| <b>Non-current liabilities</b>   |             |  |  |   |   |
| Long-term borrowings   | 4(32)       | 41,298,377                                   | 32,091,439                                   | 4,000,000                               | -                                       |
| Long-term payables   |             | 33,646                                       | 88,890                                       | -                                       | -                                       |
| Provisions   |             | 353,269                                      | 268,887                                      | -                                       | -                                       |
| Deferred income  |             | 617,155                                      | 647,583                                      | -                                       | -                                       |
| Long-term employee benefits payable  | 4(33)       | 2,418,563                                    | 2,480,318                                    | -                                       | -                                       |
| Deferred tax liabilities   | 4(19)       | 4,556,002                                    | 4,422,074                                    | 59,032                                  | -                                       |
| Other non-current liabilities  | 4(34)       | 863,826                                      | 1,016,352                                    | -                                       | -                                       |
| <b>Total non-current liabilities</b>                                       |             | <b>50,140,838</b>                            | <b>41,015,543</b>                            | <b>4,059,032</b>                        | <b>-</b>                                |
| <b>Total liabilities</b>   |             | <b>194,459,322</b>                           | <b>171,246,631</b>                           | <b>113,879,740</b>                      | <b>76,187,557</b>                       |
| <b>Shareholders' equity</b>  |             |  |  |   |   |
| Share capital  | 4(35)       | 6,971,900                                    | 6,663,031                                    | 6,971,900                               | 6,663,031                               |
| Capital surplus  | 4(37)       | 19,640,313                                   | 18,451,307                                   | 26,592,959                              | 10,615,389                              |
| Less: Treasury stock   | 4(36)       | (3,759,732)                                  | (4,918,427)                                  | (3,759,732)                             | (4,918,427)                             |
| Other comprehensive income   | 4(38)       | (711,554)                                    | (1,332,153)                                  | 1,735                                   | 6,020                                   |
| General risk reserve   |             | 366,947                                      | 366,947                                      | -                                       | -                                       |
| Surplus reserve  | 4(39)       | 6,447,658                                    | 5,079,096                                    | 6,447,658                               | 5,079,096                               |
| Undistributed profits  | 4(40)       | 72,713,631                                   | 58,762,315                                   | 23,249,372                              | 19,486,212                              |
| Total equity attributable to shareholders of the Company                   |             | 101,669,163                                  | 83,072,116                                   | 59,503,892                              | 36,931,321                              |
| Minority interests   |             | 5,826,934                                    | 9,382,401                                    | -                                       | -                                       |
| <b>Total shareholders' equity</b>  |             | <b>107,496,097</b>                           | <b>92,454,517</b>                            | <b>59,503,892</b>                       | <b>36,931,321</b>                       |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                          |             | <b>301,955,419</b>                           | <b>263,701,148</b>                           | <b>173,383,632</b>                      | <b>113,118,878</b>                      |

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

Legal representative:  
Fang Hongbo

Principal in charge of accounting:  
Zhong Zheng

Head of accounting department:  
Chen Lihong

**MIDEA GROUP CO., LTD.**

**CONSOLIDATED AND COMPANY INCOME STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

| Item  | Note        | 2019<br>Consolidated | 2018<br>Consolidated | 2019<br>Company | 2018<br>Company |
|---|-------------|----------------------|----------------------|-----------------|-----------------|
| <b>Total revenue</b>  |             | 279,380,506          | 261,819,635          | 1,767,902       | 1,767,161       |
| Including: Operating revenue  | 4(42),17(3) | 278,216,017          | 259,664,820          | 1,767,902       | 1,767,161       |
| Interest income   | 4(43)       | 1,163,180            | 2,154,392            | -               | -               |
| Fee and commission income   |             | 1,309                | 423                  | -               | -               |
| Less: Cost of sales   | 4(42)       | (197,913,928)        | (188,164,557)        | (45,823)        | (39,632)        |
| Interest costs  | 4(43)       | (122,618)            | (189,490)            | -               | -               |
| Fee and commission expenses   |             | (11,633)             | (3,214)              | -               | -               |
| Taxes and surcharges  | 4(44)       | (1,720,616)          | (1,617,566)          | (37,481)        | (40,601)        |
| Selling and distribution expenses   | 4(45)       | (34,611,231)         | (31,085,879)         | -               | -               |
| General and administrative expenses   | 4(46)       | (9,531,361)          | (9,571,639)          | (579,072)       | (879,563)       |
| Research and development expenses   | 4(47)       | (9,638,137)          | (8,377,201)          | -               | -               |
| Financial income  | 4(48)       | 2,231,636            | 1,823,040            | 1,974,379       | 975,062         |
| Including: Interest expenses  |             | (880,703)            | (703,991)            | (1,402,376)     | (758,024)       |
| Interest income   |             | 3,807,136            | 2,155,862            | 3,363,003       | 1,780,258       |
| Add: Other income   | 4(54)       | 1,194,665            | 1,316,904            | 464,034         | 421,377         |
| Investment income   | 4(52),17(4) | 164,132              | 907,326              | 10,384,466      | 9,720,094       |
| Including: Investment income from associates  |             | 506,225              | 349,321              | 272,089         | 239,418         |
| Profit or loss arising from derecognition of financial assets measured at amortised costs |             | (709)                | —                    | -               | —               |
| Gains/(Losses) on changes in fair value   | 4(51)       | 1,361,163            | (810,450)            | 162,565         | -               |
| Credit impairment losses  | 4(50)       | (96,446)             | —                    | (418)           | —               |
| Asset impairment losses   | 4(49)       | (871,909)            | (447,864)            | -               | (6,051)         |
| (Losses)/Gains on disposal of assets  | 4(53)       | (131,131)            | (34,934)             | (1,040)         | 45,614          |
| <b>Operating profit</b>   |             | 29,683,092           | 25,564,111           | 14,089,512      | 11,963,461      |
| Add: Non-operating income   |             | 613,310              | 434,756              | 39,832          | 6,419           |
| Less: Non-operating expenses  |             | (367,288)            | (225,809)            | (22,741)        | (4,124)         |
| <b>Total profit</b>   |             | 29,929,114           | 25,773,058           | 14,106,603      | 11,965,756      |
| Less: Income tax expenses   | 4(55)       | (4,651,970)          | (4,122,639)          | (420,984)       | 2,881           |
| <b>Net profit</b>   |             | 25,277,144           | 21,650,419           | 13,685,619      | 11,968,637      |
| (1) Classified by continuity of operations  |             |                      |                      |                 |                 |
| Net profit from continuing operations   |             | 25,277,144           | 21,650,419           | 13,685,619      | 11,968,637      |
| Net profit from discontinued operations   |             | -                    | -                    | -               | -               |
| (2) Classified by ownership of the equity   |             |                      |                      |                 |                 |
| Attributable to shareholders of the Company   |             | 24,211,222           | 20,230,779           | 13,685,619      | 11,968,637      |
| Minority interests  |             | 1,065,922            | 1,419,640            | -               | -               |

**MIDEA GROUP CO., LTD.**

**CONSOLIDATED AND COMPANY INCOME STATEMENTS (CONT'D)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

| Item  | Note  | 2019<br>Consolidated | 2018<br>Consolidated | 2019<br>Company   | 2018<br>Company   |
|---|-------|----------------------|----------------------|-------------------|-------------------|
| <b>Other comprehensive income, net of tax</b>   |       | 348,040              | (1,215,825)          | (4,285)           | (27,439)          |
| Other comprehensive income attributable to shareholders of the Company, net of tax                            |       | 283,152              | (1,087,461)          | (4,285)           | (27,439)          |
| (1) Other comprehensive income items which will not be reclassified subsequently to profit or loss            |       | (142,753)            | (1,023)              | -                 | -                 |
| 1) Changes arising from remeasurement of defined benefit plan   |       | (142,753)            | (1,023)              | -                 | -                 |
| (2) Other comprehensive income items which will be reclassified subsequently to profit or loss                |       | 425,905              | (1,086,438)          | (4,285)           | (27,439)          |
| 1) Other comprehensive income that will be transferred subsequently to profit or loss under the equity method |       | (6,590)              | 51,924               | (4,285)           | 39,520            |
| 2) Changes in fair value of available-for-sale financial assets   |       | —                    | (489,228)            | —                 | (66,959)          |
| 3) Effective portion of cash flow hedging gains or losses   |       | 113,890              | (424,417)            | -                 | -                 |
| 4) Translation of foreign currency financial statements   |       | 318,605              | (224,717)            | -                 | -                 |
| Other comprehensive income attributable to minority shareholders, net of tax                                  |       | 64,888               | (128,364)            | -                 | -                 |
| <b>Total comprehensive income</b>   |       | <b>25,625,184</b>    | <b>20,434,594</b>    | <b>13,681,334</b> | <b>11,941,198</b> |
| Attributable to shareholders of the Company   |       | 24,494,374           | 19,143,318           | 13,681,334        | 11,941,198        |
| Minority interests  |       | 1,130,810            | 1,291,276            | -                 | -                 |
| <b>Earnings per share</b>   |       |                      |                      |                   |                   |
| Basic earnings per share (RMB Yuan)   | 4(56) | 3.60                 | 3.08                 | Not applicable    | Not applicable    |
| Diluted earnings per share (RMB Yuan)   | 4(56) | 3.58                 | 3.05                 | Not applicable    | Not applicable    |

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

Legal representative:  
Fang Hongbo

Principal in charge of accounting:  
Zhong Zheng

Head of accounting department:  
Chen Lihong

**MIDEA GROUP CO., LTD.**

**CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

| Item  | Note     | 2019<br>Consolidated | 2018<br>Consolidated | 2019<br>Company     | 2018<br>Company     |
|---|----------|----------------------|----------------------|---------------------|---------------------|
| <b>1. Cash flows from operating activities</b>  |          |                      |                      |                     |                     |
| Cash received from sales of goods or rendering of services                                    |          | 238,815,589          | 211,230,723          | -                   | -                   |
| Net decrease in loans and advances  |          | -                    | 864,209              | -                   | -                   |
| Net increase in customer deposits and deposits from banks and other financial institutions    |          | 18,091               | -                    | -                   | -                   |
| Net decrease in deposits with the Central Bank  |          | 693,023              | 708,879              | -                   | -                   |
| Net increase in borrowings from the Central Bank  |          | -                    | 99,754               | -                   | -                   |
| Cash received from interest, fee and commission   |          | 1,315,921            | 2,174,661            | -                   | -                   |
| Refund of taxes and surcharges  |          | 6,271,733            | 5,705,259            | -                   | -                   |
| Cash received relating to other operating activities  | 4(57)(a) | 5,008,821            | 5,558,221            | 30,809,036          | 19,248,174          |
| <b>Sub-total of cash inflows</b>  |          | <b>252,123,178</b>   | <b>226,341,706</b>   | <b>30,809,036</b>   | <b>19,248,174</b>   |
| Cash paid for goods and services  |          | (130,099,497)        | (127,367,813)        | -                   | -                   |
| Net increase in loans and advances  |          | (318,859)            | -                    | -                   | -                   |
| Net decrease in customer deposits and deposits from banks and other financial institutions    |          | -                    | (64,540)             | -                   | -                   |
| Net decrease in deposits with the Central Bank  |          | (99,754)             | -                    | -                   | -                   |
| Cash paid for interest, fee and commission  |          | (134,251)            | (198,761)            | -                   | -                   |
| Cash paid to and on behalf of employees   |          | (26,851,139)         | (24,709,578)         | (52,269)            | (298,323)           |
| Payments of taxes and surcharges  |          | (14,897,513)         | (13,739,262)         | (133,421)           | (102,575)           |
| Cash paid relating to other operating activities  | 4(57)(b) | (41,131,761)         | (32,400,672)         | (6,818,472)         | (2,986,732)         |
| <b>Sub-total of cash outflows</b>   |          | <b>(213,532,774)</b> | <b>(198,480,626)</b> | <b>(7,004,162)</b>  | <b>(3,387,630)</b>  |
| <b>Net cash flows from operating activities</b>   | 4(57)(c) | <b>38,590,404</b>    | <b>27,861,080</b>    | <b>23,804,874</b>   | <b>15,860,544</b>   |
| <b>2. Cash flows from investing activities</b>  |          |                      |                      |                     |                     |
| Cash received from disposal of investments  |          | 84,852,601           | 65,711,622           | 56,920,222          | 27,315,231          |
| Cash received from returns on investments   |          | 4,026,590            | 2,097,948            | 12,812,869          | 11,075,864          |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets |          | 125,419              | 164,070              | 1,040               | 1,825               |
| Net cash received from disposal of subsidiaries and other business units                      |          | -                    | 24,406               | -                   | -                   |
| <b>Sub-total of cash inflows</b>  |          | <b>89,004,610</b>    | <b>67,998,046</b>    | <b>69,734,131</b>   | <b>38,392,920</b>   |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets               |          | (3,451,856)          | (5,611,851)          | (183,326)           | (715,778)           |
| Cash paid to acquire investments  |          | (108,457,398)        | (80,713,830)         | (88,883,737)        | (59,593,512)        |
| Net cash paid to acquire subsidiaries and other business units                                |          | (203,057)            | (314,653)            | -                   | -                   |
| <b>Sub-total of cash outflows</b>   |          | <b>(112,112,311)</b> | <b>(86,640,334)</b>  | <b>(89,067,063)</b> | <b>(60,309,290)</b> |
| <b>Net cash flows from investing activities</b>   |          | <b>(23,107,701)</b>  | <b>(18,642,288)</b>  | <b>(19,332,932)</b> | <b>(21,916,370)</b> |
| <b>3. Cash flows from financing activities</b>  |          |                      |                      |                     |                     |
| Cash received from capital contributions  |          | 2,897,917            | 2,713,366            | 2,777,490           | 2,098,273           |
| Including: Cash received from capital contributions by minority shareholders of subsidiaries  |          | 120,427              | 615,092              | -                   | -                   |
| Cash received from borrowings   |          | 17,117,677           | 2,524,315            | 11,059,564          | 1,000,000           |
| <b>Sub-total of cash inflows</b>  |          | <b>20,015,594</b>    | <b>5,237,681</b>     | <b>13,837,054</b>   | <b>3,098,273</b>    |
| Cash repayments of borrowings   |          | (8,643,875)          | (3,378,492)          | (3,084,500)         | (425,000)           |
| Cash payments for interest expenses and distribution of dividends or profits                  |          | (11,055,769)         | (9,303,222)          | (9,740,298)         | (8,385,248)         |
| Including: Cash payments for dividends or profit to minority shareholders of subsidiaries     |          | (1,651,504)          | (815,998)            | -                   | -                   |
| Cash payments relating to other financing activities  |          | (3,589,551)          | (5,943,131)          | (3,257,482)         | (4,028,808)         |
| <b>Sub-total of cash outflows</b>   |          | <b>(23,289,195)</b>  | <b>(18,624,845)</b>  | <b>(16,082,280)</b> | <b>(12,839,056)</b> |
| <b>Net cash flows from financing activities</b>   |          | <b>(3,273,601)</b>   | <b>(13,387,164)</b>  | <b>(2,245,226)</b>  | <b>(9,740,783)</b>  |
| <b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>                |          |                      |                      |                     |                     |
|   |          | 280,376              | 289,001              | -                   | -                   |
| <b>5. Net increase/(decrease) in cash and cash equivalents</b>                                |          |                      |                      |                     |                     |
| Add: Cash and cash equivalents at beginning of year   |          | 12,489,478           | (3,879,371)          | 2,226,716           | (15,796,609)        |
|   |          | 17,952,282           | 21,831,653           | 10,181,934          | 25,978,543          |
| <b>6. Cash and cash equivalents at end of year</b>  |          |                      |                      |                     |                     |
|   | 4(57)(d) | <b>30,441,760</b>    | <b>17,952,282</b>    | <b>12,408,650</b>   | <b>10,181,934</b>   |

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

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

**MIDEA GROUP CO., LTD.**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

[English translation for reference only]

| Item   | Equity attributable to shareholders of the Company |                                 |                                      |                            |                 |                 |                       |                    | Total shareholders' equity |
|--|--|---------------------------------|--------------------------------------|----------------------------|-----------------|-----------------|-----------------------|--------------------|----------------------------|
|  | Share capital<br>(Note 4(35))                      | Capital surplus<br>(Note 4(37)) | Less: Treasury stock<br>(Note 4(36)) | Other comprehensive income | General reserve | Surplus reserve | Undistributed profits | Minority interests |                            |
| Balance at 31 December 2017                          | 6,561,053  | 15,911,504                      | (366,842)                            | (244,692)                  | 366,947         | 3,882,232       | 47,627,235            | 9,187,734          | 82,925,171                 |
| Movements for the year ended 31 December 2018        |  |                                 |                                      |                            |                 |                 |                       |                    |                            |
| Total comprehensive income                           |  |                                 |                                      |                            |                 |                 |                       |                    |                            |
| Net profit   | -  | -                               | -                                    | -                          | -               | -               | 20,230,779            | 1,419,640          | 21,650,419                 |
| Other comprehensive income, net of tax               | -  | -                               | -                                    | (1,087,461)                | -               | -               | -                     | (128,364)          | (1,215,825)                |
| Total comprehensive income                           | -  | -                               | -                                    | (1,087,461)                | -               | -               | 20,230,779            | 1,291,276          | 20,434,594                 |
| Capital contribution and withdrawal by shareholders  |  |                                 |                                      |                            |                 |                 |                       |                    |                            |
| Ordinary shares invested by shareholders             | 103,679  | 2,596,878                       | (717,841)                            | -                          | -               | -               | -                     | 615,092            | 2,597,808                  |
| Business combinations                                | -  | -                               | -                                    | -                          | -               | -               | -                     | 345,657            | 345,657                    |
| Share-based payment included in shareholders' equity | -  | 356,412                         | -                                    | -                          | -               | -               | -                     | 117,423            | 473,835                    |
| Others   | (1,701)  | (397,777)                       | (3,833,744)                          | -                          | -               | -               | -                     | (1,450,682)        | (5,683,904)                |
| Profit distribution                                  |  |                                 |                                      |                            |                 |                 |                       |                    |                            |
| Appropriations to general risk reserve               | -  | -                               | -                                    | -                          | -               | -               | -                     | -                  | -                          |
| Appropriation to surplus reserve                     | -  | -                               | -                                    | -                          | -               | 1,196,864       | (1,196,864)           | -                  | -                          |
| Profit distribution to shareholders                  | -  | -                               | -                                    | -                          | -               | -               | (7,898,785)           | (819,804)          | (8,718,589)                |
| Transfer from capital surplus to share capital       | -  | -                               | -                                    | -                          | -               | -               | -                     | -                  | -                          |
| Others   | -  | (15,710)                        | -                                    | -                          | -               | -               | (50)                  | 95,705             | 79,945                     |
| Balance at 31 December 2018                          | 6,663,031  | 18,451,307                      | (4,918,427)                          | (1,332,153)                | 366,947         | 5,079,096       | 58,762,315            | 9,382,401          | 92,454,517                 |

**MIDEA GROUP CO., LTD.**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONT'D)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

[English translation for reference only]

| Item   | Equity attributable to shareholders of the Company |                                 |                                      |                            |                 |                 |                       |                    | Total shareholders' equity |
|--|--|---------------------------------|--------------------------------------|----------------------------|-----------------|-----------------|-----------------------|--------------------|----------------------------|
|  | Share capital<br>(Note 4(35))                      | Capital surplus<br>(Note 4(37)) | Less: Treasury stock<br>(Note 4(36)) | Other comprehensive income | General reserve | Surplus reserve | Undistributed profits | Minority interests |                            |
| Balance at 31 December 2018                          | 6,663,031  | 18,451,307                      | (4,918,427)                          | (1,332,153)                | 366,947         | 5,079,096       | 58,762,315            | 9,382,401          | 92,454,517                 |
| Changes in accounting policies (Note 2(32)(b)(i))    | -  | -                               | -                                    | 337,447                    | -               | -               | (337,447)             | -                  | -                          |
| Balance at 1 January 2019                            | 6,663,031  | 18,451,307                      | (4,918,427)                          | (994,706)                  | 366,947         | 5,079,096       | 58,424,868            | 9,382,401          | 92,454,517                 |
| Movements for the year ended 31 December 2019        |  |                                 |                                      |                            |                 |                 |                       |                    |                            |
| Total comprehensive income                           |  |                                 |                                      |                            |                 |                 |                       |                    |                            |
| Net profit   | -  | -                               | -                                    | -                          | -               | -               | 24,211,222            | 1,065,922          | 25,277,144                 |
| Other comprehensive income, net of tax               | -  | -                               | -                                    | 283,152                    | -               | -               | -                     | 64,888             | 348,040                    |
| Total comprehensive income                           | -  | -                               | -                                    | 283,152                    | -               | -               | 24,211,222            | 1,130,810          | 25,625,184                 |
| Capital contribution and withdrawal by shareholders  |  |                                 |                                      |                            |                 |                 |                       |                    |                            |
| Ordinary shares invested by shareholders             | 87,150   | 2,426,916                       | (57,088)                             | -                          | -               | -               | -                     | 120,427            | 2,577,405                  |
| Share-based payment included in shareholders' equity | -  | 144,287                         | -                                    | -                          | -               | -               | -                     | 82,268             | 226,555                    |
| Others   | 221,719  | (1,221,661)                     | 1,215,783                            | -                          | -               | -               | -                     | (3,231,072)        | (3,015,231)                |
| Profit distribution                                  |  |                                 |                                      |                            |                 |                 |                       |                    |                            |
| Appropriations to general risk reserve               | -  | -                               | -                                    | -                          | -               | -               | -                     | -                  | -                          |
| Appropriation to surplus reserves                    | -  | -                               | -                                    | -                          | -               | 1,368,562       | (1,368,562)           | -                  | -                          |
| Profit distribution to shareholders                  | -  | -                               | -                                    | -                          | -               | -               | (8,553,897)           | (1,670,654)        | (10,224,551)               |
| Transfer from capital surplus to share capital       | -  | -                               | -                                    | -                          | -               | -               | -                     | -                  | -                          |
| Others   | -  | (160,536)                       | -                                    | -                          | -               | -               | -                     | 12,754             | (147,782)                  |
| Balance at 31 December 2019                          | 6,971,900  | 19,640,313                      | (3,759,732)                          | (711,554)                  | 366,947         | 6,447,658       | 72,713,631            | 5,826,934          | 107,496,097                |

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

Legal representative:Fang Hongbo

Principal in charge of accounting:Zhong Zheng

Head of accounting department:Chen Lihong



**MIDEA GROUP CO., LTD.**

**COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

[English translation for reference only]

| Item   | Share capital | Capital surplus | Less: Treasury stock | Other comprehensive income | Surplus reserve | Undistributed profits | Total shareholders' equity |
|--|---------------|-----------------|----------------------|----------------------------|-----------------|-----------------------|----------------------------|
| Balance at 31 December 2017                          | 6,561,053     | 7,726,237       | (366,842)            | 33,459                     | 3,882,232       | 16,613,224            | 34,449,363                 |
| Movements for the year ended 31 December 2018        |               |                 |                      |                            |                 |                       |                            |
| Total comprehensive income                           |               |                 |                      |                            |                 |                       |                            |
| Net profit   | -             | -               | -                    | -                          | -               | 11,968,637            | 11,968,637                 |
| Other comprehensive income, net of tax               | -             | -               | -                    | (27,439)                   | -               | -                     | (27,439)                   |
| Total comprehensive income                           | -             | -               | -                    | (27,439)                   | -               | 11,968,637            | 11,941,198                 |
| Capital contribution and withdrawal by shareholders  |               |                 |                      |                            |                 |                       |                            |
| Ordinary shares invested by shareholders             | 103,679       | 2,596,878       | (717,841)            | -                          | -               | -                     | 1,982,716                  |
| Share-based payment included in shareholders' equity | -             | 312,656         | -                    | -                          | -               | -                     | 312,656                    |
| Others   | (1,701)       | (27,109)        | (3,833,744)          | -                          | -               | -                     | (3,862,554)                |
| Profit distribution                                  |               |                 |                      |                            |                 |                       |                            |
| Appropriation to surplus reserve                     | -             | -               | -                    | -                          | 1,196,864       | (1,196,864)           | -                          |
| Profit distribution to shareholders                  | -             | -               | -                    | -                          | -               | (7,898,785)           | (7,898,785)                |
| Transfer from capital surplus to share capital       | -             | -               | -                    | -                          | -               | -                     | -                          |
| Others   | -             | 6,727           | -                    | -                          | -               | -                     | 6,727                      |
| Balance at 31 December 2018                          | 6,663,031     | 10,615,389      | (4,918,427)          | 6,020                      | 5,079,096       | 19,486,212            | 36,931,321                 |

**MIDEA GROUP CO., LTD.**

**COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONT'D)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

[English translation for reference only]

| Item   | Share capital | Capital surplus | Less: Treasury stock | Other comprehensive income | Surplus reserve | Undistributed profits | Total shareholders' equity |
|--|---------------|-----------------|----------------------|----------------------------|-----------------|-----------------------|----------------------------|
| Balance at 31 December 2018                          | 6,663,031     | 10,615,389      | (4,918,427)          | 6,020                      | 5,079,096       | 19,486,212            | 36,931,321                 |
| Changes in accounting policies                       | -             | -               | -                    | -                          | -               | -                     | -                          |
| Balance at 1 January 2019                            | 6,663,031     | 10,615,389      | (4,918,427)          | 6,020                      | 5,079,096       | 19,486,212            | 36,931,321                 |
| Movements for the year ended 31 December 2019        |               |                 |                      |                            |                 |                       |                            |
| Total comprehensive income                           |               |                 |                      |                            |                 |                       |                            |
| Net profit   | -             | -               | -                    | -                          | -               | 13,685,619            | 13,685,619                 |
| Other comprehensive income, net of tax               | -             | -               | -                    | (4,285)                    | -               | -                     | (4,285)                    |
| Total comprehensive income                           | -             | -               | -                    | (4,285)                    | -               | 13,685,619            | 13,681,334                 |
| Capital contribution and withdrawal by shareholders  |               |                 |                      |                            |                 |                       |                            |
| Ordinary shares invested by shareholders             | 87,150        | 2,426,916       | (57,088)             | -                          | -               | -                     | 2,456,978                  |
| Share-based payment included in shareholders' equity | -             | 226,556         | -                    | -                          | -               | -                     | 226,556                    |
| Others   | 221,719       | 13,372,750      | 1,215,783            | -                          | -               | -                     | 14,810,252                 |
| Profit distribution                                  |               |                 |                      |                            |                 |                       |                            |
| Appropriation to surplus reserve                     | -             | -               | -                    | -                          | 1,368,562       | (1,368,562)           | -                          |
| Profit distribution to shareholders                  | -             | -               | -                    | -                          | -               | (8,553,897)           | (8,553,897)                |
| Transfer from capital surplus to share capital       | -             | -               | -                    | -                          | -               | -                     | -                          |
| Others   | -             | (48,652)        | -                    | -                          | -               | -                     | (48,652)                   |
| Balance at 31 December 2019                          | 6,971,900     | 26,592,959      | (3,759,732)          | 1,735                      | 6,447,658       | 23,249,372            | 59,503,892                 |

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

Legal representative:Fang Hongbo

Principal in charge of accounting:Zhong Zheng

Head of accounting department:Chen Lihong

## MIDEA GROUP CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

#### 1 General information

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

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

As at 31 December 2019, the Company’s share capital is RMB 6,971,899,574, and the total number of shares in issue is 6,971,899,574, of which 165,402,513 shares are restricted tradable A shares and 6,806,497,061 shares are unrestricted tradable A shares. In 2019, the increasing of Company’s share capital are mainly from shares in exchange for the equity of Wuxi Little Swan Company Limited (hereinafter referred to as “Little Swan”) (Note 4 (35), (41)).

The detailed information of major subsidiaries included in the consolidation scope in current period is set out in Notes 5 and 6. Entities newly included in the consolidation scope in current year include Midea Electrics Egypt, Anhui Welling Auto Parts Co., Ltd., Wuxi Little Swan Electric Co., Ltd., Guangdong Swisslog Technology Co., Ltd., Guangdong Yueyun Industrial Internet Innovation Technology Co., Ltd., Midea Refrigeration Equipment (Thailand) Co., Ltd and Tianjin Midea Commercial Factoring Co., Ltd. Please refer to Note 5(1)(a) for details. The detailed information of subsidiaries no longer included in the consolidation scope in current year is set out in 5(1)(b).

These financial statements were authorised for issue by the Company’s Board of Directors on 28 April 2020.

#### 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 measurement of expected credit loss (ECL) on accounts receivable (Note 2(9(a))), valuation method of inventory (Note 2(11)), depreciation of fixed assets and amortisation of intangible assets (Note 2(14), (17)), impairment of long-term assets (Note 2(19)) and recognition of revenue (Note 2(26)).

Critical judgements applied by the Group in determining significant accounting policies are set out in Note 2(31).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

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

(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 (hereinafter collectively referred to as the "Accounting Standards for Business Enterprises" or "CAS") and the disclosure requirements in the *Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 - General Rules on Financial Reporting* issued by the China Securities Regulatory Commission ("CSRC").

The financial statements are prepared on a going concern basis.

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

The financial statements of the Company for the year ended 31 December 2019 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and the Company's financial position of the Company as at 31 December 2019 and their financial performance, cash flows and other information for the year then ended.

(3) Accounting period

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

(4) Functional currency

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

(5) Business combinations

(a) Business combinations involving enterprises under common control

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

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

(5) Business combinations (Cont'd)

(b) Business combinations involving enterprises not under common control

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

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

(6) Preparation of consolidated financial statements

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

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

(6) Preparation of consolidated financial statements (Cont'd)

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

(7) Recognition criteria of cash and cash equivalents

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

(8) Foreign currency translation

(a) Foreign currency transaction

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

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

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the 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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

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

(9) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument.

(a) Financial assets

(i) Classification and measurement

Based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, financial assets are classified as: (1) financial assets at amortised cost; (2) financial assets at fair value through other comprehensive income; (3) financial assets at fair value through profit or loss.

The financial assets are measured at fair value at initial recognition. Related transaction costs that are attributable to the acquisition of the financial assets are included in the initially recognised amounts, except for the financial assets at fair value through profit or loss, the related transaction costs of which are recognised directly in profit or loss for the current period. Accounts receivable or notes receivable arising from sales of products or rendering of services (excluding or without regard to significant financing components) are initially recognised at the consideration that is entitled to be charged by the Group as expected.

(i-1) Debt investments

The debt instruments held by the Group refer to the instruments that meet the definition of financial liabilities from the perspective of the issuer, and are measured in the following three ways:

Measured at amortised cost:

The objective of the Group's business model is to hold the financial assets to collect the contractual cash flows, and the contractual cash flow characteristics are consistent with a basic lending arrangement, which gives rise on specified dates to the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The interest income of such financial assets is recognised using the effective interest method. Such financial assets mainly comprise cash at bank and on hand, loans and advances, notes receivable, accounts receivable, other receivables, structural deposits, debt investments and long-term receivables, etc. Debt investments and long-term receivables that are due within one year (inclusive) as from the balance sheet date are included in the current portion of non-current assets; debt investments with maturities of no more than one year (inclusive) at the time of acquisition are included in other current assets.

Measured at fair value through other comprehensive income:

The objective of the Group's business model is to hold the financial assets to both collect the contractual cash flows and sell such financial assets, and the contractual cash flow characteristics are consistent with a basic lending arrangement. Such financial assets are measured at fair value through other comprehensive income, except for the impairment gains or losses, foreign exchange gains and losses, and interest income calculated using the effective interest method which are recognised in profit or loss for the current period. Such financial assets are mainly included in receivables financing, other debt investments; other debt investments that are due within one year (inclusive) as from the balance sheet date are included in the current portion of non-current assets; other debt investments with maturities no more than one year (inclusive) at the time of acquisition are included in other current assets.

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**NOTES TO THE FINANCIAL STATEMENTS  
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**2 Summary of significant accounting policies and accounting estimates (Cont'd)**

(9) Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(i) Classification and measurement (Cont'd)

(i-1) Debt investments (Cont'd)

Measured at fair value through profit or loss:

Debt instruments held by the Group that are not divided into those at amortised cost, or those measured at fair value through other comprehensive income, are measured at fair value through profit or loss and included in financial assets held for trading. At initial recognition, Group designates a portion of financial assets as at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch. Financial assets that are due over one year as from the balance sheet date and are expected to be held over one year are included in other non-current financial assets.

(i-2) Equity investments

Investments in equity instruments, over which the Group has no control, joint control or significant influence, are measured at fair value through profit or loss under financial assets held for trading; investments in equity instruments expected to be held over one year as from the balance sheet date are included in other non-current financial assets.

(i-3) 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.



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

- (9) Financial instruments (Cont'd)
- (a) Financial assets (Cont'd)
- (i) Classification and measurement (Cont'd)
- (i-3) Derivative financial instruments (Cont'd)

Cash flow hedge

The effective portion of gains or losses on hedging instruments is recognised in other comprehensive income as cash flow hedging reserve, while the ineffective portion is recognised in profit or loss for the current period. Where the hedge is a forecast transaction which subsequently results in the recognition of a non-financial asset or liability, the amount originally recognised in other comprehensive income is transferred and included in the initially recognised amount of the asset or liability. For cash flow hedge beyond the foregoing scope, the amount originally recognised in other comprehensive income is transferred and included in profit or loss for the current period during the same time in which the profit or loss is influenced by the hedged expected cash flow. However, if all or part of net loss recognised directly in other comprehensive income will not be recovered in future accounting periods, the amount not expected to be recovered should be transferred to profit or loss for the current period. When the Group revokes the designation of a hedge, a hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting, the Group will discontinue the hedge accounting treatments prospectively. Where the Group discontinues the hedge accounting treatment for cash flow hedging, for hedged future cash flows that will still happen, the accumulated gains or losses that have been recognised in other comprehensive income are retained and subject to accounting treatment under the subsequent treatment method of aforesaid cash flow hedging reserve; for hedged future cash flows that the forecast transaction will never happen, the accumulated gains or losses that have been recognised in other comprehensive income are transferred immediately and included in profit or loss for the current period.

- (ii) Impairment

Loss provision for financial assets at amortised cost, investments in debt instruments at fair value through other comprehensive income, as well as financial guarantee contracts is recognised on the basis of ECL.

Giving consideration to reasonable and supportable information on past events, current conditions and forecasts of future economic conditions, and weighted by the risk of default, the Group recognises the ECL as the probability-weighted amount of the present value of the difference between the cash flows receivable from the contract and the cash flows expected to collect.

As at each balance sheet date, the expected credit losses of financial instruments at different stages are measured respectively. 12-month ECL provision is recognised for financial instruments in Stage 1 that have not had a significant increase in credit risk since initial recognition; lifetime ECL provision is recognised for financial instruments in Stage 2 that have had a significant increase in credit risk yet without credit impairment since initial recognition; and lifetime ECL provision is recognised for financial instruments in Stage 3 that have had credit impairment since initial recognition.

## MIDEA GROUP CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts in RMB'000 Yuan unless otherwise stated)  
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#### 2 Summary of significant accounting policies and accounting estimates (Cont'd)

(9) Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(ii) Impairment (Cont'd)

For the financial instruments with lower credit risk on the balance sheet date, the Group assumes there is no significant increase in credit risk since initial recognition and recognises the 12-month ECL provision.

For the financial instruments in Stage 1, Stage 2 and with lower credit risk, the Group calculates the interest income by applying the effective interest rate to the gross carrying amount (before deduction of the impairment provision). For the financial instrument in Stage 3, the interest income is calculated by applying the effective interest rate to the amortised cost (after deduction of the impairment provision from the gross carrying amount).

For notes receivable, accounts receivable, and receivables financing arising from sales of goods or rendering of services in the ordinary course of business, the Group recognises the lifetime ECL provision regardless of whether there exists a significant financing component.

In case the ECL of an individually assessed financial asset cannot be evaluated with reasonable cost, the Group divides the receivables into certain groupings based on credit risk characteristics, then pursuant to which, calculates the ECL. Basis and provision method for determining groupings are as follows:

|  |  |
|--|--|
| Notes receivable - bank acceptance notes | Bank credit risk grouping                    |
| Accounts receivable                      | Domestic/overseas business grouping          |
| Other receivables                        | Security deposit/guarantee payables grouping |
| Long-term receivables                    | Finance lease payable grouping               |
| Loans and advances                       | Loans business grouping                      |

The Group, on the basis of the exposure at default and the lifetime ECL rate, calculates the ECL of notes receivable and receivables financing that are classified into groupings with consideration to historical credit losses experience, current conditions and forecasts of future economic conditions.

With consideration to historical credit loss experience, current conditions and forecasts of future economic conditions, the Group prepares the cross-reference between the number of overdue days of accounts receivable and the lifetime ECL rate, and calculates the ECL of accounts receivable that are classified into groupings.

The Group, on the basis of the exposure at default and the 12-month or lifetime ECL rate, calculates the ECL of other receivables, loans and advances, and long-term receivables that are classified into groupings with consideration to historical credit losses experience, the current conditions and forecasts of future economic conditions.

The Group recognises the loss provision made or reversed into profit or loss for the current period. For debt instruments held at fair value through other comprehensive income, the Group adjusts other comprehensive income while the impairment loss or gain is recognised in profit or loss for the current period.

**NOTES TO THE FINANCIAL STATEMENTS  
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(All amounts in RMB'000 Yuan unless otherwise stated)  
[English translation for reference only]

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

(9) Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(iii) Derecognition of financial assets

A financial asset is derecognised when: (i) the contractual rights to the cash flows from the financial asset expire, (ii) 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 (iii) 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.

When a financial asset is derecognised, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that are previously recognised directly in other comprehensive income is recognised in profit or loss for the current period, except for those as investments in other equity instruments, the difference aforementioned is recognised in retained earnings instead.

(b) Financial liabilities

Financial liabilities are classified as financial liabilities at amortised cost and financial liabilities at fair value through profit or loss at initial recognition.

Financial liabilities of the Group mainly comprise financial liabilities at amortised cost, including notes payable, accounts payable, other payables, borrowings and debentures payable, customer deposits and deposits from banks and other financial institutions, borrowings from the Central Bank, long-term payables, etc. Such financial liabilities are initially recognised at fair value, net of transaction costs incurred, and subsequently measured using the effective interest method. Financial liabilities that are due within one year (inclusive) are classified as current liabilities; those with maturities over one year but are due within one year (inclusive) as from the balance sheet date are classified as current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability is derecognised or partly derecognised when the underlying present obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised part of the financial liability and the consideration paid is recognised in profit or loss for the current period.

(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 adopts valuation techniques 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 transactions of assets or liabilities by market participants, and gives priority to the use of relevant observable inputs. When relevant observable inputs are not available or feasible, unobservable inputs are adopted.

**NOTES TO THE FINANCIAL STATEMENTS  
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(All amounts in RMB'000 Yuan unless otherwise stated)  
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**2 Summary of significant accounting policies and accounting estimates (Cont'd)**

(10) Receivables

Receivables comprise accounts receivable, other receivables, notes receivable, long-term receivables, loans and advances, etc. Accounts receivable arising from sale of goods or rendering of services are initially recognised at fair value of the contractual payments from the buyers or service recipients, and subsequently measured at amortised cost less provision for impairment using the effective interest method. Provision for impairment of receivables are set out in Note 2(9)(a).

(11) Inventories

(a) Classification of inventories

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

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

(b) Costing of inventories

Other than completed but unsettled products, cost is determined using the first-in, first-out method when issued. The cost of 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.

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(All amounts in RMB'000 Yuan unless otherwise stated)  
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**2 Summary of significant accounting policies and accounting estimates (Cont'd)**

(12) Long-term equity investments

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

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

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

(a) Determination of investment cost

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

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

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

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

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

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

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

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

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

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

(c) Basis for determining existence of control, joint control, 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(19)).

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

(13) Investment properties

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

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

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

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

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

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

(14) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, overseas land, machinery and equipment, motor vehicles, electronic equipment and others.

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(15).

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

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

(14) Fixed assets (Cont'd)

(b) Depreciation methods for fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated net residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

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

| Categories                      | Estimated useful lives | Estimated net residual values | Annual depreciation rates |
|---------------------------------|------------------------|-------------------------------|---------------------------|
| Buildings                       | 15 to 50 years         | 0% to 10%                     | 6.7% to 1.8%              |
| Machinery and equipment         | 2 to 18 years          | 0% to 10%                     | 50% to 5.0%               |
| Motor vehicles                  | 2 to 20 years          | 0% to 10%                     | 50% to 4.5%               |
| Electronic equipment and others | 2 to 20 years          | 0% to 10%                     | 50% to 4.5%               |
| Overseas land                   | Permanent              | N/A                           | N/A                       |

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

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

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

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

(d) The carrying amount of a fixed asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(19)).

(e) Disposal of fixed assets

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



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

(15) 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(19)).

(16) Borrowing costs

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

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

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

(17) Intangible assets

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

(a) Land use rights

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

(b) Patents and non-patent technologies

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

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

(17) Intangible assets (Cont'd)

(c) Trademark rights

The trademark rights is measured at cost when acquired and is amortised over the estimated useful life of 30 years. The cost of trademark rights obtained in the business combinations involving enterprises not under common control is measured at fair value. As some of the trademarks are expected to attract net cash inflows injected into the Group, the management considers that these trademarks have an indefinite useful lives and are presented based upon the carrying amounts after deducting the provision for impairment (Note 4(16)).

(d) Trademark use rights

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

(e) Periodical review of useful life and amortisation method

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

(f) Research and development (“R&D”)

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

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

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

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

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

(17) Intangible assets (Cont'd)

(g) Impairment of intangible assets

The carrying amounts of intangible assets are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(19)).

(18) Long-term prepaid expenses

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

(19) 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 overseas land are tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

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

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

(20) 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.

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

(20) Employee benefits (Cont'd)

(a) Short-term employee benefits

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

(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 Toshiba Lifestyle Products & Services Corporation ("TLSC"), and KUKA Group, the Group's subsidiaries, provide supplemental retirement benefits beyond the national regulatory insurance system.

Basic pensions

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

Supplementary retirement benefits

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method at the interest rate of treasury bonds with similar obligation term and currency. The charges related to the supplemental retirement benefits (including current service costs, past-service costs and gains or losses on settlement) and net interest costs are recognised in the statement of profit or loss or included in the cost of an asset, and the changes of remeasurement in net liabilities or net assets arising from the benefit plan are charged or credited to equity in other comprehensive income.

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

(20) Employee benefits (Cont'd)

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

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

(21) General risk reserve

General risk 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, long-term equity investments, deposits with banks and other financial institutions and other receivables of subsidiary engaged in financial business.

(22) Dividend distribution

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

(23) 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.

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

(23) Provisions (Cont'd)

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

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

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

(24) Share-based payments

(a) Type of share-based payment

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

Equity-settled share-based payment

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

(b) Determination of the fair value of equity instruments

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

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

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

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

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

(25) Treasury stock

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

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

On the deregistration day of shares, relevant share capital and treasury stock are reversed with the difference included in capital surplus (share premium) based on actual deregistration results.

On the grant day of restricted shares, the Group recognise bank deposits when receiving subscription from the employees and measures the repurchase obligation as liability. On the day of release of restricted shares, relevant treasury stocks, liabilities and capital surplus recognised in the vesting period are reversed based on the actual vesting results.

(26) Revenue

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

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

(a) Sales of products

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

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

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

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

(b) Rendering of services

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

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

(26) Revenue (Cont'd)

(b) Rendering of services (Cont'd)

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

(c) Construction contract

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

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

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

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

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

(d) Interest income

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

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



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

(26) Revenue (Cont'd)

(d) Interest income (Cont'd)

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

(e) Dividend income

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

(f) Rental income

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

(g) Fee and commission income

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

(27) Government grants

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

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

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

Government grants related to assets are recorded as deferred income reasonably and systematically amortised to profit or loss over the useful life of the related asset.

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

The same kind of government grants are presented with the same method.

Those related to ordinary activities are recorded into operating profit while other in non-operating income and expenses.

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

(27) Government grants (Cont'd)

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

(28) Deferred tax assets and deferred tax liabilities

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

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

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

Deferred tax assets and liabilities are offset when:

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

(29) Leases

(a) Operating leases

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

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

(29) Leases (Cont'd)

(a) Operating leases (Cont'd)

Fixed assets leased out under operating leases, other than investment prosperities (Note 2(13)), are depreciated in accordance with the depreciation policy stated in Note 2(14(b)) and provided for impairment loss in accordance with the policy stated in Note 2(19). Rental income from operating leases is recognised as revenue on a straight-line basis over the lease period. Initial direct costs in large amount arising from assets leased out under operating leases are capitalised when incurred and recognised as profit and loss for the current period over the lease period on a same basis with revenue recognition; initial direct costs in small amount are directly recognised as profit and loss for the current period. Contingent rentals are recognised as profit and loss for the current period when incurred.

(b) Finance leases

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

(30) Segment information

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

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

(31) Critical accounting estimates and judgements

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

Critical accounting estimates and key assumptions

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

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

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

(i) Provision for impairment of goodwill

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

(ii) Income tax

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

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

32 Significant changes in accounting policies

The Ministry of Finance released the revised CAS 22 - Recognition and Measurement of Financial Instruments, CAS 23 - Transfer of Financial Assets, CAS 24 - Hedge Accounting and CAS 37 - Presentation of Financial Instruments (hereinafter collectively referred to as "the new financial instruments standards") in 2017, and released the Circular on the Amendment to the Formats of Corporate Financial Statements for the Year of 2019 (Cai Kuai [2019] No. 6), the revised CAS 7 - Exchange of Non-monetary Assets (hereinafter the "exchange of non-monetary assets standard") and the revised CAS 12 - Debt Restructuring (hereinafter the "debt restructuring standard") in 2019. The financial statements for the year ended 31 December 2019 are prepared in accordance with the above standards and circular. The revised standards for exchange of non-monetary assets and debt restructuring had no significant impacts on the Group and the Company, and impacts of other revisions on financial statements of the Group and the Company are as follows:

(a) Revisions based on the circular on the amendment to the formats of corporate financial statements

Impacts on the consolidated balance sheet are as follows:

The nature and the reasons of the

| changes in accounting policies  | The line items affected        | 31 December 2018  |                      |                  | 1 January 2018    |                      |                  |
|---|--------------------------------|-------------------|----------------------|------------------|-------------------|----------------------|------------------|
|   |                                | Before adjustment | The amounts affected | After adjustment | Before adjustment | The amounts affected | After adjustment |
| The Group split notes and accounts receivables into accounts receivable and notes receivable. | Accounts receivable            | -                 | 19,390,174           | 19,390,174       | -                 | 17,528,717           | 17,528,717       |
|   | Notes receivable               | -                 | 12,556,294           | 12,556,294       | -                 | 10,854,226           | 10,854,226       |
|   | Notes and accounts receivables | 31,946,468        | (31,946,468)         | -                | 28,382,943        | (28,382,943)         | -                |
| The Group split notes and accounts payables into accounts payable and notes payable.          | Accounts payable               | -                 | 36,901,626           | 36,901,626       | -                 | 35,144,777           | 35,144,777       |
|   | Notes payable                  | -                 | 23,325,115           | 23,325,115       | -                 | 25,207,785           | 25,207,785       |
|   | Notes and accounts payables    | 60,226,741        | (60,226,741)         | -                | 60,352,562        | (60,352,562)         | -                |

Except for the above items, amounts of other items as at 31 December 2018 and 1 January 2018 were not affected.

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

32 Significant changes in accounting policies (Cont'd)

(b) Revisions based on the new financial instruments standards

Accordance with relevant provisions of the new financial instruments standards, the Group and the Company recognised the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings in 2019 and other relevant line items in the financial statements. The comparatives were not restated.

(i) As at 1 January 2019, the financial assets represented in the Group's consolidated financial statements were disclosed and measured in accordance with the old/new financial instruments standards as follows:

| Old financial instruments standards |   |                 | New financial instruments standards  |   |   |           |
|-------------------------------------|---|-----------------|--|---|---|-----------|
| Line item                           | Measurement   | Carrying amount | Line item  | Measurement                                   | Carrying amount                               |           |
| Cash at bank and on hand            | Amortised cost  | 27,888,280      | Cash at bank and on hand   | Amortised cost                                | 27,888,280                                    |           |
| Notes receivable                    | Amortised cost  | 12,556,294      | Notes receivable   | Amortised cost                                | 11,049,539                                    |           |
|                                     |   |                 | Receivables financing  | Fair value through other comprehensive income | 1,506,755                                     |           |
| Accounts receivable                 | Amortised cost  | 19,390,174      | Accounts receivable  | Amortised cost                                | 18,641,979                                    |           |
|                                     |   |                 | Receivables financing  | Fair value through other comprehensive income | 748,195                                       |           |
| Other receivables                   | Amortised cost  | 2,971,368       | Other receivables  | Amortised cost                                | 2,960,939                                     |           |
| Other current assets                | Fair value through other comprehensive income (hedging instruments) | 38,822          | Financial assets held for trading  | Fair value through profit or loss             | 10,429  |           |
|                                     |   |                 | Fair value through other comprehensive income (wealth management products) | Other current assets                          | Fair value through other comprehensive income | 38,822    |
|                                     |   |                 |  | Financial assets held for trading             | Fair value through profit or loss             | 1,521,007 |
| Derivative financial assets         | Amortised cost (structural deposits)                                | 70,402,509      | Other current assets   | Amortised cost                                | 70,402,509                                    |           |
| Loans and advances                  | Fair value through profit or loss                                   | 220,197         | Derivative financial assets  | Fair value through profit or loss             | 220,197                                       |           |
| Long-term receivables               | Amortised cost  | 11,328,392      | Loans and advances   | Amortised cost                                | 11,328,392                                    |           |
| Available-for-sale financial assets | Amortised cost  | 34,815          | Long-term receivables  | Amortised cost                                | 34,815  |           |
|                                     |   |                 | Fair value through other comprehensive income (equity instruments) (Note)  | Financial assets held for trading             | Fair value through profit or loss             | 1,122,609 |
|                                     |   |                 |  | Other non-current financial assets            | Fair value through profit or loss             | 62,250    |
| Cost (equity instruments)           |   | 722,019         | Other non-current financial assets   | Fair value through profit or loss             | 722,019                                       |           |

(Note) As at 31 December 2018, the Group's financial assets held for trading measured at fair value through other comprehensive income amounted to RMB 1,184,859,000. As at 1 January 2019, such equity instruments were measured at fair value through profit or loss after the implementation of the new financial instruments standards. Correspondingly, the Group transferred RMB 337,447,000 of equity instruments measured at fair value through other comprehensive income in prior years to the opening balance of undistributed profit.

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

32 Significant changes in accounting policies (Cont'd)

(b) Revisions based on the new financial instruments standards (Cont'd)

(ii) As at 1 January 2019, the financial assets of represented in the Company's financial statements were disclosed and measured in accordance with the old/new financial instruments standards as follows:

| Old financial instruments standards |  |                 | New financial instruments standards |                                   |                 |
|-------------------------------------|--|-----------------|-------------------------------------|-----------------------------------|-----------------|
| Line item                           | Measurement  | Carrying amount | Line item                           | Measurement                       | Carrying amount |
| Cash at bank and on hand            | Amortised cost   | 15,361,626      | Cash at bank and on hand            | Amortised cost                    | 15,361,626      |
| Other receivables                   | Amortised cost   | 11,593,020      | Other receivables                   | Amortised cost                    | 11,593,020      |
|                                     | Fair value through other comprehensive income (wealth management products) | 1,521,007       | Financial assets held for trading   | Fair value through profit or loss | 1,521,007       |
| Other current assets                | Amortised cost (structural deposits)                                       | 53,164,300      | Other current assets                | Amortised cost                    | 53,164,300      |
| Available-for-sale financial assets | Cost (equity instruments)  | 56,579          | Other non-current financial assets  | Fair value through profit or loss | 56,579          |

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

32 Significant changes in accounting policies (Cont'd)

(b) Revisions based on the new financial instruments standards (Cont'd)

(iii) As at 1 January 2019, for the Group and the Company, the carrying amount of financial assets is reconciled from the old financial instruments standards to the new financial instruments standards based on the new measurement:

Measurement under the new financial instruments standards

|   |         |
|---|---------|
| Financial assets at amortised cost                                | Table 1 |
| Financial assets at fair value through profit or loss             | Table 2 |
| Financial assets at fair value through other comprehensive income | Table 3 |

Table 1: Financial assets at amortised cost under the new financial instruments standards

|  | Carrying amount    |                   |
|--|--------------------|-------------------|
|  | Consolidated       | Company           |
| Cash at bank and on hand   |                    |                   |
| 31 December 2018   | 27,888,280         | 15,361,626        |
| Less: Disclosure and measurement under the new financial instruments standards   | -                  | -                 |
| 1 January 2019   | <u>27,888,280</u>  | <u>15,361,626</u> |
| Receivables (including notes receivable, accounts receivable, other receivables, and long-term receivables)            |                    |                   |
| 31 December 2018   | 34,952,651         | 11,593,020        |
| Less: Transfer to financial assets at fair value through other comprehensive income                                    | (2,254,950)        | -                 |
| Less: Transfer to financial assets at fair value through profit or loss  | (10,429)           | -                 |
| 1 January 2019   | <u>32,687,272</u>  | <u>11,593,020</u> |
| Loans and advances   |                    |                   |
| 31 December 2018   | 11,328,392         | -                 |
| Less: Disclosure and measurement under the new financial instruments standards   | -                  | -                 |
| 1 January 2019   | <u>11,328,392</u>  | <u>-</u>          |
| Other current assets - Structural deposits   |                    |                   |
| 31 December 2018   | 70,402,509         | 53,164,300        |
| Less: Disclosure and measurement under the new financial instruments standards   | -                  | -                 |
| 1 January 2019   | <u>70,402,509</u>  | <u>53,164,300</u> |
| Total financial assets measured at amortised cost (under the new financial instruments standards) as at 1 January 2019 | <u>142,306,453</u> | <u>80,118,946</u> |



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

32 Significant changes in accounting policies (Cont'd)

(b) Revisions based on the new financial instruments standards (Cont'd)

(iii) As at 1 January 2019, for the Group and the Company, the carrying amount of financial assets is reconciled from the old financial instruments standards to the new financial instruments standards based on the new measurement: (Cont'd)

Table 2: Financial assets at fair value through profit or loss under the new financial instruments standards

|   | Carrying amount  |                  |
|---|------------------|------------------|
|   | Consolidated     | Company          |
| Financial assets held for trading   |                  |                  |
| 31 December 2018  | -                | -                |
| Add: Transferred from other current assets - available-for-sale financial assets - wealth management products                         | 1,521,007        | 1,521,007        |
| Add: Transferred from available-for-sale financial assets   | 1,122,609        | -                |
| Add: Transferred from other receivables   | 10,429           | -                |
| 1 January 2019  | <u>2,654,045</u> | <u>1,521,007</u> |
| Derivative financial instruments  |                  |                  |
| 31 December 2018  | 220,197          | -                |
| Less: Disclosure and measurement under the new financial instruments standards  | -                | -                |
| 1 January 2019  | <u>220,197</u>   | <u>-</u>         |
| Other non-current financial assets  |                  |                  |
| 31 December 2018  | -                | -                |
| Add: Transferred from available-for-sale financial assets   | 784,269          | 56,579           |
| 1 January 2019  | <u>784,269</u>   | <u>56,579</u>    |
| Total financial instruments at fair value through profit or loss (under the new financial instruments standards) as at 1 January 2019 | <u>3,658,511</u> | <u>1,577,586</u> |

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

32 Significant changes in accounting policies (Cont'd)

(b) Revisions based on the new financial instruments standards (Cont'd)

(iii) As at 1 January 2019, for the Group and the Company, the carrying amount of financial assets is reconciled from the old financial instruments standards to the new financial instruments standards based on the new measurement: (Cont'd)

Table 3: Financial assets at fair value through other comprehensive income under the new financial instruments standards

|   | Carrying amount  |         |
|---|------------------|---------|
|   | Consolidated     | Company |
| Receivables financing   |                  |         |
| 31 December 2018  | -                | -       |
| Add: Transfer from notes receivables (under the old financial instruments standards)  | 1,506,755        | -       |
| Add: Transfer from accounts receivables (under the old financial instruments standards)   | 748,195          | -       |
| 1 January 2019  | <u>2,254,950</u> | -       |
| Other current assets - Hedging instruments  |                  |         |
| 31 December 2018  | 38,822           | -       |
| Less: Disclosure and measurement under the new financial instruments standards  | -                | -       |
| 1 January 2019  | <u>38,822</u>    | -       |
| Total financial instruments at fair value through profit or loss (under the new financial instruments standards) as at 1 January 2019 | <u>2,293,772</u> | -       |

(iv) As at 1 January 2019, the Group's reconciliation from the provision for impairment of financial assets under the old financial instruments standards and provisions recognised according to accounting standards on contingencies to loss provision under the new financial instruments standards is as below:

| Measurement   | Loss provision under the old financial instruments standards/provisions recognised according to accounting standards on contingencies | Reclassification | Remeasurement | Loss provision under the new financial instruments standards |
|---|---|------------------|---------------|--|
| Financial assets at amortised cost -                                |   |                  |               |  |
| Provision for bad debts of accounts receivable                      | 982,109   | -                | -             | 982,109  |
| Provision for impairment of loans and advances                      | 154,006   | -                | -             | 154,006  |
| Provision for bad debts of other receivables                        | 42,730  | -                | -             | 42,730   |
| Provision for bad debts of long-term receivables                    | -   | -                | -             | -  |
| Financial assets at fair value through other comprehensive income - |   |                  |               |  |
| Provision for impairment of available-for-sale financial assets     | 2,287   | (2,287)          | -             | -  |
| Total   | <u>1,181,132</u>  | <u>(2,287)</u>   | -             | <u>1,178,845</u>   |

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

32 Significant changes in accounting policies (Cont'd)

(b) Revisions based on the new financial instruments standards (Cont'd)

(v) As at 1 January 2019, the Company's reconciliation from the provision for impairment of financial assets under the old financial instruments standards and provisions recognised according to accounting standards on contingencies to loss provision under the new financial instruments standards is as below:

| Measurement   | Loss provision under the old financial instruments standards/provisions recognised according to accounting standards on contingencies | Reclassification | Remeasurement | Loss provision under the new financial instruments standards |
|---|---|------------------|---------------|--|
| Financial assets at amortised cost - Provision for bad debts of other receivables | 6,840   | -                | -             | 6,840  |
| Total   | 6,840   | -                | -             | 6,840  |

**3 Taxation**

(1) Main tax category and rate

| Category                              | Tax base  | Tax rate    |
|---------------------------------------|---|-------------|
| Enterprise income tax                 | Levied based on taxable income  | Note (a)    |
| Value-added tax ("VAT")               | 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)     | Note (b)    |
| City maintenance and construction tax | The amount of VAT paid  | 5% or 7%    |
| Educational surcharge                 | The amount of VAT paid  | 3% or 5%    |
| Local educational surcharge           | The amount of VAT paid  | 2%          |
| Property tax                          | Price-based property is subject to a 1.2% tax rate after a 30% cut in the original price of property; rental-based property is subject to a 12% tax rate for the rental income. | 1.2% or 12% |

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**3 Taxation (Cont'd)**

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

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

(a-1) The following subsidiaries of the Company are subject to an enterprise income tax rate of 15% in 2019 as they qualified as high-tech enterprises and obtained the *High-tech Enterprise Certificate*:

| Name of taxpayer  | No. of the <i>High-tech Enterprise Certificate</i> | Dates of issuance | Term of validity |
|---|--|-------------------|------------------|
| Jiangsu Midea Cleaning Appliances Co., Ltd.                               | GR201732001675                                     | 17 November 2017  | 3 years          |
| GD Midea Environment Appliances Mfg. Co., Ltd.                            | GR201944000430                                     | 2 December 2019   | 3 years          |
| Midea Intelligent Lighting & Controls Technology Co., Ltd.                | GR201736000187                                     | 23 August 2017    | 3 years          |
| Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.                | GR201844000250                                     | 28 November 2018  | 3 years          |
| Guangdong Witol Vacuum Electronic Manufacture Co., Ltd                    | GR201744000489                                     | 9 November 2017   | 3 years          |
| Foshan Shunde Midea Washing Appliances Manufacturing Co., Ltd.            | GR201744002837                                     | 9 November 2017   | 3 years          |
| Foshan Shunde Midea Electrical Heating Appliances Manufacturing Co., Ltd. | GR201844010373                                     | 28 November 2018  | 3 years          |
| Guangdong Midea Precision Molding Technology Co., Ltd.                    | GR201944004780                                     | 2 December 2019   | 3 years          |
| Foshan Shunde Midea Electric Science and Technology Co., Ltd.             | GR201944000317                                     | 2 December 2019   | 3 years          |
| GD Midea Heating & Ventilating Equipment Co., Ltd.                        | GR201844008219                                     | 28 November 2018  | 3 years          |
| Hefei Midea Heating & Ventilating Equipment Co., Ltd.                     | GR201934001163                                     | 9 September 2019  | 3 years          |
| Anhui Meizhi Precision Manufacturing Co., Ltd.                            | GR201834000890                                     | 24 July 2018      | 3 years          |
| Guangzhou Midea Hualing Refrigerator Co., Ltd.                            | GR201944009238                                     | 2 December 2019   | 3 years          |
| Guangdong Welling Motor Manufacturing Co., Ltd.                           | GR201744002062                                     | 9 November 2017   | 3 years          |
| Foshan Welling Washer Motor Manufacturing Co., Ltd.                       | GR201744001025                                     | 9 November 2017   | 3 years          |
| Huaian Welling Motor Manufacturing Co., Ltd.                              | GR201932010033                                     | 6 December 2019   | 3 years          |
| Annto Logistics Technology Co., Ltd.                                      | GR201834001306                                     | 24 July 2018      | 3 years          |
| Little Swan   | GR201832001394                                     | 24 October 2018   | 3 years          |
| Wuxi Filin Electronics Co., Ltd.  | GR201832001053                                     | 24 October 2018   | 3 years          |
| Wuxi Little Swan General Appliance Co., Ltd.                              | GR201832001100                                     | 24 October 2018   | 3 years          |
| GD Midea Air-Conditioning Equipment Co., Ltd.                             | GR201744000337                                     | 9 November 2017   | 3 years          |
| Handan Midea Air-Conditioning Equipment Co., Ltd.                         | GR201713000957                                     | 27 October 2017   | 3 years          |
| Midea Group Wuhan Refrigeration Equipment Co., Ltd.                       | GR201742002075                                     | 30 November 2017  | 3 years          |

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**3 Taxation (Cont'd)**

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

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

(a-1) The following subsidiaries of the Company are subject to an enterprise income tax rate of 15% in 2019 as they qualified as high-tech enterprises and obtained the *High-tech Enterprise Certificate* (Cont'd):

| Name of taxpayer   | No. of the <i>High-tech Enterprise Certificate</i> | Dates of issuance | Term of validity |
|--|--|-------------------|------------------|
| Guangzhou Hualing Refrigerating Equipment Co., Ltd.          | GR201744010610                                     | 11 December 2017  | 3 years          |
| Wuhu Maty Air-Conditioning Equipment Co., Ltd.               | GR201734001246                                     | 7 November 2017   | 3 years          |
| Chongqing Midea General Refrigeration Equipment Co., Ltd.    | GR201751100113                                     | 28 December 2017  | 3 years          |
| Guangdong Meizhi Compressor Limited                          | GR201744000895                                     | 9 November 2017   | 3 years          |
| Hubei Midea Refrigerator Co., Ltd.                           | GR201742001255                                     | 28 November 2017  | 3 years          |
| Guangdong Midea Consumer Electric Manufacturing Co., Ltd.    | GR201744006141                                     | 11 December 2017  | 3 years          |
| Anhui Meizhi Compressor Co., Ltd.                            | GR201934000046                                     | 9 September 2019  | 3 years          |
| Foshan Shunde Midea Water Dispenser Manufacturing Co., Ltd.  | GR201744008471                                     | 11 December 2017  | 3 years          |
| Midea Welling Motor Technology (Shanghai) Co., Ltd.          | GR201731001731                                     | 23 November 2017  | 3 years          |
| Welling (Wuhu) Motor Manufacturing Co., Ltd.                 | GR201834001144                                     | 24 July 2018      | 3 years          |
| Hefei Midea Laundry Appliance Co., Ltd.                      | GR201834000882                                     | 24 July 2018      | 3 years          |
| Hefei Hualing Co., Ltd.                                      | GR201834000552                                     | 24 July 2018      | 3 years          |
| Foshan Midea Chungho Water Purification Equipment. Co., Ltd. | GR201844007089                                     | 28 November 2018  | 3 years          |
| Toshiba HA Manufacturing (Nanhai) Co., Ltd.                  | GR201844007107                                     | 28 November 2018  | 3 years          |
| Guangdong Meizhi Precision-Manufacturing Co., Ltd.           | GR201844006181                                     | 28 November 2018  | 3 years          |
| Wuhu Midea Kitchen & Bath Appliances Mfg. Co., Ltd.          | GR201834000818                                     | 24 July 2018      | 3 years          |
| Guangdong Midea Intelligent Technologies Co., Ltd.           | GR201844003941                                     | 28 November 2018  | 3 years          |

(a-2) The application for enterprise income tax preferential treatment by Chongqing Midea Air-Conditioning 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 enterprise income tax at the rate of 15% in 2019.

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

## MIDEA GROUP CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 3 Taxation (Cont'd)

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

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

(a-4) In August 2008, Midea Electric Trading (Singapore) Co., Pte. Ltd., the Company's subsidiary, was awarded with the Certificate of Honour for Development and Expansion (No. 587) by the Singapore Economic Development Board, which approves that qualified income exceeding a certain amount is subject to enterprise income tax at the rate of 5% from 1 August 2008 to 31 July 2018, and subject to enterprise income tax at the rate of 5.5% from 1 August 2018 to 31 July 2023, . Midea Singapore Trading Co Pte Limited. and Little Swan International (Singapore) Co., Pte. LTD., the Company's subsidiaries, are subject to enterprise income tax at the rate of 17%.

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

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

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

(a-8) TLSC, the Company's subsidiary in Japan, and its subsidiaries ("TLSC Group"), are subject to Japan enterprise income tax at the rate of 33.80%.

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

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

(a-11) Servotronix Motion Control Ltd. (hereinafter referred to as "SMC"), the Company's subsidiary in Israel, is subject to Israel enterprise income tax at the rate of 23%.

(a-12) Misr Refrigeration and Air Conditioning Manufacturing Company, S.A.E., the Company's subsidiary in Egypt, is subject to Egyptian enterprise income tax at the rate of 22.5%.

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

(b-1) Pursuant to the Announcement on Relevant Policies for Deepening the Value-Added Tax Reform (Announcement [2019] No. 39) issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs, the applicable tax rate of revenue arising from sales of goods and rendering of repairing and replacement services of the Company's certain subsidiaries is 13% from 1 April 2019, while it was 16% before then.

## MIDEA GROUP CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 3 Taxation (Cont'd)

- (1) Main tax category and rate (Cont'd)
- (b) Notes to the VAT rate of the principal tax payers with different tax rates (Cont'd)
- (b-2) Pursuant to the Announcement on Relevant Policies for Deepening the Value-Added Tax Reform (Announcement [2019] No. 39) issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs, the applicable tax rate of revenue arising from rendering of real estate leasing and transportation services of the Company's certain subsidiaries is 9% from 1 April 2019, while it was 10% before then.
- (b-3) Financial services, consulting services and storage services provided by the Company and certain subsidiaries are subject to VAT at the rate of 6%.
- (b-4) Rental revenue of Hefei Midea Laundry Appliance Co., Ltd., which is a subsidiary of the Company, is subject to easy levy of VAT at the rate of 5%.
- (b-5) Pursuant to the *Announcement on Relevant Policies for Deepening the Value-Added Tax Reform* (Announcement [2019] No. 39) issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs, certain subsidiaries of the Company engaged in the production service sector, are eligible for a 10% additional VAT deduction based on deductible input VAT in the current period from 1 April 2019 to 31 December 2021.

#### 4 Notes to the consolidated financial statements

- (1) Cash at bank and on hand

|  | 31 December 2019  | 31 December 2018  |
|--|-------------------|-------------------|
| Cash on hand   | 3,128             | 3,803             |
| Cash at bank (a)   | 49,012,677        | 15,857,413        |
| Other cash balances (b)                                  | 153,022           | 123,197           |
| Statutory reserve deposits with the Central Bank (c)     | 433,149           | 1,126,172         |
| Surplus reserve with the Central Bank                    | 355,471           | 204,073           |
| Deposits with banks and other financial institutions (d) | 20,562,160        | 10,573,622        |
| Accrued interest   | 397,234           | —                 |
|  | <u>70,916,841</u> | <u>27,888,280</u> |

|  |           |           |
|--|-----------|-----------|
| Including: Total amounts deposited with banks overseas (including Hong Kong, China, Macau, China, Singapore, Japan, Italy, Brazil and Germany, etc.) | 5,270,085 | 6,316,807 |
|--|-----------|-----------|

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

(1) Cash at bank and on hand (Cont'd)

(a) As at 31 December 2019, cash at bank included fixed deposits with the term of over three months, amounting to RMB 39,491,676,000 (31 December 2018: RMB 5,686,629,000)

(b) Other cash balances mainly include letters of guarantee, bank acceptance notes and letters of credit.

(c) Statutory reserve with the Central Bank represents the statutory reserve deposited in People's Bank of China by the financial enterprise in accordance with relevant regulations, which are calculated at 6% and 5% for eligible RMB deposits and foreign currency deposits, respectively, and are not available for use in the Group's daily operations.

(d) As at 31 December 2019, deposits with banks and other financial institutions included no fixed deposits with the term of over three months (31 December 2018: RMB 3,000,000,000).

(2) Financial assets held for trading

|                                   | 31 December<br>2019 | 1 January<br>2019 | 31 December<br>2018 |
|-----------------------------------|---------------------|-------------------|---------------------|
| Financial assets held for trading | 1,087,351           | 2,654,045         | —                   |

(a) As at 31 December 2019, financial assets held for trading are equity investments in listed companies, measured at fair value through profits or losses.

(3) Notes receivable

|                               | 31 December<br>2019 | 1 January<br>2019 | 31 December<br>2018 |
|-------------------------------|---------------------|-------------------|---------------------|
| Bank acceptance notes         | 4,768,520           | 11,049,539        | 12,556,294          |
| Less: Provision for bad debts | -                   | -                 | -                   |
|                               | <u>4,768,520</u>    | <u>11,049,539</u> | <u>12,556,294</u>   |

(a) Provision for bad debts

For notes receivable of the Group arising from sales of goods or rendering of services in the ordinary course of business, the Group recognises the lifetime ECL provision regardless of whether there exists a significant financing component. As at 31 December 2019, bad debts risk was relatively low.

(4) Accounts receivable

|                               | 31 December<br>2019 | 1 January<br>2019 | 31 December<br>2018 |
|-------------------------------|---------------------|-------------------|---------------------|
| Accounts receivable           | 19,631,644          | 19,624,088        | 20,372,283          |
| Less: Provision for bad debts | (967,825)           | (982,109)         | (982,109)           |
|                               | <u>18,663,819</u>   | <u>18,641,979</u> | <u>19,390,174</u>   |



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

(4) Accounts receivable (Cont'd)

(a) The ageing of accounts receivable is analysed as follows:

|               | 31 December<br>2019 | 1 January<br>2019 | 31 December<br>2018 |
|---------------|---------------------|-------------------|---------------------|
| Within 1 year | 19,168,694          | 19,242,068        | 19,990,263          |
| 1 to 2 years  | 301,554             | 187,071           | 187,071             |
| 2 to 3 years  | 101,643             | 88,294            | 88,294              |
| 3 to 5 years  | 42,106              | 84,069            | 84,069              |
| Over 5 years  | 17,647              | 22,586            | 22,586              |
|               | <u>19,631,644</u>   | <u>19,624,088</u> | <u>20,372,283</u>   |

As at 31 December 2019, the Group had no significant overdue accounts receivable.

(b) Under the new financial instruments standards, the Group measures the loss provision for accounts receivable according to the lifetime ECL.

As at 31 December 2019, accounts receivable for which the related provision for bad debts was provided on the individual basis were analysed as follows:

|                    | Book balance | Lifetime<br>ECL rate | Provision for<br>bad debts | Reason   |
|--------------------|--------------|----------------------|----------------------------|--|
| Domestic customers | 2,998        | 100%                 | (2,998)                    | The debtor<br>encountered<br>financial<br>difficulties |
| Overseas customers | <u>4,767</u> | 100%                 | <u>(4,767)</u>             |  |
|                    | <u>7,765</u> |                      | <u>(7,765)</u>             |  |

As at 31 December 2019, accounts receivable for which the related provision for bad debts was provided on the grouping basis were analysed as follows:

|                            | 31 December 2019  |                         |                  |
|----------------------------|-------------------|-------------------------|------------------|
|                            | Book balance      | Provision for bad debts |                  |
|                            | Amount            | Lifetime<br>ECL rate    | Amount           |
| Domestic business grouping | 7,908,831         | 5.53%                   | (437,578)        |
| Overseas business grouping | <u>11,715,048</u> | 4.46%                   | <u>(522,482)</u> |
|                            | <u>19,623,879</u> |                         | <u>(960,060)</u> |

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

(4) Accounts receivable (Cont'd)

- (c) The provision for bad debts in current year amounted to RMB 215,902,000 (31 December 2018: RMB 334,946,000). The provision for bad debts reversed in current year amounted to RMB 145,990,000 (31 December 2018: RMB 137,346,000).

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

- (d) As at 31 December 2019, the five largest accounts receivable aggregated by debtors were summarised and analysed as follows:

|   | Amount    | Provision for<br>bad debts | % of total<br>balance |
|---|-----------|----------------------------|-----------------------|
| Total amount of the five largest<br>accounts receivable | 2,021,879 | (47,562)                   | 10.30%                |

(5) Other receivables

|                               | 31 December<br>2019 | 1 January<br>2019 | 31 December<br>2018 |
|-------------------------------|---------------------|-------------------|---------------------|
| Other receivables             | 2,766,098           | 3,003,669         | 3,014,098           |
| Less: Provision for bad debts | (53,124)            | (42,730)          | (42,730)            |
|                               | <u>2,712,974</u>    | <u>2,960,939</u>  | <u>2,971,368</u>    |

- (a) Other receivables mainly include deposits, receivables related to share options, current accounts, petty cash to staff, and interest.

The ageing of other receivables is analysed as follows:

|               | 31 December<br>2019 | 1 January<br>2019 | 31 December<br>2018 |
|---------------|---------------------|-------------------|---------------------|
| Within 1 year | 2,643,584           | 2,795,057         | 2,805,486           |
| 1 to 2 years  | 69,490              | 118,049           | 118,049             |
| 2 to 3 years  | 16,555              | 60,259            | 60,259              |
| 3 to 5 years  | 25,773              | 20,900            | 20,900              |
| Over 5 years  | 10,696              | 9,404             | 9,404               |
|               | <u>2,766,098</u>    | <u>3,003,669</u>  | <u>3,014,098</u>    |

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

(5) Other receivables (Cont'd)

(b) Provision for bad debts and changes in book balance statements

|   | Stage 1                    |                               | Stage 1                      |                               | Stage 3                           |                               | Sub-total<br>Provision<br>for bad<br>debts |
|---|----------------------------|-------------------------------|------------------------------|-------------------------------|-----------------------------------|-------------------------------|--|
|   | 12-month ECL<br>(Grouping) |                               | 12-month ECL<br>(Individual) |                               | Lifetime ECL<br>(Credit impaired) |                               |  |
|   | Book<br>balance            | Provision<br>for bad<br>debts | Book<br>balance              | Provision<br>for bad<br>debts | Book<br>balance                   | Provision<br>for bad<br>debts |  |
| 31 December 2018  | 2,844,783                  | 42,730                        | 169,315                      | -                             | -                                 | -                             | 42,730                                     |
| Changes in accounting<br>policies   | (10,429)                   | -                             | -                            | -                             | -                                 | -                             | -  |
| 1 January 2019  | 2,834,354                  | 42,730                        | 169,315                      | -                             | -                                 | -                             | 42,730                                     |
| Transfer to stage 3   | (3,832)                    | (1,533)                       | -                            | -                             | 3,832                             | 1,533                         | -  |
| Net (decrease)/increase<br>in current year                                | (128,884)                  | 8,511                         | (108,212)                    | -                             | (475)                             | 1,809                         | 10,320                                     |
| Including: Written-off in<br>current year                                 | -                          | -                             | -                            | -                             | (475)                             | (475)                         | (475)                                      |
| Derecognition   | -                          | -                             | -                            | -                             | -                                 | -                             | -  |
| Differences on translation<br>of foreign currency<br>financial statements | -                          | 59                            | -                            | -                             | -                                 | 15                            | 74   |
| 31 December 2019  | <u>2,701,638</u>           | <u>49,767</u>                 | <u>61,103</u>                | <u>-</u>                      | <u>3,357</u>                      | <u>3,357</u>                  | <u>53,124</u>                              |

As at 31 December 2019, the Group had no other receivables at stage 2.

(c) As at 31 December 2019, the Group's other receivables at stage 1 and stage 3 were analysed as follows:

(i) As at 31 December 2019, other receivables for which the related provision for bad debts was provided on the individual basis were analysed as follows:

|         | Book balance  | ECL rate in the<br>following 12<br>months | Provision for bad<br>debts | Reason   |
|---------|---------------|---|----------------------------|--|
| Stage 1 | <u>61,103</u> | <u>0%</u>                                 | <u>-</u>                   | Relatively low<br>bad debt risks                       |
|         | Book balance  | ECL rate in the<br>following 12<br>months | Provision for bad<br>debts | Reason   |
| Stage 3 | <u>3,357</u>  | <u>100%</u>                               | <u>(3,357)</u>             | The debtor<br>encountered<br>financial<br>difficulties |

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

(5) Other receivables (Cont'd)

(c) As at 31 December 2019, the Group's other receivables at stage 1 and stage 3 were analysed as follows (Cont'd):

(ii) As at 31 December 2019, other receivables at stage 1 for which the related provision for bad debts was provided on the grouping basis were analysed as follows:

|  | 31 December 2019 |                         |                 |
|--|------------------|-------------------------|-----------------|
|  | Book balance     | Provision for bad debts |                 |
|  | Amount           | Amount                  | Provision ratio |
| Security deposit/guarantee payables grouping | 2,701,638        | (49,767)                | 1.84%           |

(iii) The provision for bad debts in current year amounted to RMB 19,276,000 (31 December 2018: RMB 13,508,000). The provision for bad debts reversed in current year amounted to RMB 8,481,000 (31 December 2018: 21,166,000).

For the year ended 31 December 2019, no other receivables with significant amounts were written off.

(d) As at 31 December 2019, the five largest other receivables aggregated by debtors were summarised and analysed as follows:

|  | Amount  | Provision for bad debts | % of total balance |
|--|---------|-------------------------|--------------------|
| Total amount of the five largest other receivables | 222,226 | (6,779)                 | 8.03%              |

(e) As at 31 December 2019, the Group did not recognise significant government grants at amounts receivable.

(6) Receivables financing

|                       | 31 December 2019 | 1 January 2019 | 31 December 2018 |
|-----------------------|------------------|----------------|------------------|
| Receivables financing | 7,565,776        | 2,254,950      | —                |

The Group's receivables financing were mainly bank acceptance notes and account receivables transferred, discounted and endorsed for the purpose of daily treasury management and were qualified for derecognition.

No provision for bank acceptance notes was individually provided. As at 31 December 2019, the Group measured bad debts based on the lifetime ECL and expected that there was no significant credit risk associated with its bank acceptance notes and did not expect that there will be any significant losses from non-performance by these banks.

As at 31 December 2019, the Group's transferred account receivables and notes receivables endorsed or discounted but not matured were as follows:

|                       | Derecognised | Recognised |
|-----------------------|--------------|------------|
| Receivables financing | 20,946,601   | -          |

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

(7) Advances to suppliers

|  | 31 December 2019 | 31 December 2018 |
|--|------------------|------------------|
| Prepayments for raw materials and others | <u>2,246,177</u> | <u>2,215,888</u> |

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

|               | 31 December 2019 |                    | 31 December 2018 |                    |
|---------------|------------------|--------------------|------------------|--------------------|
|               | Amount           | % of total balance | Amount           | % of total balance |
| Within 1 year | 2,176,110        | 96.88%             | 2,112,343        | 95.33%             |
| 1 to 2 years  | 26,925           | 1.20%              | 78,764           | 3.55%              |
| 2 to 3 years  | 22,895           | 1.02%              | 11,870           | 0.54%              |
| Over 3 years  | 20,247           | 0.90%              | 12,911           | 0.58%              |
|               | <u>2,246,177</u> | 100.00%            | <u>2,215,888</u> | 100.00%            |

As at 31 December 2019, advances to suppliers over 1 year with a carrying amount of RMB 70,067,000 (31 December 2018: RMB 103,545,000) were mainly unsettled prepayments for raw materials.

As at 31 December 2019, the five largest advances to suppliers aggregated by debtors were summarised and analysed as follows:

|  | Amount         | % of total balance |
|--|----------------|--------------------|
| Total amount of the five largest advances to suppliers | <u>494,085</u> | <u>22.00%</u>      |

(8) Loans and advances to customers

(a) By individual and corporation:

|   | 31 December 2019  | 31 December 2018  |
|---|-------------------|-------------------|
| Loans and advances measured at amortised cost |                   |                   |
| Loans and advances to individuals             | 1,110,127         | 894,392           |
| Loans and advances to corporations            | 10,708,289        | 10,588,006        |
| Including: Loans                              | 9,558,953         | 4,702,308         |
| Discounted bills                              | 1,149,336         | 5,885,698         |
|   | 11,818,416        | 11,482,398        |
| Less: Provision for bad debts                 | <u>(158,919)</u>  | <u>(154,006)</u>  |
|   | <u>11,659,497</u> | <u>11,328,392</u> |

As at 31 December 2019, loans and advances to customers over 1 year amounted to RMB 790,101,000 (31 December 2018: Nil).

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

(8) Loans and advances to customers (Cont'd)

(b) By type of collateral held

|                               | 31 December 2019  | 31 December 2018  |
|-------------------------------|-------------------|-------------------|
| Unsecured loans               | 1,075,217         | 814,657           |
| Guaranteed loans              | 1,476,273         | 614,688           |
| Pledged loans                 | 9,266,926         | 10,053,053        |
|                               | <u>11,818,416</u> | <u>11,482,398</u> |
| Less: Provision for bad debts | (158,919)         | (154,006)         |
|                               | <u>11,659,497</u> | <u>11,328,392</u> |

(c) For the year ended 31 December 2019, the Group's provision for bad debts was RMB 68,617,000, bad debts written-off were RMB 10,826,000 and reversal of bad debts was 52,878,000 (Note 4(21)).

(d) As at 31 December 2019, the Group's loans and advances for bad debt provision amounting to RMB 1,036,154,000, of which the bad debt provision is RMB 219,000.

(9) Inventories

(a) Inventories are summarised by categories as follows:

|  | 31 December 2019  |   |                    | 31 December 2018  |   |                    |
|--|-------------------|---|--------------------|-------------------|---|--------------------|
|  | Book<br>balance   | Provision for<br>declines in<br>the value of<br>inventories | Carrying<br>amount | Book<br>balance   | Provision for<br>declines in<br>the value of<br>inventories | Carrying<br>amount |
| Finished goods                         | 22,046,730        | (407,598)   | 21,639,132         | 18,600,407        | (320,022)   | 18,280,385         |
| Raw materials                          | 5,009,197         | (67,875)  | 4,941,322          | 5,181,916         | (60,822)  | 5,121,094          |
| Work in progress                       | 1,596,042         | -   | 1,596,042          | 2,040,228         | -   | 2,040,228          |
| Consigned<br>processing<br>material    | 219,542           | -   | 219,542            | 239,741           | -   | 239,741            |
| Low value<br>consumables               | 38,185            | -   | 38,185             | 38,763            | -   | 38,763             |
| Projects<br>completed but<br>unsettled | 4,009,176         | -   | 4,009,176          | 3,924,807         | -   | 3,924,807          |
|  | <u>32,918,872</u> | <u>(475,473)</u>  | <u>32,443,399</u>  | <u>30,025,862</u> | <u>(380,844)</u>  | <u>29,645,018</u>  |

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

|                | 31 December<br>2018 | Increase in               | Decrease in                                | Differences<br>on translation<br>of foreign<br>currency<br>financial<br>statements | 31 December<br>2019 |
|----------------|---------------------|---------------------------|--|--|---------------------|
|                |                     | current year<br>Provision | current year<br>Reversal or<br>written-off |  |                     |
| Finished goods | 320,022             | 311,801                   | (227,739)                                  | 3,514  | 407,598             |
| Raw materials  | 60,822              | 11,434                    | (5,826)                                    | 1,445  | 67,875              |
|                | <u>380,844</u>      | <u>323,235</u>            | <u>(233,565)</u>                           | <u>4,959</u>   | <u>475,473</u>      |

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

(9) Inventories (Cont'd)

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

|                                  | Specific basis for determining net realisable value  | Reason for the reversal or written-off of provision for decline in the value of inventories |                            |
|----------------------------------|--|---|----------------------------|
| Finished goods                   | Stated at the lower of cost and net realisable value |   | Sales                      |
| Projects completed but unsettled | Stated at the lower of cost and net realisable value |   | Settled                    |
| Raw materials, etc.              | Stated at the lower of cost and net realisable value |   | Requisition for production |

| (10) Other current assets  | 31 December 2019  | 1 January 2019    | 31 December 2018  |
|----------------------------|-------------------|-------------------|-------------------|
| Wealth management products | —                 | —                 | 1,521,007         |
| Structural deposits (a)    | 60,038,855        | 70,402,509        | 70,402,509        |
| VAT input to be deducted   | 3,159,794         | 2,803,315         | 2,803,315         |
| Prepaid expenses           | 875,451           | 647,648           | 647,648           |
| Others                     | 936,927           | 1,099,348         | 1,099,348         |
|                            | <u>65,011,027</u> | <u>74,952,820</u> | <u>76,473,827</u> |

(a) As at 31 December 2019, structural deposits represented deposits in financial instruments due within one year, mostly measured at fair value through profits or losses.

(11) Long-term receivables

|                               | 31 December 2019 | 31 December 2018 |
|-------------------------------|------------------|------------------|
| Long-term receivables         | 1,208,079        | 34,815           |
| Less: Provision for bad debts | -                | -                |
|                               | <u>1,208,079</u> | <u>34,815</u>    |

The Group's long-term receivables are presented in net amount of finance lease receivables after offsetting the unrealised financing income.

(12) Long-term equity investments

Long-term equity investments are classified as follows:

|  | 31 December 2019 | 31 December 2018 |
|--|------------------|------------------|
| Investment in associates (a)                                   | 2,790,806        | 2,713,316        |
| Less: Provision for impairment of long-term equity investments | -                | -                |
|  | <u>2,790,806</u> | <u>2,713,316</u> |

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

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

(13) Other non-current financial assets

|                                | 31 December<br>2019 | 1 January<br>2019 | 31 December<br>2018 |
|--------------------------------|---------------------|-------------------|---------------------|
| Measured at fair value         |                     |                   |                     |
| - Equity of unlisted companies | 1,750,107           | 784,269           | —                   |

(14) Fixed assets

|   | Buildings  | Overseas<br>land | Machinery<br>and<br>equipment | Motor<br>vehicles | Electronic<br>equipment<br>and others | Total       |
|---|------------|------------------|-------------------------------|-------------------|---------------------------------------|-------------|
| <b>Cost</b>   |            |                  |                               |                   |                                       |             |
| 31 December 2018  | 17,396,391 | 1,289,251        | 18,935,114                    | 747,441           | 4,151,719                             | 42,519,916  |
| Increase in current year  |            |                  |                               |                   |                                       |             |
| Purchase  | 272,034    | -                | 1,342,838                     | 23,357            | 698,159                               | 2,336,388   |
| Transfers from construction<br>in progress                                | 553,985    | -                | 88,850                        | -                 | 45,707                                | 688,542     |
| Decrease in current year  |            |                  |                               |                   |                                       |             |
| Disposal and retirement   | (63,025)   | (2,080)          | (702,214)                     | (65,032)          | (396,824)                             | (1,229,175) |
| Others  | (277,682)  | -                | -                             | -                 | (1,675)                               | (279,357)   |
| Differences on translation of<br>foreign currency financial<br>statements | 18,900     | 9,322            | 37,540                        | 1,937             | 13,652                                | 81,351      |
| 31 December 2019  | 17,900,603 | 1,296,493        | 19,702,128                    | 707,703           | 4,510,738                             | 44,117,665  |
| <b>Accumulated depreciation</b>   |            |                  |                               |                   |                                       |             |
| 31 December 2018  | 6,561,909  | -                | 10,235,762                    | 477,072           | 2,774,680                             | 20,049,423  |
| Increase in current year  |            |                  |                               |                   |                                       |             |
| Provision   | 872,098    | -                | 1,676,581                     | 88,793            | 718,348                               | 3,355,820   |
| Decrease in current year  |            |                  |                               |                   |                                       |             |
| Disposal and retirement   | (44,650)   | -                | (521,472)                     | (57,140)          | (364,657)                             | (987,919)   |
| Others  | (29,841)   | -                | -                             | -                 | (1,497)                               | (31,338)    |
| Differences on translation of<br>foreign currency financial<br>statements | 3,119      | -                | 14,643                        | 748               | 9,000                                 | 27,510      |
| 31 December 2019  | 7,362,635  | -                | 11,405,514                    | 509,473           | 3,135,874                             | 22,413,496  |
| <b>Provision for impairment loss</b>                                      |            |                  |                               |                   |                                       |             |
| 31 December 2018  | 6,674      | 5,849            | 20,107                        | 206               | 445                                   | 33,281      |
| Increase in current year  |            |                  |                               |                   |                                       |             |
| Provision   | -          | -                | -                             | -                 | 8,466                                 | 8,466       |
| Decrease in current year  |            |                  |                               |                   |                                       |             |
| Disposal and retirement   | (26)       | -                | (2,635)                       | -                 | (17)                                  | (2,678)     |
| Differences on translation of<br>foreign currency financial<br>statements | 98         | 58               | 241                           | 4                 | 17                                    | 418         |
| 31 December 2019  | 6,746      | 5,907            | 17,713                        | 210               | 8,911                                 | 39,487      |
| <b>Carrying amount</b>  |            |                  |                               |                   |                                       |             |
| 31 December 2019  | 10,531,222 | 1,290,586        | 8,278,901                     | 198,020           | 1,365,953                             | 21,664,682  |
| 31 December 2018  | 10,827,808 | 1,283,402        | 8,679,245                     | 270,163           | 1,376,594                             | 22,437,212  |

(a) In 2019, the depreciation of fixed assets amounted to RMB 3,355,820,000 (2018: RMB 3,362,075,000) and was included in the income statement in full amount.

(b) As at 31 December 2019, the Company was still in the course of obtaining the ownership certificate for the fixed asset with a carrying amount of RMB 219,475,000 (31 December 2018: RMB 503,717,000).



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

(15) Construction in progress

(a) Movement of significant projects of construction in progress

|   | 31 December<br>2018 |                             | Transfer to fixed<br>assets in current<br>year | Transfer to long-<br>term receivables<br>in current year | Differences on<br>translation of<br>foreign currency<br>financial<br>statements | 31 December<br>2019 | Accumulative<br>amount of<br>capitalised<br>borrowing costs | Including:<br>Borrowing costs<br>capitalised in<br>current year | Capitalisation<br>rate of borrowing<br>costs in current<br>year | Source of funds |
|---|---------------------|-----------------------------|--|--|---|---------------------|---|---|---|-----------------|
|   | Carrying amount     | Increase in<br>current year |  |  |   | Carrying amount     |   |   |   |                 |
| Kuka Toledo Production<br>Operations          | 1,152,820           | 151,170                     | -  | (1,285,005)  | (18,985)  | -                   | -   | -   | -   | Self-financing  |
| Media Kuka Intelligent<br>Manufacturing Plant | 173,549             | 51,102                      | (224,651)                                      | -  | -   | -                   | -   | -   | -   | Self-financing  |
| Indian Science &<br>Technology Park           | 20,545              | 258,736                     | (4,531)  | -  | (321)   | 274,429             | -   | -   | -   | Self-financing  |
| Other projects                                | 730,707             | 675,840                     | (459,360)                                      | (25,419)   | (1,547)   | 920,221             | -   | -   | -   | Self-financing  |
|   | <u>2,077,621</u>    | <u>1,136,848</u>            | <u>(688,542)</u>                               | <u>(1,310,424)</u>                                       | <u>(20,853)</u>   | <u>1,194,650</u>    | -   | -   | -   |                 |

As at 31 December 2019, the Group believed that there was no need to make provision for impairment of construction in progress with the Carrying amount consistent with the carrying amount; and the cost of construction in progress matched the budget amount. The projects were carried out on schedule.

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

(16) Intangible assets

|  | Land use<br>rights | Patents and<br>non-patent<br>technologies | Trademark<br>rights | Trademark<br>use rights | Others    | Total      |
|--|--------------------|---|---------------------|-------------------------|-----------|------------|
| <b>Cost</b>  |                    |   |                     |                         |           |            |
| 31 December 2018   | 4,586,857          | 2,061,849                                 | 5,005,403           | 2,601,880               | 4,721,765 | 18,977,754 |
| Increase in current year   |                    |   |                     |                         |           |            |
| Purchase   | 98,367             | 8,756                                     | -                   | -                       | 78,777    | 185,900    |
| Others   | -                  | 21,793                                    | -                   | -                       | 297,490   | 319,283    |
| Decrease in current year   |                    |   |                     |                         |           |            |
| Disposal   | (30,174)           | (11,300)                                  | -                   | -                       | (167,698) | (209,172)  |
| Differences on translation of foreign<br>currency financial statements | 223                | 7,694                                     | (12,010)            | 87,207                  | 90,844    | 173,958    |
| 31 December 2019   | 4,655,273          | 2,088,792                                 | 4,993,393           | 2,689,087               | 5,021,178 | 19,447,723 |
| <b>Accumulated amortisation</b>  |                    |   |                     |                         |           |            |
| 31 December 2018   | 819,030            | 488,412                                   | 75,176              | 168,088                 | 1,228,235 | 2,778,941  |
| Increase in current year   |                    |   |                     |                         |           |            |
| Provision  | 99,342             | 96,237                                    | 33,883              | 64,402                  | 950,106   | 1,243,970  |
| Decrease in current year   |                    |   |                     |                         |           |            |
| Disposal   | (6,510)            | (11,300)                                  | -                   | -                       | (94,675)  | (112,485)  |
| Differences on translation of foreign<br>currency financial statements | 151                | 5,389                                     | (131)               | 6,224                   | 28,842    | 40,475     |
| 31 December 2019   | 912,013            | 578,738                                   | 108,928             | 238,714                 | 2,112,508 | 3,950,901  |
| <b>Provision for impairment loss</b>                                   |                    |   |                     |                         |           |            |
| 31 December 2018   | -                  | 10,951                                    | -                   | -                       | 1,187     | 12,138     |
| Differences on translation of foreign<br>currency financial statements | -                  | 461                                       | -                   | -                       | 44        | 505        |
| 31 December 2019   | -                  | 11,412                                    | -                   | -                       | 1,231     | 12,643     |
| <b>Carrying amount</b>   |                    |   |                     |                         |           |            |
| 31 December 2019   | 3,743,260          | 1,498,642                                 | 4,884,465           | 2,450,373               | 2,907,439 | 15,484,179 |
| 31 December 2018   | 3,767,827          | 1,562,486                                 | 4,930,227           | 2,433,792               | 3,492,343 | 16,186,675 |

In 2019, the amortisation of intangible assets amounted to RMB 1,243,970,000 (2018: RMB 1,034,945,000) and was included in the income statement in full amount.

(17) Goodwill

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

|                                | 31 December 2019  | 31 December 2018  |
|--------------------------------|-------------------|-------------------|
| Goodwill -                     |                   |                   |
| KUKA Group                     | 22,240,132        | 22,330,623        |
| TLSC Group                     | 2,984,110         | 2,881,760         |
| Little Swan                    | 1,361,306         | 1,361,306         |
| Others                         | 2,173,765         | 2,526,701         |
|                                | <u>28,759,313</u> | <u>29,100,390</u> |
| Less: Provision for impairment | (552,248)         | -                 |
|                                | <u>28,207,065</u> | <u>29,100,390</u> |

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

(17) Goodwill (Cont'd)

When making an impairment testing of goodwill for assets, the Group compares the carrying amount of the relevant assets or portfolios of asset groups (including goodwill) with their recoverable amount. If the recoverable amount is lower than the carrying amount, the difference shall be included in profit or loss for current period. The Group's allocation of goodwill was not changed in 2019.

As at 31 December 2019, the Group tested whether goodwill has suffered any impairment. The recoverable amount of asset groups with goodwill is calculated using discounted future cash flows determined according to the budget approved by management (the budget period is 5 to 6 years). The future cash flows beyond the budget periods are calculated based on the estimated perpetual annual growth rates. The perpetual annual growth rates (approx. 1%-2%) applied by management are consistent with the estimates of the industry, and do not exceed the long-term average growth rates of each product. Management determines expected revenue growth rates (approx. 2.27%-11.90%) and EBITDA margins (approx. 2.65%-11.30%) based on past experience and forecast on future market development. The discount rates (approx. 9.35%-15.43%) used by management are the pre-tax rates that are able to reflect the risks specific to the related asset groups. Management analyses the recoverable amount of each asset group based on these assumptions. As at 31 December 2019, the Group made a provision for impairment in amount of RMB 552,248,000 of the SMC asset group, and no provision for impairment was necessary for the goodwill of asset groups.

(18) Long-term prepaid expenses

The long-term prepaid expenses mainly include expenses prepaid for software and project reconstruction.

(19) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offsetting

|                                 | 31 December 2019                                       |                     | 31 December 2018                                       |                     |
|---------------------------------|--|---------------------|--|---------------------|
|                                 | Deductible temporary differences and deductible losses | Deferred tax assets | Deductible temporary differences and deductible losses | Deferred tax assets |
| Deductible losses               | 1,457,853  | 416,248             | 1,844,308  | 558,896             |
| Provision for asset impairments | 1,489,044  | 291,763             | 1,332,124  | 272,227             |
| Employee benefits payable       | 1,394,921  | 337,172             | 1,371,756  | 330,923             |
| Other current liabilities       | 24,574,237   | 4,767,558           | 16,549,427   | 3,572,039           |
| Others                          | 6,408,056  | 1,484,817           | 5,201,746  | 1,087,280           |
|                                 | <u>35,324,111</u>                                      | <u>7,297,558</u>    | <u>26,299,361</u>                                      | <u>5,821,365</u>    |

Including:

|  |                  |                  |
|--|------------------|------------------|
| Expected to be recovered within one year (inclusive) | 6,073,311        | 4,755,720        |
| Expected to be recovered after one year              | <u>1,224,247</u> | <u>1,065,645</u> |
|  | <u>7,297,558</u> | <u>5,821,365</u> |

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

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

(b) Deferred tax liabilities before offsetting

|  | 31 December 2019              |                          | 31 December 2018              |                          |
|--|-------------------------------|--------------------------|-------------------------------|--------------------------|
|  | Taxable temporary differences | Deferred tax liabilities | Taxable temporary differences | Deferred tax liabilities |
| Changes in fair value  | 827,153                       | 162,129                  | 49,939                        | 11,131                   |
| Business combination involving enterprise not under common control | 11,785,555                    | 3,474,098                | 12,533,188                    | 3,663,691                |
| Others   | 9,644,666                     | 2,448,340                | 8,308,900                     | 2,147,304                |
|  | <u>22,257,374</u>             | <u>6,084,567</u>         | <u>20,892,027</u>             | <u>5,822,126</u>         |
| Including:   |                               |                          |                               |                          |
| Expected to be recovered within one year (inclusive)               |                               | 1,145,971                |                               | 1,194,871                |
| Expected to be recovered after one year                            |                               | <u>4,938,596</u>         |                               | <u>4,627,255</u>         |
|  |                               | <u>6,084,567</u>         |                               | <u>5,822,126</u>         |

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

|                          | 31 December 2019         | 31 December 2018         |
|--------------------------|--------------------------|--------------------------|
|                          | Balance after offsetting | Balance after offsetting |
| Deferred tax assets      | 5,768,993                | 4,421,313                |
| Deferred tax liabilities | 4,556,002                | 4,422,074                |

(20) Other non-current assets

|                         | 31 December 2019 | 31 December 2018 |
|-------------------------|------------------|------------------|
| Structural deposits (a) | 4,355,799        | -                |
| Others                  | 591,804          | 550,352          |
|                         | <u>4,947,603</u> | <u>550,352</u>   |

(a) As at 31 December 2019, structural deposits represented deposits in financial instruments due for more than one year, mostly measured at fair value through profits or losses.

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

(21) Details of provision for asset impairments

|   | 31 December<br>2018 | Changes in<br>accounting<br>policies | 1 January<br>2019 | Increase in<br>current year | Decrease in current year |                            | Differences on<br>translation of foreign<br>currency financial<br>statements | 31 December<br>2019 |
|---|---------------------|--------------------------------------|-------------------|-----------------------------|--------------------------|----------------------------|--|---------------------|
|   |                     |                                      |                   |                             | Reversal                 | Charge-<br>off/Written-off |  |                     |
| Provision for bad debts   | 1,178,845           | -                                    | 1,178,845         | 303,795                     | (207,349)                | (108,649)                  | 13,226   | 1,179,868           |
| Including: Provision for bad debts of<br>accounts receivable        | 982,109             | -                                    | 982,109           | 215,902                     | (145,990)                | (97,348)                   | 13,152   | 967,825             |
| Provision for bad debts of<br>loans and advances                    | 154,006             | -                                    | 154,006           | 68,617                      | (52,878)                 | (10,826)                   | -  | 158,919             |
| Provision for bad debts of<br>other receivables                     | 42,730              | -                                    | 42,730            | 19,276                      | (8,481)                  | (475)                      | 74   | 53,124              |
| Provision for decline in the value of<br>inventories                | 380,844             | -                                    | 380,844           | 323,235                     | (12,040)                 | (221,525)                  | 4,959  | 475,473             |
| Provision for impairment of available-for-<br>sale financial assets | 2,287               | (2,287)                              | —                 | —                           | —                        | —                          | —  | —                   |
| Provision for impairment of fixed assets                            | 33,281              | -                                    | 33,281            | 8,466                       | -                        | (2,678)                    | 418  | 39,487              |
| Provision for impairment of intangible<br>assets                    | 12,138              | -                                    | 12,138            | -                           | -                        | -                          | 505  | 12,643              |
| Provision for impairment of investment<br>properties                | 12,576              | -                                    | 12,576            | -                           | -                        | -                          | -  | 12,576              |
| Provision for impairment of goodwill                                | -                   | -                                    | -                 | 552,248                     | -                        | -                          | -  | 552,248             |
|   | <u>1,619,971</u>    | <u>(2,287)</u>                       | <u>1,617,684</u>  | <u>1,187,744</u>            | <u>(219,389)</u>         | <u>(332,852)</u>           | <u>19,108</u>  | <u>2,272,295</u>    |

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

(22) Assets with use rights restricted

As at 31 December 2019, assets with use rights restricted were as follows:

|  | 31 December 2019  | 31 December 2018 |
|--|-------------------|------------------|
| Cash at bank and on hand   |                   |                  |
| Including: Cash at bank (Note 4(1))                                    | 39,491,676        | 5,686,629        |
| Other cash balances<br>(Note 4(1))                                     | 153,022           | 123,197          |
| Legal reserves with the<br>Central Bank (Note 4(1))                    | 433,149           | 1,126,172        |
| Deposits with banks and<br>other financial institutions<br>(Note 4(1)) | -                 | 3,000,000        |
|  | <u>40,077,847</u> | <u>9,935,998</u> |

(23) Short-term borrowings

|                       | 31 December 2019 | 31 December 2018 |
|-----------------------|------------------|------------------|
| Unsecured             | 5,665,756        | 807,097          |
| Guaranteed borrowings | 36,082           | 63,293           |
|                       | <u>5,701,838</u> | <u>870,390</u>   |

As at 31 December 2019, the annual interest rate range of short-term borrowings was 0.57% to 9.40% (31 December 2018: 0.63% to 11.63%).

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

(24) Notes payable

|                       | 31 December 2019 | 31 December 2018 |
|-----------------------|------------------|------------------|
| Bank acceptance notes | 23,891,600       | 23,325,115       |

(25) Accounts payable

|                        | 31 December 2019  | 31 December 2018  |
|------------------------|-------------------|-------------------|
| Materials cost payable | 39,528,815        | 32,605,437        |
| Others                 | 3,006,962         | 4,296,189         |
|                        | <u>42,535,777</u> | <u>36,901,626</u> |

As at 31 December 2019, accounts payable with ageing over 1 year amounted to RMB 886,355,000 (31 December 2018: RMB 803,286,000), mainly representing unsettled accounts payable for materials.

(26) Advances from customers

|                           | 31 December 2019  | 31 December 2018  |
|---------------------------|-------------------|-------------------|
| Advances on sales         | 14,054,839        | 14,521,809        |
| Settled but not completed | 2,177,015         | 2,259,857         |
|                           | <u>16,231,854</u> | <u>16,781,666</u> |

As at 31 December 2019, advances from customers with ageing over 1 year amounted to RMB 467,780,000 (31 December 2018: RMB 410,800,000), mainly representing unsettled advances on sales.

(27) Employee benefits payable

|   | 31 December 2019 | 31 December 2018 |
|---|------------------|------------------|
| Short-term employee benefits payable(a) | 6,118,722        | 5,624,918        |
| Others                                  | 317,387          | 163,086          |
|   | <u>6,436,109</u> | <u>5,788,004</u> |

(a) Short-term employee benefits

|   | 31 December 2018 | Increase in current year | Decrease in current year | 31 December 2019 |
|---|------------------|--------------------------|--------------------------|------------------|
| Wages and salaries, bonus, allowances and subsidies | 5,057,019        | 22,470,846               | (21,813,181)             | 5,714,684        |
| Staff welfare                                       | 407,405          | 1,343,272                | (1,494,776)              | 255,901          |
| Social security contributions                       | 101,292          | 1,793,935                | (1,805,624)              | 89,603           |
| Including: Medical insurance                        | 98,652           | 1,718,795                | (1,730,274)              | 87,173           |
| Work injury insurance                               | 1,933            | 23,671                   | (24,301)                 | 1,303            |
| Maternity insurance                                 | 707              | 51,469                   | (51,049)                 | 1,127            |
| Housing funds                                       | 30,631           | 425,791                  | (427,977)                | 28,445           |
| Labour union funds and employee education funds     | 19,310           | 135,965                  | (134,914)                | 20,361           |
| Other short-term employee benefits                  | 9,261            | 214,772                  | (214,305)                | 9,728            |
|   | <u>5,624,918</u> | <u>26,384,581</u>        | <u>(25,890,777)</u>      | <u>6,118,722</u> |

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

(28) Taxes payable

|                               | 31 December 2019 | 31 December 2018 |
|-------------------------------|------------------|------------------|
| Enterprise income tax payable | 2,985,670        | 2,530,018        |
| Unpaid VAT                    | 900,204          | 853,187          |
| Others                        | 1,210,393        | 492,093          |
|                               | <u>5,096,267</u> | <u>3,875,298</u> |

(29) Other payables

|                | 31 December 2019 | 31 December 2018 |
|----------------|------------------|------------------|
| Other payables | <u>3,800,568</u> | <u>3,346,129</u> |

(a) Other payables are mainly restricted share repurchase obligation, deposit and security deposit payable, reimbursed logistics expense, manufacturing equipment expense, dividend payable, etc.

(b) As at 31 December 2019, other payables with ageing over 1 year with a carrying amount of RMB 765,092,000 (31 December 2018: RMB 821,240,000) were mainly those recognised for performing equity incentive plan and deposit and security deposit payable, which were unsettled for related projects that were uncompleted.

(30) Current portion of non-current liabilities

|   | 31 December 2019 | 31 December 2018 |
|---|------------------|------------------|
| Current portion of debentures payable                   | -                | 4,797,644        |
| Current portion of long-term borrowings<br>(Note 4(32)) | 1,230,966        | 2,166,041        |
| Current portion of long-term payables                   | 39,426           | 159,027          |
| Current portion of equity purchase<br>payables          | 189,725          | -                |
|   | <u>1,460,117</u> | <u>7,122,712</u> |

(31) Other current liabilities

|                      | 31 December 2019  | 31 December 2018  |
|----------------------|-------------------|-------------------|
| Accrued sale rebates | 26,175,014        | 19,583,366        |
| Others               | 12,899,763        | 11,736,343        |
|                      | <u>39,074,777</u> | <u>31,319,709</u> |



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

(32) Long-term borrowings

|   | 31 December 2019  | 31 December 2018  |
|---|-------------------|-------------------|
| Mortgage borrowings (a)                                   | 28,892,783        | 29,049,580        |
| Guaranteed borrowings (b)                                 | 6,569,414         | 2,126,618         |
| Unsecured   | 7,067,146         | 3,081,282         |
|   | <u>42,529,343</u> | <u>34,257,480</u> |
| Less: Current portion of mortgage borrowings (Note 4(30)) | (39,078)          | (39,236)          |
| Current portion of guaranteed borrowings (Note 4(30))     | -                 | (2,126,618)       |
| Current portion of unsecured (Note 4(30))                 | (1,191,888)       | (187)             |
|   | <u>41,298,377</u> | <u>32,091,439</u> |

- (a) As at 31 December 2019, a cost of mortgage borrowings of EUR 3,696,857,000, equivalent to RMB 28,892,783,000 (31 December 2018: a cost of EUR 3,701,857,000, equivalent to RMB 29,049,580,000) was pledged by 81.04% equity of KUKA Group, which was acquired by the subsidiary of the Company. Interest is paid on a semi-annual basis, and the borrowings are due on August 2022.
- (b) Guaranteed borrowings of EUR 271,000,000, equivalent to RMB 2,118,000,000 was guaranteed by the Company on 31 December 2019. Guaranteed borrowings of JPY 69,460,000,000, equivalent to RMB 4,451,414,000 was guaranteed by the Company on 31 December 2019. Interest is paid once a month, until May 2024.
- (c) As at 31 December 2019, the annual interest rate range of long-term borrowings was 0.5% to 5.5% (31 December 2018: 0.4% to 5.5%).

(33) Long-term employee benefits payable

|                                       | 31 December 2019 | 31 December 2018 |
|---------------------------------------|------------------|------------------|
| Supplementary retirement benefits (a) | 2,267,015        | 2,329,652        |
| Others                                | 151,548          | 150,666          |
|                                       | <u>2,418,563</u> | <u>2,480,318</u> |

(a) Supplementary retirement benefits

Supplementary retirement benefits obligation of the Group recognised in the balance sheet date is calculated using the projected unit credit method, and reviewed by external independent actuary institution.

(i) The Group's supplementary retirement benefits liabilities:

|   | 31 December 2019 | 31 December 2018 |
|---|------------------|------------------|
| Defined benefit obligation                | 3,896,591        | 4,034,998        |
| Less: Fair value of planned assets        | (1,629,576)      | (1,705,346)      |
| Liabilities of defined benefit obligation | <u>2,267,015</u> | <u>2,329,652</u> |

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

(33) Long-term employee benefits payable (Cont'd)

(a) Supplementary retirement benefits (Cont'd)

(ii) The actuarial assumptions used to determine the present value of defined benefit obligation

31 December 2019

|                           |              |
|---------------------------|--------------|
| Discount rate             | 0.06%-7.10%  |
| Inflation rate            | 0.93%        |
| Expected return on assets | 0.75%-7.10%  |
| Salary growth rate        | 0.00%-6.00%  |
| Benefit growth rate       | 0.00%-10.50% |

(34) Other non-current liabilities

Other non-current liabilities are mainly payable for equity acquisition.

(35) Share capital

|  | Movements in the current year  |  |                 |                    |                              |                | 31 December 2019 |
|--|--------------------------------|--|-----------------|--------------------|------------------------------|----------------|------------------|
|  | 31 December 2018               | Share-based payment incentive plan (a) | Desterilisation | Share issuance (b) | Repurchases and written-offs | Sub-total      |                  |
| RMB-denominated ordinary shares - RMB-denominated ordinary shares subject to trading restriction | 147,175                        | 30,980                                 | (8,298)         | 2,379              | (6,833)                      | 18,228         | 165,403          |
| RMB-denominated ordinary shares not subject to trading restriction                               | 6,515,856                      | 56,170                                 | 8,298           | 321,278            | (95,105)                     | 290,641        | 6,806,497        |
|  | <u>6,663,031</u>               | <u>87,150</u>                          | <u>-</u>        | <u>323,657</u>     | <u>(101,938)</u>             | <u>308,869</u> | <u>6,971,900</u> |
|  | Movements in the previous year |  |                 |                    |                              |                | 31 December 2018 |
|  | 31 December 2017               | Share-based payment incentive plan     | Desterilisation | Share issuance     | Repurchases and written-offs | Sub-total      |                  |
| RMB-denominated ordinary shares - RMB-denominated ordinary shares subject to trading restriction | 212,023                        | 25,955                                 | (89,102)        | -                  | (1,701)                      | (64,848)       | 147,175          |
| RMB-denominated ordinary shares not subject to trading restriction                               | 6,349,030                      | 77,724                                 | 89,102          | -                  | -                            | 166,826        | 6,515,856        |
|  | <u>6,561,053</u>               | <u>103,679</u>                         | <u>-</u>        | <u>-</u>           | <u>(1,701)</u>               | <u>101,978</u> | <u>6,663,031</u> |

(a) In 2019, the share-based payment incentive plan increased the share capital to 87,150,000 shares (2018: 103,679,000 shares). Some of the restricted shares have not met unlock condition at end of year, and the Company regarded them as treasury stock and recognised related liabilities for repurchase obligation.

(b) In 2019, the Company issued 323,657,000 A shares in exchange for the equity of Little Swan (Note 4 (41)).

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

(36) Treasury stock

|   | 31 December<br>2018 | Increase in<br>current year | Decrease in<br>current year | 31 December<br>2019 |
|---|---------------------|-----------------------------|-----------------------------|---------------------|
| Restricted shares locked                            | 918,171             | 3,157,236                   | (315,675)                   | 3,759,732           |
| Repurchased shares that<br>have not yet written off | 4,000,256           | -                           | (4,000,256)                 | -                   |
|   | <u>4,918,427</u>    | <u>3,157,236</u>            | <u>(4,315,931)</u>          | <u>3,759,732</u>    |
|   | 31 December<br>2018 | Increase in<br>current year | Decrease in<br>current year | 31 December<br>2019 |
| Restricted shares locked                            | 366,842             | 717,841                     | (166,512)                   | 918,171             |
| Repurchased shares that<br>have not yet written off | -                   | 4,000,256                   | -                           | 4,000,256           |
|   | <u>366,842</u>      | <u>4,718,097</u>            | <u>(166,512)</u>            | <u>4,918,427</u>    |

In 2019, the group's repurchased shares amounting to RMB 3,100,149,000 including RMB 1,701,167,000 granted restricted shares and employee stock ownership plan (Note 10(2)(a)). On 31 December 2019, treasury stock mainly comprised restricted shares amounting to RMB 2,360,750,000 that have not met unlock condition and unallocated repurchased shares of RMB 1,398,982,000 pursuant to the employee stock ownership plans, amounting to RMB 3,759,732,000 in total (31 December 2018: RMB 4,918,427,000).

(37) Capital surplus

|   | 31 December<br>2018 | Increase in<br>current year | Decrease in<br>current year | 31 December<br>2019 |
|---|---------------------|-----------------------------|-----------------------------|---------------------|
| Share premium (a)                         | 14,478,244          | 5,260,907                   | (4,055,652)                 | 15,683,499          |
| Share-based payment<br>incentive plan (b) | 1,299,655           | 733,330                     | (589,043)                   | 1,443,942           |
| Others (c)                                | 2,673,408           | 10,806                      | (171,342)                   | 2,512,872           |
|   | <u>18,451,307</u>   | <u>6,005,043</u>            | <u>(4,816,037)</u>          | <u>19,640,313</u>   |
|   | 31 December<br>2017 | Increase in<br>current year | Decrease in<br>current year | 31 December<br>2018 |
| Share premium                             | 11,908,475          | 2,596,878                   | (27,109)                    | 14,478,244          |
| Share-based payment<br>incentive plan     | 943,243             | 825,330                     | (468,918)                   | 1,299,655           |
| Others                                    | 3,059,786           | 21,902                      | (408,280)                   | 2,673,408           |
|   | <u>15,911,504</u>   | <u>3,444,110</u>            | <u>(904,307)</u>            | <u>18,451,307</u>   |

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

(37) Capital surplus (Cont'd)

- (a) The increase in share premium arose from the exercise of share options with the amount of RMB 2,372,248,000, restricted shares subscription with amount of RMB 54,668,000 and newly issued shares with the amount of RMB 2,833,991,000 for merge with Little Swan through share swap (Note 4(41)), and the decrease in share premium arose from the written-off for the repurchased restricted shares with the amount of RMB 150,501,000 and the repurchased public shares with the amount of RMB 3,905,151,000.
- (b) The increase of share-based payment incentive plan arose from expenses attributable to shareholders' equity of the parent company in the share-based payment incentive plan with the amount of RMB 733,330,000, while the decrease arose from the transfer of RMB 589,043,000 to share premium due to the share-based payment incentive plan.
- (c) Other decreases in capital surplus were mainly due to the Group's acquisition of equity held by the minority shareholders of SMC, a subsidiary, at a premium.

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

(38) Other comprehensive income

|   | Other comprehensive income in the balance sheet |                                |                  |  |                  | Other comprehensive income in the income statement for the year ended 31 December 2019 |   |                           |  |   |
|---|---|--------------------------------|------------------|--|------------------|--|---|---------------------------|--|---|
|   | 31 December 2018                                | Changes in accounting policies | 1 January 2019   | Attributable to the parent company after tax | 31 December 2019 | Amount arising before income tax   | Less: Reclassification of previous other comprehensive income to profit or loss | Less: Income tax expenses | Attributable to the parent company after tax | Attributable to minority shareholders after tax |
| Other comprehensive income items which will not be reclassified to profit or loss   |   |                                |                  |  |                  |  |   |                           |  |   |
| Changes arising from remeasurement of defined benefit plan  | 50,068  | -                              | 50,068           | (142,753)                                    | (92,685)         | (160,406)  | -   | 10,017                    | (142,753)                                    | (7,636)   |
| Other comprehensive income items which will be reclassified to profit or loss   |   |                                |                  |  |                  |  |   |                           |  |   |
| Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified to profit and loss | (59,146)  | -                              | (59,146)         | (6,590)                                      | (65,736)         | (6,580)  | -   | -                         | (6,590)                                      | 10  |
| Gains or losses arising from changes in fair value of available-for-sale financial assets   | (337,447)                                       | 337,447                        | —                | —  | —                | —  | —   | —                         | —  | —   |
| Effective portion of gains or losses on hedging instruments in a cash flow hedge  | (101,270)                                       | -                              | (101,270)        | 113,890                                      | 12,620           | 13,175   | 107,675   | (2,511)                   | 113,890                                      | 4,449   |
| Differences on translation of foreign currency financial statement  | (884,358)                                       | -                              | (884,358)        | 318,605                                      | (565,753)        | 386,670  | -   | -                         | 318,605                                      | 68,065  |
|   | <u>(1,332,153)</u>                              | <u>337,447</u>                 | <u>(994,706)</u> | <u>283,152</u>                               | <u>(711,554)</u> | <u>232,859</u>   | <u>107,675</u>  | <u>7,506</u>              | <u>283,152</u>                               | <u>64,888</u>                                   |

|   | Other comprehensive income in the balance sheet |  |                    | Other comprehensive income in the income statement for the year ended 31 December 2018 |   |                           |  |   |
|---|---|--|--------------------|--|---|---------------------------|--|---|
|   | 31 December 2017                                | Attributable to the parent company after tax | 31 December 2018   | Amount arising before income tax   | Less: Reclassification of previous other comprehensive income to profit or loss | Less: Income tax expenses | Attributable to the parent company after tax | Attributable to minority shareholders after tax |
| Other comprehensive income items which will not be reclassified to profit or loss   |   |  |                    |  |   |                           |  |   |
| Changes arising from remeasurement of defined benefit plan  | 51,091  | (1,023)                                      | 50,068             | (8,397)  | -   | 5,194                     | (1,023)                                      | (2,180)   |
| Other comprehensive income items which will be reclassified to profit or loss   |   |  |                    |  |   |                           |  |   |
| Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified to profit and loss | (111,070)                                       | 51,924                                       | (59,146)           | 51,701   | -   | -                         | 51,924                                       | (223)   |
| Gains or losses arising from changes in fair value of available-for-sale financial assets   | 151,781   | (489,228)                                    | (337,447)          | (343,741)  | (175,256)   | 9,287                     | (489,228)                                    | (20,482)  |
| Effective portion of gains or losses on hedging instruments in a cash flow hedge  | 323,147   | (424,417)                                    | (101,270)          | (107,675)  | (358,980)   | 31,750                    | (424,417)                                    | (10,488)  |
| Differences on translation of foreign currency financial statement  | (659,641)                                       | (224,717)                                    | (884,358)          | (319,708)  | -   | -                         | (224,717)                                    | (94,991)  |
|   | <u>(244,692)</u>                                | <u>(1,087,461)</u>                           | <u>(1,332,153)</u> | <u>(727,820)</u>   | <u>(534,236)</u>  | <u>46,231</u>             | <u>(1,087,461)</u>                           | <u>(128,364)</u>                                |

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

(39) Surplus reserve

|                           | 31 December<br>2018 | Increase in<br>current year | 31 December<br>2019 |
|---------------------------|---------------------|-----------------------------|---------------------|
| Statutory surplus reserve | 5,079,096           | 1,368,562                   | 6,447,658           |
|                           | 31 December<br>2017 | Increase in<br>current year | 31 December<br>2018 |
| Statutory surplus reserve | 3,882,232           | 1,196,864                   | 5,079,096           |

In accordance with the *Company Law* and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. According to the resolution at the Board of Directors' meeting, the Company appropriated 10% of net profit, amounting to RMB 1,368,562,000 in 2019 (2018: 10% of net profit, amounting to RMB 1,196,864,000) to the statutory surplus reserve.

(40) Undistributed profits

|   | 2019        | 2018        |
|---|-------------|-------------|
| Undistributed profits at beginning of year  | 58,762,315  | 47,627,235  |
| Changes in accounting policies  | (337,447)   | -           |
| Add: Net profit attributable to shareholders of the parent company for current year | 24,211,222  | 20,230,779  |
| Less: Ordinary share dividends payable (a)  | (8,553,897) | (7,898,785) |
| Appropriation to general reserve (b)  | -           | -           |
| Appropriation to statutory surplus reserve (Note 4(39))                             | (1,368,562) | (1,196,864) |
| Others  | -           | (50)        |
| Undistributed profit at end of year   | 72,713,631  | 58,762,315  |

(a) Ordinary share dividends distributed in current year

In accordance with the resolution at the shareholders' meeting, dated on 13 May 2019, the Company distributed a cash dividend to the shareholders at RMB 1.30 per share, amounting to RMB 8,561,590,000 calculated by 6,585,838,349 issued shares. As 40,014,998 public shares did not participate in dividend distribution of total amount of 6,605,842,687 shares at the time, 6,565,827,689 shares were actually entitled to distribution, and based on the principle that the total dividend remains unchanged, it was actually RMB 1.304 per share. Besides, 6,833,000 repurchased incentive shares in the restricted shares incentive plan were written off (Note 4(35)), and cash dividend amounting to RMB 7,693,000 was cancelled. The actual cash dividends distributed in current year amounted to RMB 8,553,897,000.

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

(40) Undistributed profits (Cont'd)

(b) General reserve

In 2019, according to the *Administrative Measures for the Provision of Reserves of Financial Enterprises* issued by the Ministry of Finance (MOF), no provision for general reserve was required (2018: Nil) at 1.5% of the balance of financial enterprise risk assets net of recognised loan impairment provision.

(41) Transactions with minority shareholders

In 2019, transactions with minority shareholders were mainly the Company issued A shares in exchange for the 47.33% equity held by minority shareholders of Little Swan on 21 June 2019. In this transaction, the Company issued 323,657,000 RMB-denominated ordinary shares with RMB 53.29 per share, amounting to a total consideration of RMB 17,247,707,000, and share premium amounting to RMB 2,833,991,000. As at 31 December 2019, the Company held 100% equity of Little Swan .

(42) Operating revenue and cost of sales

|                                     | 2019               | 2018               |
|-------------------------------------|--------------------|--------------------|
| Revenue from main operations        | 257,059,725        | 240,980,548        |
| Revenue from other operations       | 21,156,292         | 18,684,272         |
|                                     | <u>278,216,017</u> | <u>259,664,820</u> |
|                                     | 2019               | 2018               |
| Cost of sales from main operations  | 179,314,385        | 171,493,579        |
| Cost of sales from other operations | 18,599,543         | 16,670,978         |
|                                     | <u>197,913,928</u> | <u>188,164,557</u> |

(a) Revenue and cost of sales from main operations

|   | 2019                               |  | 2018                               |  |
|---|------------------------------------|--|------------------------------------|--|
|   | Revenue from<br>main<br>operations | Cost of sales<br>from main<br>operations | Revenue from<br>main<br>operations | Cost of sales<br>from main<br>operations |
| Heating & ventilation, as well as air-conditioner | 119,607,379                        | 81,626,941                               | 109,394,649                        | 75,886,326                               |
| Consumer appliances                               | 109,486,791                        | 75,014,044                               | 102,992,803                        | 72,959,466                               |
| Robotics and automation System                    | 25,191,964                         | 19,953,437                               | 25,677,924                         | 19,809,997                               |
| Others  | 2,773,591                          | 2,719,963                                | 2,915,172                          | 2,837,790                                |
|   | <u>257,059,725</u>                 | <u>179,314,385</u>                       | <u>240,980,548</u>                 | <u>171,493,579</u>                       |

For the year ended 31 December 2019, cost of sales from main operations was mainly material costs and labour costs, which accounted for over 80% of total cost of sales from main operations (31 December 2018: over 80%).

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

(42) Operating revenue and cost of sales (Cont'd)

(b) Revenue and cost of sales from other operations

|                                | 2019                          |                                     | 2018                          |                                     |
|--------------------------------|-------------------------------|-------------------------------------|-------------------------------|-------------------------------------|
|                                | Revenue from other operations | Cost of sales from other operations | Revenue from other operations | Cost of sales from other operations |
| Revenue from sales of material | 18,933,525                    | 17,997,520                          | 16,573,666                    | 16,130,032                          |
| Others                         | 2,222,767                     | 602,023                             | 2,110,606                     | 540,946                             |
|                                | <u>21,156,292</u>             | <u>18,599,543</u>                   | <u>18,684,272</u>             | <u>16,670,978</u>                   |

For the year ended 31 December 2019, cost of sales from other operations was mainly material costs, which accounts for over 80% of total cost of sales from other operations (31 December 2018: over 80%).

(43) Interest income and interest expenses

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

|   | 2019             | 2018             |
|---|------------------|------------------|
| Interest income from loans and advances   | 1,058,536        | 844,382          |
| Including: Interest income from loans and advances to corporations and individuals          | 730,885          | 403,407          |
| Interest income from note discounting   | 327,651          | 440,975          |
| Interest income from deposits with banks, other financial institutions and the Central Bank | 104,644          | 1,310,010        |
| Interest income   | 1,163,180        | 2,154,392        |
| Interest expenses   | (122,618)        | (189,490)        |
|   | <u>1,040,562</u> | <u>1,964,902</u> |

(44) Taxes and surcharges

|                                       | 2019             | 2018             |
|---------------------------------------|------------------|------------------|
| City maintenance and construction tax | 699,256          | 695,858          |
| Educational surcharge                 | 508,523          | 505,347          |
| Others                                | 512,837          | 416,361          |
|                                       | <u>1,720,616</u> | <u>1,617,566</u> |

(45) Selling and distribution expenses

|                                   | 2019              | 2018              |
|-----------------------------------|-------------------|-------------------|
| Selling and distribution expenses | <u>34,611,231</u> | <u>31,085,879</u> |

For the year ended 31 December 2019, selling and distribution expenses were mainly maintenance and installation expenses, advertisement and promotion fee, transportation and storage fee, employee benefits and rental expenses, which accounted for over 80% of total selling and distribution expenses (31 December 2018: over 80%).



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**4 Notes to the consolidated financial statements (Cont'd)****(46) General and administrative expenses**

|                                     | 2019             | 2018             |
|-------------------------------------|------------------|------------------|
| General and administrative expenses | <u>9,531,361</u> | <u>9,571,639</u> |

For the year ended 31 December 2019, general and administrative expenses were mainly employee benefits, expenses of depreciation and amortisation, technical maintenance expenses, administrative office expenses, rental expenses and property management expenses, which accounted for over 70% of total general and administrative expenses (31 December 2018: over 70%).

**(47) Research and development expenses**

|                                   | 2019             | 2018             |
|-----------------------------------|------------------|------------------|
| Research and development expenses | <u>9,638,137</u> | <u>8,377,201</u> |

For the year ended 31 December 2019, research and development expenses were mainly employee benefits, expenses of depreciation and amortisation, trial products and material inputs expenses, which accounted for over 80% of total research and development expenses (31 December 2018: over 80%).

**(48) Financial income**

The Group's financial income, other than those arising from financial business (Note 4(43)), are presented as follows:

|                          | 2019             | 2018             |
|--------------------------|------------------|------------------|
| Interest expenses        | (880,703)        | (703,991)        |
| Less: Interest income    | 3,807,136        | 2,155,862        |
| Exchange gains or losses | (531,088)        | 485,298          |
| Others                   | (163,709)        | (114,129)        |
|                          | <u>2,231,636</u> | <u>1,823,040</u> |

**(49) Asset impairment losses**

|  | 2019           | 2018           |
|--|----------------|----------------|
| Losses on bad debts  | —              | 189,942        |
| Losses on decline in the value of inventories<br>(Note 4(9)) | 311,195        | 260,031        |
| Impairment losses on fixed assets (Note 4(14))               | 8,466          | 11,539         |
| Reversal of impairment of loans and advances                 | —              | (13,648)       |
| Impairment losses on goodwill (Note 4(17))                   | 552,248        | -              |
|  | <u>871,909</u> | <u>447,864</u> |

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

(50) Credit impairment losses

|  | 2019          | 2018     |
|--|---------------|----------|
| Losses on bad debts of accounts receivable (Note 4(4)) | 69,912        | —        |
| Losses on bad debts of other receivables (Note 4(5))   | 10,795        | —        |
| Impairment losses on loans and advances (Note 4(8))    | 15,739        | —        |
|  | <u>96,446</u> | <u>—</u> |

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

|   | 2019             | 2018             |
|---|------------------|------------------|
| Derivative financial assets and liabilities | 707,527          | (810,450)        |
| Other financial assets                      | 653,636          | —                |
|   | <u>1,361,163</u> | <u>(810,450)</u> |

(52) Investment income

|  | 2019           | 2018           |
|--|----------------|----------------|
| Investment income from wealth management products                    | 91,359         | 504,556        |
| Losses on disposition of derivative financial assets and liabilities | (357,265)      | (31,958)       |
| Investment income from associates                                    | 506,225        | 349,321        |
| Derecognized gains on financial assets measured at amortized cost    | (709)          | —              |
| Others   | (75,478)       | 85,407         |
|  | <u>164,132</u> | <u>907,326</u> |

There is no significant restriction on recovery of investment income of the Group.

(53) Losses on disposal of assets

|  | 2019             | 2018            |
|--|------------------|-----------------|
| Gains on disposal of non-current assets  | 48,152           | 82,425          |
| Losses on disposal of non-current assets | (179,283)        | (117,359)       |
|  | <u>(131,131)</u> | <u>(34,934)</u> |

(54) Other income

|                 | 2019             | 2018             |                                  |
|-----------------|------------------|------------------|----------------------------------|
| Special subsidy | <u>1,194,665</u> | <u>1,316,904</u> | Asset related/<br>Income related |
|                 |                  |                  | Income related                   |

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

(55) Income tax expenses

|  | 2019             | 2018             |
|--|------------------|------------------|
| Current income tax calculated based on tax law and related regulations | 5,865,722        | 4,096,331        |
| Deferred income tax  | (1,213,752)      | 26,308           |
|  | <u>4,651,970</u> | <u>4,122,639</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:

|  | 2019              | 2018              |
|--|-------------------|-------------------|
| Total profit   | <u>29,929,114</u> | <u>25,773,058</u> |
| Income tax calculated at tax rate of 25%   | 7,482,279         | 6,443,265         |
| Effect of different tax rates applicable to subsidiaries   | (2,418,377)       | (1,792,394)       |
| Effect of income tax annual filing for prior periods   | (132,198)         | (91,527)          |
| Income not subject to tax  | (225,015)         | (189,499)         |
| Costs, expenses and losses not deductible for tax purposes   | 435,334           | 385,662           |
| Utilisation of previous temporary differences or deductible losses not realised as deferred tax assets | (52,064)          | (2,255)           |
| Others   | (437,989)         | (630,613)         |
| Income tax expenses  | <u>4,651,970</u>  | <u>4,122,639</u>  |

(56) Calculation of basic and diluted earnings per share

(a) Basic earnings per share

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

|   | Unit             | 2019              | 2018              |
|---|------------------|-------------------|-------------------|
| Consolidated net profit attributable to ordinary shareholders of the parent company | RMB'000          | 24,211,222        | 20,230,779        |
| Less: Dividends payable to restricted shares  | RMB'000          | (41,095)          | (23,538)          |
|   |                  | <u>24,170,127</u> | <u>20,207,241</u> |
| Weighted average number of outstanding ordinary shares                              | Thousands shares | <u>6,707,294</u>  | <u>6,561,297</u>  |
| Basic earnings per share  | RMB Yuan/share   | <u>3.60</u>       | <u>3.08</u>       |
| Including:  |                  |                   |                   |
| - Basic earnings per share from continuing operations:                              |                  | 3.60              | 3.08              |
| - Basic earnings per share for discontinued operations:                             |                  | -                 | -                 |

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

(56) Calculation of basic and diluted earnings per share (Cont'd)

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

|   | Unit             | 2019       | 2018       |
|---|------------------|------------|------------|
| Consolidated net profit attributable to ordinary shareholders of the Company  | RMB'000          | 24,211,222 | 20,230,779 |
| Weighted average number of outstanding ordinary shares                        | Thousands shares | 6,707,294  | 6,561,297  |
| Weighted average number of ordinary shares increased from share-based payment | Thousands shares | 64,256     | 69,395     |
| Weighted average number of diluted outstanding ordinary shares                | Thousands shares | 6,771,550  | 6,630,692  |
| Diluted earnings per share  | RMB Yuan/share   | 3.58       | 3.05       |

(57) Notes to the cash flow statement

- (a) Cash received relating to other operating activities

|                                    | 2019             | 2018             |
|------------------------------------|------------------|------------------|
| Other income                       | 1,218,555        | 1,327,455        |
| Other operating revenue            | 2,116,396        | 2,284,317        |
| Non-operating income               | 612,867          | 418,984          |
| Financial income - interest income | 339,475          | 323,352          |
| Others                             | 721,528          | 1,204,113        |
|                                    | <u>5,008,821</u> | <u>5,558,221</u> |

- (b) Cash paid relating to other operating activities

|  | 2019              | 2018              |
|--|-------------------|-------------------|
| Selling and distribution expenses (excluding employee benefits and taxes and surcharges)   | 30,246,514        | 22,942,704        |
| General and administrative expenses and research and development expenses (excluding employee benefits and taxes and surcharges) | 9,601,758         | 8,971,922         |
| Others   | 1,283,489         | 486,046           |
|  | <u>41,131,761</u> | <u>32,400,672</u> |

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

(57) Notes to the cash flow statement (Cont'd)

(c) Supplementary information to the cash flow statement

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

|  | 2019                | 2018                |
|--|---------------------|---------------------|
| Net profit   | 25,277,144          | 21,650,419          |
| Add: Losses on asset impairment                      | 871,909             | 447,864             |
| Credit impairment losses                             | 96,446              | —                   |
| Depreciation and amortisation                        | 5,168,262           | 4,817,456           |
| Losses on disposal of assets                         | 131,131             | 34,934              |
| (Gains)/Losses on changes in fair value              | (1,361,163)         | 810,450             |
| Financial income                                     | (2,847,411)         | (1,265,831)         |
| Investment income                                    | (164,132)           | (907,326)           |
| Share options expenses                               | 815,598             | 942,753             |
| Increase in deferred tax assets                      | (1,347,604)         | (360,724)           |
| Increase in deferred tax liabilities                 | 149,942             | 478,982             |
| Increase in inventories                              | (2,670,712)         | (77,387)            |
| Increase in operating receivables                    | (1,445,679)         | (17,867,374)        |
| Increase in operating payables                       | 15,916,673          | 19,156,864          |
| Net cash flows from operating activities             | <u>38,590,404</u>   | <u>27,861,080</u>   |
| Net increase/(decrease) in cash and cash equivalents |                     |                     |
| Cash and cash equivalents at end of year             | 30,441,760          | 17,952,282          |
| Less: Cash and cash equivalents at beginning of year | <u>(17,952,282)</u> | <u>(21,831,653)</u> |
| Net increase/(decrease) in cash and cash equivalents | <u>12,489,478</u>   | <u>(3,879,371)</u>  |

(d) Composition of cash and cash equivalents

|  | 31 December 2019  | 31 December 2018  |
|--|-------------------|-------------------|
| Cash on hand   | 3,128             | 3,803             |
| Cash at bank that can be readily drawn on demand   | 9,521,001         | 10,170,784        |
| Deposits with the Central Bank that can be readily drawn on demand                       | 355,471           | 204,073           |
| Deposits with banks and other financial institutions that can be readily drawn on demand | <u>20,562,160</u> | <u>7,573,622</u>  |
| Cash and cash equivalents at end of year   | <u>30,441,760</u> | <u>17,952,282</u> |

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

(58) Monetary items denominated in foreign currencies

|                          | 31 December 2019            |                |                   |
|--------------------------|-----------------------------|----------------|-------------------|
|                          | Foreign currency<br>balance | Exchange rate  | RMB balance       |
| Cash at bank and on hand |                             |                |                   |
| USD                      | 317,624                     | 6.9762         | 2,215,810         |
| JPY                      | 5,212,777                   | 0.0641         | 334,139           |
| HKD                      | 100,593                     | 0.8958         | 90,111            |
| EUR                      | 180,362                     | 7.8155         | 1,409,618         |
| BRL                      | 150,491                     | 1.7308         | 260,469           |
| VND                      | 377,386,667                 | 0.0003         | 113,216           |
| Other currencies         | Not applicable              | Not applicable | 1,309,279         |
| Sub-total                |                             |                | <u>5,732,642</u>  |
| Accounts receivable      |                             |                |                   |
| USD                      | 872,897                     | 6.9762         | 6,089,502         |
| JPY                      | 14,299,236                  | 0.0641         | 916,581           |
| HKD                      | 24,233                      | 0.8958         | 21,708            |
| EUR                      | 345,216                     | 7.8155         | 2,698,038         |
| BRL                      | 578,855                     | 1.7308         | 1,001,883         |
| VND                      | 1,233,736,667               | 0.0003         | 370,121           |
| Other currencies         | Not applicable              | Not applicable | 1,982,229         |
| Sub-total                |                             |                | <u>13,080,062</u> |
| Other receivables        |                             |                |                   |
| USD                      | 118,625                     | 6.9762         | 827,551           |
| JPY                      | 2,392,309                   | 0.0641         | 153,347           |
| HKD                      | 11,071                      | 0.8958         | 9,917             |
| EUR                      | 88,187                      | 7.8155         | 689,229           |
| BRL                      | 99,705                      | 1.7308         | 172,569           |
| Other currencies         | Not applicable              | Not applicable | 146,583           |
| Sub-total                |                             |                | <u>1,999,196</u>  |
| Total                    |                             |                | <u>20,811,900</u> |

**MIDEA GROUP CO., LTD.**

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

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

(58) Monetary items dominated in foreign currency (Cont'd)

|   | 31 December 2019            |                |                   |
|---|-----------------------------|----------------|-------------------|
|   | Foreign currency<br>balance | Exchange rate  | RMB balance       |
| Short-term borrowings                         |                             |                |                   |
| EUR   | 159,081                     | 7.8155         | 1,243,298         |
| BRL   | 54,530                      | 1.7308         | 94,380            |
| Other currencies                              | Not applicable              | Not applicable | 164,160           |
| Sub-total                                     |                             |                | <u>1,501,838</u>  |
| Accounts payable                              |                             |                |                   |
| USD   | 230,576                     | 6.9762         | 1,608,545         |
| JPY   | 7,697,192                   | 0.0641         | 493,390           |
| HKD   | 73,082                      | 0.8958         | 65,467            |
| EUR   | 183,248                     | 7.8155         | 1,432,176         |
| BRL   | 262,096                     | 1.7308         | 453,636           |
| Other currencies                              | Not applicable              | Not applicable | 1,191,342         |
| Sub-total                                     |                             |                | <u>5,244,556</u>  |
| Other payables                                |                             |                |                   |
| USD   | 31,148                      | 6.9762         | 217,296           |
| JPY   | 6,349,314                   | 0.0641         | 406,991           |
| HKD   | 73,628                      | 0.8958         | 65,956            |
| EUR   | 8,944                       | 7.8155         | 69,899            |
| Other currencies                              | Not applicable              | Not applicable | 105,353           |
| Sub-total                                     |                             |                | <u>865,495</u>    |
| Current portion of non-current<br>liabilities |                             |                |                   |
| USD   | 9,987                       | 6.9762         | 69,674            |
| EUR   | 176,223                     | 7.8155         | 1,377,267         |
| Other currencies                              | Not applicable              | Not applicable | 13,176            |
| Sub-total                                     |                             |                | <u>1,460,117</u>  |
| Long-term borrowings                          |                             |                |                   |
| USD   | 148,000                     | 6.9762         | 1,032,475         |
| EUR   | 4,070,228                   | 7.8155         | 31,810,870        |
| JPY   | 69,444,836                  | 0.0641         | 4,451,414         |
| Other currencies                              | Not applicable              | Not applicable | 3,618             |
| Sub-total                                     |                             |                | <u>37,298,377</u> |
| Total   |                             |                | <u>46,370,383</u> |

Monetary items denominated in foreign currencies above present all foreign currencies except RMB.

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

(58) Monetary items dominated in foreign currency (Cont'd)

|                          | 31 December 2018            |                |                   |
|--------------------------|-----------------------------|----------------|-------------------|
|                          | Foreign currency<br>balance | Exchange rate  | RMB balance       |
| Cash at bank and on hand |                             |                |                   |
| USD                      | 1,395,190                   | 6.8632         | 9,575,470         |
| JPY                      | 2,338,433                   | 0.0619         | 144,749           |
| HKD                      | 260,111                     | 0.8762         | 227,909           |
| EUR                      | 120,307                     | 7.8473         | 944,084           |
| BRL                      | 209,297                     | 1.7714         | 370,748           |
| VND                      | 123,516,667                 | 0.0003         | 37,055            |
| Other currencies         | Not applicable              | Not applicable | 1,010,028         |
| Sub-total                |                             |                | <u>12,310,043</u> |
| Accounts receivable      |                             |                |                   |
| USD                      | 932,695                     | 6.8632         | 6,401,272         |
| JPY                      | 24,107,916                  | 0.0619         | 1,492,280         |
| HKD                      | 16,236                      | 0.8762         | 14,226            |
| EUR                      | 336,710                     | 7.8473         | 2,642,265         |
| BRL                      | 524,032                     | 1.7714         | 928,271           |
| VND                      | 1,148,340,000               | 0.0003         | 344,502           |
| Other currencies         | Not applicable              | Not applicable | 1,477,430         |
| Sub-total                |                             |                | <u>13,300,246</u> |
| Other receivables        |                             |                |                   |
| USD                      | 124,888                     | 6.8632         | 857,132           |
| JPY                      | 2,067,932                   | 0.0619         | 128,005           |
| HKD                      | 18,648                      | 0.8762         | 16,339            |
| EUR                      | 74,408                      | 7.8473         | 583,899           |
| BRL                      | 15,827                      | 1.7714         | 28,036            |
| Other currencies         | Not applicable              | Not applicable | 156,264           |
| Sub-total                |                             |                | <u>1,769,675</u>  |
| Total                    |                             |                | <u>27,379,964</u> |



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

(58) Monetary items dominated in foreign currency (Cont'd)

|  | 31 December 2018            |                |                   |
|--|-----------------------------|----------------|-------------------|
|  | Foreign currency<br>balance | Exchange rate  | RMB balance       |
| Short-term borrowings                      |                             |                |                   |
| USD  | 22,169                      | 6.8632         | 152,148           |
| EUR  | 27,744                      | 7.8473         | 217,714           |
| BRL  | 92,000                      | 1.7714         | 162,969           |
| Other currencies                           | Not applicable              | Not applicable | 219,956           |
| Sub-total                                  |                             |                | <u>752,787</u>    |
| Accounts payable                           |                             |                |                   |
| USD  | 300,761                     | 6.8632         | 2,064,186         |
| JPY  | 24,045,751                  | 0.0619         | 1,488,432         |
| HKD  | 57,062                      | 0.8762         | 49,998            |
| EUR  | 213,116                     | 7.8473         | 1,672,382         |
| BRL  | 106,504                     | 1.7714         | 188,662           |
| Other currencies                           | Not applicable              | Not applicable | 664,097           |
| Sub-total                                  |                             |                | <u>6,127,757</u>  |
| Other payables                             |                             |                |                   |
| USD  | 21,765                      | 6.8632         | 149,379           |
| JPY  | 5,035,719                   | 0.0619         | 311,711           |
| HKD  | 153,811                     | 0.8762         | 134,769           |
| EUR  | 21,064                      | 7.8473         | 165,293           |
| Other currencies                           | Not applicable              | Not applicable | 70,231            |
| Sub-total                                  |                             |                | <u>831,383</u>    |
| Current portion of non-current liabilities |                             |                |                   |
| USD  | 699,039                     | 6.8632         | 4,797,644         |
| EUR  | 276,024                     | 7.8473         | 2,166,041         |
| Other currencies                           | Not applicable              | Not applicable | 159,027           |
| Sub-total                                  |                             |                | <u>7,122,712</u>  |
| Long-term borrowings                       |                             |                |                   |
| USD  | 162,918                     | 6.8632         | 1,118,139         |
| EUR  | 3,946,464                   | 7.8473         | 30,969,089        |
| BRL  | 846                         | 1.7714         | 1,499             |
| Other currencies                           | Not applicable              | Not applicable | 2,712             |
| Sub-total                                  |                             |                | <u>32,091,439</u> |
| Total                                      |                             |                | <u>46,926,078</u> |

Monetary items denominated in foreign currencies above present all foreign currencies except RMB.

## MIDEA GROUP CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 5 Changes of consolidation scope

##### (1) Changes of consolidation scope due to other reasons

##### (a) Increase of consolidation scope

The Company's wholly-owned subsidiaries, Midea Electric Trading (Singapore) Co. Pte. Ltd. and Midea Electrics Netherlands B.V., established Midea Electric by cash of EGP 250,000 in March 2019, holding 99% and 1% of equity respectively.

The Company's wholly-owned subsidiary Guangdong Welling Auto Parts Co., Ltd. established Anhui Welling Auto Parts Corporation Limited in May 2019 by cash of RMB 100,000,000, holding 100% of its equity.

The Company established Wuxi Little Swan Electric Co., Ltd. in May 2019, holding 100% of its equity.

The Company's wholly-owned subsidiary Guangdong Midea Electric Co., Ltd. and, its subsidiary, Swisslog AG established Guangdong Swisslog Technology Co., Ltd. in August 2019, holding 50% and 50% of its equity respectively.

The Company and Guangdong Meicloud Technology Co., Ltd. (wholly-owned subsidiary) . South China Intelligent Robotics Innovation Research Institute (a third-party company) Guangdong Newpearl Ceramics Group, and Guangdong Robotics Institute Venture Capital Co., Ltd. established Guangdong Yueyun Industrial Internet Innovation Technology Co., Ltd. in September 2019, holding 62%, 22%, 3%, 10% and 3% of its equity, respectively.

The Company's wholly-owned subsidiaries, Midea Electric Trading (Singapore) Co., Pte. Ltd., Midea International Corporation Company Limited and Midea Home Appliances Investments (Hong Kong) Co., Limited, established Midea Refrigeration Equipment (Thailand) Co., Ltd. in November 2019, holding 100% of its equity.

The Company's wholly-owned subsidiary Foshan Shunde Midea Household Appliances Industry Co., Ltd. established Tianjin Midea Commercial Factoring Co., Ltd. in December 2019, holding 100% of its equity.

##### (b) Decrease of consolidation scope

In 2019, decrease of consolidation scope mainly includes deregistration of subsidiaries, details are as follows:

| Name of company   | Disposal method of the equity | Disposal time-point of the equity |
|---|-------------------------------|-----------------------------------|
| Main Power Electrical Appliances (Guiyang) Limited            | Deregistration                | January 2019                      |
| Wuhu Midea Household Appliance Consultation Service Co., Ltd. | Deregistration                | February 2019                     |
| Shenzhen Qianhai Midea Asset Management Co., Ltd.             | Deregistration                | March 2019                        |
| Midea Financial Holding (Shenzhen) Co., Ltd.                  | Deregistration                | April 2019                        |

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**6 Interests in other entities**

(1) Interests in subsidiaries

(a) Composition of significant subsidiaries

| Subsidiaries  | Major business location | Place of registration | Nature of business                        | Shareholding (%) |          | Acquisition method   |
|---|-------------------------|-----------------------|---|------------------|----------|--|
|   |                         |                       |   | Direct           | Indirect |  |
| GD Midea Air-Conditioning Equipment Co., Ltd.                             | Foshan, PRC             | Foshan, PRC           | Manufacture and sales of air conditioner  | 73%              | 7%       | Business combination involving enterprise not under common control |
| GD Midea Group Wuhu Air-Conditioning Equipment Co., Ltd.                  | Wuhu, PRC               | Wuhu, PRC             | Manufacture and sales of air conditioner  | 73%              | 7%       | Business combination involving enterprise not under common control |
| Midea Group Wuhan Refrigeration Equipment Co., Ltd.                       | Wuhan, PRC              | Wuhan, PRC            | Manufacture of air conditioner            | 73%              | 7%       | Establishment  |
| Wuhu Maty Air-Conditioning Equipment Co., Ltd.                            | Wuhu, PRC               | Wuhu, PRC             | Manufacture of air conditioner            | 87%              | 13%      | Establishment  |
| GD Midea Heating & Ventilating Equipment Co., Ltd.                        | Foshan, PRC             | Foshan, PRC           | Manufacture of air conditioner            | 90%              | 10%      | Establishment  |
| Zhejiang Meizhi Compressor Co., Ltd.                                      | Ningbo, PRC             | Ningbo, PRC           | Manufacture of air conditioner            | 100%             | -        | Establishment  |
| Hefei Midea Refrigerator Co., Ltd.  | Hefei, PRC              | Hefei, PRC            | Manufacture of refrigerator               | 75%              | 25%      | Business combination involving enterprise not under common control |
| Hefei Hualing Co., Ltd.   | Hefei, PRC              | Hefei, PRC            | Manufacture of refrigerator               | 75%              | 25%      | Business combination involving enterprise not under common control |
| Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.                | Foshan, PRC             | Foshan, PRC           | Manufacture of small household appliances | -                | 100%     | Establishment  |
| Foshan Shunde Midea Electrical Heating Appliances Manufacturing Co., Ltd. | Foshan, PRC             | Foshan, PRC           | Manufacture of small household appliances | -                | 100%     | Establishment  |
| Wuhu Midea Kitchen & Bath Appliances Mfg. Co., Ltd.                       | Wuhu, PRC               | Wuhu, PRC             | Manufacture of small household appliances | 90%              | 10%      | Business combination involving enterprises under common control    |
| Little Swan   | Wuxi, PRC               | Wuxi, PRC             | Manufacture of washing machine            | 85%              | 15%      | Business combination involving enterprise not under common control |

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**6 Interests in other entities (Cont'd)**

(1) Interests in subsidiaries (Cont'd)

(a) Composition of significant subsidiaries (Cont'd)

| Subsidiaries                                      | Major business location | Place of registration  | Nature of business                        | Shareholding (%) |          | Acquisition method   |
|---|-------------------------|------------------------|---|------------------|----------|--|
|   |                         |                        |   | Direct           | Indirect |  |
| Midea Electric Trading (Singapore) Co., Pte. Ltd. | Singapore               | Singapore              | Export trade                              | -                | 100%     | Establishment  |
| Midea Group Finance Co., Ltd.                     | Foshan, PRC             | Foshan, PRC            | Financial industry                        | 95%              | 5%       | Establishment  |
| Midea Microfinance Co., Ltd.                      | Wuhu, PRC               | Wuhu, PRC              | Petty loan                                | 5%               | 95%      | Business combination involving enterprise not under common control |
| Mecca International (BVI) Limited                 | British Virgin Islands  | British Virgin Islands | Investment holding                        | -                | 100%     | Establishment  |
| Midea International Corporation Company Limited   | Hong Kong               | Hong Kong              | Investment holding                        | 100%             | -        | Establishment  |
| Wuhu Midea Life Appliances Mfg Co., Ltd.          | Wuhu, PRC               | Wuhu, PRC              | Manufacture of small household appliances | 100%             | -        | Establishment  |
| Midea Electric Netherlands (I) B.V.               | Netherlands             | Netherlands            | Investment holding                        | -                | 100%     | Establishment  |
| Toshiba Consumer Marketing Corporation            | Japan                   | Japan                  | Manufacture of home appliances            | -                | 100%     | Business combination involving enterprise not under common control |
| TLSC  | Japan                   | Japan                  | Manufacture of home appliances            | -                | 100%     | Business combination involving enterprise not under common control |
| KUKA  | Germany                 | Germany                | Manufacture and sales of robots           | -                | 94.55%   | Business combination involving enterprise not under common control |
| Midea Commerical Factoring Co., Ltd.              | Shenzhen, PRC           | Shenzhen, PRC          | Factoring                                 | -                | 100%     | Establishment  |

## MIDEA GROUP CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts in RMB'000 Yuan unless otherwise stated)  
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#### 6 Interests in other entities (Cont'd)

##### (2) Interest in associates

The Group's associates have no significant influence on the Group and are summarised as follows:

|  | 2019      | 2018      |
|--|-----------|-----------|
| Aggregated carrying amount of investments      | 2,790,806 | 2,713,316 |
| Aggregate of the following items in proportion |           |           |
| Net profit (i)                                 | 506,225   | 349,321   |
| Other comprehensive income (i)                 | (9,378)   | 51,924    |
| Total comprehensive income                     | 496,847   | 401,245   |

(i)The net profit and other comprehensive income have taken into account the impacts of both the fair value of the identifiable assets and liabilities upon the acquisition of investment in joint ventures and associates and the unification of accounting policies adopted by the joint ventures and the associates to those adopted by the Company.

#### 7 Segment information

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

The Group identified 4 reportable segments as follows:

- Heating & ventilation, as well as air-conditioner
- Consumer appliances
- Robotics and automation system
- Others

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

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

Operating expenses include cost of sales, interest costs, fee and commission expenses, taxes and surcharges, selling and distribution expenses, general and administrative expenses, research and development expenses and financial income.

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**8 Segment reporting**

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

Segment information as at and for the year ended 31 December 2019 is as follows:

|  | Heating &<br>ventilation, as<br>well as air-<br>conditioner | Consumer<br>appliances | Robotics and<br>automation system | Other segments<br>and unallocated | Elimination  | Total             |
|--|---|------------------------|-----------------------------------|-----------------------------------|--------------|-------------------|
| Revenue from external customers  | 135,470,711   | 114,367,462            | 25,356,999                        | 4,185,334                         | -            | 279,380,506       |
| Inter-segment revenue  | 2,227,043   | 756,506                | 163,663                           | 7,408,736                         | (10,555,948) | -                 |
| Operating expenses   | (124,219,498)   | (101,665,999)          | (25,955,822)                      | (9,771,544)                       | 10,294,975   | (251,317,888)     |
| Segment profit   | 13,478,256  | 13,457,969             | (435,160)                         | 1,822,526                         | (260,973)    | 28,062,618        |
| Other profit or loss   |   |                        |                                   |                                   |              | 1,866,496         |
| Total profit   |   |                        |                                   |                                   |              | <u>29,929,114</u> |
| Total assets   | 121,176,656   | 103,888,887            | 37,236,774                        | 121,317,404                       | (81,664,302) | 301,955,419       |
| Total liabilities  | 81,518,812  | 74,715,832             | 27,386,386                        | 99,888,660                        | (89,050,368) | 194,459,322       |
| Long-term equity investments in<br>associates  | 210,811   | 91,779                 | 83,964                            | 2,404,252                         | -            | 2,790,806         |
| Investment income from associates  | 160,908   | 4,035                  | (25,831)                          | 367,113                           | -            | 506,225           |
| Increase in non-current assets (excluding<br>long-term equity investments, financial<br>assets, goodwill and deferred tax<br>assets) | 2,221,732   | 1,205,818              | 847,053                           | 242,998                           | -            | 4,517,601         |
| Asset impairment losses  | 64,814  | 245,923                | 560,382                           | 790                               | -            | 871,909           |
| Losses on/(Reversal of) credit<br>impairment   | 102,545   | 54,637                 | (75,990)                          | 100,895                           | (85,641)     | 96,446            |
| Depreciation and amortisation  | 1,780,289   | 1,565,812              | 1,157,866                         | 664,295                           | -            | 5,168,262         |

**MIDEA GROUP CO., LTD.**

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(All amounts in RMB'000 Yuan unless otherwise stated)  
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**8 Segment reporting (Cont'd)**

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

Segment information as at and for the year ended 31 December 2018 is as follows:

|  | Heating &<br>ventilation, as<br>well as air-<br>conditioner | Consumer<br>appliances | Robotics and<br>automation system | Other segments<br>and unallocated | Elimination  | Total             |
|--|---|------------------------|-----------------------------------|-----------------------------------|--------------|-------------------|
| Revenue from external customers  | 123,750,494   | 106,076,743            | 25,767,137                        | 6,225,261                         | -            | 261,819,635       |
| Inter-segment revenue  | 1,517,400   | 637,021                | 70,421                            | 6,496,010                         | (8,720,852)  | -                 |
| Operating expenses   | (113,818,159)   | (95,177,469)           | (26,076,871)                      | (10,847,195)                      | 8,733,188    | (237,186,506)     |
| Segment profit   | 11,449,735  | 11,536,295             | (239,313)                         | 1,874,076                         | 12,336       | 24,633,129        |
| Other profit or loss   |   |                        |                                   |                                   |              | 1,139,929         |
| Total profit   |   |                        |                                   |                                   |              | <u>25,773,058</u> |
| Total assets   | 107,186,255   | 104,567,409            | 32,248,141                        | 94,734,450                        | (75,035,107) | 263,701,148       |
| Total liabilities  | 71,901,268  | 71,644,039             | 26,081,586                        | 86,771,167                        | (85,151,429) | 171,246,631       |
| Long-term equity investments in<br>associates  | 130,668   | 82,038                 | 111,212                           | 2,389,398                         | -            | 2,713,316         |
| Investment income from associates  | 72,022  | (13,897)               | (18,003)                          | 309,199                           | -            | 349,321           |
| Increase in non-current assets (excluding<br>long-term equity investments, financial<br>assets, goodwill and deferred tax<br>assets) | 2,172,033   | 1,734,086              | 2,226,302                         | 899,271                           | -            | 7,031,692         |
| Losses on asset impairment   | 126,987   | 166,013                | 203,390                           | 122,744                           | (171,270)    | 447,864           |
| Depreciation and amortisation  | 1,554,330   | 1,719,693              | 1,019,462                         | 523,971                           | -            | 4,817,456         |

## MIDEA GROUP CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts in RMB'000 Yuan unless otherwise stated)  
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#### 8 Segment reporting (Cont'd)

##### (b) Geographical area information

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

|                                       |                    |                    |
|---------------------------------------|--------------------|--------------------|
| Revenue from external customers       | 2019               | 2018               |
| Domestic                              | 162,596,802        | 151,412,126        |
| In other countries/geographical areas | 116,783,704        | 110,407,509        |
|                                       | <u>279,380,506</u> | <u>261,819,635</u> |
| Total non-current assets              | 31 December 2019   | 31 December 2018   |
| Domestic                              | 22,206,308         | 22,966,699         |
| In other countries/geographical areas | 18,395,469         | 19,903,114         |
|                                       | <u>40,601,777</u>  | <u>42,869,813</u>  |

In 2019 and 2018, revenue from each individual customer is lower than 10% of the Group's total revenue.

#### 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 2019 and<br>31 December 2018 |
| Midea Holding Co., Ltd. | <u>330,000</u>                           |



## MIDEA GROUP CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

(1) Information of the parent company (Cont'd)

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

|                         | 31 December 2019 |          |               | 31 December 2018 |          |               |
|-------------------------|------------------|----------|---------------|------------------|----------|---------------|
|                         | Shareholding (%) |          | Voting rights | Shareholding (%) |          | Voting rights |
|                         | Direct           | Indirect | (%)           | Direct           | Indirect | (%)           |
| Midea Holding Co., Ltd. | 31.73%           | -        | 31.73%        | 33.20%           | -        | 33.20%        |

(2) Information of the Company's subsidiaries

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

(3) Information of other related parties

| Name of other related parties                     | Relationship   |
|---|--|
| Guangdong Wellkey Electrician Material Co., Ltd.  | Under the common control of the direct relatives of the Company's ultimate controlling shareholder |
| Anhui Wellkey Electrician Material Co., Ltd.      | Under the common control of the direct relatives of the Company's ultimate controlling shareholder |
| Guangdong Infore Material-Tech Co., Ltd.          | Under the common control of the direct relatives of the Company's ultimate controlling shareholder |
| Orinko New Material Co., Ltd.                     | Under the common control of the direct relatives of the Company's ultimate controlling shareholder |
| Guangdong Ruizhu Intelligent Technology Co., Ltd. | Under the common control of the Company's ultimate controlling shareholder                         |
| Foshan Micro Midea Filter Mfg. Co., Ltd.          | Associates of the Company  |
| Guangdong Shunde Rural Commercial Bank Co., Ltd.  | Associates of the Company  |

(4) Information of related party transactions

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

**MIDEA GROUP CO., LTD.**

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(All amounts in RMB'000 Yuan unless otherwise stated)  
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**9 Related parties and significant related party transactions (Cont'd)**

(4) Information of related party transactions (Cont'd)

(a) Purchase of goods:

| Related parties                                  | Content of related party transactions | Pricing policies of related party transactions | 2019             | 2018             |
|--|---------------------------------------|--|------------------|------------------|
| Guangdong Wellkey Electrician Material Co., Ltd. | Purchase of goods                     | Agreed price                                   | 851,608          | 813,655          |
| Foshan Micro Midea Filter Mfg. Co., Ltd          | Purchase of goods                     | Agreed price                                   | 298,143          | 227,593          |
| Anhui Wellkey Electrician Material Co., Ltd.     | Purchase of goods                     | Agreed price                                   | 312,038          | 316,102          |
| Orinko New Material Co., Ltd.                    | Purchase of goods                     | Agreed price                                   | 1,159,702        | 332,991          |
|  |                                       |  | <u>2,621,491</u> | <u>1,690,341</u> |

(b) Selling of goods

| Related parties                                  | Content of related party transactions | Pricing policies of related party transactions | 2019    | 2018   |
|--|---------------------------------------|--|---------|--------|
| Guangdong Ruizhu Intelligent Technology Co.,Ltd. | Selling of goods                      | Agreed price                                   | 105,382 | 10,812 |

(c) Remuneration of key management

|                                | 2019          | 2018          |
|--------------------------------|---------------|---------------|
| Remuneration of key management | <u>57,800</u> | <u>41,590</u> |

(5) Receivables from and payables to related parties

Receivables from related parties:

| Items                    | Related parties                                  | 31 December 2019 | 31 December 2018 |
|--------------------------|--|------------------|------------------|
| Cash at bank and on hand | Guangdong Shunde Rural Commercial Bank Co., Ltd. | <u>3,058,300</u> | <u>88,084</u>    |

## MIDEA GROUP CO., LTD.

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

##### (5) Receivables from and payables to related parties (Cont'd)

Payables to related parties:

| Items            | Related parties                                     | 31 December<br>2019 | 31 December<br>2018 |
|------------------|---|---------------------|---------------------|
| Accounts payable | Guangdong Wellkey Electrician<br>Material Co., Ltd. | 201,956             | 169,592             |
|                  | Foshan Micro Midea Filter Mfg. Co.,<br>Ltd          | 68,258              | 60,885              |
|                  | Anhui Wellkey Electrician Material<br>Co., Ltd.     | 60,373              | 59,011              |
|                  | Orinko New Material Co., Ltd.                       | 80,121              | 25,321              |
|                  |   | <u>410,708</u>      | <u>314,809</u>      |

#### 10 Share-based payment

##### (1) Share option incentive plan

- (a) Pursuant to the fifth reserved share option incentive plan (the "Fifth Reserved Share Option Incentive Plan") approved at the eighth meeting of the third Board of Directors held during the year 2019, the Company granted 5,340,000 share options with exercise price of RMB 47.17 to 97 employees. Under the circumstance that the Company meets expected performance, 1/4 of the total share options granted will become effective after 2 years, 3 years, 4 years and 5 years respectively since 11 March 2019.

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

|   |           |
|---|-----------|
| Exercise price of options:                                  | RMB 47.17 |
| Effective period of options:                                | 6 years   |
| Current price of underlying shares:                         | RMB 46.58 |
| Estimated fluctuation rate of share price:                  | 37.02%    |
| Estimated dividend rate:                                    | 2.95%     |
| Risk-free interest rate within effective period of options: | 2.42%     |

The fair value of the Fifth Share Option Incentive Plan calculated pursuant to the above parameters is: RMB 46,628,000.

Pursuant to the sixth share option incentive plan (the "Sixth Share Option Incentive Plan") approved at the shareholders' meeting for 2018 held during the year 2019, the Company granted 46,540,000 share options with exercise price of RMB 52.87 to 1,131 employees. Under the circumstance that the Company meets expected performance, 1/4 of the total share options granted will become effective after 2 years, 3 years, 4 years and 5 years respectively since 30 May 2019.

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

|   |           |
|---|-----------|
| Exercise price of options:                                  | RMB 52.87 |
| Effective period of options:                                | 6 years   |
| Current price of underlying shares:                         | RMB 49.45 |
| Estimated fluctuation rate of share price:                  | 37.04%    |
| Estimated dividend rate:                                    | 2.62%     |
| Risk-free interest rate within effective period of options: | 2.68%     |

The fair value of the Sixth Share Option Incentive Plan calculated pursuant to the above parameters is: RMB 417,556,000.

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**10 Share-based payment (Cont'd)****(1) Share option incentive plan (Cont'd)****(b) Movements in share options during the year**

|   | 2019<br>(Share in thousands) |
|---|------------------------------|
| Share options issued at beginning of year | 229,836                      |
| Share options granted during the year     | 51,880                       |
| Share options exercised during the year   | (84,730)                     |
| Share options lapsed during the year      | (14,081)                     |
| Share options issued at end of year       | <u>182,905</u>               |

As at 31 December 2019, the residual contractual maturity date of the Second Share Option Incentive Plan is on 27 May 2020. The residual contractual maturity date of the Third Share Option Incentive Plan is on 27 June 2021. The residual contractual maturity date of the Fourth Share Option Incentive Plan is on 11 May 2021. The residual contractual maturity date of the Fifth Share Option Incentive Plan is on 6 May 2024. The residual contractual maturity date of the Fifth Reserved Share Option Incentive Plan is on 10 March 2025. The residual contractual maturity date of the Sixth Share Option Incentive Plan is 29 May 2025.

**(2) Restricted share plan**

(a) Pursuant to the reserved restricted share incentive plan for 2018 approved at the eighth meeting of the third Board of Directors held during the year 2019 (the "Reserved Restricted Share Incentive Plan for 2018"), the Company granted 2,420,000 restricted shares with exercise price of RMB 23.59 to 32 employees. Under the circumstance that the Company meets expected performance, 1/4 of the total restricted shares granted will be unlocked after 2 years, 3 years, 4 years and 5 years, respectively, since 11 March 2019.

Pursuant to the restricted share incentive plan for 2019 (the "Restricted Share Incentive Plan for 2019") approved at the shareholders' meeting for 2018 held during the year 2019, the Company granted 28,560,000 restricted shares with exercise price of RMB 25.79 to 423 employees. Under the circumstance that the Company meets expected performance, 1/4 of the total restricted shares granted will be unlocked after 2 years, 3 years, 4 years and 5 years, respectively, since 30 May 2019.

**(b) Movements in restricted shares during the year**

|   | 2019<br>(Share in thousands) |
|---|------------------------------|
| Restricted shares issued at beginning of year | 40,185                       |
| Restricted shares granted during the year     | 30,980                       |
| Restricted shares unlocked during the year    | (7,193)                      |
| Restricted shares lapsed during the year      | (6,833)                      |
| Restricted shares issued at end of year       | <u>57,139</u>                |

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#### 10 Share-based payment (Cont'd)

##### (3) Employee stock ownership plan

Pursuant to the fifth stock ownership plan of the Midea Global Partner Plan (the "Fifth Global Partner Plan") approved at the shareholders' meeting for the year ended 31 December 2019 held during the year 2019, The Company would purchase a total of 3,732,075 shares of Midea Group from the secondary market, with an average purchase price of RMB 49.79 per share and the purchase fund was the special fund of RMB 185,820,000 accrued by the Company. The Company then entrusted China International Capital Corporation Limited ("CICC") to provide an asset management plan. The lock-up period of shares under this plan is from 11 July 2019 to 10 July 2020.

Pursuant to the second stock ownership plan of the Midea Business Partner Plan (the "Second Business Partner Plan") approved at the shareholders' meeting for the year ended 31 December 2018 held during the year 2019. The Company would purchase a total of 1,868,000 shares of Midea Group from the secondary market, with an average purchase price of RMB 49.79 per share. The purchase fund was the special fund and part of performance bonus for management of RMB 93,000,000 in total accrued by the Company. The Company then entrusted CICC to provide an asset management plan. The lock-up period of shares under this plan is from 16 July 2019 to 15 July 2020.

- (4) The total expenses due to the above share-based payment incentive plan, which were granted, recognised for the year ended 31 December 2019 were RMB 815,598,000. As at 31 December 2019, the balance relating to the share-based payment incentive and accrued from capital surplus was RMB 1,443,942,000.

#### 11 Contingencies

As at 31 December 2019, the amount in tax disputes involving Brazilian subsidiary with 51% interests held by the Company is about BRL 698 million (equivalent to RMB 1,207 million) (Some cases have lasted for more than 10 years. The above amount includes the principal and interest). As at 31 December 2019, relevant cases are still at court. Original shareholders of Brazilian subsidiary have agreed to compensate the Company according to verdict results of the above tax disputes. The maximum compensation amount is about BRL 157 million (equivalent to RMB 272 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 tax violation.

#### 12 Commitments

##### (1) Capital commitments

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

|                                    | 31 December 2019 | 31 December 2018 |
|------------------------------------|------------------|------------------|
| Buildings, machinery and equipment | 1,433,420        | 639,689          |

##### (2) Operating lease commitments

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

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#### 13 Events after the balance sheet date

##### (1) Significant non-adjusting events

##### (a) Outbreak of Coronavirus Epidemic 2019 (“COVID-2019”)

Under the outbreak of COVID-2019 in early 2020, domestic consumption and production have been affected in the short run. Started from the end of February, the development of the COVID-2019 outbreak is having increasing impacts overseas. The Group is consistently working on the prevention and control work of the COVID-2019 spreading. As at the date on which the financial statements were authorised for issue, the Group's revenues and profits had a certain degree of decline under the influences of the epidemic. The duration of the COVID-2019 development will probably challenge the Group's financial position and operating results in the year 2020.

##### (b) Repurchased shares

Pursuant to the *Proposal on the Scheme for the Repurchase of Certain Social Public Shares* approved at the eighteenth meeting of the third Board of Directors dated 21 February 2020, the Company is allowed to use its own funds to repurchase some of the Company's shares through centralised price bidding, with number of shares to be repurchased ranging from 40 million to 80 million and purchase price not exceeding RMB 65 per share. The expected total amount for repurchases is no more than RMB 5,200 million. The scheme is to be implemented within 12 months from the date of approval by the Board of Directors. As at the date on which the financial statements were authorised for issue, the Group has repurchased 14.27million shares, and purchase price was RMB 700 million.

##### (c) Debt Financing

Pursuant to the Proposal on the Application for Registration and Issuance of Debt Financing Instruments approved at the first interim shareholders' meeting in 2020 dated 13 March 2020, the total amount of the debt financing instruments to be registered is no more than RMB 20 billion (inclusive), of which the ultra-short-term financing bonds not more than RMB10 billion (inclusive) and the medium-term notes not more than 10 billion (inclusive). As at the date on which the financial statements were authorised for issue, the event was approved at the shareholders' meeting and published named SCP Short Commercial Paper for 2 billion.

##### (2) Overview of profit distribution

On 28 April 2020, the company has total existing 6,999,467,315 shares. As 42,286,257 public shares did not participate in dividend distribution of total amount of 6,999,467,315 shares at the time, 6,957,181,058 shares were actually entitled to distribution. The Board of Directors proposed a distribution of cash dividends of approximately RMB 11,131,490,000 at RMB 16 every 10 shares (including tax). Such proposal is pending for approval at the shareholders' meeting. The cash dividends distributed after the balance sheet date were not recognised as liabilities at the balance sheet date.

#### 14 Financial risk

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

- Market risk (mainly including foreign exchange risk, interest rate risk and price risk)
- Credit risk
- Liquidity risk

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

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

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

(1) Market risk

(a) Foreign exchange risk

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

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

(b) Interest rate risk

The Group's interest rate risk arises from interest bearing borrowings including long-term borrowings and debentures payable. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2019, the Group's long-term interest bearing borrowings at floating rates amounting to RMB 971,090,000 (31 December 2018: Nil) (Note 4(32)).

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

As at 31 December 2019, if the borrowing rate rises or falls 50 base points while other factors remain constant, the group's profit before tax would increase or decrease amounting to RMB 206,492,000 (31 December 2018: RMB 160,457,000).

(c) Other price risk

The Group's other price risk arises mainly from financial assets held for trading (Note 4(2)) and other non-current financial assets (Note 4(13)) measured at fair value. As at 31 December 2019, if expected price of the investments held by the Group fluctuated, the Group's gains or losses on changes in fair value would be affected accordingly.

As at 31 December 2019, if the Group's expected price of equity instruments investment rises or falls by 10% while other factors remain constant, the Group would have an increase or decrease profit before tax amounting to RMB 283,746,000 (31 December 2018: RMB 190,688,000), other comprehensive income amounting to RMB 0 (31 December 2018:Nil).

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

(2) Credit risk

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

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

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

As at 31 December 2019, the Group has no significant collateral or other credit enhancements held as a result of the debtor's mortgage.

(3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements. As at 31 December 2019, monetary assets held by the Group, including cash at bank and on hand, notes receivable, notes receivable included in loans and advances, discounted assets, notes receivable included in receivables financing and wealth management funds and structural deposits included in other current assets and other non-current assets amounted to RMB144,026,331,000.



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

(3) Liquidity risk (Cont'd)

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

|  | 31 December 2019  |                  |                   |              | Total              |
|--|-------------------|------------------|-------------------|--------------|--------------------|
|  | Within 1 year     | 1 to 2 years     | 2 to 5 years      | Over 5 years |                    |
| Short-term borrowings (including interest)                                 | 5,840,214         | -                | -                 | -            | 5,840,214          |
| Customer deposits and deposits from banks and other financial institutions | 62,521            | -                | -                 | -            | 62,521             |
| Notes payable  | 23,891,600        | -                | -                 | -            | 23,891,600         |
| Accounts payable   | 42,535,777        | -                | -                 | -            | 42,535,777         |
| Other payables   | 3,800,568         | -                | -                 | -            | 3,800,568          |
| Derivative financial liabilities   | 27,100            | -                | -                 | -            | 27,100             |
| Other current liabilities  | 12,899,763        | -                | -                 | -            | 12,899,763         |
| Current portion of non-current liabilities (including interest)            | 1,471,468         | -                | -                 | -            | 1,471,468          |
| Long-term borrowings (including interest)                                  | 512,262           | 4,425,755        | 37,467,552        | -            | 42,405,569         |
| Long-term payables   | -                 | 29,256           | 4,390             | -            | 33,646             |
| Other non-current liabilities  | -                 | -                | 863,826           | -            | 863,826            |
|  | <b>91,041,273</b> | <b>4,455,011</b> | <b>38,335,768</b> | <b>-</b>     | <b>133,832,052</b> |

|  | 31 December 2018  |                  |                   |                | Total              |
|--|-------------------|------------------|-------------------|----------------|--------------------|
|  | Within 1 year     | 1 to 2 years     | 2 to 5 years      | Over 5 years   |                    |
| Short-term borrowings (including interest)                                 | 897,699           | -                | -                 | -              | 897,699            |
| Borrowings from the Central Bank (including interest)                      | 100,260           | -                | -                 | -              | 100,260            |
| Customer deposits and deposits from banks and other financial institutions | 44,386            | -                | -                 | -              | 44,386             |
| Notes payable  | 23,325,115        | -                | -                 | -              | 23,325,115         |
| Accounts payable   | 36,901,626        | -                | -                 | -              | 36,901,626         |
| Other payables   | 3,346,129         | -                | -                 | -              | 3,346,129          |
| Derivative financial liabilities   | 756,299           | -                | -                 | -              | 756,299            |
| Other current liabilities  | 11,736,343        | -                | -                 | -              | 11,736,343         |
| Current portion of non-current liabilities (including interest)            | 6,967,940         | -                | -                 | -              | 6,967,940          |
| Long-term borrowings (including interest)                                  | 390,253           | 1,609,425        | 31,453,442        | -              | 33,453,120         |
| Long-term payables   | -                 | 49,866           | 39,024            | -              | 88,890             |
| Other non-current liabilities  | -                 | 190,496          | 159,844           | 666,012        | 1,016,352          |
|  | <b>84,466,050</b> | <b>1,849,787</b> | <b>31,652,310</b> | <b>666,012</b> | <b>118,634,159</b> |

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**15 Fair value estimates**

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

As at 31 December 2019, 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 measured at fair value -         |                  |                   |                  |                   |
| Financial assets held for trading                 | 1,087,351        | -                 | -                | 1,087,351         |
| Derivative financial assets                       | -                | 197,412           | -                | 197,412           |
| Receivables financing                             | -                | 7,565,776         | -                | 7,565,776         |
| Other current assets – hedging instruments        | -                | 98,572            | -                | 98,572            |
| Structural deposits                               | -                | 50,557,518        | -                | 50,557,518        |
| Other non-current financial assets                | -                | -                 | 1,750,107        | 1,750,107         |
| <b>Total assets</b>                               | <b>1,087,351</b> | <b>58,419,278</b> | <b>1,750,107</b> | <b>61,256,736</b> |
| Financial liabilities measured at fair value -    |                  |                   |                  |                   |
| Derivative financial liabilities                  | -                | 27,100            | -                | 27,100            |
| Other financial liabilities – hedging instruments | -                | 32                | -                | 32                |
| <b>Total liabilities</b>                          | <b>-</b>         | <b>27,132</b>     | <b>-</b>         | <b>27,132</b>     |

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**15 Fair value estimates (Cont'd)****(1) Assets and liabilities measured at fair value on a recurring basis (Cont'd)**

As at 31 December 2018, the assets and liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

|   | Level 1          | Level 2        | Level 3          | Total            |
|---|------------------|----------------|------------------|------------------|
| Financial assets measured at fair value -         |                  |                |                  |                  |
| Derivative financial assets                       | -                | 220,197        | -                | 220,197          |
| Other current assets - hedging instruments        | -                | 38,822         | -                | 38,822           |
| Available-for-sale financial assets -             |                  |                |                  |                  |
| Other current assets - wealth management products | -                | -              | 1,521,007        | 1,521,007        |
| Available-for-sale financial assets               | 1,122,609        | -              | 62,250           | 1,184,859        |
| <b>Total assets</b>                               | <b>1,122,609</b> | <b>259,019</b> | <b>1,583,257</b> | <b>2,964,885</b> |
| Financial liabilities measured at fair value -    |                  |                |                  |                  |
| Derivative financial liabilities                  | -                | 756,299        | -                | 756,299          |
| Other financial liabilities - hedging instruments | -                | 146,496        | -                | 146,496          |
| <b>Total liabilities</b>                          | <b>-</b>         | <b>902,795</b> | <b>-</b>         | <b>902,795</b>   |

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

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

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**15 Fair value estimates (Cont'd)****(1) Assets and liabilities measured at fair value on a recurring basis (Cont'd)**

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:

|   | Financial assets held for trading and<br>other non-current financial assets |
|---|---|
| 31 December 2018  | 1,583,257   |
| Impact of changes in standards                          | 732,448   |
| 1 January 2019  | 2,315,705   |
| Increase  | 4,232,805   |
| Decrease  | (5,274,444)   |
| Transfer out from Level 3                               | (56,340)  |
| Total gains of current period                           |   |
| Investment income recognised in the income<br>statement | 509,578   |
| Gains recognised in other comprehensive<br>income       | 22,803  |
| 31 December 2019  | <u>1,750,107</u>  |

The changes in Level 3 financial assets are analysed below:

|   | Available-for-sale financial assets |
|---|-------------------------------------|
| 1 January 2018                                    | 22,174,966                          |
| Increase  | 1,576,579                           |
| Decrease  | (22,660,142)                        |
| Total gains of current period                     |                                     |
| Income recognised in the income statement         | 519,042                             |
| Gains recognised in other comprehensive<br>income | (27,188)                            |
| 31 December 2018                                  | <u>1,583,257</u>                    |

- (a) The fair value of this part of other non-current financial assets is measured using discounted cash flows approach. The judgement of Level 3 of the fair value hierarchy is based on the materiality of unobservable inputs towards calculation of whole fair value. Significant unobservable inputs mainly include the financial data of targeted company and risk adjusted discount rates.

Assets and liabilities subject to Level 2 fair value measurement are mainly structural deposits, receivables financing and forward exchange contracts and are evaluated by market approach and income approach.

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#### 15 Fair value estimates (Cont'd)

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

The Group's financial assets and financial liabilities measured at amortised cost mainly include: cash at bank and on hand, deposits with the Central Bank, deposits with banks and other financial institutions, notes receivable, accounts receivable, loans and advances, other receivables, other current assets (excluding those mentioned in Note 15(1)), notes payable, accounts payable, short-term borrowings, borrowings from the Central Bank, long-term borrowings, current portion of non-current liabilities, customer deposits and deposits from banks and other financial institutions, other payables, other current liabilities, etc.

Carrying amounts of the Group's derecognized gains on financial assets and financial liabilities measured at amortized cost as at 31 December 2019 and 31 December 2018 approximated to their fair value.

#### 16 Capital management

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

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

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

As at 31 December 2019 and 31 December 2018, the Group's gearing ratio is as follows:

|                   | 31 December 2019 | 31 December 2018 |
|-------------------|------------------|------------------|
| Total liabilities | 194,459,322      | 171,246,631      |
| Total assets      | 301,955,419      | 263,701,148      |
| Gearing ratio     | 64.40%           | 64.94%           |

#### 17 Notes to the parent company's financial statements

##### (1) Other receivables

|                               | 31 December 2019 | 31 December 2018 |
|-------------------------------|------------------|------------------|
| Other receivables             | 18,377,123       | 11,599,860       |
| Less: Provision for bad debts | (7,258)          | (6,840)          |
|                               | 18,369,865       | 11,593,020       |

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

(1) Other receivables (Cont'd)

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

|               | 31 December 2019 | 31 December 2018 |
|---------------|------------------|------------------|
| Within 1 year | 18,356,942       | 11,574,080       |
| 1 to 2 years  | 19,000           | 21,110           |
| 2 to 3 years  | 1,181            | 4,670            |
|               | 18,377,123       | 11,599,860       |

(b) Provision for bad debts and changes in book balance statements

|   | Stage 1  |                               | Stage 1  |                               | Stage 3  |                               | Sub-total<br>Provision<br>for bad<br>debts |
|---|--|-------------------------------|--|-------------------------------|--|-------------------------------|--|
|   | Expected credit losses<br>in the following 12<br>months (grouping) |                               | Expected credit losses in<br>the following 12 months<br>(individual) |                               | Lifetime expected credit<br>losses (credit impaired) |                               |  |
|   | Book<br>balance  | Provision<br>for bad<br>debts | Book<br>balance  | Provision<br>for bad<br>debts | Book<br>balance                                      | Provision<br>for bad<br>debts |  |
| 31 December 2018                          | 557,395  | 6,840                         | 11,042,465   | -                             | -  | -                             | 6,840                                      |
| Changes in<br>accounting policies         | -  | -                             | -  | -                             | -  | -                             | -  |
| 1 January 2019                            | 557,395  | 6,840                         | 11,042,465   | -                             | -  | -                             | 6,840                                      |
| Transfer to stage 3<br>in current year    | (58)   | (35)                          | -  | -                             | 58   | 35                            | -  |
| Net increase in<br>current year           | 175,171  | 395                           | 6,602,092  | -                             | -  | 23                            | 418  |
| Including: Written-off<br>in current year | -  | -                             | -  | -                             | -  | -                             | -  |
| Derecognition                             | -  | -                             | -  | -                             | -  | -                             | -  |
| 21 December 2019                          | 732,508  | 7,200                         | 17,644,557   | -                             | 58   | 58                            | 7,258                                      |

As at 31 December 2019, the Company did not have other receivables in stage 2.

(c) As at 31 December 2019, the Group's other receivables at stage 1 and stage 3 were analysed as follows:

(i) As at 31 December 2019, other receivables for which the related provision for bad debts was provided on the individual basis were analysed as follows:

|         | Book balance | ECL rate in the<br>following 12<br>months | Provision for<br>bad debts | Reason  |
|---------|--------------|---|----------------------------|---|
| Stage 1 | 17,644,557   | 0%  | -                          | Relatively low bad<br>debt risks                    |
|         | Book balance | ECL rate in the<br>following 12<br>months | Provision for<br>bad debts | Reason  |
| Stage 3 | 58           | 100.00%                                   | (58)                       | The debtor<br>encountered<br>financial difficulties |

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

(1) Other receivables (Cont'd)

(c) As at 31 December 2019, the Group's other receivables at stage 1 and stage 3 were analysed as follows (Cont'd):

(ii) As at 31 December 2019, other receivables at stage 1 for which the related provision for bad debts was provided on the grouping basis were analysed as follows:

|  | 31 December 2019 |                         |                 |
|--|------------------|-------------------------|-----------------|
|  | Book balance     | Provision for bad debts |                 |
|  | Amount           | Amount                  | Provision ratio |
| Security deposit/guarantee payables grouping | 732,508          | (7,200)                 | 0.98%           |

(d) As at 31 December 2019, other receivables from the top five debtors are analysed as below:

|           | Nature           | Balance           | Ageing        | % of total balance | Provision for bad debts |
|-----------|------------------|-------------------|---------------|--------------------|-------------------------|
| Company A | Current accounts | 12,868,000        | Within 1 year | 70.02%             | -                       |
| Company B | Current accounts | 4,001,000         | Within 1 year | 21.77%             | -                       |
| Company C | Current accounts | 272,890           | Within 1 year | 1.48%              | -                       |
| Company D | Current accounts | 220,857           | Within 1 year | 1.20%              | -                       |
| Company E | Current accounts | 150,000           | Within 1 year | 0.82%              | -                       |
|           |                  | <u>17,512,747</u> |               | <u>95.29%</u>      | -                       |

(2) Long-term equity investments

Long-term equity investments are classified as follows:

|                                | 31 December 2019  | 31 December 2018  |
|--------------------------------|-------------------|-------------------|
| Subsidiaries (a)               | 51,025,905        | 26,586,165        |
| Associates (b)                 | 1,579,954         | 1,650,130         |
|                                | <u>52,605,859</u> | <u>28,236,295</u> |
| Less: Provision for impairment | -                 | -                 |
|                                | <u>52,605,859</u> | <u>28,236,295</u> |

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

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

(a) Subsidiaries

|  | Movements in current year |                           |                           |                             |            | 31 December<br>2019 | Provision for<br>impairment loss<br>Ending balance | Cash dividends<br>attributable to the parent<br>company declared in<br>current year |
|--|---------------------------|---------------------------|---------------------------|-----------------------------|------------|---------------------|--|---|
|  | 31 December<br>2018       | Increase in<br>investment | Decrease in<br>investment | Provision for<br>impairment | Others     |                     |  |   |
| Little Swan  | 2,822,571                 | -                         | -                         | -                           | 17,295,265 | 20,117,836          | -  | 955,792   |
| Guangdong Midea Electric Co., Ltd.                             | 1,000                     | 4,999,000                 | -                         | -                           | -          | 5,000,000           | -  | -   |
| Midea Group Finance Co., Ltd.                                  | 3,354,009                 | -                         | -                         | -                           | 4,103      | 3,358,112           | -  | -   |
| Foshan Shunde Midea Household<br>Appliances Industry Co., Ltd. | 2,949,000                 | -                         | -                         | -                           | -          | 2,949,000           | -  | -   |
| Guangdong Midea Microwave Oven<br>Manufacturing Co., Ltd.      | 1,880,041                 | -                         | -                         | -                           | -          | 1,880,041           | -  | -   |
| GD Midea Air-Conditioning Equipment Co.,<br>Ltd.               | 1,436,506                 | -                         | -                         | -                           | 226,131    | 1,662,637           | -  | 435,132   |
| Guangdong Midea Consumer Electric<br>Manufacturing Co., Ltd.   | 1,073,448                 | -                         | -                         | -                           | 35,658     | 1,109,106           | -  | -   |
| Hefei Midea Heating & Ventilation<br>Equipment Co., Ltd.       | 1,065,941                 | -                         | -                         | -                           | 5,518      | 1,071,459           | -  | 1,132,080   |
| Guangdong Midea Intelligent Technologies<br>Co., Ltd.          | 50,319                    | 1,000,000                 | -                         | -                           | 692        | 1,051,011           | -  | -   |
| Hubei Midea Refrigerator Co., Ltd.                             | 843,928                   | -                         | -                         | -                           | 3,562      | 847,490             | -  | 660,341   |
| Wuhu Maty Air-Conditioning Equipment<br>Co., Ltd.              | 753,225                   | -                         | -                         | -                           | 4,106      | 757,331             | -  | 1,063,279   |
| GD Midea Heating & Ventilating Equipment<br>Co., Ltd.          | 645,564                   | -                         | -                         | -                           | 54,664     | 700,228             | -  | 1,305,613   |
| Hefei Midea Refrigerator Co., Ltd.                             | 500,247                   | -                         | -                         | -                           | 12,673     | 512,920             | -  | -   |
| Ningbo Midea United Materials Supply Co.,<br>Ltd.              | 491,350                   | -                         | -                         | -                           | 4,069      | 495,419             | -  | 593,117   |
| GD Midea Group Wuhu Air-Conditioning<br>Equipment Co., Ltd.    | 352,041                   | -                         | -                         | -                           | -          | 352,041             | -  | -   |
| Hefei Hualing Co., Ltd.  | 174,228                   | -                         | -                         | -                           | 38,624     | 212,852             | -  | -   |



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

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

(a) Subsidiaries (Cont'd)

|   | Movements in current year |                           |                           |                             |                   | 31 December<br>2019 | Provision for<br>impairment loss<br>Ending balance | Cash dividends<br>attributable to the parent<br>company declared in<br>current year |
|---|---------------------------|---------------------------|---------------------------|-----------------------------|-------------------|---------------------|--|---|
|   | 31 December<br>2018       | Increase in<br>investment | Decrease in<br>investment | Provision for<br>impairment | Others            |                     |  |   |
| Midea International Corporation Company Limited     | 176,974                   | -                         | -                         | -                           | -                 | 176,974             | -  | -   |
| Wuhu Midea Kitchen & Bath Appliances Mfg. Co., Ltd. | 137,244                   | -                         | -                         | -                           | 23,941            | 161,185             | -  | 715,213   |
| Midea Group Wuhan Refrigeration Equipment Co., Ltd. | 97,602                    | -                         | -                         | -                           | 5,357             | 102,959             | -  | 234,498   |
| Zhejiang Meizhi Compressor Co., Ltd.                | 63,030                    | -                         | -                         | -                           | 2,624             | 65,654              | -  | 644,182   |
| Midea Microfinance Co., Ltd.                        | 55,594                    | -                         | -                         | -                           | 738               | 56,332              | -  | -   |
| Wuhu Midea Life Appliances Mfg Co., Ltd.            | 56,223                    | -                         | -                         | -                           | -                 | 56,223              | -  | 8,121   |
| Others (i)  | 7,606,080                 | 68,600                    | (151,648)                 | -                           | 806,063           | 8,329,095           | -  | 1,889,958   |
|   | <u>26,586,165</u>         | <u>6,067,600</u>          | <u>(151,648)</u>          | <u>-</u>                    | <u>18,523,788</u> | <u>51,025,905</u>   | <u>-</u>   | <u>9,637,326</u>  |

(i) In 2019, other changes in long-term equity investments movements is mainly from shares in exchange for the equity of Little Swan.

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

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

(b) Associates

Investments in associates are mainly the investments in Guangdong Shunde Rural Commercial Bank Co., Ltd. and Hefei Royalstar Motor Co., Ltd. and other companies.

(3) Operating revenue

Operating revenue mainly comprises other operating revenue including the trademark royalty income, rental income, management fee income, etc. obtained by the Company from the subsidiaries.

(4) Investment income

|   | 2019              | 2018             |
|---|-------------------|------------------|
| Income from long-term equity investments under cost method                              | 9,637,326         | 9,168,299        |
| Investment income from wealth management products purchased from financial institutions | 91,359            | 388,942          |
| Investment income from associates   | 272,089           | 239,418          |
| Others  | 383,692           | (76,565)         |
|   | <u>10,384,466</u> | <u>9,720,094</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)  
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#### 1 Details of non-recurring profit or loss

|   | 2019             | 2018           |
|---|------------------|----------------|
| Gains or losses on disposal of non-current assets   | (131,131)        | 222,204        |
| Except for the effective hedging activities related to the Company's ordinary activities, profit or loss arising from changes in fair value of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities, other non-current financial assets, financial assets available for sale and investment income from disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities, other non-current financial assets and financial assets available for sale. | 676,430          | (842,408)      |
| Others (mainly including government grants, compensation income, penalty income and other non-operating income and expenses)  | 1,347,788        | 1,091,473      |
|   | 1,893,087        | 471,269        |
| Less: Effect of income tax  | (394,095)        | (207,870)      |
| Effect of minority interests (after tax)  | (12,162)         | (90,775)       |
|   | <u>1,486,830</u> | <u>172,624</u> |

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

Under the requirements of the *Explanatory Announcement No. 1 on Information Disclosure by Companies Offering Securities to the Public – Non-recurring Profit or Loss [2008]* from CSRC, non-recurring profit or loss refers to that arises from transactions and events that are not directly relevant to ordinary activities, or that is relevant to ordinary activities, but is extraordinary and not expected to recur frequently that would have an influence on users of financial statements making economic decisions on the financial performance and profitability of an enterprise.

#### 2 Return on net assets and earnings per share

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

|  | Weighted average         |               | Earnings per share (in RMB Yuan) |             |                            |             |
|--|--------------------------|---------------|----------------------------------|-------------|----------------------------|-------------|
|  | Return on net assets (%) |               | Basic earnings per share         |             | Diluted earnings per share |             |
|  | 2019                     | 2018          | 2019                             | 2018        | 2019                       | 2018        |
| Net profit attributable to shareholders of the Company                                     | 26.43%                   | 25.66%        | 3.60                             | 3.08        | 3.58                       | 3.05        |
| Net profit attributable to shareholders of the Company net of non-recurring profit or loss | <u>24.80%</u>            | <u>25.44%</u> | <u>3.38</u>                      | <u>3.05</u> | <u>3.36</u>                | <u>3.03</u> |

## Section X Documents Available for Reference

1. The original of *The 2019 Annual Report of Midea Group Co., Ltd.* signed by the legal representative;
2. The financial statements signed and stamped by the legal representative, the Director of Finance 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 2019 Annual Report* that is released on <http://www.cninfo.com.cn>.

Midea Group Co., Ltd.

Legal Representative: Fang Hongbo

30 April 2020