Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement and the listing document attached herein, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement and the listing document attached herein.

This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

This announcement is not for distribution, directly or indirectly, in or into the United States. This announcement does not constitute or form a part of an offer to sell or the solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

*The securities have not been, and will not be, registered under the United States Securities Act of 1993 (the "**U.S. Securities Act**"), or the securities laws of any state of the United States or other jurisdiction and the securities may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state or local securities law. There will be no public offering of securities in the United States.*

***This announcement and the listing document referred to herein have been published for information purposes only as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and do not constitute an offer to sell nor a solicitation of an offer to buy any securities. Neither this announcement nor anything referred to herein (including the listing document) forms the basis for any contract or commitment whatsoever.** For the avoidance of doubt, the publication of this announcement and the listing document referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the issuer for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.*

***Notice to Hong Kong investors:** Each of the Issuer (as defined below) and the Guarantor (as defined below) confirms that the Notes (as defined below) are intended for purchase by professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) only and have been listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, each of the Issuer and the Guarantor confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.*

PUBLICATION OF OFFERING CIRCULAR

Midea Investment Development Company Limited
美的投資發展有限公司

(incorporated with limited liability in the British Virgin Islands)

(the "Issuer")

Issue of U.S.$450,000,000 2.88 per cent. Guaranteed Notes due 2027 (the "Notes")
(Stock Code: 4501)

unconditionally and irrevocably guaranteed by

Midea Group Co., Ltd.
美的集團股份有限公司

(incorporated with limited liability in the People's Republic of China)

(the "Guarantor")

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**").

Please refer to the offering circular dated 16 February 2022 (the "**Offering Circular**") appended herein in relation to the issuance of the Notes. As disclosed in the Offering Circular, the Notes were intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and have been listed on the Hong Kong Stock Exchange on that basis.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Offering Circular must not be regarded as an inducement to subscribe for or purchase any securities of the Issuer, and no such inducement is intended. No investment decision should be made based on the information contained in the Offering Circular.

Hong Kong, 25 February 2022

As at the date of this announcement, the sole director of the Issuer is Ms. ZHONG Zheng.

As at the date of this announcement, the directors of the Guarantor are Mr. FANG Hongbo, Mr. HE Jianfeng, Mr. YIN Bitong, Mr. GU Yanmin, Mr. WANG Jianguo, Mr. YU Gang, Mr. XUE Yunkui, Mr. GUAN Qingyou, and Ms. HAN Jian.

APPENDIX

OFFERING CIRCULAR DATED 16 FEBRUARY 2022

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES.

IMPORTANT: You must read the following before continuing. This applies to the attached offering circular following this disclaimer (the "**Offering Circular**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY US ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the Notes, investors must not be in the United States. The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to us that you are not located in the United States, the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and that you consent to delivery of such Offering Circular by electronic transmission.

Prohibition of Sales to EEA Retail Investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**EU MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

Prohibition of Sales to UK Retail Investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000, as amended ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Singapore Securities and Futures Act Product Classification – In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of SFA), that the Notes are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and "Excluded Investment Products" (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular to any other person.

The materials relating to the offering of securities to which the Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer and the Guarantor (each as defined in the Offering Circular) in such jurisdiction.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Merrill Lynch (Asia Pacific) Limited, Crédit Agricole Corporate and Investment Bank, Standard Chartered Bank, Bank of China Limited, Singapore Branch, Industrial and Commercial Bank of China (Asia) Limited, China Construction Bank (Asia) Corporation Limited and DBS Bank Ltd. (collectively, the "**Joint Lead Managers**") or any person who controls any of the Joint Lead Managers, or any director, officer, employee or agent of any of the Joint Lead Managers, or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in an electronic format and the hard copy version available to you on request from the Joint Lead Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The attached Offering Circular is being furnished in connection with an offering in offshore transactions outside the United States in compliance with Regulation S solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein. The Offering Circular is not an offer to sell or a solicitation of an offer to buy the securities in any jurisdiction where such offer or sale is not permitted.

Actions that you may not take: If you receive this document by e-mail, you should not reply by e-mail to this document, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

MIDEA INVESTMENT DEVELOPMENT COMPANY LIMITED
美的投資發展有限公司

(incorporated with limited liability under the laws of the British Virgin Islands)

U.S.$450,000,000 2.88 PER CENT. GUARANTEED NOTES DUE 2027 UNCONDITIONALLY AND IRREVOCABLY GUARANTEED BY

MIDEA GROUP CO., LTD.
美的集團股份有限公司

(incorporated in the People's Republic of China with limited liability)

Issue Price: 99.884 per cent.

The U.S.$450,000,000 in aggregate principal amount of 2.88 per cent. Guaranteed Notes due 2027 (the "**Notes**") will be issued by Midea Investment Development Company Limited 美的投資發展有限公司 (the "**Issuer**") and will be unconditionally and irrevocably guaranteed (the "**Guarantee of the Notes**") by Midea Group Co., Ltd. 美的集團股份有限公司 (the "**Guarantor**" or the "**Company**"). The Issuer is an indirect and wholly-owned subsidiary of the Guarantor.

The Notes will bear interest from 24 February 2022 (the "**Issue Date**") at the rate of 2.88 per cent. per annum. The Notes will constitute direct, general, unsubordinated and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Guarantee of the Notes will constitute direct, general, unsubordinated and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Interest on the Notes is payable semi-annually in arrear on 24 February and 24 August in each year, commencing on 24 August 2022. Payments on the Notes and the Guarantee of the Notes will be made without deduction for or on account of taxes of the British Virgin Islands or the People's Republic of China ("**PRC**") to the extent described under "*Terms and Conditions of the Notes – Taxation*".

The Notes will mature on 24 February 2027 (the "**Maturity Date**") at their principal amount. The Notes are subject to redemption, in whole but not in part, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of the British Virgin Islands or the PRC. See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption for tax reasons*". The Notes may be redeemed at the option of the Issuer in whole, but not in part, at a price equal to their Make Whole Amount (as defined in the terms and conditions of the Notes (the "**Terms and Conditions of the Notes**")) in the case of a Call Settlement Date (as defined in the Terms and Conditions of the Notes) falling before 24 January 2027 or at 100 per cent. of their principal amount, together with accrued interest, in the case of a Call Settlement Date falling on or after 24 January 2027, giving not less than 30 nor more than 60 days' notice to the Noteholders. See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption at the Option of the Issuer*". The Notes may also be redeemed at the option of the holders, all but not some only, of such holder's Notes at 101 per cent. of their principal amount, together with accrued interest, upon the occurrence of a Change of Control (as defined in the Terms and Conditions of the Notes) or at 100 per cent. of their principal amount, together with accrued interest, upon a No Registration Event (as defined in the Terms and Conditions of the Notes). See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Relevant Event*".

The Guarantor will be required to register or cause to be registered with the State Administration of Foreign Exchange of the PRC ("**SAFE**"), the deed of guarantee (the "**Deed of Guarantee**") within the time limit prescribed by SAFE after its execution in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) promulgated by SAFE on 12 May 2014, which came into effect on 1 June 2014 (the "**Cross-Border Security Registration**"). The Guarantor intends to use its best endeavours to complete the Cross-Border Security Registration on or before the Registration Deadline (as defined in the Terms and Conditions of the Notes) and obtain from SAFE a registration record relating to the registration of the Deed of Guarantee and comply with all applicable PRC laws and regulations in relation to the Guarantee of the Notes.

Pursuant to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) promulgated by the National Development and Reform Commission of the PRC (the "**NDRC**") effective from 14 September 2015 (the "**NDRC Circular**"), the Guarantor has registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC dated 26 January 2022 evidencing such registration, which as of the date of this Offering Circular, remains valid and in full force and effect and the Guarantor intends to report or cause to be reported the relevant information in connection with the Notes to the NDRC within the time limit prescribed by the NDRC after the Issue Date in accordance with the NDRC Circular (the "**Post-Issuance Reporting Filing**") and comply with all applicable PRC laws and regulations in relation to the Post-Issuance Reporting Filing.

Application will be made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for the listing of the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange) ("**Professional Investors**") only. This document is for distribution to professional investors only.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Notes, the Issuer, the Guarantor, the Group or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Investing in the Notes involves certain risks. See "*Risk Factors*" beginning on page 19 for a description of certain factors to be considered in connection with an investment in the Notes.

The Notes are expected to be rated "A" by S&P Global Ratings ("**S&P**") and "A" by Fitch Ratings Ltd. ("**Fitch**"). A rating is not a recommendation to buy, sell or hold Notes and maybe subject to revision, suspension or withdrawal at any time by the assigning rating organisation. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

Prohibition of Sales to EEA Retail Investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**EU MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

Prohibition of Sales to UK Retail Investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000, as amended ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Singapore Securities and Futures Act Product Classification – In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of SFA), that the Notes are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and "Excluded Investment Products" (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The Notes and the Guarantee of the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes is only being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*".

The Notes will be represented by beneficial interests in a global note certificate (the "**Global Note Certificate**") in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date with, a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in the Global Note Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream. Except as described in the Global Note Certificate, individual certificates for the Notes will not be issued in exchange for interests in such Global Note Certificate.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

BofA Securities **Crédit Agricole CIB** **Standard Chartered Bank**

Joint Bookrunners and Joint Lead Managers

Bank of China **ICBC (Asia)** **China Construction Bank (Asia)** **DBS Bank Ltd.**

Joint Green Financing Advisors

BofA Securities **Crédit Agricole CIB** **Standard Chartered Bank**

Offering Circular dated 16 February 2022.

IMPORTANT NOTICE

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE THE OFFER OR SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE GUARANTOR OR ANY OF ITS SUBSIDIARIES OR THAT THE INFORMATION SET FORTH IN THIS OFFERING CIRCULAR IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF.

Each of the Issuer and the Guarantor, having made all reasonable enquiries, confirms that to the best of their knowledge and belief (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor, the Guarantor's subsidiaries (collectively, the "**Group**") and the Notes which is material in the context of the issue and offering of the Notes or the giving of the Guarantee (including all information which is required by applicable law and according to the particular nature of the Issuer, the Guarantor and the Notes, is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and the Guarantor and of the rights attaching to the Notes or the Guarantee of the Notes; (ii) the statements contained in this Offering Circular relating to the Issuer, the Guarantor and to the Group, are in every material particular true and accurate and not misleading; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor and the Group are honestly held, made after considering all relevant circumstances and based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Guarantor, the Group or the Notes the omission of which would, in the context of the issue and offering, of the Notes, make any statement in this Offering Circular misleading; (v) the statistical, industry and market-related data included in this Offering Circulars is based on or derived from sources which are accurate and reliable in all material respects; (vi) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements; and (vii) this Offering Circular does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering (the "**Offering**") described in this Offering Circular. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of Merrill Lynch (Asia Pacific) Limited, Crédit Agricole Corporate and Investment Bank, Standard Chartered Bank, Bank of China Limited, Singapore Branch, Industrial and Commercial Bank of China (Asia) Limited, China Construction Bank (Asia) Corporation Limited and DBS Bank Ltd. (collectively, the "**Joint Lead Managers**"), the Issuer or the Guarantor. The distribution of this Offering Circular and the Offering in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by each of the Issuer, the Guarantor and the Joint Lead Managers to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Notes or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, the European Economic Area, Hong Kong, the PRC, Singapore, Japan and the British Virgin Islands and to persons connected therewith. For a description of further restrictions on offers and sales of the Notes and distribution of this Offering Circular, see "*Subscription and Sale*" below.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Guarantor and the Group, the Notes or the Guarantee of the Notes other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Joint Lead Managers or the Agents (as defined in the Terms and Conditions of the Notes) or their respective directors, officers, employees, agents, representatives, affiliates or advisers. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor or the Group or any of them since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Joint Lead Managers or the Agents or any of their respective affiliates, officers, employees, agents, representatives, directors or advisers to subscribe for or purchase any of the Notes and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purpose of giving information with regard to the Issuer, the Guarantor, the Group and the Notes. Each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

This Offering Circular is being furnished by the Issuer and the Guarantor in connection with the Offering and is exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider purchasing the Notes. Investors must not use this Offering Circular for any other purpose, make copies of any part of this Offering Circular or give a copy of it to any other person, or disclose any information in this Offering Circular to any other person. The information contained in this Offering Circular has been provided by the Issuer and the Guarantor and other sources identified in this Offering Circular. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than the consideration of an investment in the Notes offered by this Offering Circular is prohibited. By accepting delivery of this Offering Circular each investor is deemed to have agreed to these restrictions.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers or any of their respective affiliates or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers or the Agents. None of the Joint Lead Managers has independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Agents nor any of their respective affiliates accept any responsibility for the contents of this Offering Circular. Each of the Joint Lead Managers, the Agents and their respective affiliates accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering

Circular or any such statement herein. None of the Joint Lead Managers, the Agents nor any of their respective affiliates undertakes to review the financial condition or affairs of the Issuer, the Guarantor, or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Joint Lead Managers, the Agents or their respective affiliates.

In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor, the Group and the terms of the Offering, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes and "*Use of Proceeds*" in relation to the use of proceeds from the issue of the Notes. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers or any person affiliated with the Joint Lead Managers in connection with its investigation of the accuracy of such information or its investment decision.

The Joint Lead Managers and its respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or the Guarantor or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes). Furthermore, investors in the Notes may include entities affiliated with the Group. This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer, the Guarantor and the Group. The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this Offering Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

This Offering Circular does not constitute an offer or an invitation to subscribe for or purchase any Notes, is not intended to provide the basis of any credit or other evaluation, and should not be considered as a recommendation by the Issuer, the Guarantor, the Agents, the Joint Lead Managers or any of them that any recipient of this Offering Circular should subscribe for or purchase any Notes. Each recipient of this Offering Circular shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer, the Guarantor and the Group with its own tax, legal and business advisers as it deems necessary.

IN CONNECTION WITH THE ISSUE OF THE NOTES, ANY OF THE JOINT LEAD MANAGERS AS THE STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF SUCH STABILISATION MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE IS NO OBLIGATION ON SUCH STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) TO DO THIS. SUCH STABILISATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. SUCH STABILISATION SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**EU MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000, as amended ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Singapore Securities and Futures Act Product Classification – In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of SFA), that the Notes are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and "Excluded Investment Products" (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Except as otherwise indicated in this Offering Circular, all non-company specific statistics and data relating to the industry or to the economic development of the PRC have been extracted or derived from publicly available information and industry publications. The information has not been independently verified by the Issuer, the Guarantor, the Agents or the Joint Lead Managers or by any of their respective affiliates, officers, employees, agents, representatives, directors or advisers, and neither the Issuer, the Guarantor, the Joint Lead Managers nor any of their respective affiliates, officers, employees, agents, representatives, directors or advisers make any representation as to the correctness, accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. Accordingly, such information should not be unduly relied upon.

PRESENTATION OF FINANCIAL INFORMATION

The Group's audited consolidated financial information as at and for the years ended 31 December 2018, 2019 and 2020 included in this Offering Circular have been extracted from the consolidated financial statements of the Group as at and for the years ended 31 December 2019 (the "**2019 Audited Financial Statements**") and 2020 (the "**2020 Audited Financial Statements**" and together with the 2019 Audited Financial Statements, the "**Audited Financial Statements**") audited by PricewaterhouseCoopers Zhong Tian LLP ("**PwC**"), the independent auditor of the Guarantor. The Audited Financial Statements have been prepared in accordance with the requirements of the Accounting Standards for Business Enterprises ("**Accounting Standards for Business Enterprises**" or "**CAS**") and have been audited by PwC in accordance with the China Standards on Auditing issued by the Chinese Institute of Certified Public Accountants.

The Group has applied new accounting policies and changed the presentation of certain line items since 1 January 2019. See Footnote 2(32) in the Guarantor's 2019 Audited Financial Statements and 2020 Audited Financial Statements for further information. As such, investors must exercise caution when comparing the financial information in the Audited Financial Statements.

The Audited Financial Statements were prepared in Chinese only (the "**Chinese Financial Statements**"). The Audited Financial Statements are available at https://www.midea.com/cn/Investors/reports. The English translations of the Audited Financial Statements (the "**English Financial Statements**") are included in this Offering Circular for reference only. Should there be any inconsistency between the Audited Financial Statements in Chinese and the English translation of their respective financial statements, the relevant financial statements in Chinese shall prevail. The English Financial Statements do not constitute audited financial statements, and are qualified in their entirety by, and are subject to the financial information set out or referred to in, the Chinese Financial Statements. None of the Issuer, the Guarantor, the Joint Lead Managers, The Hongkong and Shanghai Banking Corporation Limited (the "**Fiscal Agent**"), the Agents nor their respective affiliates, directors, officers, employees, agents, representatives and advisers have independently verified or checked the accuracy of the English translation of the Audited Financial Statements and can give no assurance that the information contained in such English translation is accurate or complete.

The Group publishes its interim financial information from time to time. Such financial information published by the Group in the PRC is normally derived from its management accounts and is not audited or reviewed by independent auditors. As such, financial information published in the PRC by the Group should not be relied upon by potential investors to provide the same quality of information associated with any audited information. In particular, the published financial information as at and for the six months ended 30 June 2021 and as at and for the nine months ended 30 September 2021 published by the Group in the PRC has not been audited or reviewed by independent auditors. Such financial information is not included in this Offering Circular and should not be relied upon by any investors to make their investment decisions in the Notes.

The financial information in this Offering Circular has been prepared in accordance with CAS, which differs in certain respects from generally accepted accounting principles in other jurisdictions, which might be material to the financial information contained in this Offering Circular. The Group has not prepared a reconciliation of its consolidated financial statements and related footnotes between CAS and other generally accepted accounting principles. In making an investment decision, investors must rely upon their own examination of the Group, the terms of the offering and the financial information. Investors should consult their own professional advisers for an understanding of the differences between CAS and other generally accepted accounting principles and how those differences might affect the financial information contained in this Offering Circular.

EBITDA PRESENTATION

The Guarantor has included EBITDA data in this Offering Circular because it believes the measure is a useful supplement to cash flow data as a measure of its performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA, as well as the related ratios presented in this Offering Circular, are supplemental measures of the Group's performance and liquidity that are not required by, or presented in accordance with, CAS. EBITDA is not a measurement of the Group's financial performance or liquidity under CAS and should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance derived in accordance with CAS or as alternatives to operating performance, liquidity, profitability or cash flows as a measure of the Group's liquidity. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In addition, EBITDA is not a standardised term, hence a direct comparison between companies using such terms may not be possible.

The Guarantor believes that presentation of EBITDA facilitates comparisons of operating performance from period to period and company to company by eliminating potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses), the aged and booked depreciation and amortisation of assets (affecting relative depreciation and amortisation expense).

The Guarantor also presents EBITDA because it believes that the measure is frequently used by securities analysts, investors and other interested parties in evaluating similar companies in the property industry, many of whom present such non-GAAP financial measures when reporting their results.

Nevertheless, EBITDA has limitations as an analytical tool, and investors should not consider it in isolation from, or as a substitute for analysis of the Group's financial condition or results of operations, as reported under CAS. Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to the Group to invest in the growth of its business. The Guarantor compensates for these limitations by relying primarily on its CAS results and using EBITDA measures only supplementally. See "*Summary Financial Information*" for a discussion on EBITDA.

FORWARD-LOOKING STATEMENTS

Certain statements under "*Risk Factors*", "*Description of the Group*" and elsewhere in this Offering Circular may constitute "forward-looking statements". Words such as "believe", "expect", "plan", "anticipate", "schedule", "estimate" and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. These forward-looking statements reflect the views of the Issuer and/or the Guarantor with respect to future events and are not a guarantee of future performance or developments. Each of the Issuer and the Guarantor expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's, the Guarantor's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's, the Guarantor's, or the Group's expectations. All subsequent written and forward-looking statements attributable to the Issuer, the Guarantor or persons acting on behalf of the Issuer or the Guarantor are expressly qualified in their entirety by such cautionary statements.

These forward-looking statements speak only as at the date of this Offering Circular. The Group expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

CERTAIN TERMS AND CONVENTIONS

All non-company specific statistics and data relating to the Guarantor's industry or the economies of pertinent jurisdictions, such as the PRC, have been extracted or derived from publicly available information and various government sources. The Issuer and the Guarantor believe that the sources of this information are appropriate for such information and the Issuer has taken reasonable care in extracting and reproducing such information. Each of the Issuer and the Guarantor has no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, such information has not been independently verified by the Issuer, the Guarantor, the Joint Lead Managers or the Agents or by their respective affiliates, officers, directors, employees, agents and representatives or advisors and none of the Issuer, the Guarantor, the Joint Lead Managers or the Agents or their respective affiliates, officers, directors, employees, agents and representatives or advisors makes any representation as to the correctness, accuracy or completeness of such information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. Accordingly, such information should not be unduly relied upon.

This Offering Circular contains a translation of certain Renminbi amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise specified, where financial information in relation to the Guarantor has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of RMB6.5250 to U.S.$1.00 (the noon buying rate in New York City on 31 December 2020 as set forth in the weekly H.10 statistical release of the Federal Reserve Board of the Federal Reserve Bank of New York). Further information regarding exchange rate is set forth in "*Exchange Rate*" in this Offering Circular. No representation is made that the Renminbi amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at any particular rate or at all.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only.

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SUMMARY

This summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all the information that may be important to prospective investors in deciding to invest in the Notes. Prospective investors should read the entire Offering Circular, including the section entitled "Risk Factors" and the financial statements and related notes thereto, before making an investment decision. Terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary.

OVERVIEW

The Group is a leading global high-technology conglomerate with businesses spanning across five major areas, including smart home, electromechanical business, heating, ventilating and air conditioning ("**HVAC**") and building technologies, robotics & automation, and digital innovation, offering diversified products and services. With its history tracing back to 1968, the Company was incorporated in 1992 and listed on the Shenzhen Stock Exchange on 18 September 2013 (Stock Code: 000333.SZ). As at 31 December 2021, the Group had a market capitalisation of RMB501.1 billion.

With "Bring Great Innovations to Life" as its vision, "Integrate with the World and Inspire the Future" as its mission and "Embrace what's next – Aspiration, Customer First, Innovation, Collaboration and Dedication" as its core value, the Group integrates global resources and promotes technological innovation to provide products and services to over 400 million users, customers and strategic partners in various areas worldwide every year. In response to higher requirements for products and services in the digital era, the Group upgraded its strategic focus to "Technology Leadership, Direct to Users, Digitization & Intelligence Driven, and Global Impact" in 2020, with the aim to further consolidate its leading position in the home appliance industry.

The Group is one of the key global manufacturers in several product lines, creating intelligent manufacturing factories through Midea Business System ("**MBS**"), automation and information technology ("**IT**"), while driving business transformation across the value chain with the "T+3" model to build world-class level manufacturing capabilities and systems. As at 30 June 2021, the Group has established a global platform with around 200 subsidiaries, 28 research and development ("**R&D**") centres, 32 major manufacturing bases and approximately 160,000 employees. The Group has operations around the world, covering more than 200 countries and regions. It also has 18 R&D centres and 17 major manufacturing bases located outside of China, with approximately 30,000 employees overseas.

The Group was listed on Fortune Magazine's list of Global Top 500 Enterprises for six consecutive years and in 2021, the Group moved further up and ranked 288th on the list. The Group also ranked 183rd on the 2021 Forbes' Global 2000 list. The Group ranked 33rd on the Brand Finance Tech 100 2021 brand value ranking league table and 33rd on the list of Kantar BrandZ™ Top 100 Most Valuable Chinese Brands 2021, with a brand value of U.S.$9,356 million, representing a 58 per cent. increase since 2020. In 2015, the Company also became the first household appliance manufacturer in China to be given a "stable" credit rating outlook by the three major international rating agencies, S&P, Fitch and Moody's and the Company has been assigned an issuer credit rating of "A" with a stable outlook by S&P, a long-term issuer rating of "A3" with a stable outlook by Moody's and a long-term issuer default rating of "A" with a stable outlook by Fitch.

For the years ended 31 December 2020, 2019 and 2018, the Group's consolidated operating revenue was RMB284.22 billion, RMB278.22 billion and RMB259.66 billion, respectively.

COMPETITIVE STRENGTHS

The Group believes it enjoys the following competitive strengths:

- A leading household appliances player in China with a solid global presence
- Leading technology and commitment in innovation have enhanced the Group's leading position as high-technology conglomerate
- Continuous global breakthroughs fuelled by global resource allocation and investments as well as advantages in manufacturing capability and scale
- Fully integrated online and offline distribution with an extensive domestic store network combined with increasing number of e-commerce channels and a well-established smart supply chain system
- A user experience-oriented reform of "Comprehensive Digitalization and Comprehensive Intellectualization" that focuses on "Digitization & Intelligence Driven" to make the Group a leader in the Internet of things ("**IoT**") era
- Solid financial performance and risk management policies establishing a firm foundation for the Group's future development
- Professional and experienced management team, well developed corporate governance structure and talent development programme
- Fully transformed and upgraded model of green manufacturing

STRATEGIES

The Group aims to achieve its corporate vision of bringing great innovations to life by firmly implementing its upgraded strategic focus of "Technology Leadership, Direct to Users, Digitization & Intelligence Driven, and Global Impact", further consolidating its leading position in the home appliance industry.

Technology Leadership

The Group intends to further increase its investment in R&D and layout in key technology utilised in its key business divisions, and cutting-edge technology such as breezeless, disrotatory, brushless motor and smart home technology in order to benefit from economies of scale.

The Group plans to continue to promote its innovative R&D model featuring a "Four-tier R&D System" from the organisational dimension and "Three Generations" from the technology dimension with the aim to achieve its goal of "Being the Number One or the Only One" in respect of all product categories.

The Group also intends to make efforts in bringing in domestic and overseas top talents, promoting a distributed global working system and diverse talent base, strengthening the global R&D network, refining the global R&D system and building up an R&D-centric and innovation-driven model, in order to maintain the Group's technology leadership.

Direct to Users

Driven by the characteristics of different sales channels, as well as changes in consumer demands and spending habits, the Group intends to promote direct marketing by way of internal cultivation and introduction from the outside, reshape the domestic marketing system and model, and empower the retail end to be "Direct to Users".

The Group plans to continue deepening the reform of its organisational structure, improve retail capacity, and develop user insights and back-end capacity, and also commit to intelligent experience terminals and user experience as part of efforts to connect with users' preferences.

Digitization & Intelligence Driven

By implementing "Comprehensive Digitalization and Comprehensive Intellectualization", the Group believes it will be able to increase efficiency internally and develop customers externally.

The Group seeks to develop into a digitalised enterprise, improve its digital operational methods and systems, support the integration of every link of the Group's value chain by digital means, and create value by optimising key operating indicators such as cost, efficiency and revenue through digitalisation.

The Group also intends to refine the Midea Cloud Sales platform, promote digital reform in marketing, as well as further build and optimise digitalised industrial internet factories. Measures to be taken may include enhancing the data platform and data governance to promote data-driven improvement in operations.

Global Impact

The Group looks to identify key regions to achieve breakthroughs in various dimensions, including market, channel and business models to serve global users.

The Group has formulated a global supply cooperative mechanism, strengthened localised operations overseas, optimised the percentage of local supply, and promoted product globalisation and regionalisation. 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, the Group also built a global user research network in order to understand the needs of its global users and in turn develop high-quality products.

The Group intends to increase its investments in overseas business operations, focus on the needs of local customers and enhance product competitiveness in a bid to promote significant growth in its Own Branding & Manufacturing (OBM) business. In addition, with a deep knowledge and understanding on product characteristics and product demands in overseas markets, the Group plans to further promote its brand and expansion through global collaboration and cooperation. Through this, the Group believes its global competitiveness will increase steadily.

RECENT DEVELOPMENTS

Acquisition of WDM

On 2 February 2021, the Company, Jiangsu Yuyue Science & Technology Development Co., Ltd. ("**Yuyue Technology**") and Wu Guangming signed a share transfer agreement, according to which Yuyue Technology and Wu Guangming agreed to transfer their holdings of 130,294,312 non-restricted public shares in WDM (or 24.09 per cent. of WDM's total share capital) to the Company for a total consideration of RMB1,902,296,955.

On the same day, the Company and Mr. Yu Rong signed a share transfer agreement, according to which Mr. Yu Rong agreed to transfer his holdings of 27,040,810 non-restricted public shares in WDM (or 5 per cent. of WDM's total share capital) to the Company for a total consideration of RMB394,795,826.

The share transfer under both agreements were completed on 6 May 2021. As a result, the Company now holds 157,335,122 shares in WDM (or 29.09 per cent. of WDM's total share capital), making it the controlling shareholder of WDM.

2021 Third Quarter Financial Information

On 30 October 2021, the Group published its quarterly report (the "**Quarterly Report**") for the nine months ended 30 September 2021 in accordance with applicable PRC regulations in relation to the disclosure of information in quarterly reports for listed companies. The Quarterly Report contains certain consolidated financial information of the Group for the nine months ended 30 September 2021 prepared in accordance with CAS.

The summary consolidated financial information as at and for the nine months ended 30 September 2021 and 2020 set forth in the Quarterly Report has been prepared and presented in accordance with CAS and has not been audited or reviewed by the Group's auditor. Consequently, such unaudited and unreviewed consolidated financial information should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors must exercise caution when using such information to evaluate the Group's financial condition, results of operations and results (financial or otherwise). Such unaudited and unreviewed consolidated quarterly financial information as at and for the nine months ended 30 September 2021 should not be taken as an indication of the expected financial condition, results of operations and results of the Group for the full financial year ending 31 December 2021.

Compared to the nine months ended 30 September 2020, the Group recorded a significant increase in total revenue coupled with a slightly higher increase percentage in total operating cost for the corresponding period in 2021 due to increases in the price of commodities in general. The Group's business remains stable with increases in operating profit and net profit. As at 30 September 2021, the Group's total borrowings increased compared to 31 December 2020, as it expanded its asset scale.

Takeover and privatisation of KUKA

On 24 November 2021, the Company announced its intention to launch a take-over and privatisation of KUKA through its wholly-owned subsidiary.

Upon completion of the transaction, KUKA will become a wholly-owned offshore subsidiary of the Company and will be delisted from the Frankfurt Stock Exchange. The transaction aims to enable KUKA to focus on its business operations and enhance the synergy and sharing of resources within the Group's robotics and automation related businesses.

The completion of the transaction will be subject to certain reporting and approval procedures in accordance with relevant domestic and international laws and regulations. As of the date of this Offering Circular, the takeover and privatisation has not been completed.

THE ISSUE

The following contains some summary information about the Notes. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Notes" shall have the same meanings in this summary. For a more complete description of the terms of the Notes, see "Terms and Conditions of the Notes" in this Offering Circular.

Issuer	Midea Investment Development Company Limited 美的投資發展有限公司.
Legal Entity Identifier	2549002AFC0XU0PWCW23.
Guarantor	Midea Group Co., Ltd. 美的集團股份有限公司.
Notes	U.S.$450,000,000 in aggregate principal amount of 2.88 per cent. guaranteed notes due 2027.
Guarantee of the Notes	The Guarantor has unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes.
Issue Price	99.884 per cent. of the principal amount of the Notes.
Form and Denomination	The Notes will be issued in registered form in the denominations of U.S.$200,000 and in integral multiples of U.S.$1,000 in excess thereof.
Issue Date	24 February 2022.
Maturity Date	24 February 2027.
Offering	The Notes is only being offered outside the United States in reliance on Regulation S under the Securities Act. The Notes and the Guarantee of the Notes have not been registered, and will not be registered, under the Securities Act and, subject to certain exemptions, may not be offered or sold in the United States.
Interest	The Notes will bear interest from, and including, the Issue Date at the rate of 2.88 per cent. per annum, until the Maturity Date, payable in equal instalment semi-annually in arrear on 24 February and 24 August in each year.
Status of the Notes	The Notes constitute direct, general, unsubordinated and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Status of the Guarantee of the Notes	The payment obligations of the Guarantor under the Guarantee of the Notes constitute direct, general, unsubordinated and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Negative Pledge	The Notes will contain a negative pledge provision as further described in Condition 3(a) (*Negative Pledge*) of the Terms and Conditions of the Notes.
Cross Acceleration	The Notes will contain a cross acceleration provision as further described in Condition 8(c) (*Cross-acceleration*) of the Terms and Conditions of the Notes.
Events of Default	Upon the occurrence of certain events as described in Condition 8 (*Events of Default*) of the Terms and Conditions of the Notes, then any Noteholder may, by written notice addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent, declare the Notes held by such Noteholder to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality.
Cross-Border Security Registration	The Guarantor will undertake to register or cause to be registered with the SAFE, the Deed of Guarantee within the time limit prescribed by SAFE after its execution in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) promulgated by SAFE on 12 May 2014, which came into effect on 1 June 2014. The Guarantor shall use its best endeavours to complete the Cross-Border Security Registration on or before the Registration Deadline and obtain from SAFE a registration record relating to the registration of the Deed of Guarantee and comply with all applicable PRC laws and regulations in relation to the Guarantee of the Notes.

NDRC Post-issuance Reporting Filing	The Guarantor will undertake to report or cause to be reported the relevant information in connection with the Notes to the NDRC within the time limit prescribed by NDRC after the Issue Date in accordance with the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) promulgated by the NDRC and which came into effect on 14 September 2015, and any implementation rules and guidelines as issued by the NDRC from time to time. The Guarantor shall comply with all applicable PRC laws and regulations in relation to the Post-Issuance Reporting Filing.
Transfer Restrictions	The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and sale. See "*Subscription and Sale*".
Redemption at Maturity	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Maturity Date.
Taxation	All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands or the PRC or any political subdivision thererof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. Where such withholding or deduction is made by the Issuer or, as the case may be, the Guarantor by or within the PRC up to the rate applicable on 16 February 2022 (the "**Applicable Rate**"), the Issuer or the Guarantor, as the case may be, will pay such additional amounts as will result in receipt by the after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required. If the Issuer or (as the case may be) the Guarantor is require to make a deduction or withholding (i) by or within the PRC, in excess of the Applicable Rate or (ii) by or within the British Virgin Islands, the Issuer or the Guarantor, as the case may be, shall pay such additional amounts (the "**Additional Tax Amounts**") as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Tax Amounts shall be payable in respect of any Note in the circumstances set out in Condition 7 (*Taxation*) of the Terms and Conditions of the Notes.

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the British Virgin Islands or the PRC respectively, references in the Terms and Conditions of the Notes to the British Virgin Islands or the PRC shall be construed as references to the British Virgin Islands or (as the case may be) the PRC and/or such other jurisdiction.

Redemption for Tax Reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued but unpaid to the date fixed for redemption, if:

(i) (A) the Issuer has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 7 (*Taxation*) of the Terms and Conditions of the Notes as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or the PRC or any political subdivision thereof or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 16 February 2022; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(ii) (A) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay Additional Tax Amounts as provided or referred to in Condition 7 (*Taxation*) of the Terms and Conditions of the Notes or the Guarantee of the Notes, as the case may be, as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision thereof or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 16 February 2022; and (B) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such Additional Tax Amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Redemption at the option of the Issuer	The Notes may be redeemed at the option of the Issuer, in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), (in the case of a Call Settlement Date falling before 24 January 2027) at their Make Whole Amount, together with interest accrued to such Call Settlement Date specified in the Optional Redemption Notice, and (in the case of a Call Settlement Date falling on or after 24 January 2027) at 100 per cent. of the principal amount of the Notes to be redeemed, together with interest accrued to such Call Settlement Date specified in the Optional Redemption Notice. See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption at the Option of the Issuer*".
Redemption for Relevant Event	At any time following the occurrence of a Relevant Event, the Holder of any Note will have the right, at such Holder's option, to require the Issuer to redeem all but not some only of that Holder's Notes on the Put Settlement Date at 101 per cent. (in the case of a Change of Control) or 100 per cent. (in the case of a No Registration Event) of their principal amount, together with accrued interest to such Put Settlement Date. a "**Change of Control**" occurs when: (i) any person or persons, other than the Major Shareholders, acting together acquires Control of the Guarantor if such person or persons does not or do not have, and would not be deemed to have, Control of the Guarantor on the Issue Date; or (ii) the Guarantor, directly or indirectly, holds or owns less than 100 per cent. of the issued share capital of the Issuer; or (iii) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of its assets to any other Person or Persons acting together; "**Control**" means (where applicable): (i) the direct or indirect ownership, acquisition or control of more than 50 per cent. of the voting rights of the issued share capital of a Person, or (ii) the right to appoint and/or remove all or more than 50 per cent. of the members of a Person's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise. The terms "**Controlling**" and "**Controlled**" have meanings correlative to the foregoing;

	"**Major Shareholders**" means Midea Holding Co., Ltd. and any other person (i) directly or indirectly Controlling, Controlled by, or under direct or indirect common Control with, Midea Holding Co., Ltd. or (ii) who is a spouse or child of any person described in (i) above; or (iii) any trust established for the benefit of any person described in (i) and (ii) above; a "**No Registration Event**" occurs if the Guarantor fails to register for the Cross-border Security Registration by the Registration Deadline; "**Registration Deadline**" means the day falling 90 PRC Business Days after the Issue Date; and a "**Relevant Event**" will be deemed to occur if (i) there is a Change of Control or (ii) there is a No Registration Event.
Further Issues	The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and the timing for completing the Cross-Border Security Registration and submitting the Post-issuance Reporting Filing and the making of consequent notices thereof) so as to form a single series with the Notes.
Fiscal Agent, Paying Agent and Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited.
Registrar	The Hongkong and Shanghai Banking Corporation Limited.
Clearing Systems	The Notes will be represented by beneficial interests in the Global Note Certificate, which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date with a common depositary for, Euroclear and Clearstream. Beneficial interests in the Global Note Certificate will be shown on, and transfers thereof will only be effected through, records maintained by, Euroclear and Clearstream. Except as described in the Global Note Certificate, individual certificates for the Notes will not be issued in exchange for interests in the Global Note Certificate.
Governing Law	English law.
Ratings	The Notes is expected to be assigned ratings of "A" by S&P and of "A" by Fitch. A rating is not a recommendation to buy, sell or hold the Notes and maybe subject to revision, suspension or withdrawal at any time by the assigning rating organisation. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

Listing	Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only. It is expected that the listing of, and the permission to deal in, the Notes on the Hong Kong Stock Exchange will commence on or about 25 February 2022.
Use of Proceeds	See section headed "*Use of Proceeds*".
ISIN	XS2432130453.
Common Code	243213045.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of the Guarantor as at the end of the reporting period and for the years indicated.

The summary consolidated financial information as at and for the three years ended 31 December 2020, 2019 and 2018 set forth below is derived from the Guarantor's Audited Financial Statements. The Audited Financial Statements, which are included elsewhere in this Offering Circular, have been audited by PwC.

The Guarantor's Audited Financial Statements have been prepared and presented in accordance with CAS. The summary financial information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial information of the Guarantor, including the notes thereto, included elsewhere in this Offering Circular. Historical results are not necessarily indicative of results that may be achieved in any future period.

The Group has applied new accounting policies and changed the presentation of certain line items since 1 January 2019. See Footnote 2(32) in the Guarantor's 2019 Audited Financial Statements and 2020 Audited Financial Statements for further information. As such, investors must exercise caution when comparing the financial information in the Audited Financial Statements.

CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December		
	2020	**2019**	**2018**
	(RMB'000) **(audited)**	**(RMB'000)** **(audited)**	**(RMB'000)** **(audited)**
I. Total revenue	**285,709,729**	**279,380,506**	**261,819,635**
Including: Operating revenue	284,221,249	278,216,017	259,664,820
Interest income	1,488,211	1,163,180	2,154,392
Fee and commission income	269	1,309	423
Less: Cost of sales	(212,839,592)	(197,913,928)	(188,164,557)
Interest costs	(105,168)	(122,618)	(189,490)
Fee and commission expenses	(6,972)	(11,633)	(3,214)
Taxes and surcharges	(1,533,646)	(1,720,616)	(1,617,566)
Selling and distribution expenses	(27,522,276)	(34,611,231)	(31,085,879)
General and administrative expenses	(9,264,148)	(9,531,361)	(9,571,639)
Research and development expenses	(10,118,667)	(9,638,137)	(8,377,201)
Financial income	2,638,032	2,231,636	1,823,040
Including: Interest expenses	(1,305,591)	(880,703)	(703,991)
Interest income	3,663,028	3,807,136	2,155,862
Add: Other income	1,424,090	1,194,665	1,316,904
Investment income	2,362,462	164,132	907,326
Including: Investment income from associates	402,528	506,225	349,321
Profit or loss arising from derecognition of financial assets measured at amortised costs	–	(709)	—
Gains/(Losses) on changes in fair value	1,762,950	1,361,163	(810,450)
Credit impairment losses	(247,605)	(96,446)	—
Asset impairment losses	(705,209)	(871,909)	(447,864)
Losses on disposal of assets	(60,523)	(131,131)	(34,934)
II. Operating profit	**31,493,457**	**29,683,092**	**25,564,111**

	Year ended 31 December		
	2020	2019	2018
	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (audited)
Add: Non-operating income	384,986	613,310	434,756
Less: Non-operating expenses	(214,904)	(367,288)	(225,809)
III. Total profit	**31,663,539**	**29,929,114**	**25,773,058**
Less: Income tax expenses	(4,156,997)	(4,651,970)	(4,122,639)
IV. Net profit	**27,506,542**	**25,277,144**	**21,650,419**
(1) Classified by continuity of operations			
Net profit from continuing operations	27,506,542	25,277,144	21,650,419
Net profit from discontinued operations	–	–	–
(2) Classified by ownership of the equity			
Attributable to shareholders of the Company	27,222,969	24,211,222	20,230,779
Minority interests	283,573	1,065,922	1,419,640
V. Other comprehensive income, net of tax	**(1,177,809)**	**348,040**	**(1,215,825)**
Other comprehensive income attributable to shareholders of the Company, net of tax	(837,449)	283,152	(1,087,461)
(1) Other comprehensive income items which will not be reclassified subsequently to profit or loss	112,388	(142,753)	(1,023)
(i) Changes arising from remeasurement of defined benefit plan	111,895	(142,753)	(1,023)
(ii) Changes in fair value of investments in other equity instruments	493	–	—
(2) Other comprehensive income items which will be reclassified subsequently to profit or loss	(949,837)	425,905	(1,086,438)
(i) Other comprehensive income that will be transferred subsequently to profit or loss under the equity method	(20,445)	(6,590)	51,924
(ii) Changes in fair value of available-for-sale financial assets	—	—	(489,228)
(iii) Effective portion of cash flow hedging gains or losses	298,721	113,890	(424,417)
(iv) Differences on translation of foreign currency financial statements	(1,228,113)	318,605	(224,717)
Other comprehensive income attributable to minority shareholders, net of tax	(340,360)	64,888	(128,364)
VI. Total comprehensive income	**26,328,733**	**25,625,184**	**20,434,594**
Attributable to shareholders of the Company	26,385,520	24,494,374	19,143,318
Minority interests	(56,787)	1,130,810	1,291,276
VII. Earnings per share			
Basic earnings per share (RMB Yuan)	3.93	3.60	3.08
Diluted earnings per share (RMB Yuan)	3.90	3.58	3.05

CONSOLIDATED BALANCE SHEETS

	As at 31 December		
	2020	**2019**	**2018**
	(RMB'000) **(audited)**	**(RMB'000)** **(audited)**	**(RMB'000)** **(audited)**
Current assets			
Cash at bank and on hand	81,210,482	70,916,841	27,888,280
Financial assets held for trading	28,239,601	1,087,351	—
Derivative financial assets	420,494	197,412	220,197
Notes receivable	5,304,510	4,768,520	12,556,294
Accounts receivable	22,978,363	18,663,819	19,390,174
Receivables financing	13,901,856	7,565,776	—
Advances to suppliers	2,763,710	2,246,177	2,215,888
Contract assets	3,236,848	—	—
Loans and advances	16,469,069	10,869,396	11,328,392
Other receivables	2,973,945	2,712,974	2,971,368
Inventories	31,076,529	32,443,399	29,645,018
Other current assets	33,079,918	65,011,027	76,473,827
Total current assets	**241,655,325**	**216,482,692**	**182,689,438**
Non-current assets			
Other debt investments	21,456,155	–	—
Available-for-sale financial assets	—	—	1,906,878
Long-term receivables	981,623	1,208,079	34,815
Loans and advances	1,113,501	790,101	–
Long-term equity investments	2,901,337	2,790,806	2,713,316
Investments in other equity instruments	46,651	–	—
Other non-current financial assets	3,360,849	1,750,107	—
Investment properties	405,559	399,335	391,765
Fixed assets	22,239,214	21,664,682	22,437,212
Construction in progress	1,477,302	1,194,650	2,077,621
Intangible assets	15,422,393	15,484,179	16,186,675
Goodwill	29,557,218	28,207,065	29,100,390
Long-term prepaid expenses	1,300,962	1,267,127	1,191,373
Deferred tax assets	7,208,635	5,768,993	4,421,313
Other non-current assets	11,255,879	4,947,603	550,352
Total non-current assets	**118,727,278**	**85,472,727**	**81,011,710**
Total assets	**360,382,603**	**301,955,419**	**263,701,148**
Current liabilities			
Short-term borrowings	9,943,929	5,701,838	870,390
Borrowings from the Central Bank	–	–	99,754
Customer deposits and deposits from banks and other financial institutions	87,535	62,477	44,386
Derivative financial liabilities	161,225	27,100	756,299
Notes payable	28,249,939	23,891,600	23,325,115
Accounts payable	53,930,261	42,535,777	36,901,626
Advances from customers	–	16,231,854	16,781,666
Contract liabilities	18,400,922	—	—
Employee benefits payable	6,954,822	6,436,109	5,788,004
Taxes payable	5,758,058	5,096,267	3,875,298
Other payables	4,501,391	3,800,568	3,346,129
Current portion of non-current liabilities	6,310,181	1,460,117	7,122,712

	As at 31 December		
	2020	2019	2018
	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (audited)
Other current liabilities	49,852,239	39,074,777	31,319,709
Total current liabilities	**184,150,502**	**144,318,484**	**130,231,088**
Non-current liabilities			
Long-term borrowings	42,827,287	41,298,377	32,091,439
Long-term payables	13,260	33,646	88,890
Provisions	298,110	353,269	268,887
Deferred income	779,729	617,155	647,583
Long-term employee benefits payable	2,159,675	2,418,563	2,480,318
Deferred tax liabilities	5,223,954	4,556,002	4,422,074
Other non-current liabilities	692,986	863,826	1,016,352
Total non-current liabilities	**51,995,001**	**50,140,838**	**41,015,543**
Total liabilities	**236,145,503**	**194,459,322**	**171,246,631**
Shareholders' equity			
Share capital	7,029,976	6,971,900	6,663,031
Capital surplus	22,488,105	19,640,313	18,451,307
Less: Treasury stock	(6,094,347)	(3,759,732)	(4,918,427)
Other comprehensive income	(1,549,003)	(711,554)	(1,332,153)
General risk reserve	587,984	366,947	366,947
Special reserve	12,730	–	–
Surplus reserve	7,966,362	6,447,658	5,079,096
Undistributed profits	87,074,453	72,713,631	58,762,315
Total equity attributable to shareholders of the Company	117,516,260	101,669,163	83,072,116
Minority interests	6,720,840	5,826,934	9,382,401
Total shareholders' equity	**124,237,100**	**107,496,097**	**92,454,517**
Total liabilities and shareholders' equity	**360,382,603**	**301,955,419**	**263,701,148**

CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December		
	2020	2019	2018
	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (audited)
I. Cash flows from operating activities			
Cash received from sales of goods or rendering of services	240,052,501	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	25,058	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	1,381,851	1,315,921	2,174,661
Refund of taxes and surcharges	6,574,762	6,271,733	5,705,259
Cash received relating to other operating activities	4,950,874	5,008,821	5,558,221
Sub-total of cash inflows	**252,985,046**	**252,123,178**	**226,341,706**
Cash paid for goods and services	(139,660,744)	(130,099,497)	(127,367,813)
Net increase in loans and advances	(6,078,053)	(318,859)	–
Net decrease in loans with the Central Bank	–	(99,754)	–
Net increase in balances with the Central Bank	(1,274,496)	–	–
Net decrease in customer deposits and deposits from banks and other financial institutions	–	–	(64,540)
Cash paid for interest, fee and commission	(113,517)	(134,251)	(198,761)
Cash paid to and on behalf of employees	(28,460,318)	(26,851,139)	(24,709,578)
Payments of taxes and surcharges	(13,407,607)	(14,897,513)	(13,739,262)
Cash paid relating to other operating activities	(34,433,194)	(41,131,761)	(32,400,672)
Sub-total of cash outflows	**(223,427,929)**	**(213,532,774)**	**(198,480,626)**
Net cash flows from operating activities	**29,557,117**	**38,590,404**	**27,861,080**
II. Cash flows in investing activities			
Cash received from disposal of investments	141,821,724	84,852,601	65,711,622
Cash received from returns on investments	4,874,990	4,026,590	2,097,948
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	273,544	125,419	164,070
Net cash received from disposal of subsidiaries and other business units	42,398	–	24,406
Sub-total of cash inflows	**147,012,656**	**89,004,610**	**67,998,046**
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(4,656,582)	(3,451,856)	(5,611,851)
Cash paid to acquire investments	(176,621,347)	(108,457,398)	(80,713,830)
Net cash paid to acquire subsidiaries and other business units	(1,045,390)	(203,057)	(314,653)
Sub-total of cash outflows	**(182,323,319)**	**(112,112,311)**	**(86,640,334)**
Net cash flows in investing activities	**(35,310,663)**	**(23,107,701)**	**(18,642,288)**
III. Cash flows in financing activities			
Cash received from capital contributions	2,657,489	2,897,917	2,713,366
Including: Cash received from capital contributions by minority shareholders of subsidiaries	114,933	120,427	615,092
Cash received from borrowings	18,070,961	17,117,677	2,524,315
Cash received from issuance of short-term financing bonds	33,998,238	–	–

	Year ended 31 December		
	2020	**2019**	**2018**
	(RMB'000) **(audited)**	**(RMB'000)** **(audited)**	**(RMB'000)** **(audited)**
Cash received relating to other financing activities	22,725	–	–
Sub-total of cash inflows	**54,749,413**	**20,015,594**	**5,237,681**
Cash repayments of borrowings	(8,354,338)	(8,643,875)	(3,378,492)
Cash paid for repayment of short-term financing bonds	(31,000,000)	–	–
Cash payments for interest expenses and distribution of dividends or profits	(12,822,636)	(11,055,769)	(9,303,222)
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries	(425,461)	(1,651,504)	(815,998)
Cash payments relating to other financing activities	(3,328,734)	(3,589,551)	(5,943,131)
Sub-total of cash outflows	**(55,505,708)**	**(23,289,195)**	**(18,624,845)**
Net cash flows in financing activities	**(756,295)**	**(3,273,601)**	**(13,387,164)**
IV. Effect of foreign exchange rate changes on cash and cash equivalents	**(383,411)**	**280,376**	**289,001**
V. Net (decrease)/increase in cash and cash equivalents	**(6,893,252)**	**12,489,478**	**(3,879,371)**
Add: Cash and cash equivalents at the beginning of the year	30,441,760	17,952,282	21,831,653
VI. Cash and cash equivalents at the end of the year	**23,548,508**	**30,441,760**	**17,952,282**

OTHER FINANCIAL INFORMATION

	Year ended 31 December		
	2020	2019	2018
	(RMB'000 except per share figures)		
Operating revenue	284,221,249	278,216,017	259,664,820
Cost of sales	(212,839,592)	(197,913,928)	(188,164,557)
Gross profit	**71,381,657**	**80,302,089**	**71,500,263**
Gross profit margin	**25.1%**	**28.9%**	**27.5%**
Net profit attributable to shareholders of the Company	27,222,969	24,211,222	20,230,779
Total profit	31,663,539	29,929,114	25,773,058
Financial income – Interest expenses	1,305,591	880,703	703,991
Depreciation and amortisation	5,020,256	5,168,262	4,817,456
EBITDA	**37,989,386**	**35,978,079**	**31,294,505**
Net cash flows from operating activities	29,557,117	38,590,404	27,861,080
EBITDA margin	**13.4%**	**12.9%**	**12.1%**
EBITDA/Interest expenses	**29.10**	**40.85**	**44.45**
Short-term borrowings	9,943,929	5,701,838	870,390
Short-term financing bonds payable	3,030,785	–	–
Current portion of long-term borrowings	6,284,643	1,230,966	2,166,041
Current portion of debentures payable	–	–	4,797,644
Long-term borrowings	42,827,287	41,298,377	32,091,439
Total indebtedness[(1)]	**62,086,644**	**48,231,181**	**39,925,514**
Total indebtedness/EBITDA	**1.63**	**1.34**	**1.28**
Cash at bank and on hand	81,210,482	70,916,841	27,888,280
Structural deposits	25,626,631	64,394,654	70,402,509
Transferable certificate of deposit	21,456,155	–	–
Monetary investment products	35,670,767	–	–
Net indebtedness[(2)]	**(101,877,391)**	**(87,080,314)**	**(58,365,275)**
Net indebtedness/EBITDA	**(2.68)**	**(2.42)**	**(1.87)**
Total asset	360,382,603	301,955,419	263,701,148
Total indebtedness/Total asset	**17.2%**	**16.0%**	**15.1%**
Cash at bank and on hand with use rights restricted	56,963,424	40,077,847	9,935,998
Cash and cash equivalents as shown in the consolidated cash flow statement	**23,548,508**	**30,441,760**	**17,952,282**

Notes:

(1) The Group's total indebtedness represents the sum of short-term borrowings, short-term financing bonds payable, current portion of long-term borrowings, current portion of debentures payable and long-term borrowings.

(2) The Group's net indebtedness represents total indebtedness minus cash at bank and on hand, structural deposits, transferable certificate of deposit and monetary investment products.

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Circular, including the risks and uncertainties described below. The business, financial condition or results of operations of the Group could be materially and adversely affected by any of these risks. The Issuer, the Guarantor and the Group believe that the following factors may affect their ability to fulfil their obligations under the Notes and the Guarantee. All of these factors are contingencies which may or may not occur and the Issuer, the Guarantor and the Group are not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer, the Guarantor and the Group believe may be material for the purpose of assessing the risks associated with the Notes and the Guarantee are also described below.

The Issuer, the Guarantor and the Group believe that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer or the Guarantor to pay principal, interest or other amounts or fulfil other obligations on or in connection with the Notes or the Guarantee may occur for other reasons and the Issuer, the Guarantor and the Group do not represent that the statements below regarding the risks of investing in or holding the Notes are exhaustive.

RISK RELATING TO THE GROUP'S BUSINESS

The Group's businesses, financial condition and results of operations may be materially and adversely affected by market fluctuations and economic slowdowns in the PRC, the other markets in which the Group operates and the global economy, particularly as a result of the COVID-19 pandemic.

The Group's business is subject to global market fluctuations and general economic conditions in the PRC, the other markets in which it operates and the global economy. Any prolonged downturn, recession or other conditions that adversely affect the Group's business and economic environment, including the ongoing coronavirus ("**COVID-19**") pandemic and the rapid spread of new variants such as Delta and Omicron, could have a material adverse effect on the overall economic growth and the level of investments and expenditure in the PRC and elsewhere where the Group conducts its business, which could materially and adversely impact its business, financial condition and results of operations.

The economic recovery since the 2008 global financial crisis has been slow, with economic growth rates in major economies such as Europe, the United States, Japan and the PRC generally remaining persistently lower than pre-crisis levels. The global economic conditions have been, and are likely to continue to be, affected by concerns over increased geopolitical tensions, including disagreements between Saudi Arabia and Russia on their daily production outputs of crude oil which has led to a significant decline in global crude oil prices, the continued uncertainty regarding the likelihood and timing of trade policy changes, tariff changes or progression of negotiations between the United States and the PRC resulting from the trade war between the United States and the PRC governments and the unpredictable implications of Brexit and any agreement that may emerge from ongoing negotiations between the United Kingdom and the European Union. Such events have and may continue to create a negative economic impact and increase volatility in the global market.

Since it began in December 2019, COVID-19 has spread globally and there have been increased infection and fatality rates across the world. On 11 March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic.

The COVID-19 pandemic and policies implemented by governments to deter the spread of the disease have had and may continue to have an adverse effect on consumer confidence and the general economic conditions the Group's business is subject to. Governments of many countries (including the PRC) have declared a state of emergency, closed their borders to international travellers and issued stay-at-home orders with a view to containing the pandemic. There is no assurance that such measures will be effective in ending or deterring the spread of COVID-19. As the COVID-19 pandemic continues to affect many countries across the world, there is significant uncertainty as to when the pandemic will end and governments may extend or implement further restrictive measures to contain the pandemic. Businesses, including the Group's, have already faced significant disruptions as retail outlets and factories have been closed, customer operations have been suspended and the logistics costs have increased. Even when restrictions are lifted or loosened, there may continue to be disruptions to the supply chain and reduced levels of consumption, commercial activities and industrial production in countries that re-open. The reduced economic activity in countries affected by the COVID-19 pandemic have precipitated an economic slowdown in those economies which, if prolonged, could cause a global recession.

The COVID-19 pandemic is ongoing and evolving rapidly. The impact of the outbreak and government responses thereto has varied from jurisdiction to jurisdiction. The Group has responded quickly to the crisis and achieved excellent performance worldwide in the midst of such challenges. In spite of this, the duration and ultimate impact of the outbreak cannot be reasonably estimated at this time. The outbreak and restrictions imposed to contain it may be further broadened or continue for extended periods of time. Such measures may not be successful in stabilising markets or containing the economic or other impacts of the outbreak. Even if the current situation were to improve, there can be no assurance that (i) there will not be another outbreak of COVID-19 or another contagious disease in the future; or (ii) that governments will not re-impose restrictive measures that significantly disrupt economic activity in the event that there is a resurgence of the pandemic. As a result, the global economy is facing significant uncertainties and global financial markets are experiencing significant volatilities which may adversely affect the global economy, the Group's business and financial condition, results of operations, prospects, liquidity, capital position, credit ratings and the value of the Notes. Investors must exercise caution before making any investment decisions.

Furthermore, any form of government control or newly implemented laws and regulations, depending on the nature and extent of such changes and the Group's ability to make corresponding adjustments, may result in a material adverse effect on the Group's business and operating results and its future expansion plans in the PRC. The market demand for the Group's products, especially consumer appliances, HVAC equipment and industrial robotics, may be easily affected by the economic situation and macro control. In particular, decisions taken by regulators concerning economic or business interests or goals that are inconsistent with the Group's interests could adversely affect its operating results.

Operations in overseas markets also expose the Group to a number of risks including: expropriation and nationalisation of its assets in foreign countries; civil unrest, acts of terrorism, war, or other armed conflict; natural disasters; inflation; currency fluctuations, devaluations and conversion restrictions; confiscatory taxation or other adverse tax policies; governmental activities that limit or disrupt markets, restrict payments or limit the movement of funds; government activities that may result in the deprivation of contract rights; lack of a well-developed legal system that makes it difficult to enforce the Group's contractual rights; and government activities that may result in the inability to obtain or retain licences required for operations.

In some of the high-risk locations where the Group has employees or operations, the Group may incur significant costs in safeguarding and securing its personnel and assets, and its measures aimed at protecting its personnel and assets overseas may not always be sufficient and effective. To the extent that the Group's international business is affected by unexpected and adverse foreign economic and political conditions, the Group may experience project disruptions, losses of assets and personnel, and other indirect losses that could adversely affect the Group's business and results of operations.

If the Group cannot respond adequately to increased competition in the future, it may lose market share and experience decreased profits.

Many of the Group's activities are carried on in highly competitive industries. The Group faces intense competition in most of the industries in which it operates and the Group competes with a diverse range of competitors in each of these industries, ranging from large global corporations to specialised companies. Some of the Group's competitors may have greater design, manufacturing, financial or other resources than the Group. Increased competition could result in significant price competition, price volatility, oversupply, reduced revenues, lower profit margins or loss of market share, any of which may have a material adverse effect on the Group's business, financial condition and results of operations. There is no assurance that the Group will be able to compete successfully against either current or potential competitors in the future.

With respect to the Group's manufacturing businesses, its competitors are increasingly manufacturing products, including sophisticated consumer electronic and home appliance products, in low-cost jurisdictions. Low-cost manufacturing and globalisation of the world markets have accelerated the commoditisation of certain products, which has resulted in increasingly intense price competition, price volatility, oversupply and downward pressure on margins for many of the Group's products. Most of the Group's products face intense price competition. The highly volatile household appliances industry is characterised by frequent introduction of new products, short product life cycles, price volatility, continuous decline in price over the product life cycle, continuous improvements in performance characteristics, declining margins, keen competition and, from time to time, aggressive pricing practices and oversupply. In particular, the competitive environment and cyclical nature of the household appliances industry have resulted in, and is expected to continue to result in, fluctuations in the Group's gross margins.

In general, some of the Group's competitors have significant financial resources, marketing and other capabilities. In the PRC, some of the local companies have extensive local knowledge and business relationships and a longer operational track record in the relevant local markets than the Group. On the other hand, international companies are able to capitalise their overseas experience to compete in the PRC markets. As a result, there can be no assurance that the Group will be able to compete successfully in the future against its existing or potential competitors. If the Group cannot respond to changes in market conditions in the markets in which it operates more effectively than its competitors, the Group's reputation, business, financial position and results of operations may be adversely affected.

Shortages in, or rises in the prices of, raw materials or input components for products the Group manufactures may adversely affect its business.

Production for certain of the Group's businesses depends on obtaining adequate supplies of raw materials and input components on a timely basis. Given the wide variety of products and services that the Group offers, the large number of the Group's suppliers that are dispersed across the world and the long lead times that may be required to manufacture, assemble and deliver certain components and products, problems could arise in planning production and managing inventory levels, including the possibility of defective parts, an increase in input component costs, reduced control over delivery schedules and shortages of raw materials and input components.

In particular, the Group is dependent on various modes of transportation to obtain raw materials and any interruptions in the Group's supply chain logistics, including a reduction in international container availability (in light of the COVID-19 pandemic), strikes or other work stoppages, could adversely affect the Group's production. A significant disruption in the supply of these materials for any reason could decrease the Group's production and shipping levels, which could materially increase the Group's operating costs and therefore decrease its profit margins.

In addition, the Group may be unable to acquire the necessary raw materials and components for its businesses. At various times, supplies of some of the raw materials and electronic components that the Group uses have been scarce as a result of strong demand for those raw materials and components or problems experienced by suppliers. The prices of copper, steel, aluminium and plastic have increased significantly due to the outbreak of COVID-19 and there is no assurance that such prices will not further increase. Any further increase in the prices of raw materials or other costs of production in the future may decrease the Group's profit margins if it is unable to pass the cost increases to its consumers successfully. There is also no assurance that the Group will not face similar difficulties in acquiring raw materials and components in the future. In addition, in certain circumstances, the Group is required to source certain key components from suppliers on approved vendor lists and the Group may not be able to obtain alternative sources of supply should such qualified suppliers be unable to supply the Group's requirements in the future.

Shortages of raw materials and components could result in reduced production or delays in production, which may restrict the Group's capacity to fulfil large orders at short notice or may prevent it from making scheduled shipments to customers. Any future inability to accept high volume orders at short notice or make scheduled shipments could cause the Group to experience a reduction in its sales and could adversely affect its relationship with existing customers as well as prospective customers. Raw material and component shortages may also increase the Group's costs of goods sold because the Group may be required to pay higher prices for raw materials and components in short supply and redesign or reconfigure products to accommodate substitute components, or execute a long-term contract where raw material contract pricing is high whereas actual pricing may subsequently fall dramatically. As a result, raw material and component shortages could adversely affect the Group's operating results for a particular period due to the resulting revenue shortfall and increased manufacturing, raw material and component costs.

Some of the Group's businesses are highly labour intensive and the Group relies on a stable supply of labour to provide its services; however, the increase in labour cost and the overestimation of the necessary manpower for new contracts may also adversely affect the Group's business, results of operations and financial condition.

Some of the Group's business operations are labour intensive. The Group cannot ensure that there will be a stable supply of labour in the future. If there is a shortage of labour, particularly of personnel with specialised qualifications, the Group's business operations may be negatively affected. In addition, if the Group is unable to retain existing employees and/or recruit sufficient employees to meet the demands of its existing contracts at the current wage level, the Group may have to pay a premium to attract employees. If the Group experiences any labour shortage, it may be unable to deliver satisfactory services to its clients or otherwise meet its contractual obligations, or it may face penalties for such inability.

Furthermore, certain business conducted by the Group may require the employees with specific qualifications or experience, and if the Group cannot recruit such employees in a timely manner, it may be unable to enter into new contracts with prospective or existing clients and/or deliver satisfactory services to them due to insufficient manpower. In such cases, the Group's business, financial condition and results of operations may be adversely affected.

However, an overestimation of necessary manpower for new contracts may also adversely affect the Group's business, results of operations and financial condition. The Group may not be able to estimate the manpower necessary for new contracts accurately. If there is a significant overestimation, the Group may have to incur substantial cost to terminate the employment with the redundant staff members, which could have a material adverse effect on the Group's business, results of operations and financial condition. Even if the Group terminates their employees in accordance with their employment contracts and all relevant laws and regulations, such termination may still expose the Group to negative media coverage, where, as a result, the relationships with the Group's clients may be adversely affected and it may fail to secure future contracts. Any such negative media coverage may have a material adverse effect on the Group's reputation, business, financial position and results of operations.

The Group's overseas expansion may be subject to the risks associated with relevant businesses.

With a long-term strategic goal of internationalisation and global operations, the Group has been actively expanding its overseas business by building joint-venture manufacturing bases in various countries such as Japan, Egypt and Italy and acquiring equity interests in international home appliances brands. The Group may explore opportunities in other overseas markets in the future. In expanding its business internationally, the Group has entered into and intends to further enter into markets in which it has limited or no operating experience. As a result, the Group may not be able to attract a sufficient number of new clients due to its limited presence and brand recognition in such overseas markets and may fail to compete effectively.

In addition, such expansion may increasingly subject the Group to risks inherent in conducting business internationally, including but not limited to:

- failure to obtain and renew local government approvals, permits, licenses or documents in a timely manner or at all;
- the possibility of cost overruns and other operating difficulties;
- insufficient management resources, difficulties in recruiting and retaining qualified personnel, as well as potential increase in labour costs;
- difficulties in complying with local legal and regulatory requirements, including labour, industrial and tax regulations;
- lower than expected demand and lack of acceptance by local customers of, or compatibility issues with, its products;
- high sales and marketing costs;
- potential adverse tax consequences;
- limited protection for intellectual property rights;
- inability to effectively enforce contractual or legal rights;
- local political and economic instability or civil unrest;
- difficulty in implementing internal control and risk management policies in overseas operations;

- lack of understanding of the local cultural, commercial and operating environment, as well as the financial, management or legal systems in the relevant jurisdictions; and

- political, regulatory or macroeconomic environment and potential foreign exchange differences.

If the Group is unable to manage the risks resulting from its expansion outside the PRC, implement its expansion strategy or effectively manage its multinational operations, its business, reputation, financial condition and results of operations may be adversely affected.

The Group is subject to risks normally associated with cross-border transactions, and the Group's export products have been and may become subject to anti-dumping or countervailing duty proceedings.

Rising trade protectionism and anti-globalisation sentiments in the United States and other countries have compounded uncertainties in the Group's export sales. The trade barriers and frictions of some major markets the Group operates in will affect its export business in the short run, as well as marketing, planning and investment in the medium and long run. Political and compliance risks are also rising in international trade. These can mainly be seen in the form of compulsory safety certificates, international standards and requirements, product quality and management systems certification, energy-saving requirements, the call for increasingly strict environmental protection requirements, and rigorous requirements for recycling household appliances waste.

In particular, some countries and regions to which the Group makes export sales have taken restrictive measures, including anti-dumping duties and other non-tariff barriers, to protect their own markets. Trade frictions caused by these restrictive measures aggravate the burden in costs and expenses for household appliance enterprises, and have brought about new challenges to market planning and business expansion for the Group. The Group's sales in major overseas markets may be adversely affected by increases in or new impositions of anti-dumping duties, countervailing duties, quotas or tariffs imposed on the Group's exports and changes in market conditions. Further increases in or impositions of anti-dumping duties, countervailing duties, quotas or tariffs on the Group's sales in these markets could adversely affect exports to these regions in the future. By virtue of its transactions with parties outside the PRC, the Group is and will continue to be subject to the risks normally associated with cross-border business transactions and activities. The Group will also be exposed to the risk of changes in social, legal, political and economic conditions in the countries to which it exports. In particular, unexpected changes in regulatory requirements, tariffs and other trade barriers and price or exchange controls could limit the Group's operations and make the repatriation of profits difficult.

The Group's results of operations and financial condition may be adversely affected by exchange rate fluctuations.

Because of the geographic diversity of the Group's business and the need of importing certain raw materials for white goods production, it receives revenue and incurs expenses in a variety of currencies. The Group attempts to match its revenue and expenses whenever possible and, from to time, engages in hedging activities. Changes in exchange rates affect the Renminbi value of its revenue and costs that are denominated in foreign currencies.

The Group is also subject to translation risks whereby changes in exchange rates impact its reported revenue in Renminbi terms. Because the Group reports its financial statements in Renminbi, increases in the value of the Renminbi against the currencies in which it receives revenue in its international operations, such as Euros, Japanese Yen, U.S. dollars and Hong Kong dollars, could restrict its revenue growth in Renminbi terms and vice versa. Any sharp exchange rate fluctuation may not only have a material adverse effect on the Group's overseas operations, but also lead to exchange losses and increases in its financial costs.

If the Group fails to maintain and enhance its brands, its ability to successfully introduce new products and services and expand its customer base, among other things, may be impaired and its operating results may suffer.

The Group believes that it benefits from a strong reputation and trusted brands. Developing and maintaining awareness of its brands is therefore critical to achieving widespread acceptance of the Group's products and services and is an important element in retaining customers and attracting new customers, shortening its sales cycle and promoting the development of new business initiatives that the Group may pursue. The Group expects the importance of brand recognition to increase as competition further develops in its market. Successful promotion of the Group's brands will depend largely on the effectiveness of its marketing efforts and ability to provide customers with reliable products and services that meet their requirements at competitive prices.

Furthermore, the Group's brand promotion efforts may not yield increased revenue sufficient to offset the additional expenses incurred in such efforts. If customers do not perceive the Group's products and services to be of high value, its brand and reputation could be harmed, which could adversely impact its financial results. In addition, as the brands under the Group span many industries, any controversy with respect to one of the Group's businesses could tarnish the relevant brand(s) in any, or all, of its other businesses. As a result, there is no assurance that the Group's branding efforts will not adversely affect its business, financial condition and results of operations.

The Group is pressured to constantly review its product offering structure and improve product competitiveness by optimising them in all aspects to cater for rapid changes in the end market.

At present, the domestic home appliance industry is generally weak, its overall growth rate is slowing down, and the national consumption level in the PRC has been developing steadily. The consequential changes in the consumer spending structure will inevitably lead to reforms in the product structure. Therefore, the white goods industry will continue to face pressure for structural changes in the coming years, and the Group needs to adjust its product structure and optimise its products in all aspects, including product quality, function and product design, to cater for changes in the end market. If the Group's products fail to adapt to changes in consumer demand, they will be unable to effectively compete with its competitors, which in turn may lead to the risk of its elimination from the market.

Moreover, as the white goods industry is highly competitive, the Group and its competitors invest a significant amount of money on research and development in order to develop new technologies and to make improvements to the Group's products. This is particularly true in this industry as it involves rapidly changing technologies. If technologies developed by the Group's competitors gain wider market acceptance than those of the Group, its business, financial condition and results of operations may be materially and adversely affected.

Substantially all of the markets in which the Group operates are impacted by technological change or change in consumer tastes and preferences, which are rapid in certain end markets. The Group's operating results depend substantially upon its ability to continually design, develop, introduce, and sell new and innovative products; to modify existing products; and to customise products to meet customer requirements driven by such change. There are numerous risks inherent in these processes, including the risk that the Group will be unable to anticipate the direction of technological change or that it will be unable to develop and market profitable new products and applications in time to satisfy customer demands.

The Group is subject to financial and reputational risks due to quality and liability issues with respect to the products that the Group offers.

The contracts the Group enters into with its major customers in a number of its businesses typically include certain product warranties. To the extent that products delivered by the Group to its customers do not, or are deemed not to, satisfy such warranties, the Group could be responsible for repairing or replacing any defective products, or, in certain circumstances, for the cost of effecting a recall of all products which might contain a similar defect, as well as for consequential damages.

Although the Group does carry product liability insurance for the products that it manufactures in most cases, there is no assurance that the Group will be able to recover from any third party any losses incurred as a result of product liability in the future, or that defects in the products sold by the Group, regardless of whether it is responsible for such defects, would not adversely affect its standing and reputation in the marketplace, or result in monetary losses and have a material adverse effect on its business, financial condition and results of operations. Product recalls or product liability claims challenging the safety of its products may also result in a decline in sales for a particular product, particularly if those recalls or claims cast doubt on the reliability and safety of the Group's products as a whole. The Group faces similar issues with respect to the services that its various businesses provide. To the extent that the Group's services do not meet expected standards, it could face claims for damages as well as reputational harm.

The Group's business, financial condition, results of operations and prospects may be materially and adversely affected if the Group is unable to maintain its growth rate or successfully manage challenges arising during its growth.

The Group's efforts to integrate its various business operations and coordinate among its branches and subsidiaries may not be effective or timely. In addition, the Group cannot assure that it will grow in the future. The expansion of the Group's business activities poses various challenges, including but not limited to:

- meeting higher requirements for capital and cost controls to satisfy all relevant capital regulatory requirements, including the minimum capital adequacy ratio, solvency margin ratio and net capital requirements, as well as other capital needs;

- strengthening the Group's risk management capabilities and IT systems to effectively manage risks associated with various businesses and services;

- recruiting, training and retaining management, investment and finance professionals, technical personnel and sales staff with sufficient experience and knowledge;

- developing new distribution channels for the Group's products and services; and

- maintaining and developing the Group's brand and reputation.

Further, the acquisition and joint ventures with domestic and overseas companies expose the Group to various management risks and a failure to integrate the businesses post-acquisition may adversely impact the Group's business. Please see "*If the growth of the Group's business through acquisitions and joint ventures does not succeed or the Group experiences difficulties in integrating its acquisitions, the Group may have difficulty in managing its international operations, which could result in a material adverse effect on its operations and financial condition*" for further details.

If the Group is not able to manage future growth successfully, its business, financial condition, results of operations and prospects could be materially and adversely affected.

If the Group violates environmental regulations, it may be subject to fines or restrictions that could cause its operations to be delayed or interrupted and its business to suffer.

The Group is subject to a variety of laws and regulations in all of the jurisdictions in which it has production facilities relating to the use, storage, discharge and disposal of chemical by-products of, and water used in, the Group's manufacturing processes. If more stringent compliance standards under environmental laws or regulations are imposed, or the results of future testing and analyses at the Group's operating facilities indicate that the Group is responsible for the release of hazardous substances, it may be subject to additional remediation liability. For instance, the PRC government has gradually announced various policies, notices, rules, and measures to promote low energy consumption and environmentally friendly products. Although the Group has not suffered material environmental claims in the past, any failure to comply with any present or future regulations could result in the assessment of damages or imposition of fines against the Group, suspension of production or a cessation of operations. Some companies of the Group are now in the process of applying for or renewing their pollutant discharge permit. In addition, environmental regulations could require the Group to acquire costly equipment or to incur other significant compliance expenses. Future changes to existing environmental regulations or unknown contamination of the Group's sites, including contamination by prior owners and operators of the Group's sites, may give rise to additional compliance-related costs or potential exposure to liability for environmental claims that may seriously affect the Group's business, financial condition and results of operations.

The Group may be involved in legal and other proceedings arising from its operations from time to time.

The Group has a significant number of subsidiaries, a complex management structure and a highly extensive business scope. The Group therefore faces severe challenges to manage cross-cultural and cross-border business and the Group, its directors and officers may be involved, from time to time, in disputes with various parties in the ordinary course of its operations and other corporate actions. These disputes may lead to legal and other proceedings, and may cause the Group to suffer significant costs and delays. In addition, the Group may have compliance issues with or different interpretations of certain regulations from regulatory bodies and governmental authorities in the course of the Group's operations, which may subject it to administrative proceedings and unfavourable decrees that may result in financial losses and in delays in its projects. Actions brought against the Group, its directors and officers may result in settlements, injunctions, fines, penalties or other results adverse to the Group. In addition, the Group may have to advance legal costs associated with such disputes, including fees relating to appraisal, notarisation, auction, execution and counsel's legal services. The Group may be involved in other proceedings or disputes in the future that may have an adverse effect on its business, financial condition, results of operations or cash flows.

The Group operates, invests in and provides services in many countries globally, and is therefore subject to complex legal and regulatory requirements in many jurisdictions. This includes tariffs, trade barriers and requirements relating to withholding taxes on remittances and other payments, as well as the risk of regulatory or litigation action by regulators or private parties. Any such regulatory and legal action against the Group or restrictions on the Group in any jurisdiction may have a material adverse effect on the Group's reputation, financial condition and results of operations.

As at the date of this Offering Circular, to the best of the Group's knowledge, none of the members of the Group were involved in any litigation or arbitration proceedings which are material in the context of the offering of the Notes and the Group is not aware of any such litigation or proceedings pending or threatened against it or its subsidiaries which are material in the context of the offering of the Notes.

If the Group fails to identify and address conflicts of interest appropriately, the Group's business could be adversely affected.

As the Group expands the scope of its business and its client base, it is critical for the Group to be able to address potential conflicts of interest, including situations where two or more interests within its business legitimately exist but are in competition or conflict. The Group has internal control and risk management procedures that are designed to identify and address conflicts of interest. However, appropriately identifying and dealing with potential conflicts of interest is complex and difficult. The Group's failure to manage conflicts of interest could harm its reputation and erode client confidence in it. In addition, potential or perceived conflicts of interest may also give rise to litigation or regulatory actions. Any of the foregoing could adversely affect the Group's business, financial condition and results of operations.

Employee or third parties' misconduct could harm the reputation and business of the Group and is difficult to detect and deter.

Fraud or other misconduct committed by employees, representatives, agents, clients or other third parties (such as unauthorised business transactions and breaches of its internal policies and procedures) may be difficult to detect and prevent and could subject the Group to violation of law, regulatory sanctions and material reputational or financial harm. The Group's risk management systems, IT systems and internal control procedures are designed to monitor its operations and overall compliance. However, it may be unable to identify non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud or other misconduct and the precautions the Group takes to prevent and detect such activities may not be effective. Failure to detect and prevent fraud and other misconduct may materially and adversely affect the Group's reputation, business, financial condition and results of operations.

The Group's failure to protect its intellectual property rights may undermine its competitive position, and litigation to protect the Group's intellectual property rights may be costly and may not be resolved in its favour.

The Group seeks to protect its proprietary manufacturing processes, documentation and other written materials primarily through intellectual property laws and contractual restrictions. The Group currently relies on a combination of patents, trademarks, trade secrets, contractual provisions and copyright laws to protect its intellectual property rights. The Group will only be able to protect its technologies, processes and products from unauthorised use by third parties to the extent that valid and enforceable intellectual property protections cover them. In the event that the Group's applications do not adequately describe, enable or otherwise provide coverage for its technologies, processes or products, it will not be able to exclude others from developing or commercialising these technologies, processes and products. The steps taken by the Group to protect its proprietary information may not be adequate to prevent misappropriation of its technologies. In addition, the Group's proprietary rights may not be adequately protected as:

- people may not be deterred from misappropriating the Group's technologies despite the existence of laws or contracts prohibiting it; and

- policing unauthorised use of the Group's intellectual property may be difficult, and it may be unable to determine the extent of any unauthorised use.

Despite the Group's precautions, there is no assurance that third parties will not infringe its intellectual property rights. If the Group is unable to secure the relevant trade name or trademark rights to its existing or new brands, it could incur substantial costs in pursuing any claims relating to trade name or trademark infringements. Issues relating to intellectual property rights can be complicated and there is no assurance that disputes will not arise or that any disputes in relation to the Group's trademarks or brand names will be resolved in its favour, and the Group's reputation, profitability and results of operations may be adversely affected.

Any adverse determination of the infringement or misappropriation claims by third parties and claims by regulators which the Group may be exposed to may cause it to lose significant rights and pay significant damages and penalties.

The Group's success depends in part on its ability to use and develop its technology and know-how without infringing the intellectual property rights of third parties. Due to the nature of the industries in which the Group operates, it may from time to time be involved in infringement and misappropriation claims by third parties and the Group cannot assure that it will not be subject to such claims in the future. Moreover, because patent applications in many jurisdictions are kept confidential for 18 months before they are published, the Group may be unaware of another persons' pending patent applications that relate to its products or processes. The defence and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time-consuming and may significantly divert the efforts and resources of the Group's technical and management personnel. An adverse determination in any such litigation or proceedings to which the Group may become a party could subject it to significant liability to third parties, require it to seek licenses from third parties, to pay ongoing royalties, or to redesign its products or subject it to injunctions prohibiting the manufacture and sale of its products or the use of its technologies. In addition, there is a risk that some of the Group's confidential information could be compromised by disclosure during intellectual property litigation. There could also be public announcements throughout the course of intellectual property litigation or proceedings as to the results of hearings, motions or other interim proceedings or developments in the litigation, any of which could materially harm the Group's reputation. Protracted litigation could also result in the Group's customers deferring or limiting their purchase or use of the Group's products until resolution of such litigation. The occurrence of any of the foregoing could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, if the Group is found to have violated certain laws and regulations, such as antitrust and competition laws, it may be subject to severe fines or penalties that would have a material adverse effect on its business, financial condition and results of operations.

If the growth of the Group's business through acquisitions and joint ventures does not succeed or the Group experiences difficulties in integrating its acquisitions, the Group may have difficulty in managing its international operations, which could result in a material adverse effect on its operations and financial condition.

The Group has been actively seeking business opportunities, such as the proposed takeover of KUKA Aktiengesellschaft ("**KUKA**") which was announced by the Group on 24 November 2021, in order to enhance its market share and competitiveness in its core business areas. The Group's ability to grow through acquisitions and joint ventures will depend on, among other things:

- general market conditions;
- potential ongoing financial obligations and unforeseen or hidden liabilities of the Group's acquisition targets or joint ventures;

- the availability of suitable acquisition targets at acceptable prices;
- its ability to attract and reach agreements with acquisition targets or joint venture partners on commercially reasonable terms;
- whether the required governmental approvals will be granted; and
- the availability of financing, if needed, to complete acquisitions or joint ventures.

The acquisitions or joint ventures the Group may make or enter into in the future as part of its strategic growth (including, in particular, the proposed takeover of KUKA) also involve uncertainties and a number of risks, including:

- difficulty with integrating and consolidating the assets, operations and technologies of the acquired businesses, including their employees, corporate cultures, managerial systems, processes and procedures and management information systems and services;
- complying with laws, regulations and policies applicable to the acquired businesses;
- failure to achieve the anticipated synergies, cost savings or revenue-enhancing opportunities resulting from the acquisition of new businesses and operating those businesses at a level of profitability acceptable to the Group;
- potential short-term and/or long-term impact to the margins and profitability achievable by the Group;
- potential impact on the Group's capital structure, financing capacity and ability to repay debt;
- managing relationships with employees, customers and business partners during the course of integration of new businesses;
- attracting, training and motivating members of its management and workforce;
- diverting significant management attention and resources from its other businesses;
- strengthening its operational, financial and management controls, particularly those of its newly acquired assets and subsidiaries, to maintain the reliability of its reporting processes; and
- difficulty with exercising control and supervision over the newly acquired operations, including failure to implement the Group's risk management procedures resulting in potential risks.

In January 2017, the Group acquired an 81.04 per cent. stake in KUKA, making its total shareholding 94.55 per cent. Since then, the Group has utilised KUKA's technical skills to its advantage to continue to work towards becoming an internationally leading technology company. The Group has also set up a joint venture with KUKA to explore the industrial robot, medical and storage warehousing sectors in the PRC. However, the benefits of the acquisition or joint venture will take a considerable amount of time to materialise, and the Group is still in the process of post-acquisition adjustments in relation to key aspects such as management, firm culture and operations. Such integration could place a significant strain on the Group's managerial, operational and financial resources and there is no assurance that any particular acquisition or joint venture will achieve the intended benefits. The Group can give no assurance that it will not have difficulties in assimilating the operations, technologies, services and products of newly acquired companies or businesses. In the event that the Group is unable to do so effectively, it may be unable to achieve the objectives or anticipated synergies of such acquisitions and such acquisitions may adversely impact the operations, financial results and reputation of its existing businesses. In addition, the Group may face potential legal claims with respect to any of its acquired subsidiaries relating to matters having taken place prior to the acquisitions which the Group did not become aware of during its preparation for the acquisitions and for which the Group bears legal responsibility after the acquisitions.

Further, the success of joint ventures is also dependent on current global economic conditions. For example, in a global economic downturn, the Group's joint ventures may need to raise more funds in order to continue to meet their obligations and there is no assurance that such funds will be successfully raised. In addition, as the Group is expanding internationally, it may encounter additional challenges which may adversely affect the Group's business, financial condition and results of operations. Please see "*The Group's overseas expansion may be subject to the risks associated with relevant businesses*" for further details. Moreover, the PRC government may issue policies which could have a significant influence over many aspects of the economy from time to time. There is no assurance that the Group's outbound investments and international operations will not be restricted or adversely affected by such policies in the future.

In addition, the Group will review and optimise its business portfolio from time to time, including implementing exit plans for its investments in business segments, in accordance with its development strategies. There is no assurance that the Group will successfully implement its investment exit strategies and/or restructure its business portfolio in the future. The Group will take into account the following factors when reviewing its investment exit strategies:

- general market conditions;
- the availability of different methods of exit and the associated risks;
- the projected investment gain, as updated during the entire lifecycle of the investment; and
- the impact on the Group's financial results and cash flow.

In the event that the Group is unable to make and implement investment exit decisions that adequately address its needs of business restructuring and optimisation, the Group's business, financial condition, results of operation and prospects might be adversely affected.

The Group derives a small amount of business from international operations that are subject to foreign economic and political uncertainties and security risks.

As a leading white goods manufacturer, the Group has business dealings in foreign jurisdictions, including in countries and territories that are subject to rapidly changing economic and political conditions beyond the Group's control. The Group intends to continue exploring business opportunities in selected foreign markets and to strategically expand its global footprint. As a result, the Group is exposed to various risks associated with conducting businesses overseas. Please see "*The Group's overseas expansion may be subject to the risks associated with relevant businesses*" for further details.

Some of the Group's services are performed in jurisdictions that are subject to political, social or economic risks, or war or civil unrest. In those jurisdictions where the Group has employees or operations, the Group may incur substantial costs to implement safety and security measures to protect its personnel and assets. Such measures may not always be adequate.

Furthermore, there may be sanctions imposed by certain countries against transactions with other countries in which the Group conducts businesses, such as Belarus and Russia, which may limit the Group's ability to obtain funding for certain overseas projects. The Group's dealings with such countries have been mainly in connection with the sale of white goods through a joint venture company (where its minority partner is owned by a government entity), third-party vendors and distributors (including agents and distributors who are residents in such sanctioned countries) and a subsidiary. In addition, the Group has employees who are employed by the Group's joint venture company in Belarus and its wholly-owned subsidiary in Russia. For each of the years ended 31 December 2020, 2019 and 2018, the Group's revenue attributable to such business operations in all sanctioned countries contributed to less than 1 per cent. of the Group's consolidated revenue in each of the three years.

The Group consists of a large number of companies in multiple business lines and is subject to challenges not found in companies with a single business line and the Group's expanding range of products, services and business activities may also expose it to new risks.

The Group consists of portfolio companies operating in a variety of industries in multiple jurisdictions. Due to the diverse characteristics of the Group's portfolio companies and the multiple jurisdictions involved, it faces challenges not found in companies with a single business line.

In particular, the Group is exposed to business, market and regulatory risks relating to different industries. It needs to devote substantial resources to monitor changes in different operating environments so that it can react with appropriate strategies that fit the needs of the portfolio companies affected.

In addition, due to its large number of portfolio companies involved, successful operation of the Group requires an effective management and internal control system that emphasises proper authorisations, reliability and accountability of financial reporting, imposes financial and internal control disciplines on portfolio companies, and creates value-focused incentives for management. As the Group continues to grow its businesses, its operations will become more widespread and complex. Expansion of its business activities exposes the Group to a number of risks and challenges, including:

- insufficient experience or expertise in certain new products and services and dealing with new counterparties and customers, which may prevent it from effectively competing in these areas;
- stricter regulation and increased credit risks, market risks and operational risks;
- failure to achieve investment returns from its new businesses;
- imitation or replication of its new products and services by its competitors;
- failure of its new products and services to be accepted by its customers or meet the expected targets;
- failure to make accurate analysis or judgment on market conditions of its new business;
- inability to hire additional qualified personnel or to hire personnel on commercially reasonable terms;

- insufficient financial, operational, management and other human resources to support its expanded range of products and services;

- failure to obtain sufficient financing from internal and external sources to support the Group's business expansion;

- failure to enhance the Group's risk management capabilities and IT systems in a timely manner to support new businesses and a broader range of products and services;

- inability to obtain regulatory approvals for its new products or services;

- increasing difficulty for the Group to direct and monitor day-to-day operations of its businesses;

- increasing difficulty in preventing and detecting fraud and protecting the Group's assets, both physical and intangible; and

- unsuccessful attempts to enhance its risk management and internal control capabilities and IT systems to support a broader range of products and services.

The Group's planned expansion is based on its forward-looking assessment of market prospects. There is no assurance that the Group's assessments will turn out to be accurate. If the Group is not able to successfully expand into or grow new products, services and related business areas due to the risks as mentioned or to achieve the intended results with respect to its business expansion, its business, financial condition and results of operations may be materially and adversely affected.

Further, the Group's portfolio companies in different operating segments may determine that it is in their shareholders' interests to pursue new business ventures. There is no assurance that such business ventures will be successful or generate the synergies expected, if any. The successful completion of this type of transaction will depend on several factors, including satisfactory due diligence findings and the receipt of necessary regulatory approval, among others. If the Group fails to complete such business ventures or such ventures prove to be unsuccessful, the Group's operating segments may be adversely affected.

The Group depends on attracting and retaining key personnel.

The success of each of the Group's businesses depends to a large extent upon, among other factors, the continued service of its respective key senior management, and its skilled technical, research and development, managerial and sales personnel and on the ability of its businesses to continue to attract, retain and motivate such personnel. A change in the senior management or the loss of the services of senior management or other key personnel or the inability to attract new qualified personnel could limit the Group's competitiveness, interrupt its production processes, reduce its manufacturing quality and cause customer dissatisfaction, all of which could lead to reduced profitability. Furthermore, the future growth of the Group's businesses will require the recruitment of additional skilled personnel. The competition for employees is intense and if the Group is not able to recruit additional skilled personnel as required, its business and its ability to continue to grow could be harmed.

There is no assurance that the Group will be able to obtain necessary financing to fund future capital expenditures.

The Group's businesses may require it to make substantial capital expenditures. In addition, the Group may elect to enter into new businesses which require substantial initial capital expenditures. These capital expenditures may be made in advance of any additional sales to be generated by the expanded or new businesses. The Group may in the future incur operating losses if revenues do not adequately offset capital expenditures. Such capital expenditures likely would be funded with proceeds from existing cash and cash equivalent balances and lines of credit, together with existing and future bank, capital market and other financings. However, in the event of adverse market conditions in the future or adverse changes in the Group's businesses, the Group may need to secure additional financing from external sources. There can be no assurance that external sources of liquidity will be available to fund the Group's ongoing operations or capital expenditures associated with any expansion plans or spending on new businesses. The failure to obtain financings could hinder the Group's ability to make investments in product development, expansion plans or new businesses, which could materially and adversely affect the Group's business, financial condition and results of operations.

RISK RELATING TO PRC

PRC economic, political and social conditions, as well as government policies, could affect the Group's business.

The economy of the PRC differs from the economies of most developed countries in many respects, including, but not limited to:

- political structure;
- level of government involvement;
- level of development;
- growth rate;
- foreign exchange;
- control of foreign exchange; and
- allocation of resources.

While the PRC economy has grown significantly in the past 30 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also negatively affect the Group's operations. For example, the Group's financial condition and results of operations may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to the Group. The PRC economy has been transitioning from a planned economy to a market-oriented economy. For the past three decades, the PRC government has implemented economic reform measures emphasising utilisation of market forces in the development of the PRC economy. Although the Guarantor believes these reforms will have a positive effect on the Group's overall and long-term development, it cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies could have any adverse effect on the Group's current or future business, results of operations or financial condition.

Uncertainty with respect to the PRC legal system could affect the Group.

As a substantial part of the Group's businesses are conducted, and a substantial part of the Group's assets are located, in the PRC, the Group's operations are governed principally by PRC laws and regulations. The PRC legal system is based on written statutes while prior court decisions can only be cited as reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation, foreign exchange and trade, with a view to developing a comprehensive system of commercial law. However, China has not developed a fully integrated legal system and recently enacted laws and regulations that may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based, in part, on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, the Group may not be aware of the Group's violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management's attention.

For example, the NDRC issued NDRC Circular on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, domestic enterprises and/or their overseas controlled entities shall procure the registration of any debt securities issues outside the PRC with the NDRC prior to the issue of the securities and notify the particulars of the relevant issues within 10 working days after the completion of the issue of the securities. The NDRC Circular is silent on the legal consequences of non-compliance with the pre-issue registration requirement. In the worst case, it might become unlawful for the Issuer to perform or comply with any of its obligations under the Notes and the Notes might be subject to enforcement as provided in Condition 8 (*Events of Default*) of the Terms and Conditions of the Notes. Potential investors of the Notes are advised to exercise due caution when making their investment decisions. Similarly, there is no clarity on the legal consequences of non-compliance with the post-issue notification requirement under the NDRC Circular. The Guarantor has undertaken to notify the NDRC of the particulars of the issue of the Notes within the prescribed period under the NDRC Circular.

It may be difficult to enforce any judgments obtained from non-PRC courts against the Group or its directors and senior management who reside in the PRC.

A substantial part of the Group's assets are located within the PRC. In addition, most of the Group's directors and senior management reside within China, and assets of the directors and senior management may also be located within China. As a result, it may not be possible to effect service of process outside China upon most of the Group's directors and senior management, including for matters arising under applicable securities law. A judgment of a court of another jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with China or if judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requirements. However, China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts in connection with the civil and commercial cases with many countries, including Japan, the United States and the United Kingdom. Therefore, it may be difficult for investors to enforce any judgments obtained from non-PRC courts against the Group, the Guarantor, any of their respective directors or senior management in the PRC.

The Group's labour costs may increase for reasons such as the implementation of the PRC Labour Contract Law or inflation in the PRC.

The PRC Labour Contract Law (中華人民共和國勞動合同法) became effective on 1 January 2008 in the PRC and was amended on 28 December 2012. It imposes more stringent requirements on employers in relation to entry into fixed-term employment contracts and dismissal of employees. Pursuant to the PRC Labour Contract Law, the employer is required to make compensation payment to a fixed-term contract employee when the term of their employment contract expires, unless the employee does not agree to renew the contract even though the conditions offered by the employer for renewal are the same as or better than those stipulated in the current employment contract. In general, the amount of compensation payment is equal to the monthly wage of the employee multiplied by the number of full years that the employee has worked for the employer. A minimum wage requirement has also been incorporated into the PRC Labour Contract Law. In addition, unless otherwise prohibited by the PRC Labour Contract Law or objected to by the employees themselves, the employer is also required to enter into non-fixed-term employment contracts with employees who have previously entered into fixed-term employment contracts for two consecutive terms or have been working for the employer for more than ten years.

In addition, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which became effective on 1 January 2008, employees who have worked continuously for more than one year are entitled to paid annual leave ranging from 5 to 15 days, depending on the length of the employees' work time. Employees who consent to waive such vacation at the request of employers shall be compensated an amount equal to three times their normal daily salaries for each vacation day being waived. Under the National Leisure and Tourism Outline 2013-2020 (國民旅遊休閒綱要2013-2020) which became effective on 2 February 2013, the workers shall basically receive paid annual leave by 2020. As a result of the PRC Labour Contract Law, the Regulations on Paid Annual Leave for Employees and the National Leisure and Tourism Outline 2013-2020, the Group's labour costs (inclusive of those incurred by contractors) may increase. Further, under the PRC Labour Contract Law, when an employer terminates its PRC employees' employment, the employer may be required to compensate them for such amount which is determined based on their length of service with the employer, and the employee may not be able to efficiently terminate non-fixed-term employment contracts under the PRC Labour Contract Law without cause. In the event the Group decides to significantly change or decrease its workforce, the PRC Labour Contract Law could adversely affect its ability to effect these changes in a cost-effective manner or in the manner that the Group desires, which could result in an adverse impact on the Group's businesses, financial condition and results of operations.

Further, if there is a shortage of labour or for any reason the labour cost in the PRC rises significantly, the costs of production of the Group's products is likely to increase. This may in turn affect the selling prices of the products and services, which may then affect the demand of such products and services and thereby adversely affect the Group's sales and financial condition. Increase in costs of raw materials and other components required for the Group's business operation may cause similar adverse effects, particularly if the Group is unable to identify and employ other appropriate means to reduce the costs. In such circumstances, the profit margin may decrease and the financial results may be adversely affected.

In addition, inflation in the PRC has increased in recent years. Inflation in the PRC increases the costs of labour and the costs of raw materials the Group must purchase for production. Rising labour costs may increase the Group's operating costs and partially erode the cost advantage of the Group's PRC based operations and therefore negatively impact the Group's profitability.

Any future occurrence of natural disasters or outbreaks of contagious diseases in China may have a material adverse effect on the Bank's business operations, financial condition and results of operations.

Any future occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, or SARS, swine flu caused by H1N1 virus, or H1N1 flu, H7N9 bird flu, Ebola virus disease, or Ebola, and Middle East respiratory syndrome, MERS, or COVID-19 may materially and adversely affect the Group's business and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Group's business. Moreover, China has experienced natural disasters like earthquakes, floods and drought in the past few years. Any future occurrence of severe natural disasters in China may adversely affect its economy and in turn the Group's business. There is no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, SARS, H1N1 flu, H7N9 bird flu, Ebola, MERS, COVID-19 or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of avian influenza, SARS, H1N1 flu, H7N9 bird flu, Ebola, MERS, COVID-19 or other epidemics, will not seriously interrupt the Group's operations or those of the Group's customers, which may have a material adverse effect on results of the Group's operations.

Government control of currency conversion may adversely affect the value of the investments in the Notes.

A substantial part of the Group's revenue is denominated in Renminbi, which is also the reporting currency of the Group. Renminbi is not a freely convertible currency. A portion of the Group's cash may be required to be converted into other currencies in order to meet the Group's foreign currency needs, including cash payments on declared dividends, if any, on the Notes.

However, the PRC government may restrict future access to foreign currencies for current account transactions at its discretion. If this were to occur, the Group might not be able to pay dividends to the holders of the Notes in foreign currencies. On the other hand, foreign exchange transactions under capital account in the PRC continue to be not freely convertible and require the approval of the SAFE. If the Group fails to obtain SAFE's approval to convert Renminbi into foreign currencies for such purposes, its capital expenditure plans, business operations and consequently its results of operations and financial condition could be materially and adversely affected.

Fluctuations in the value of Renminbi may have an adverse effect on the Group's financial condition and results of operations.

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. Recently, the People's Bank of China (the "**PBOC**") implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. All payments of interest and principal will be made in Renminbi with respect to the Notes unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the Notes in that foreign currency will decline. The Group's turnover and costs are mostly denominated in Renminbi, and a significant portion of the Group's financial assets are also denominated in Renminbi. Any fluctuation in the exchange rate between Renminbi and foreign currencies could result in foreign currency translation losses for financial reporting purposes.

RISKS RELATING TO THE NOTES AND THE GUARANTEE OF THE NOTES

The Issuer has no material assets or business activities and its ability to make payments under the Notes will depend on timely payments under on-lent loans of the proceeds from the issue of the Notes.

The Issuer has no material assets or business activities. The Issuer is an offshore financing platform of the Guarantor. Upon the issue of the Notes, the Issuer will on-lend the net proceeds from the issue of the Notes to the Guarantor or any subsidiary of the Guarantor. Accordingly, the Issuer's ability to make payments under the Notes will depend on its receipt of distributions of dividends from its own subsidiaries and timely remittance of funds from the Guarantor or any subsidiary of the Guarantor. In the event that the subsidiaries of the Guarantor do not make any payments due under such on-lent loans as a result of restrictions in loans or other agreements, lack of available cash flow or other factors, the Issuer's ability to make payments under the Notes may be adversely affected.

The Notes and the Guarantee of the Notes are unsecured obligations.

As the Notes and the Guarantee of the Notes are unsecured obligations, their repayment may be compromised if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's or the Guarantor's secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or, as the case may be, the Guarantor's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

If the Guarantor fails to submit the Deed of Guarantee for registration with SAFE or complete the SAFE registration in connection with the Guarantee of the Notes within the time period prescribed by SAFE, there may be logistical hurdles for cross-border payment under the Guarantee of the Notes.

Under the Guarantee of the Notes, the Guarantor will unconditionally and irrevocably guarantee the due payment in full of all sums expressed to be payable by the Issuer under the Notes. The obligations of the Guarantor will be contained in the Deed of Guarantee.

The Guarantor is required by the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) to register the Guarantee of the Notes and will register the Deed of Guarantee with SAFE or its local counterpart within 15 PRC Business Days after the date of execution of the Deed of Guarantee. SAFE may impose penalties on the Guarantor. The Guarantor intends to use it best endeavours to complete the registration of the Deed of Guarantee as soon as practicable and in any event within 90 PRC Business Days after the Issue Date. If the Guarantor fails to complete the SAFE registration, there may be logistical hurdles at the time of remittance of funds (if any cross-border payment is to be made by the Guarantor under the Guarantee of the Notes) as domestic banks would require evidence of SAFE registration in connection with the Guarantee of the Notes in order to effect such remittance, although this does not affect the validity of the Guarantee of the Notes itself.

The Provisions on the Foreign Exchange Administration of Cross-Border Guarantees, its interpretation may involve significant uncertainty, which may adversely affect the enforceability and/or effective performance of the Guarantee of the Notes in China. In addition, the administration of the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees may be subject to a certain degree of executive and policy discretion by SAFE. There is no assurance that the registration of the Guarantee of the Notes with SAFE can be completed by the Guarantor or will not be revoked or amended in the future or that future changes in the laws and regulations in China will not have a negative impact on the enforceability of the Guarantee of the Notes in China.

Modifications and waivers may be made in respect of the Terms and Conditions of the Notes by less than all of the Noteholders, and decisions may be made on behalf of all Noteholders that may be adverse to the interests of the individual Noteholders.

The Terms and Conditions of the Notes contain provisions for calling meetings of the Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including those Noteholders who did not attend and vote at the relevant meeting and those Noteholders who voted in a manner contrary to the majority. There is a risk that the decision of the majority of Noteholders may be adverse to the interests of the individual Noteholders.

The Terms and Conditions of the Notes also provide that the Notes, the Terms and Conditions of the Notes, the Deed of Covenant and the Deed of Guarantee may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer and Guarantor shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

The Notes may not be a suitable investment for all investors.

The Notes are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

An active trading market for the Notes may not develop.

The Notes is a new issue of securities for which there is currently no trading market. Application will be made to the Hong Kong Stock Exchange for the Notes to be admitted for trading on the Hong Kong Stock Exchange. No assurance can be given that an active trading market for the Notes will develop or as to the liquidity or sustainability of any such market, the ability of Noteholders to sell their Notes or the price at which Noteholders will be able to sell their Notes. In addition, one or more initial investors of the Notes may purchase a significant portion of the aggregate principal amount of the Notes pursuant to the Offering. The existence of any such significant Noteholder(s) may reduce the liquidity of the Notes in the secondary trading market. Accordingly, there can be no assurance as to the liquidity of the Notes or that an active trading market will develop. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Group's operations and the market for similar securities. The Joint Lead Managers are not obliged to make a market in the Notes and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, Noteholders will only be able to resell their Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

The liquidity and price of the Notes following the Offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the Group's turnover, earnings and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price for comparable companies, government regulations and changes thereof applicable to the department store industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. There is no assurance that these developments will not occur in the future.

Developments in other markets may adversely affect the market price of the Notes.

The market price of the Notes may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Notes is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issues in other countries, including the PRC. Since the global financial crisis in 2008 and 2009, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Notes could be adversely affected.

The Issuer will follow the applicable corporate disclosure standards for debt securities listed on the Hong Kong Stock Exchange, which standards may be different from those applicable to companies in certain other countries.

The Issuer will be subject to reporting obligations in respect of the Notes to be listed on the Hong Kong Stock Exchange. The disclosure standards imposed by the Hong Kong Stock Exchange may be different than those imposed by securities exchanges in other countries or regions. As a result, the level of information that is available may not correspond to what Noteholders are accustomed to.

The rating of the Notes may be downgraded or withdrawn.

The Notes is expected to be assigned a rating of "A" by S&P and "A" by Fitch. The rating represents only the opinions of the rating agency and its assessment of the ability of the Issuer and the Guarantor to perform their respective obligations under the Notes and the Guarantee of the Notes and their credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawn at any time. Neither the Issuer nor the Guarantor is obligated to inform Noteholders if the rating is lowered or withdrawn. A downgrade or withdrawal of the rating may materially and adversely affect the market price of the Notes and the Issuer's ability to access the debt capital markets.

Any downgrading of the Guarantor's corporate ratings, or those of its subsidiaries, by rating agencies could adversely affect the Group's business and the Group's liquidity.

Any adverse revision to the Guarantor's corporate ratings, or those of its subsidiaries, for domestic and international debt by rating agencies such as Fitch and S&P may adversely affect the Group's business, its financial performance and the trading price of the Notes. Further, the Group's ability to obtain financing or to access to capital markets may also be limited, thereby lowering its liquidity.

Changes in interest rates may have an adverse effect on the price of the Notes.

The Noteholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Notes, resulting in a capital loss for the Noteholders. However, the Noteholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Notes may rise. The Noteholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

Investment in the Notes is subject to exchange rate risks.

Investment in the Notes is subject to exchange rate risks. The value of the U.S. dollars against the Renminbi and other foreign currencies fluctuates and is affected by changes in the United States and international political and economic conditions and by many other factors. All payments of interest and principal with respect to the Notes will be made in U.S. dollars. As a result, the value of these U.S. dollars payments may vary with the prevailing exchange rates in the marketplace. If the value of the U.S. dollars depreciates against the Renminbi or other foreign currencies, the value of a Noteholder's investment in Renminbi or other applicable foreign currency terms will decline.

The Issuer may be unable to redeem the Notes.

On certain dates, including the occurrence of an early redemption event on a Change of Control or No Registration Event and at maturity of the Notes, the Issuer may, and at maturity, will be required to redeem all of the Notes. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. Failure to redeem the Notes by the Issuer, in such circumstances, would constitute an event of default under the Notes, which may also constitute a default under the terms of other indebtedness of the Guarantor and its subsidiaries.

The Notes may be redeemed at the Issuer's option.

The Issuer has the right to redeem the Notes, in whole but not in part, at a price equal to their Make Whole Amount (as defined in the Terms and Conditions of the Notes). See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption at the Option of the Issuer*" in this Offering Circular. The date that the Issuer elects to redeem the Notes may not accord with the preference of individual Noteholders, which may be disadvantageous to Noteholders in light of market conditions or the individual circumstances of the Noteholders. Additionally, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective yield at the same level as that of the Notes.

The Notes and the Guarantee of the Notes will be structurally subordinated to the existing and future indebtedness and other liabilities of the Issuer's and the Guarantor's existing and future subsidiaries, other than the Issuer, and effectively subordinated to the Issuer's and the Guarantor's secured debt to the extent of the value of the collateral securing such indebtedness.

The Notes and the Guarantee of the Notes will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Issuer's and the Guarantor's existing and future subsidiaries, other than the Issuer, whether or not secured. The Notes will not be guaranteed by any of the Issuer's and the Guarantor's subsidiaries, and the Issuer and the Guarantor may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to the Issuer or the Guarantor. The ability of such subsidiaries to pay dividends or otherwise transfer assets to the Issuer and the Guarantor is subject to various restrictions under applicable law. Each of the Issuer's and the Guarantor's subsidiaries are separate legal entities that have no obligation to pay any amounts due under the Notes or the Guarantee of the Notes or make any funds available therefore, whether by dividends, loans or other payments.

The Issuer's and the Guarantor's right to receive assets of any of the Issuer's and the Guarantor's subsidiaries, respectively, upon that subsidiary's liquidation or reorganisation will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Issuer or the Guarantor are creditors of that subsidiary). Consequently, the Notes and the Guarantee of the Notes will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any of the Issuer's and the Guarantor's subsidiaries, other than the Issuer, and any subsidiaries that the Issuer or the Guarantor may in the future acquire or establish.

The Notes and the Guarantee of the Notes are the Issuer's and the Guarantor's unsecured obligations, respectively, and will (i) rank equally in right of payment with all the Issuer's and the Guarantor's other present and future unsecured indebtedness; (ii) be effectively subordinated to all of the Issuer's and the Guarantor's present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's and the Guarantor's present and future subordinated obligations. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will be prior with respect to those assets. In the event of the Issuer's or the Guarantor's bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Notes, these assets will be available to pay obligations on the Notes only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Noteholders rateably with all of the Issuer's or the Guarantor's other unsecured creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the Notes then outstanding would remain unpaid.

The insolvency laws of the British Virgin Islands, the PRC and other local insolvency laws may differ from those of another jurisdiction with which the Noteholders are familiar.

As the Issuer is incorporated under the laws of the British Virgin Islands, any insolvency proceeding relating to the Issuer, even if brought in other jurisdictions, would likely involve the British Virgin Islands insolvency laws. Similarly, as the Guarantor is incorporated under the laws of the PRC, any insolvency proceeding relating to the Guarantor, even if brought in other jurisdiction, would likely involve PRC's insolvency laws. The procedural and substantive provisions of the laws of the British Virgin Islands or PRC may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Noteholders are familiar.

If the Issuer or the Guarantor is unable to comply with the restrictions and covenants in their respective debt agreements, there could be a default under the terms of these agreements, which could cause repayment of their respective debt to be accelerated.

If the Issuer or the Guarantor is unable to comply with their respective current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the Noteholders could terminate their commitments to lend to the Issuer and the Guarantor, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of the Issuer's or the Guarantor's debt agreements contain cross-acceleration or cross-default provisions. As a result, the Issuer's or the Guarantor's default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under the Issuer's or the Guarantor's other debt agreements. If any of these events occur, the Issuer and the Guarantor cannot assure Noteholders that their respective assets and cash flows would be sufficient to repay in full all of their respective indebtedness, or that the Issuer and the Guarantor would be able to find alternative financing. Even if they could obtain alternative financing, they cannot assure Noteholders that it would be on terms that are favourable or acceptable to them.

The Notes will be represented by a Global Note Certificate and holders of a beneficial interest in the Global Note Certificate must rely on the procedures of the Clearing Systems.

The Notes will be represented by beneficial interests in a Global Note Certificate. The Global Note Certificate will be deposited with a common depositary for Euroclear and Clearstream. Except in the circumstances described in the Global Note Certificate, investors will not be entitled to receive individual note certificates. The Clearing System will maintain records of the beneficial interests in the Global Note Certificate. While the Notes are represented by the Global Note Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by the Global Note Certificate, the Issuer, or failing which, the Guarantor will discharge its payment obligations under the Notes by making payments to the relevant Clearing System for distribution to their accountholders.

A holder of a beneficial interest in a Global Note Certificate must rely on the procedures of the Clearing System to receive payments under the Notes. Neither the Issuer nor the Guarantor has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificate.

Holders of beneficial interests in the Global Note Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the Clearing System to appoint appropriate proxies.

The Guarantor's subsidiaries, jointly controlled entities and associated companies are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to the Guarantor, its jointly controlled entities and associated companies.

As a holding company, the Guarantor depends on the receipt of dividends and the interest and principal payments on intercompany loans or advances from its subsidiaries, jointly controlled entities and associated companies to satisfy its obligations, including its obligations under the Notes and the Guarantee of the Notes. The ability of the Guarantor's subsidiaries, jointly controlled entities and associated companies to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of these companies, applicable laws and restrictions contained in the debt instruments of such companies.

The Guarantor cannot assure that its subsidiaries, jointly controlled entities and associated companies will have distributable earnings or will be permitted to distribute their distributable earnings to it as it anticipates, or at all. In addition, dividends payable to it by these companies are limited by the percentage of its equity ownership in these companies. Some portfolio companies may conclude that it is in the best interest of their shareholders to retain earnings, if any, for use in the operation and expansion of their businesses. The shareholders or the board of directors of a portfolio company (as the case may be) have the power to determine whether to pay dividends based on conditions then existing, including the company's earnings, financial condition and capital requirements, as well as economic and other conditions the shareholders or the board may deem relevant. In particular, the Guarantor does not maintain complete control over its jointly controlled entities or associates in which it might hold a minority interest. Further, if any of these companies raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to the Guarantor to make payments on the Notes. These factors could reduce the payments that the Guarantor receives from its subsidiaries, jointly controlled entities and associated companies, which would restrict its ability to meet its payment obligations under the Notes and the Guarantee of the Notes.

Under the Enterprise Income Tax Law, the Issuer may be classified as a "resident enterprise" of the PRC. Such classification could result in unfavourable tax consequences to the Issuer and its non- Chinese Noteholders.

Under the Enterprise Income Tax Law (the "**EIT Law**") of the PRC, an enterprise established outside the PRC with a "de facto management body" within the PRC is deemed a "resident enterprise", meaning that it can be treated as a Chinese enterprise for enterprise income tax purposes, although dividends paid from one resident enterprise to another may qualify as "tax-exempt income". The implementing rules of the EIT Law define "de facto management" as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. A circular issued by the State Administration of Taxation (the "**SAT**") on 22 April 2009 (the "**Circular 82**") provides that a foreign enterprise controlled by a company or a company group in the PRC will be treated as a "resident enterprise" with a "de facto management body" located within the PRC if all of the following requirements are satisfied at the same time: (i) the senior management and core management departments in charge of daily operations are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders" meetings are located or kept within the PRC; and (iv) at least half of the enterprise's directors with voting rights or senior management frequently reside within the PRC. On 1 September 2011, the SAT promulgated the Provisional Administrative Regulations of Enterprise Income Taxation of a Foreign Enterprise Controlled by a Chinese Enterprise or a Chinese Enterprise Group (the "**Circular 45**") to further prescribe the rules concerning the recognition, administration and taxation of a foreign enterprise "controlled by a Chinese enterprise or Chinese enterprise group". Circular 45 identifies and defines two ways for a foreign enterprise "controlled by a Chinese enterprise or a Chinese enterprise group" to be treated as a resident enterprise. First, the foreign enterprise may decide on its own whether its de facto management body is located in the PRC based on the criteria set forth in Circular 82, and, if it makes such determination, it shall apply to the competent tax bureau to be treated as a resident enterprise. Second, the tax authority may determine that the foreign enterprise is a resident enterprise after its active investigation.

The Issuer and the Guarantor believe that the Issuer is currently not a "resident enterprise", and as confirmed by the Issuer and the Guarantor, as of the date of this Offering Circular, neither the Issuer nor the Guarantor has been notified or informed by tax authorities in the PRC that the Issuer is considered as a "resident enterprise" for the purpose of the EIT Law. However, neither the Issuer nor the Guarantor can assure Noteholders that the Issuer will not be deemed a "resident enterprise" under the EIT Law and other applicable implementation regulations and, therefore, be subject to enterprise income tax at a rate of 25 per cent. on its global income in the future.

If the Issuer is not considered to be a "resident enterprise" for EIT Law purposes, the payment of interest on the Notes to the non-Chinese resident Noteholders will not be subject to withholding tax in the PRC.

Under the EIT Law and the implementation regulations thereunder, the PRC's withholding tax at a rate of 10 per cent. is normally applicable to income derived in the PRC by non-Chinese resident enterprises or individuals, subject to adjustment by applicable treaty. The EIT Law's implementation regulations further set forth that interest income is viewed as deriving in the PRC if the enterprise or the establishment that pays or bears the interest is situated in the PRC. If the Issuer is deemed a Chinese resident enterprise for tax purposes, interest paid to non-Chinese Noteholders may be regarded as deriving in the PRC and therefore be subject to the PRC's withholding tax at a rate of 10 per cent. for enterprise Noteholders and 20 per cent. for individual Noteholders (or a lower treaty rate, if any).

Any gains realised on the transfer of the Notes by such Noteholders may also be subject to the PRC's income tax at a rate of 10 per cent. for enterprise Noteholders or 20 per cent. for individual Noteholders, if such gains are regarded as having derived in the PRC. According to an arrangement between the PRC and Hong Kong for the avoidance of double taxation, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from the PRC's income tax on capital gains derived from a sale or exchange of the Notes.

If a Noteholder, being a non-Chinese resident enterprise or non-Chinese resident individual, is required to pay any Chinese income tax on capital gains on the transfer of the Notes, the value of the relevant Noteholder's investment in the Notes may be materially and adversely affected.

Due to uncertainties in the interpretation of certain provisions of the new VAT regime, the issuance of the Notes may be treated as provision of loans within the PRC that is subject to VAT, and the Issuer or the Guarantor may be required to withhold VAT and local levies from the payment of interest income to Noteholders who are located outside of the PRC.

On 23 March 2016, the PRC's Ministry of Finance and the SAT jointly issued the Circular of Full Implementation of Business Tax to Value-added Tax Reform (Cai Shui [2016] No. 36) (關於全面推開營業稅改徵增值稅試點的通知) ("**Circular 36**") which confirms that business tax will be completely replaced by value added tax ("**VAT**") from 1 May 2016. With effect from 1 May 2016, the income derived from the provision of financial services which previously attracted business tax are entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within the PRC shall be subject to VAT. The services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon.

It is not clear from the interpretation of Circular 36, if the provision of loans to the Issuer or the Guarantor could be considered as financial services provided within the PRC, which thus could be subject to VAT. Furthermore, there is no assurance that the Issuer will not be treated as Chinese tax residents. the PRC's tax authorities could take the view that the Noteholders are providing loans within the PRC because the Issuer is treated as Chinese tax residents. In which case, the issuance of the Notes could be regarded as the provision of financial services within the PRC that is subject to VAT.

If the PRC's tax authorities take the view that the Noteholders are providing loans within the PRC, then the Noteholders could be regarded as providing financial services within the PRC and consequently, the Noteholders shall be subject to VAT at the rate up to of 6 per cent. when receiving the interest payments under the Notes. In addition, the Noteholders shall be subject to the local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be up to around 6.7 per cent. If the Issuer or the Guarantor pays interest income to Noteholders who are located outside of the PRC, the Issuer (if VAT applicable) or the Guarantor, acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to the Noteholders who are located outside of the PRC.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically the Circular 36 does not apply and the Issuer or the Guarantor does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located within the PRC.

The Circular 36 has been issued quite recently and the above disclosure may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of the Circular 36.

The Notes are redeemable in the event of certain withholding taxes being applicable.

No assurances are made by the Issuer or the Guarantor as to whether or not payments on the Notes may be made without withholding taxes or deductions applying from the Issue Date on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands or the PRC or any subdivision or authority therein or thereof having power to tax. Although pursuant to the Terms and Conditions of the Notes, the Issuer and the Guarantor are required to gross up payments on account of any such withholding taxes or deductions, the Issuer also has the right to redeem the Notes at any time in the event it has or will become obliged to pay additional amounts on account of any existing or future withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands or the PRC (only where such tax or withholding is in excess of the rate applicable on 16 February 2022) or any political subdivision or any authority therein or thereof having power to tax as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or the PRC or any political subdivision or any authority therein or thereof having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 16 February 2022.

The Group may issue additional Notes in the future.

The Group may, from time to time, and without prior consultation of the Noteholders, create and issue further Notes (see "*Terms and Conditions of the Notes – Further Issues*") or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Notes.

Decisions that may be made on behalf of all Noteholders may be adverse to the interests of individual Noteholders.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of Noteholders may be adverse to the interests of the individuals.

Additional procedures may be required to be taken to bring English law governed matters or disputes to the Hong Kong courts and the Noteholders would need to be subject to the exclusive jurisdiction of the Hong Kong courts. There is also no assurance that courts in the PRC will recognise and enforce judgments of the Hong Kong courts in respect of English law governed matters or disputes.

The Terms and Conditions of the Notes and the transaction documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters or disputes, Hong Kong courts may require certain additional procedures to be taken. Under the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香特別行政區法院相互認可和執行當事人協議管轄的民商事案件判斷的安排), judgments of Hong Kong courts are likely to be recognised and enforced by courts in the PRC where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts.

However, recognition and enforcement of a Hong Kong court judgment could be refused if courts in the PRC consider that the enforcement of such judgment is contrary to the social and public interest of China. While it is expected that courts in the PRC will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the courts in the PRC will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the Noteholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the Noteholders' ability to initiate a claim outside of Hong Kong will be limited.

There is no assurance of the accuracy or comparability of facts and statistics contained in this Offering Circular with respect to the PRC, its economy or the relevant industry.

Facts and other statistics in this Offering Circular relating to the PRC, its economy or the relevant industry in which the Group operates have been directly or indirectly derived from official government publications and certain other public industry sources and the Group can guarantee neither the quality nor the reliability of such source materials. They have not been prepared or independently verified by the Issuer, the Guarantor, the Joint Lead Managers, the Agents or any of its or their respective affiliates, directors or advisors, and, therefore, the Issuer, the Guarantor, the Joint Lead Managers, the Agents or any of its or their respective affiliates, directors or advisors makes no representation as to the completeness, accuracy or fairness of such facts or other statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be incomplete, inaccurate or unfair or may not be comparable to statistics produced for other economies or the same or similar industries in other countries and should not be unduly relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, Investors should give consideration as to how much weight or importance they should attach to or place on such facts or other statistics.

Any failure to complete the relevant filings under the NDRC Circular within the prescribed time frame may have adverse consequences for the Issuer and/or the investors of the Notes.

The NDRC issued the NDRC Circular on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities issued outside the PRC with NDRC prior to the issue of the securities and notify the particulars of the relevant issues within ten working days after the completion of the issue of the securities. The NDRC Circular is silent on the legal consequences of non-compliance with the pre-issue registration requirement. Similarly, the legal consequences of non-compliance with the post-issue notification requirement under the NDRC Circular is unclear. In the worst-case scenario, such non-compliance with the post-issue notification requirement under the NDRC Circular may result in it being unlawful for the Issuer to perform or comply with any of its obligations under the Notes. The Issuer has obtained a pre-issuance registration certificate from the NDRC in relation to the Notes on 26 January 2022 and which remain in full force and effect as of the date of this Offering Circular. The Issuer undertakes to file or cause to be filed with the NDRC the requisite information and documents within the prescribed time period after the Issue Date in accordance with the NDRC Circular.

RISKS RELATING TO THE NOTES BEING ISSUED AS GREEN BONDS

The Notes being issued as green bonds may not be a suitable investment for all investors seeking exposure to green or other equivalently-labelled assets.

The Group has engaged S&P to provide an independent green financing framework alignment opinion (the "**Alignment Opinion**") in relation to the Midea Group Green Financing Framework (the "**Framework**"), confirming that the Framework is aligned with the four components of the Green Bond Principles 2021 Edition issued by International Capital Market Association ("**ICMA**").

Any second party opinion provider and providers of similar opinions, certifications and validations in relation to the Framework and the Notes are not currently subject to any specific regulatory or other regime or oversight. For the avoidance of doubt, any such opinion, certification or validation is not and shall not be deemed to be incorporated into and/or form part of this Offering Circular. Any such opinion, certification or validation is not, nor should be deemed to be, a recommendation by the Group, the Joint Lead Managers, any second party opinion provider or any other person to buy, sell or hold the Notes or as to the suitability for any purpose of such opinion, certification or validation. Noteholders have no recourse against the Group or the Joint Lead Managers or the provider of any such opinion, certification or validation for the contents of any such opinion, certification or validation, which is only current as at the date it was initially issued and subject to any disclaimers or conditions set out therein. Prospective investors must determine for themselves the relevance of any such opinion, certification or validation and/or the information contained therein and/or the provider of such opinion, certification or validation for the purpose of any investment in the Notes. Any withdrawal of any such opinion, certification or validation or any opinion or certification attesting that the Group is not complying in whole or in part with any matters for which such opinion, certification or validation is opining or certifying on may have a material adverse effect on the value of the Notes and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

Moreover, there is currently no clear definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green" or equivalently-labelled project or investment, or as to what exact characteristics or attributes may be required for a particular project to be defined as "green" or such other equivalent label, and no assurance can be given that a clear definition of or consensus regarding such projects will develop over time. In the event that the Notes are included in any dedicated "green" or other equivalently-labelled index, no representation or assurance is given by the Group or any other person that such inclusion would satisfy any present or future investor expectations or requirements as regards to any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable laws or regulations or by its own constitutive documents or other governing rules or investment portfolio mandates.

The Group has agreed to certain obligations related to reporting and use of proceeds; however, it would not be an Event of Default under the Terms and Conditions of the Notes or result in any increase in interest rates or other penalties if the Group were to fail to comply with such obligations or were to fail to use the proceeds of the issue of the Notes in the manner described under "*Use of Proceeds*". Any failure to use the net proceeds of the issue of the Notes in connection with Eligible Green Assets (as defined in "*Green Financing Framework*"), and/or any failure to meet, or to continue to meet, the investment requirements of certain investors with environmental and/or social concerns with respect to such Notes, may affect the value and/or trading price of the Notes, and/or may have consequences for certain investors with portfolio mandates to invest in green projects.

None of the Issuer, the Guarantor, the Group or the Joint Lead Managers makes any representation as to (i) whether the Notes will meet investor criteria and expectations regarding environmental impact and sustainability performance for any investors or (ii) the characteristics of Eligible Green Assets, including their relevant environmental and sustainability criteria. Each potential investor of the Notes should have regard to the relevant projects and eligibility criteria described herein and determine for itself the relevance of the information contained herein regarding the use of proceeds, and its purchase of any Notes should be based upon such investigation as it deems necessary.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Note Certificates (as defined below) issued in respect of the Notes.

The U.S.$450,000,000 2.88 per cent. Guaranteed Notes due 2027 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) to be consolidated and forming a single series therewith) of Midea Investment Development Company Limited 美的投資發展有限公司 (the "**Issuer**") are constituted by a deed of covenant dated on or about 24 February 2022 (as amended or supplemented from time to time, the "**Deed of Covenant**") executed by the Issuer and are the subject of (a) a deed of guarantee dated on or about 24 February 2022 (as amended or supplemented from time to time, the "**Deed of Guarantee**") entered into by Midea Group Co., Ltd. 美的集團股份有限公司 (the "**Guarantor**") and (b) a fiscal agency agreement dated on or about 24 February 2022 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, The Hongkong and Shanghai Banking Corporation Limited as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Hongkong and Shanghai Banking Corporation Limited as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). References herein to the "**Agents**" are to the Registrar, the Fiscal Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee and subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement, the Deed of Guarantee and the Deed of Covenant applicable to them. Copies of the Agency Agreement, the Deed of Guarantee and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination, Status and Guarantee

(a) *Form and denomination*: The Notes are in registered form in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) *Status of the Notes*: The Notes constitute direct, general, unsubordinated and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(c) *Guarantee of the Notes*: The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the "**Guarantee of the Notes**") constitutes direct, general, unsubordinated and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

*Upon issue, the Notes will be evidenced by a global note certificate (the "**Global Note Certificate**") substantially in the form scheduled to the Agency Agreement. The Global Note Certificate will be registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"), and will be exchangeable for individual Note Certificates (as defined below) only in the circumstances set out therein.*

2. Register, Title and Transfers

(a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*: The Holder of each Note shall (except as ordered by a court of competent jurisdiction or as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

Transfers of interests in the Notes evidenced by the Global Note Certificate will be effected in accordance with the rules of the relevant clearing systems.

(d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Noteholders may not require transfers to be registered during the period of (i) 15 days ending on the due date for any payment of principal or interest in respect of the Notes or (ii) after any such Put Exercise Notice has been deposited for redemption pursuant to Condition 5(d) (*Redemption for Relevant Event*).

(g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge to the Holder and at the Issuer's (failing which, the Guarantor's expense)) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3. Covenants

(a) *Negative Pledge*: So long as any Note remains outstanding (as defined in the Agency Agreement), neither the Issuer nor the Guarantor shall, and the Issuer and the Guarantor shall procure that none of their respective Subsidiaries (except for any Listed Subsidiaries) will create or permit to subsist any mortgage, charge, pledge, lien or other security interest ("**Security Interest**") upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Indebtedness, or to secure any guarantee of or indemnity in respect of any Relevant Indebtedness unless, at the same time or prior thereto, (A) the Issuer's obligations under the Notes or, as the case may be, the Guarantor's obligations under the Guarantee of the Notes (x) are secured equally and rateably therewith in substantially identical terms thereto or (y) are secured with such other security as may be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders, or (B) the provision of any such Security Interest is waived by an Extraordinary Resolution.

The foregoing restriction shall not apply to:

(i) any Security Interest either over any asset acquired after the Issue Date which is in existence at the time of such acquisition or in respect of the obligations of any Person which becomes the Guarantor's Subsidiary after the Issue Date which is in existence at the date on which it becomes the Guarantor's Subsidiary and in both cases any replacement thereof created in connection with the refinancing (together with interest, fees and other charges attributable thereto) of the Relevant Indebtedness originally secured (but the principal amount secured by any such Security Interest may not be increased); **provided that** any such Security Interest was not incurred in anticipation of such acquisition or of such Person becoming the Guarantor's Subsidiary; and

(ii) any Security Interest created on any property or asset acquired, leased or developed (including improved, constructed, altered or repaired) after the Issue Date; **provided, however, that** (A)(x) any such Security Interest shall be confined to the property or asset acquired, leased or developed (including improved, constructed, altered or repaired) and; (y) to the extent that such Security Interest shall secure any other property or asset, the principal amount of the debt encumbered by such Security Interest shall not exceed the cost of the applicable acquisition, development or improvement; (B) any such Security Interest shall be created concurrently with or within two years following the acquisition, lease or development (including construction, improvement, repair or alteration) of such property or asset; and (C) any such acquired, leased or developed property or asset was not held or owned by the Guarantor or the Guarantor's Subsidiaries on or prior to the Issue Date.

(b) *Financial Information*: For so long as any Note remains outstanding, the Guarantor shall furnish to the Noteholders upon request:

(i) copies of the Audited Financial Reports within 180 days of the end of each Annual Relevant Period prepared in accordance with generally applicable accounting principles of the People's Republic of China ("**PRC GAAP**") (audited by an internationally recognised firm of independent accountants); and

(ii) copies of the Unaudited Semi-Annual Financial Reports within 90 days of the end of each Semi-Annual Relevant Period prepared on a basis consistent with the audited consolidated financial statements;

provided that:

(A) if any of the reports identified in Condition 3(b) above are in the Chinese language, they shall be accompanied by an English translation of the same and translated by (aa) a recognised firm of independent accountants or (bb) a professional translation service provider and checked by an internationally recognised firm of independent accountants; and

(B) if at any time the capital stock of the Guarantor is admitted to trading on a recognised stock exchange, the Guarantor shall furnish to the Noteholders upon request, as soon as they are available but in any event not more than 10 PRC Business Days after any financial or other reports of the Guarantor are filed with the exchange on which the capital stock of the Guarantor is at such time admitted to trading and so requested by the Noteholders, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in Condition 3(b) above;

(c) *Ratings Maintenance*: For so long as any Note remains outstanding, save with the approval of an Extraordinary Resolution of the Noteholders, the Issuer shall use its best endeavours to maintain a rating on the Notes by at least one Rating Agency.

(d) *Undertakings in relation to the Guarantee of the Notes*: The Guarantor shall:

(i) register or cause to be registered with SAFE the Deed of Guarantee within the time limit prescribed by SAFE after its execution in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) promulgated by SAFE on 12 May 2014, which came into effect on 1 June 2014 (the "**Cross-Border Security Registration**");

(ii) use its best endeavours to complete the Cross-Border Security Registration on or before the Registration Deadline and obtain from SAFE a registration record relating to the registration of the Deed of Guarantee; and

(iii) comply with all applicable PRC laws and regulations in relation to the Guarantee of the Notes.

(e) *Reporting to NDRC*: The Guarantor undertakes to (i) report or cause to be reported the relevant information in connection with the Notes to the National Development and Reform Commission (the "**NDRC**"), within the time limit prescribed by NDRC after the Issue Date and in accordance with the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) promulgated by the NDRC and effective from 14 September 2015 (the "**Post-Issuance Reporting Filing**") and (ii) comply with all applicable PRC laws and regulations in relation to the Post-Issuance Reporting Filing.

In these Conditions:

"**Annual Relevant Period**" means in relation to each of the Audited Financial Reports, each period of twelve months ending on the last day of the relevant financial year (being 31 December of that financial year);

"**Audited Financial Reports**" means the annual audited consolidated balance sheet, income statement, cash flow statement and statement of changes in equity of the Guarantor together with any statements, reports (including any directors' and auditor's reports) and notes attached to or intended to be read with any of them;

"**Listed Subsidiary**" means any Subsidiary of the Issuer or the Guarantor which is listed on any stock exchange and any of its Subsidiaries;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC**" means the People's Republic of China excluding the Special Administrative Regions of Hong Kong and Macau and the region of Taiwan;

"**PRC Business Day**" means a day (other than a Saturday, Sunday or public holiday) on which the Guangdong Branch of SAFE is open for business;

"**Rating Agency**" means (1) each of (i) Moody's Investors Service Limited, (ii) S&P Global Ratings, and (iii) Fitch (Hong Kong) Limited; or any of their respective successors or assigns; or (2) if none of Moody's Investors Service Limited, Standard & Poor's Rating Services, and Fitch (Hong Kong) Limited shall make a rating of the Notes publicly available, the Issuer shall select any other reputable credit rating agency of international standing;

"**Registration Deadline**" means the day falling 90 PRC Business Days after the Issue Date;

"**Relevant Indebtedness**" means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, or other securities outside the PRC that are for the time being, or are intended to be or capable of being, quoted, listed or ordinarily dealt in on any stock exchange or any other securities market (including any over-the-counter market) which has an original or stated maturity for more than one year;

"**SAFE**" means the State Administration of Foreign Exchange of the PRC or its local counterparts;

"**Semi-Annual Relevant Period**" means in relation to the Unaudited Semi-Annual Financial Reports, each period of six months ending on the last day of the relevant first half financial year (being 30 June of that financial year);

"**Subsidiary**" of any person means (a) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the laws, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person; and

"**Unaudited Semi-Annual Financial Reports**" means the semi-annual unaudited consolidated balance sheet, income statement and cash flow statement of the Guarantor together with any statements, reports (including any directors' and auditors' review reports, if any) and notes attached to or intended to be read with any of them.

4. Interest

The Notes bear interest from 24 February 2022 (the "**Issue Date**") at the rate of 2.88 per cent. per annum, (the "**Rate of Interest**") payable in equal instalment semi-annually in arrear on 24 February and 24 August in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be U.S.$14.4 in respect of each U.S.$1,000 principal amount of the Notes. If interest is required to be calculated for a period of less than a complete interest period, the relevant day-count fraction will be determined on the basis of a 360-day year consisting 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

5. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 24 February 2027 (the "**Maturity Date**"), subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if:

(i) (A) the Issuer has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or the PRC or any political subdivision thereof or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 16 February 2022; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(ii) (A) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay Additional Tax Amounts as provided or referred to in Condition 7 (*Taxation*) or the Guarantee of the Notes, as the case may be, as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 16 February 2022; and (B) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such Additional Tax Amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this Condition 5(b), the Issuer shall deliver or procure that there is delivered to the Fiscal Agent a certificate signed by an authorised signatory of the Issuer stating that the circumstances referred to in (i)(A) and (i)(B) above prevail and setting out the details of such circumstances or (as the case may be) a certificate signed by an authorised signatory of the Guarantor stating that the circumstances referred to in (ii)(A) and (ii)(B) above prevail and setting out details of such circumstances.

Upon the expiry of any such notice as is referred to in this Condition 5(b) (*Redemption for tax reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(b) (*Redemption for tax reasons*).

(c) *Redemption at the Option of the Issuer*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (the "**Optional Redemption Notice**") (which notice shall be irrevocable):

(i) (in the case of a Call Settlement Date falling before 24 January 2027 (the "**Par Call Date**")) at their Make Whole Amount, together with interest accrued to such Call Settlement Date specified in the Optional Redemption Notice; and

(ii) (in the case of a Call Settlement Date falling on or after the Par Call Date) at 100 per cent. of the principal amount of the Notes to be redeemed, together with interest accrued to such Call Settlement Date specified in the Optional Redemption Notice.

For the purposes of this Condition 5(c):

"**Call Settlement Date**" means the date on which the Notes shall be redeemed at the option of the Issuer as specified in the Optional Redemption Notice;

“**Comparable Treasury Issue**” means the U.S. Treasury security selected by the Independent Investment Bank as having a maturity comparable to the remaining term of the Notes from the Call Settlement Date to the Maturity Date, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to the Maturity Date;

“**Comparable Treasury Price**” means the average of three, or such lesser number as is obtained by the Independent Investment Bank, Reference Treasury Dealer Quotations;

“**Independent Investment Bank**” means an independent investment bank of international repute, appointed by the Issuer (and notice thereof is given in writing to the Noteholders by the Issuer in accordance with Condition 14 (*Notices*)) for the purposes of performing any of the functions expressed to be performed by it under these Conditions;

“**Make Whole Amount**” means, with respect to each Note at the Call Settlement Date, (i) the principal amount of such Note or, if this is higher (ii) the amount equal to the sum of the present value of the principal amount of such Note, together with the present values of the interest payable in the relevant interest periods from the Call Settlement Date to the Par Call Date, in each case, discounted to the Call Settlement Date on a semi-annual compounded basis at the U.S. Treasury Rate plus 0.20 per cent., all as determined by the Independent Investment Bank;

“**Make Whole Determination Business Day**” means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in Hong Kong and New York City;

“**Reference Treasury Dealer**” means each of the three internationally recognised investment banking firms that is a primary U.S. Government securities dealer;

“**Reference Treasury Dealer Quotations**” means, with respect to each Reference Treasury Dealer, the average, as determined by the Independent Investment Bank, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Bank by such Reference Treasury Dealer at 5:00 p.m. (New York time) on the third Make Whole Determination Business Day immediately preceding the issue of the Optional Redemption Notice; and

“**U.S. Treasury Rate**” means either (i) the rate per annum equal to the yield, under the heading that represents the average for the week immediately preceding the third Make Whole Determination Business Day prior to the issue of the Optional Redemption Notice, appearing in the most recently published statistical release designated “H.15” or if such release is not published any successor publication that is published by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities” for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Maturity Date, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the U.S. Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the third Make Whole Determination Business Day prior to the issue of the Optional Redemption Notice or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price, in each case calculated on the third Make Whole Determination Business Day immediately preceding the issue of the Optional Redemption Notice.

(d) *Redemption for Relevant Event*: At any time following the occurrence of a Relevant Event, the Holder of any Note will have the right, at such Holder's option, to require the Issuer to redeem all but not some only of that Holder's Notes on the Put Settlement Date at 101 per cent. (in the case of a Change of Control) or 100 per cent. (in the case of a No Registration Event) of their principal amount, together with accrued interest to such Put Settlement Date. To exercise such right, the Holder of the relevant Note must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Put Exercise Notice**"), together with the Note Certificates evidencing the Notes to be redeemed by not later than 45 days following a Relevant Event, or, if later, 45 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 14 (*Notices*). The "**Put Settlement Date**" shall be the seventh day after the expiry of such period of 45 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes subject to the Put Exercise Notices delivered as aforesaid.

The Issuer and the Guarantor shall give notice to Noteholders and the Fiscal Agent in accordance with Condition 14 (*Notices*) by not later than 21 days following the first day on which either of them becomes aware of the occurrence of any Relevant Event, which notice shall specify the procedure for exercise by Holders of their rights to require redemption of the Notes pursuant to this Condition 5(d) (*Redemption for Relevant Event*).

In these Conditions:

"**Change of Control**" occurs if:

(i) any person or persons, other than the Major Shareholders, acting together acquires Control of the Guarantor if such person or persons does not or do not have, and would not be deemed to have, Control of the Guarantor on the Issue Date; or

(ii) the Guarantor, directly or indirectly, holds or owns less than 100 per cent. of the issued share capital of the Issuer; or

(iii) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of its assets to any other Person or Persons acting together;

"**Control**" means (where applicable): (i) the direct or indirect ownership, acquisition or control of more than 50 per cent. of the voting rights of the issued share capital of a Person, or (ii) the right to appoint and/or remove all or more than 50 per cent. of the members of a Person's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise. The terms "**Controlling**" and "**Controlled**" have meanings correlative to the foregoing;

"**Major Shareholders**" means Midea Holding Co., Ltd. and any other person (i) directly or indirectly Controlling, Controlled by, or under direct or indirect common Control with, Midea Holding Co., Ltd. or (ii) who is a spouse or child of any person described in (i) above; or (iii) any trust established for the benefit of any person described in (i) and (ii) above;

"**No Registration Event**" occurs if the Guarantor fails to register for the Cross-Border Security Registration by the Registration Deadline.

"**Relevant Event**" occurs if:

(i) there is a Change of Control; or

(ii) there is a No Registration Event.

(e) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (d) (*Redemption for Relevant Event*) above.

(f) *Purchase*: The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

(g) *Cancellation*: All Notes so redeemed or purchased by the Issuer, the Guarantor or any of their respective Subsidiaries shall be cancelled and may not be reissued or resold.

(h) *No duty to monitor*: None of the Agents shall be obliged to take any steps to ascertain whether a Change of Control, an event or circumstance which could with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 8 (*Events of Default*) become an Event of Default (a "**Potential Event of Default**") or Event of Default has occurred or to monitor the occurrence of any Change of Control, Potential Event of Default or Event of Default, and shall not be liable to the Noteholders or any other person for not doing so.

(i) *Calculations*: None of the Agents shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption and shall not be liable to the Noteholders or any other person for not doing so.

6. Payments

(a) *Principal*: Payments of principal shall be made by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*: Payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in Hong Kong and New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the close of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**").

*Whilst the Notes are evidenced by the Global Note Certificate and so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Note Certificate will be made to or to the order of the person shown as the Holder in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payment, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

7. Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands or the PRC or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law.

Where such withholding or deduction is made by the Issuer or (as the case may be) the Guarantor by or within the PRC at the rate applicable on 16 February 2022 (the "**Applicable Rate**"), the Issuer or the Guarantor, as the case may be, will pay such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required.

If the Issuer or (as the case may be) the Guarantor is required to make a deduction or withholding (i) by or within the PRC, in excess of the Applicable Rate or (ii) by or within the British Virgin Islands, the Issuer or the Guarantor, as the case may be, shall pay such additional amounts (the "**Additional Tax Amounts**") as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Tax Amounts shall be payable in respect of any Note:

(a) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note; or

(b) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such Additional Tax Amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*).

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the British Virgin Islands or the PRC respectively, references in these Conditions to the British Virgin Islands or the PRC shall be construed as references to the British Virgin Islands or (as the case may be) the PRC and/or such other jurisdiction.

8. Events of Default

If any of the following events occurs:

(a) *Non-Payment*: the Issuer fails to pay (i) the principal or premium on any of the Notes when due and such failure continues for a period of five days or (ii) the interest on any of the Notes when due and such failure continues for a period of 14 days; or

(b) *Breach of Other Obligations*: the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in respect of the Notes (other than those where it gives rise to a redemption pursuant to Condition 5(d) (*Redemption of Relevant Event*)) which default is incapable of remedy or is not remedied within 60 days after notice of such default shall have been given to the Issuer and the Guarantor, or the Fiscal Agent at its Specified Office, by any Noteholder; or

(c) *Cross-Acceleration*: (i) any other present or future Indebtedness of the Issuer or the Guarantor or any of their respective Subsidiaries becomes due and payable prior to its stated maturity by reason of any event of default or the like (howsoever described), or (ii) any such Indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or the Guarantor or any of their respective Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised **provided that** the aggregate amount of the relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds U.S.$60,000,000 in aggregate amount or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this Condition 8(c) operates); or

(d) *Enforcement Proceedings*: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or a substantial part of the property, assets or revenues of the Issuer or the Guarantor or all or substantially all of the property, assets or revenues of any of their respective Principal Subsidiaries taken as a whole and is not discharged or stayed for a period of 60 days; or

(e) *Unsatisfied Judgment*: one or more final judgment(s) for payment of any amount exceeding U.S.$60,000,000 is rendered against the Issuer or the Guarantor or any of their respective Principal Subsidiaries, becomes enforceable in a jurisdiction where the Issuer or the Guarantor or any of their respective Principal Subsidiaries is incorporated and which judgments are not paid, discharged or stayed for a period of 60 days after the date(s) thereof or, if later, the date therein specified for payment and no further appeal or judicial review from such judgment is permissible under applicable law; or

(f) *Security Enforced*: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed on or against all or a substantial part of the property, assets or revenues of the Issuer or the Guarantor or all or substantially all of the property, assets or revenues of any of their respective Principal Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person), and is not discharged or stayed within 60 days; or

(g) *Insolvency*: any of the Issuer, the Guarantor or any of their respective Principal Subsidiaries is (or is deemed by law or a court of competent jurisdiction to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a substantial part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a substantial part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a substantial part of the debts of the Issuer, the Guarantor or all or substantially all of the debts of any of their respective Principal Subsidiaries, as the case may be except in each case, for the purposes of and followed by a reconstruction, restructuring and rehabilitation, amalgamation, reorganisation, merger or consolidation of a Principal Subsidiary whereby the assets or undertakings of such Principal Subsidiary are vested in or otherwise transferred to the Guarantor, the Issuer or any Subsidiary; or

(h) *Insolvency Proceedings*: an administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Issuer, the Guarantor or any of their respective Principal Subsidiaries, or the Issuer, the Guarantor or any of their respective Principal Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for (A) the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders, or (ii) whereby the undertaking and assets of a Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor or any of their respective Subsidiaries; (B) a solvent winding up of any Subsidiary of the Guarantor other than the Issuer; or (C) a disposal of a Subsidiary of the Issuer or the Guarantor on an arm's length basis where the assets (whether in cash or otherwise) resulting from such disposal are vested in the Issuer, the Guarantor or any of their respective wholly-owned Subsidiaries; or

(i) *Nationalisation*: any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a majority of the shares, or all or substantially all of the assets, of (i) the Issuer, (ii) the Guarantor, or (iii) any Principal Subsidiary; or

(j) *Authorisation and Consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer or the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes or the Guarantee of the Notes, (ii) to ensure that those obligations are legally binding and enforceable, and (iii) to make the Notes, the Deed of Covenant and the Deed of Guarantee admissible in evidence in the courts of the British Virgin Islands, Hong Kong or the PRC is not taken, fulfilled or done; or

(k) *Guarantee*: the Guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force and effect or the Guarantee of the Notes is modified, amended or terminated other than strictly in accordance with its terms and the Conditions; or

(l) *Illegality*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under or in respect of any of the Notes, the Deed of Covenant or the Deed of Guarantee; or

(m) *Analogous Events*: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in sub-paragraphs (d) to (l) above,

then any Noteholder may, by written notice addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent, declare the Notes held by such Noteholder to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality.

For the purposes of these Conditions:

"**Indebtedness**" means any indebtedness of any person for moneys borrowed or raised; and

"**Principal Subsidiaries**" mean, at any time, each Subsidiary of the Guarantor:

(a) whose net profit attributable to the Guarantor (consolidated in the case of a Subsidiary which itself has Subsidiaries), as shown by its latest audited income statement, are at least five per cent. of the consolidated net profit as shown by the latest published audited income statement of the Guarantor and its Subsidiaries, including, for the avoidance of doubt, the Guarantor and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of associated entities and after adjustments for minority interests; or

(b) whose net assets or (in the case of a Subsidiary of the Guarantor which has subsidiaries and which customarily prepares consolidated accounts) net consolidated assets attributable to the Guarantor as shown by its latest balance sheet are at least five per cent. or the sum of (x) the net consolidated assets of the Guarantor and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Guarantor and its Subsidiaries, and (y) the Guarantor and its consolidated Subsidiaries' share of the net assets (consolidated in the case of a Subsidiary of the Guarantor which itself has Subsidiaries and which customarily prepares consolidated accounts) (as shown by its latest balance sheet (consolidated, if available)) of each Subsidiary of the Guarantor whose accounts are not consolidated with the accounts of the Guarantor and after adjustment for minority interests,

provided that, in relation to paragraphs (a) and (b) above of this definition:

(i) in the case of a corporation or other business entity becoming a Subsidiary of the Guarantor after the end of the financial period to which the latest consolidated audited accounts of the Guarantor relate, the reference to the then latest consolidated audited accounts of the Guarantor for the purposes of the calculation above shall, until consolidated audited accounts of the Guarantor for the financial period in which the relevant corporation or other business entity becomes a Subsidiary of the Guarantor are published, be deemed to be a reference to the then latest consolidated audited accounts of the Guarantor adjusted to consolidate the latest accounts (consolidated in the case of a Subsidiary of the Guarantor which itself has Subsidiaries and which customarily prepares consolidated accounts) of such Subsidiary in such accounts;

(ii) if the accounts of any Subsidiary of the Guarantor (not being a Subsidiary of the Guarantor referred to in proviso (i) above of this definition) are not consolidated with those of the Guarantor, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a *pro forma* consolidation of its accounts (consolidated, if available) with the consolidated accounts (determined on the basis of the foregoing) of the Guarantor; and

(iii) in relation to any Subsidiary of the Guarantor, each reference in (i) or (ii) above to all or any of the accounts (consolidated or otherwise) of such Subsidiary shall be deemed to be a reference to the relevant audited accounts of such Subsidiary if it customarily prepares accounts which are audited and, if not, to the relevant unaudited accounts of such Subsidiary which shall be certified by any two directors of such Subsidiary as having been properly prepared in accordance with generally accepted accounting principles applicable to such Subsidiary; or

(c) to which is transferred the whole or substantially the whole of the assets of another Subsidiary of the Guarantor which, immediately prior to such transfer, was a Principal Subsidiary, **provided that** the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall cease to become a Principal Subsidiary at the date on which the first published audited consolidated accounts of the Guarantor prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (a) and (b) above of this definition.

9. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years (in the case of principal or premium (if any)) or five years (in the case of interest) from the appropriate Relevant Date.

10. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. Agents

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or fiscal agent and additional or successor paying agents and transfer agents; *provided, however, that* the Issuer and the Guarantor shall at all times maintain a fiscal agent and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. Meetings of Noteholders; Modification

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) and shall be convened by them upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to amend the terms of the Guarantee of the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders, holding not less than 75 per cent. in principal amount of the Notes outstanding will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification*: The Notes, these Conditions, the Deed of Covenant and the Deed of Guarantee may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is in the opinion of the such parties, not materially prejudicial to the interests of the Noteholders.

13. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and the timing for completing the Cross-Border Security Registration and submitting the Post-Issuance Reporting Filing and the making of consequent notices thereof) so as to form a single series with the Notes.

14. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

15. Currency Indemnity

If any sum due from the Issuer or the Guarantor in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer or the Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer and the Guarantor shall jointly indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of each of the Issuer and the Guarantor and shall give rise to a separate and independent cause of action.

16. Governing Law and Jurisdiction

(a) *Governing law*: The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) *Jurisdiction*: Each of the Issuer and the Guarantor (i) agrees that the Hong Kong courts shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes); (ii) agrees that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Midea International Corporation Company Limited at 3906-10, 39/F, Tower 6, The Gateway Harbour City, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong, or to such other person with an address in Hong Kong and/or at such other address in Hong Kong as the Issuer may specify by notice in writing to the Noteholders; and (iv) consents to the enforcement of any judgment.

THE GLOBAL NOTE CERTIFICATE

The Global Note Certificate contains the following provisions which apply to the Notes in respect of which they are issued while they are represented by the Global Note Certificate, some of which modify the effect of the Terms and Conditions of the Notes. Terms defined in the Terms and Conditions of the Notes have the same meaning in the paragraphs herein.

The Notes will be represented by a Global Note Certificate which will be registered in the name of, and deposited with, HSBC Nominees (Hong Kong) Limited as common depositary for Euroclear and Clearstream.

The Global Note Certificate will become exchangeable in whole, but not in part, for Individual Note Certificates if (a) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) of the Terms and Conditions of the Notes occurs.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of the Notes scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) the Global Note Certificate have not been issued and delivered by 5:00 p.m. (Hong Kong time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of the Global Note Certificate; or

(b) the Notes evidenced by the Global Note Certificate has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the Holder of the Global Note Certificate on the due date for payment in accordance with the terms of the Global Note Certificate,

then the Global Note Certificate (including the obligation to deliver Individual Note Certificates) will become void at 5:00 p.m. (Hong Kong time) on such thirtieth day (in the case of (a) above) or at 5:00 p.m. (Hong Kong time) on such due date (in the case of (b) above) and the Holder will have no further rights thereunder (but without prejudice to the rights which the Holder or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, as being entitled to interests in the Notes will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Note Certificate became void, they had been the registered Holders in an aggregate principal amount equal to the principal amount of the Notes they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream.

In addition, the Global Note Certificate will contain provisions that modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

Payments on business days: In the case of all payments made in respect of the Global Note Certificate "business day" means any day on which banks are open for general business (including dealings in foreign currencies) in Hong Kong and New York City.

Payment Record Date: Each payment in respect of the Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

Exercise of put option: In order to exercise the option contained in Condition 5(d) *(Redemption for Relevant Event)* of the Terms and Conditions of the Notes the Holder of the Global Note Certificate must, within the period specified in the Conditions of the Notes for the deposit of the Note Certificate and put notice, give written notice of such exercise to the Fiscal Agent, in accordance with the rules and procedures of Euroclear, Clearstream and/or other relevant clearing system, specifying the principal amount of the Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Notices: Notwithstanding Condition 14 *(Notices)* of the Terms and Conditions of the Notes, so long as the Global Note Certificate is held on behalf of Euroclear and Clearstream or any other clearing system (an "**Alternative Clearing System**"), notices to Holders of the Notes represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear and Clearstream or (as the case may be) such Alternative Clearing System.

USE OF PROCEEDS

The net proceeds from the issue of the Notes is estimated to be approximately U.S.$447.9 million after deducting underwriting fees and expenses.

An equivalent amount to the net proceeds from the offering of the Notes will be used to finance and/or refinance the Eligible Green Assets in accordance with the Framework. See "*Green Financing Framework*" for more details.

EXCHANGE RATE

PRC

The PBOC sets and publishes daily a central parity exchange rate with reference primarily to the supply and demand of Renminbi with reference to a basket of currencies in the market during the prior day. The PBOC also takes into account other factors such as general conditions existing in the international foreign exchange markets. Since 1994, the conversion of Renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of certain foreign currencies determined by the PBOC. The PRC government has since made and in the future may make further adjustments to the exchange rate system. The PBOC authorised the China Foreign Exchange Trading Centre, effective since 4 January 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi at 9:15 AM each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over the counter exchange rate for that business day. On 18 May 2007, the PBOC announced that the floating band of Renminbi trading prices against the U.S. dollar in the interbank spot foreign currency exchange market would be enlarged from 0.3 per cent. to 0.5 per cent. around the central parity rate from 21 May 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by the PBOC. On 19 June 2010, the PBOC expressed that it intended to further reform the Renminbi exchange rate regime by allowing greater flexibility in the Renminbi exchange rate and the band was expanded to 1.0 per cent. on 16 April 2012 and it was further expanded to 2.0 per cent. on 17 March 2014. On 11 August 2015, the PBOC announced measures to improve the central parity quotations of Renminbi against the U.S. dollar by authorising market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. On 11 December 2015, China Foreign Exchange Trade System (the "**CFETS**") published the CFETS Renminbi exchange rate index for the first time which weighed the Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective, and the CFETS currencies basket was increased to 24 currencies on 1 January 2017 through the inclusion of 11 new currencies. On 1 October 2016, the International Monetary Fund included Renminbi in the basket of currencies that the value of Special Drawing Rights is based on, along with the U.S. dollar, the euro, Japanese yen and the British Pound. The PRC government may adopt further reforms of its exchange rate system, including but not limited to promoting the opening of the capital account items in the future.

The following table sets forth the noon buying rates for U.S. dollars in New York City for cable transfers payable in Renminbi as certified by the Federal Reserve Bank of New York for customs purposes for and as at the periods indicated, as set forth in the H.10 statistical release of the Federal Reserve Board.

	Noon Buying Rate			
Period	**Low**	**Average[(1)]**	**High**	**Period End**
	(Renminbi per U.S.$1.00)			
2014	6.0402	6.1704	6.2591	6.2046
2015	6.1870	6.2869	6.4896	6.4778
2016	6.4480	6.6549	6.9580	6.9430
2017	6.4773	6.7350	6.9575	6.5063
2018	6.2649	6.6090	6.9737	6.8755
2019	6.6822	6.9014	7.1786	6.9618
2020	6.5208	6.9042	7.1681	6.5250
2021	6.3435	6.4382	6.5716	6.3726
July	6.4562	6.4763	6.5104	6.4609
August	6.4604	6.4768	6.5012	6.4604
September	6.4320	6.4563	6.4702	6.4434
October	6.3820	6.4172	6.4485	6.4050
November	6.3640	6.3889	6.4061	6.3640
December	6.3435	6.3693	6.3772	6.3726
2022				
January	6.3206	6.3556	6.3822	6.3610
February (up to and including 4 February 2022)	6.3610	6.3610	6.3610	6.3610

Note:

(1) Averages are calculated by averaging the rates on the last business day of each month during the relevant year. Monthly averages are calculated by averaging the daily rates during the relevant monthly period.

CAPITALISATION AND INDEBTEDNESS

THE GUARANTOR

The following table sets forth the consolidated total indebtedness, total equity and total capitalisation of the Guarantor as at 31 December 2020 on an (i) actual basis and (ii) on an adjusted basis to give effect to the Notes to be issued, before deducting the underwriting discounts and commissions and other estimated expenses of this offering payable by the Guarantor. The summary consolidated financial information below should be read in conjunction with the Guarantor's consolidated financial statements and the notes to those statements included elsewhere in this Offering Circular.

	Actual		As adjusted	
	(RMB'000)	(U.S.$'000)[1]	(RMB'000)	(U.S.$'000)[1]
Current indebtedness:[2]				
Short-term borrowings	9,943,929	1,523,974	9,943,929	1,523,974
Current portion of long-term borrowings	6,284,643	963,164	6,284,643	963,164
Short-term financing bonds payable	3,030,785	484,488	3,030,785	484,488
Total current indebtedness	19,259,357	2,971,626	19,259,357	2,971,626
Non-current indebtedness:[3]				
Long-term borrowings	42,827,287	6,563,569	42,827,287	6,563,569
Notes to be issued[4]	–	–	2,936,250	450,000
Total non-current indebtedness	42,827,287	6,563,569	45,763,537	7,013,569
Total equity attributable to shareholders of the Company	117,516,260	18,010,155	117,516,260	18,010,155
Total capitalisation[5]	160,343,547	24,573,724	163,279,797	25,023,724

Notes:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5250 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve Bank System on 31 December 2020.

(2) The Group's current indebtedness represents the sum of short-term borrowings, short-term financing bonds payable and current portion of long-term borrowings.

(3) The Group's non-current indebtedness represents the sum of long-term borrowings and Notes to be issued.

(4) This amount represents the aggregate principal amount of the Notes to be issued, before deducting commissions and other estimated expenses payable in connection with the offering of the Notes.

(5) Total capitalisation represents the sum of total non-current indebtedness and total equity attributable to shareholders of the Company.

Except as otherwise disclosed above, there has been no material change in the consolidated capitalisation and indebtedness of the Guarantor since 31 December 2020.

DESCRIPTION OF THE ISSUER

OVERVIEW

The Issuer was incorporated as a British Virgin Islands business company in the British Virgin Islands with limited liability on 12 May 2016 under the laws of the British Virgin Islands. The registered office of the Issuer is at 2/F, Palm Grove House, P.O. Box 3340, Road Town, Tortola, British Virgin Islands.

SHARES

As at the date of this Offering Circular, the Issuer is authorised to issue a maximum of 50,000 shares with no par value each of a single class and one share has been issued to Midea International Corporation Company Limited. None of the equity securities of the Issuer are listed or dealt in any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought as at the date of this Offering Circular.

BUSINESS ACTIVITIES

The Issuer is an indirect wholly-owned subsidiary of the Guarantor. As at the date of this Offering Circular, the Issuer has not engaged in any material activities other than those in relation to the issue of U.S.$700,000,000 2.375 per cent. guaranteed notes due 2019 under its U.S.$3,000,000,000 guaranteed medium term note programme (the "**2019 Notes**") and the proposed issue of the Notes and the on-lending of the proceeds thereof to the Guarantor and its subsidiaries, and the authorisation of documents and agreements entered into in connection with the issue of the 2019 Notes and the proposed issue of the Notes referred to in this Offering Circular to which it is or will be a party.

SOLE DIRECTOR

The sole director of the Issuer at the date of this Offering Circular is Ms. Zheng Zhong. The sole director of the Issuer does not hold any shares or options to acquire shares of the Issuer.

FINANCIAL INFORMATION

Under the laws of the British Virgin Islands, the Issuer is not required to publish interim or annual financial statements. The Issuer has not published, and does not propose to publish, any financial statements. The Issuer is, however, required to keep such records that are sufficient to show and explain the Issuer's transactions and will, at any time, enable the financial position of the Issuer to be determined with reasonable accuracy.

DESCRIPTION OF THE GROUP

OVERVIEW

The Group is a leading global high-technology conglomerate with businesses spanning across five major areas, including smart home, electromechanical business, HVAC and building technologies, robotics & automation, and digital innovation, offering diversified products and services. With its history tracing back to 1968, the Company was incorporated in 1992 and listed on the Shenzhen Stock Exchange on 18 September 2013 (Stock Code: 000333.SZ). As at 31 December 2021, the Group had a market capitalisation of RMB501.1 billion.

With "Bring Great Innovations to Life" as its vision, "Integrate with the World and Inspire the Future" as its mission and "Embrace what's next – Aspiration, Customer First, Innovation, Collaboration and Dedication" as its core value, the Group integrates global resources and promotes technological innovation to provide products and services to over 400 million users, customers and strategic partners in various areas worldwide every year. In response to higher requirements for products and services in the digital era, the Group upgraded its strategic focus to "Technology Leadership, Direct to Users, Digitization & Intelligence Driven, and Global Impact" in 2020, with the aim to further consolidate its leading position in the home appliance industry.

The Group is one of the key global manufacturers in several product lines, creating intelligent manufacturing factories through MBS, automation and IT, while driving business transformation across the value chain with the "**T+3**" model to build world-class level manufacturing capabilities and systems. As at 30 June 2021, the Group has established a global platform with around 200 subsidiaries, 28 R&D centres, 32 major manufacturing bases and approximately 160,000 employees. The Group has operations around the world, covering more than 200 countries and regions. It also has 18 R&D centres and 17 major manufacturing bases located outside of China, with approximately 30,000 employees overseas.

The Group was listed on Fortune Magazine's list of Global Top 500 Enterprises for six consecutive years and in 2021, the Group moved further up and ranked 288th on the list. The Group also ranked 183rd on the 2021 Forbes' Global 2000 list. The Group ranked 33rd on the Brand Finance Tech 100 2021 brand value ranking league table and 33rd on the list of Kantar BrandZ™ Top 100 Most Valuable Chinese Brands 2021, with a brand value of U.S.$9,356 million, representing a 58 per cent. increase since 2020. In 2015, the Company also became the first household appliance manufacturer in China to be given a "stable" credit rating outlook by the three major international rating agencies, S&P, Fitch and Moody's and the Company has been assigned an issuer credit rating of "A" with a stable outlook by S&P, a long-term issuer rating of "A3" with a stable outlook by Moody's and a long-term issuer default rating of "A" with a stable outlook by Fitch.

For the years ended 2020, 2019 and 2018, the Group's consolidated operating revenue was RMB284.22 billion, RMB278.22 billion and RMB259.66 billion, respectively.

COMPETITIVE STRENGTHS

The Group believes it enjoys the following competitive strengths:

A leading household appliances player in China with a solid global presence

Since its establishment, the Group has grown into a leading household appliances company in China, with operations around the world. As at the date of this Offering Circular, the Group owns more than 20 brands in its core business areas, including "Midea", "Little Swan", "GMCC", "Welling", "COLMO", "TOSHIBA", "HICONICS", "EUREKA", "CLIVET", and "SERVOTRONIX". The Group has established one of China's most comprehensive industry value chains in areas including air conditioners, refrigerators, laundry appliances, microwaves and dishwashers and also offers one of the world's most complete product ranges in the household appliance industry.

The Group also holds a leading market share in a series of household appliance sub-segments in China and overseas, in particular the small appliances market. According to the rankings published by AVC, in 2020, the Group had a market share of almost 30 per cent. in residential air conditioners in the Asia Pacific and Latin America, a market share of 78 per cent. and 40 per cent. in microwaves in Eastern Europe and Asia Pacific respectively, and 42 per cent. in dishwashers in Asia Pacific. The Group also commanded a leading position in the small appliances market in China with its major household appliances taking up a larger market share in the domestic market in the first half of 2021. In particular, the Group ranked first in China in residential air conditioners by retail sales volume with a 36.5 per cent. market share in terms of offline sales and 37.6 per cent. market share in terms of online sales.

Leading technology and commitment in innovation have enhanced the Group's leading position as high-technology conglomerate

The Group owns industry-leading, competitive, multi-layered global technology and R&D infrastructure centring on user experience and product functions, which represents world-class R&D input and strength. As at 31 December 2020, 2019 and 2018, the Group owned more than 62,000, 57,000 and 44,000 authorised patents, respectively. The Group was granted 20,491 invention patents in China and 4,084 patents overseas as at 31 December 2021, and in 2021, the Group was granted 4,541 invention patents worldwide, representing the most invention patents granted industry-wide for six consecutive years. In 2020, the Group won a total of 87 industrial design awards, including 25 Red Dot Design Awards, 29 iF Design Awards, 27 IDEA Awards and six Gmark Awards.

Through a consistent focus on R&D, continued innovation and a global R&D team presence, the Group has maintained its leading position in technology both domestically and globally. The Group structures the project development process into four levels which span from individual product development which typically takes up to one year, research on exclusive technology for each product normally which takes two to three years, common and fundamental technology across various product types which may take three to five years of technological studies, to the development of breakthrough leading technology which may take more than five years. With nearly RMB28.1 billion invested in R&D over the three years ended 31 December 2020, the Group has gradually built up a "2+4+N" global R&D network and gained the advantage of scale in this respect. As at 30 June 2021, the "2+4+N" global R&D network consists of 28 research centres in 11 countries with Midea Global Innovation Centre in Shunde District, Foshan City and Midea Global Innovation Centre in Shanghai as the cores of the Group's domestic R&D arm, Midea America Research Centre, Midea Germany Research Centre, Midea Japan Research Centre and Midea Milan Design Centre as the Group's overseas cores. The Group makes use of the regional technological advantages, integrates global R&D resources, and builds the overseas facilities into complementary regional R&D centres.

For the years ended 31 December 2020, 2019 and 2018, the Group's total R&D expenditure was RMB10.12 billion, RMB9.64 billion and RMB8.38 billion, which represented 3.56 per cent., 3.46 per cent. and 3.23 per cent. of the Group's consolidated operating revenue, respectively.

Following the strategy of "Technology Leadership", the Group attracts more professional talents and builds an organic global R&D network. As at 31 December 2020, the Group employed 16,071 R&D personnel, representing 10.77 per cent. of the Group's total number of employees and a 17.1 per cent. increase from the Group's R&D personnel of 13,727 as at 31 December 2019, which represented 10.18 per cent. of the Group's total number of employees. While establishing its own research centres around the world, the Group also works on constructing an open platform of innovative ecosystems. The Group cooperates with domestic and foreign scientific research institutions, such as Massachusetts Institute of Technology, University of California, Berkeley, Stanford University, Tsinghua University, and Shanghai Jiao Tong University, in order to establish joint labs for deepening technological cooperation. The Group also cooperates with technology giants such as BASF and Honeywell to build a global innovation ecosystem. The Group's long-term focus on building technology, marketing, design, product and open innovation systems, building a cutting-edge research system and building reserves in technology for both the medium-term and long-term, has provided a solid foundation for the Group to maintain technical superiority across the globe.

Continuous global breakthroughs fuelled by global resource allocation and investments as well as advantages in manufacturing capability and scale

A series of global acquisitions and business expansions in all of its core business segments have consolidated the Group's global operations and leading position. In recent years, the Group has further solidified its global operations in robotics & automation by acquiring a controlling stake in KUKA, and establishing joint ventures with YASKAWA and SIIX Corporations. Meanwhile, the Group's leading global production capacity and experience, diversified product coverage as well as its production bases throughout world major regions have enabled it to expand rapidly in emerging overseas markets and strengthened its ability to compete in mature overseas markets. As one of the biggest manufacturers in the world for a number of product categories, the Group has a competitive edge in improving efficiency and reducing costs, which is difficult for its competitors to replicate.

As at 30 June 2021, the Group has established a global platform with around 200 subsidiaries, 28 R&D centres, 32 major manufacturing bases, 24 overseas operating agencies and approximately 160,000 employees. The Group has operations around the world, covering more than 200 countries and regions. It also has 18 R&D centres and 17 major manufacturing bases located outside of China, with approximately 30,000 employees overseas. For the years ended 31 December 2020, 2019 and 2018, the Group's total revenue from other countries and geographical areas outside of domestic China was RMB121.1 billion, RMB116.8 billion and RMB110.4 billion, which represented 42.38 per cent., 41.80 per cent., and 42.17 per cent. of the Group's total revenue, respectively.

Fully integrated online and offline distribution with an extensive domestic store network combined with increasing number of e-commerce channels and a well-established smart supply chain system

The Group has adopted an "integrated channel, full value chain" strategy in order to establish an integrated online-to-offline platform for 24/7 interaction with its customers. With the total amount of offline retail outlets exceeding 100,000, the Group has created a network layout comprising of comprehensive household appliance stores, co-branded stores of home decoration business, specialty stores of self-owned products, traditional retailers and e-commerce franchise stores.

The Group has also developed a broad and stable distribution network offline by building up long-term cooperation with primary distributors to cultivate brand loyalty. The Group has also maintained long-term strategic partnerships with large home appliance chain stores in mature primary and secondary markets.

Making full use of digital management technology and big data technology, the Group is also able to leverage its high-quality intelligent and digital logistics system to efficiently deliver a comprehensive range of its products to customers. The Group has built up an extensive national logistics network with strong last-mile logistics advantages through its subsidiary, Annto Logistics Technology Co., Ltd ("**Annto Logistics**"), which concentrates its resources on urban and rural distribution and realises a nationwide direct distribution service. It operates more than 140 service spots across China, and covers more than 99 per cent. of the towns and villages across the country, which enables it deliver to 21,418 (or 51 per cent. of) towns and villages within 24 hours and 39,560 (or 87 per cent. of) towns and villages within 48 hours. In addition, the Group offers visible after-sale services at every stage by providing terminals for repair booking, service process checking and sales support networks on its website homepage where users can submit applications for set-up or maintenance online and monitor the stage of service at any time.

In 2020, the Group's online sales ranked number one overall in China in the home appliances industry and also ranked number one in 12 single category products. The Group's total online sales amounted to RMB86 billion in 2020 with a significant year-on-year increase of over 25 per cent.. During the 2020 Double-eleven Shopping Carnival period, the total sales of the Group exceeded RMB11.3 billion. It also continues to remain the best-selling household appliance manufacturer on major e-commerce channels such as JD, T-mall and Suning for nine consecutive years. In addition, the Group has also witnessed a rapid growth of sales and users on Pinduoduo, Douyin, Kuaishou and other emerging channels.

A user experience-oriented reform of "Comprehensive Digitalization and Comprehensive Intellectualization" that focuses on "Digitization & Intelligence Driven" to make the Group a leader in the IoT era

The Group has put in place and will prioritise the development of the Midea Cloud Sales commercial platform supported by unified data and technology platforms, the IoT ecosystem platform, and the Industrial Internet platform of "M.IoT", with an aim to become a world-leading technology group driven by digitisation and intelligence. As at 31 December 2020, the Group's manufacturing efficiency has improved by 62 per cent., the automation rate has increased by 44 per cent., more than RMB2 billion has been invested in automation transformation and nearly RMB5 billion has been invested in IT since 2015.

The Group has strived to achieve intelligent manufacturing and realise the value chain pull-through at the manufacturing end by implementing the following:

- **equipment automation**: focusing on automated production lines and CPS physical information network;

- **production transparency**: ensuring full traceability of order tracking, procurement transparency and consistency of plan implementation;

- **logistics intelligence**: connecting the whole supply chain with visualised and intelligent process;

- **management mobility**: applying electronic instruments and visualised Kanban supplier management; and

- **decision data-oriented**: adopting online quality control methods as well as data collection and big data application.

Solid financial performance and risk management policies establishing a firm foundation for the Group's future development

The Group's comprehensive use of multiple financing instruments to optimise its capital structure has allowed the Group to achieve a balance between sustainability and flexibility. The Group has established diversified funding channels throughout the years, including issuing offshore bonds and onshore short-term commercial papers. In 2020, the Company issued eight series of short-term financing bonds onshore in the aggregate principal amount of RMB34.0 billion. In 2021, the Company further issued commercial papers in the principal amount of RMB3 billion. The Group has built strong relationships with financial institutions such as Bank of China, the Industrial and Commercial Bank of China, Bank of America, Crédit Agricole CIB, China Construction Bank, the Agricultural Bank of China, Standard Chartered Bank, BNP Paribas and Citibank, ensuring the Group will have ready access to credit lines to fund future development and expansion plans. As at 30 November 2021, the Group had a total credit limit of approximately RMB129.7 billion of which it has utilised 48.8 per cent. (approximately RMB63.2 billion). The Group also has a stable capital structure coupled with sound financial policies and internal risk management. In addition, 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 partners, creating an innovative funding method for the Group.

The Group centralises the management of all of its accounts and overseas remittance in a single finance unit, which cautiously manages the Group's leverage while actively developing multiple financing instruments, and a balanced debt maturity and currency structure. The Group's finance unit takes charge of the management of all accounts and overseas remittances of the Group and designs a reasonable capital spending plan for the Group based on industry prospects, corporate strategy, operating cash flows and debt levels. The Group also maintains a stable dividend policy for sustainable development and is consistently improving operating efficiency and cash levels by shortening cash cycles and maintaining account receivables and inventory growth rate below revenue growth and operating cash flows equal to or more than net profits. As a concrete demonstration of its stable dividend policy, as at 31 December 2020, the Group has achieved a cumulative cash pay-out of nearly RMB58 billion since its listing on the Shenzhen Stock Exchange and declared an annual dividend of RMB11.07 billion of 2020. The Group is also able to manage its currency risk exposure through its effective use of natural hedges, futures, forward and options contracts as well as reasonable control of foreign currency assets and liabilities. The Group also has in place effective internal risk management processes targeted at reducing credit, liquidity and market risks. In order to minimise credit risk on a portfolio basis, the Group ensures that its bank deposits are held in financial institutions with higher credit ratings, conducts consistent credit evaluations on its customers in transactions with credit terms and chooses to work with customers with reputable credit histories. The Group also consistently monitors its account receivables. To minimise its liquidity risk, the Group makes use of a comprehensive and diversified range of financial instruments and obtains credit from multiple commercial banks for its operating needs and capital expenditure. Short and long-term funding requirements are continuously monitored to ensure that sufficient cash reserves and realisable securities are maintained. Compliance with loan agreements is also continuously monitored. As at 31 December 2020, monetary assets held by the Group, including cash at bank and on hand, notes receivable, notes receivable included in loans and advances, notes receivable included in receivables financing, wealth management funds and structural deposits included in financial assets held for trading and monetary investments included in other current assets amounted to RMB155.9 billion.

Professional and experienced management team, well developed corporate governance structure and talent development programme

The Group has a stable core management team with solid industry and corporate management experience. The Group's Chief Executive Officer and Chairman, Mr. Fang Hongbo, has more than 28 years of experience with the Group and was previously a general manager of the Group's Air-Conditioning Business Department and President of Midea Refrigeration Electric Appliances Group. The Group's Vice Presidents, Mr. Yin Bitong and Mr. Gu Yanmin, have more than 21 years of experience with the Group. Please see "*Directors, supervisors and senior management*" for further details.

The Group has a well-established corporate governance structure to ensure efficient and independent operations amongst its business units. The Group has a flat and decentralised management structure in order to enhance operational efficiency and promote a leaner, more lightweight and more competitive corporate environment by giving front-line managers more authority and responsibilities. The Group also has a well-established professional management system which focuses on achievement-based evaluations and a mixture of short- and long-term incentive plans to align the interests of the Group's shareholders and professional managers, providing employees with a clear path for career advancement. The senior management of the Group are professional managers that have been promoted internally with an average experience with the Group of more than 15 years. As at the date of this Offering Circular, the majority of the Group's management team were promoted internally. This separation of shareholders and core management ensure independent operations. The Group also offers equity-based incentives to its management to ensure the interests of the management and the shareholders are aligned. The Group also benefits from having a clear corporate governance structure with four board committees, namely strategy development, nomination, remuneration and audit, which are responsible for different roles and report to the main committee of supervision.

As at the date of this Offering Circular, the Group has launched eight stock option incentive schemes, five restricted share incentive schemes, seven global partner stock ownership schemes and four business partner stock ownership schemes for key managerial and technical personnel. Such incentive schemes aim to establish a governance structure aligning the interests of senior management and core business personnel with that of all shareholders. It also creates an effective long and short-term incentives and restraint mechanism.

Fully transformed and upgraded model of green manufacturing

The Group has been proactively responding to the national "14th Five-Year Plan" by implementing a low-carbon intelligent industry chain through green technology, green design, green manufacturing, green sales, green operation and maintenance, green logistics and green recycling. Its low-carbon technology has been widely adopted in all of its business segments to help reduce carbon emissions and support carbon neutrality.

In 2020, the Group was awarded the "Outstanding Contribution Award for Energy Efficiency and Environmental Protection" by the United Nations Industrial Development Organisation (UNIDO). This award recognises the Group's continued research and development efforts, manufacturing and promotion of quality products which meet high environmental standards and its outstanding contribution to global energy conservation and emission reduction.

Moreover, the Group was awarded several national honours. It was part of the first batch of green design demonstration enterprises in the electrical and electronic industry by the Ministry of Industry and Information Technology (MIIT), the first home appliance enterprise in the Guangdong Province to pass the clean production certification and had more than 10 of its products selected for the list of green design products. In addition, the Group was also awarded China National Science and Technology Progress Award, China Energy Conservation Association Science and Technology Progress Award (for Energy Conservation and Emission Reduction) and 2021 China Quality Award.

The following are a few examples of where its low-carbon technology has been successfully adopted and areas in which it can further develop:

- **Air conditioners**: The Group's new air conditioners can save approximately 416 million kWh of electricity per year, equating to 166,400 tonnes of standard coal being saved annually as well as the reduction of carbon dioxide emissions by 414,700 tonnes and sulphur dioxide emissions by 12,400 tonnes. The Group has also been developing a new project involving highly standardised and efficient compressor technology. If even 30 per cent. of the PRC's air conditioners utilised the technology developed by the Group, approximately 7.98 million tonnes of carbon emissions would be reduced in a single year.

- **Electric water heaters**: Through the use of key artificial intelligence ("**AI**") energy-saving technology, its domestic electric water heaters use 40 per cent. less electricity, and a single electric water heater can save 478.15 kilowatt-hour ("**kWh**") of electricity per year. Assuming a retention of 30 million units of electric water heaters, this in turn would save 5.73 million tonnes of crude oil for the PRC annually and reduces carbon dioxide emissions by 14.3 million tonnes.

- **Microwave ovens**: By implementing digitalisation in procurement, production, quality control and logistics and sales, the Group's microwave oven production plant in Shunde reduced carbon dioxide emissions by 9,187.2 tonnes year-on-year in 2020.

- **Refrigerators**: According to data published by the United Nations Industrial Development Organization, the Group's eco-friendly refrigerant technology would reduce 13.2 tonnes of ozone-depleting substances and 967,500 tonnes of carbon dioxide emissions per year.

Moreover, KUKA's largest production site saw a decline of 10,863 cubic meters in total water consumption and a decrease of 4,354 tonnes in total carbon dioxide emissions in 2020, demonstrating its success in effectively lowering its total energy consumption in 2020.

The Group's Factory Energy Management System (FEMS) also ensures that green intelligent factories are increasingly efficient, saving an equivalent of approximately 4,620 tonnes of standard coal per year. This in turn reduces approximately 11,519 tonnes of carbon dioxide emissions per year.

Since 2017, the Group has achieved a 15.83 per cent. reduction in comprehensive energy consumption per RMB10,000 of total output value, a 16.33 per cent. reduction in carbon dioxide emissions per unit of output value and a 14.95 per cent. increase in the proportion of clean energy. With its main green indicators improving year by year, the Group has become a veritable "green leader" in the industry.

STRATEGIES

The Group aims to achieve its corporate vision of bringing great innovations to life by firmly implementing its upgraded strategic focus of "Technology Leadership, Direct to Users, Digitization & Intelligence Driven, and Global Impact", further consolidating its leading position in the home appliance industry.

Technology Leadership

The Group intends to further increase its investment in R&D and layout in key technology utilised in its key business divisions, and cutting-edge technology such as breezeless, disrotatory, brushless motor and smart home technology in order to benefit from economies of scale.

The Group plans to continue to promote its innovative R&D model featuring a "Four-tier R&D System" from the organisational dimension and "Three Generations" from the technology dimension with the aim to achieve its goal of "Being the Number One or the Only One" in respect of all product categories.

The Group also intends to make efforts in bringing in domestic and overseas top talents, promoting a distributed global working system and diverse talent base, strengthening the global R&D network, refining the global R&D system and building up an R&D-centric and innovation-driven model, in order to maintain the Group's technology leadership.

Direct to Users

Driven by the characteristics of different sales channels, as well as changes in consumer demands and spending habits, the Group intends to promote direct marketing by way of internal cultivation and introduction from the outside, reshape the domestic marketing system and model, and empower the retail end to be "Direct to Users".

The Group plans to continue deepening the reform of its organisational structure, improve retail capacity, and develop user insights and back-end capacity, and also commit to intelligent experience terminals and user experience as part of efforts to connect with users' preferences.

Digitization & Intelligence Driven

By implementing "Comprehensive Digitalization and Comprehensive Intellectualization", the Group believes it will be able to increase efficiency internally and develop customers externally.

The Group seeks to develop into a digitalised enterprise, improve its digital operational methods and systems, support the integration of every link of the Group's value chain by digital means, and create value by optimising key operating indicators such as cost, efficiency and revenue through digitalisation.

The Group also intends to refine the Midea Cloud Sales platform, promote digital reform in marketing, as well as further build and optimise digitalised industrial internet factories. Measures to be taken may include enhancing the data platform and data governance to promote data-driven improvement in operations.

Global Impact

The Group looks to identify key regions to achieve breakthroughs in various dimensions, including market, channel and business models to serve global users.

The Group has formulated a global supply cooperative mechanism, strengthened localised operations overseas, optimised the percentage of local supply, and promoted product globalisation and regionalisation. 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, the Group also built a global user research network in order to understand the needs of its global users and in turn develop high-quality products.

The Group intends to increase its investments in overseas business operations, focus on the needs of local customers and enhance product competitiveness in a bid to promote significant growth in its Own Branding & Manufacturing (OBM) business. In addition, with a deep knowledge and understanding on product characteristics and product demands in overseas markets, the Group plans to further promote its brand and expansion through global collaboration and cooperation. Through this, the Group believes its global competitiveness will increase steadily.

HISTORY AND DEVELOPMENT

The following table sets forth certain important milestones in the Group's history.

Year	Event
1968.	Mr. He Xiangjian led 23 people to raise RMB5,000 to venture in Beijiao in Foshan City, Guangdong province.
1980.	The company began production of electric fans, marking its entry into household appliance manufacturing.
1992.	Established Welling Holding Limited in 1992, marking its entry into household electrical appliances business.
1997.	Shifted from natural growth in HVAC and small home appliances to horizontal and vertical integration of industrial chain.
1998.	Acquired Macro-Toshiba's compressor factory (currently named GMCC-Guangdong Midea Toshiba Compressor Corporation) and began its air conditioning compressor business.
1999.	Established a joint venture with IDEX to produce dishwashers and motors.
2001.	The Group built its first magnetron factory with the help of acquired assets from Sanyo, thus forming an integrated supply chain for its microwave production.
2004.	Acquired 42.4 per cent. stake in Guangzhou Hualing Group, which became the second listed company of the Group, signifying the Group's entry into the refrigerator business and further expanding the Group's product line. In the same year, the Group entered into the Hefei Royalstar joint venture which accelerated the development of its washing machine business. The Group formed a joint venture with Chongqing General for the manufacture and distribution commercial air conditioning systems.
2007.	The Group established a production base, Vietnam Industrial Park, near Ho Chi Minh City, which marked its first overseas green field manufacturing investment.

Year	Event
2008.	Acquired controlling shares in Little Swan.
2008-2013	The Group established various joint ventures with Carrier overseas.
2010.	The Group reorganised its electromechanical business into Welling Holding Limited.
2013.	Newly consolidated entity Midea Group (SZSE: 000333) went public on the Shenzhen Stock Exchange with a total market capitalisation of approximately RMB75.0 billion.
2016.	Started establishing operations worldwide and integrating various products to offer comprehensive product solutions The Group acquired controlling interest in Toshiba Corporation's home appliances business. The Group acquired 80 per cent. stake in Clivet S.p.A., enhancing its global market share in commercial air conditioning. The Group's operating revenue reached RMB159.8 billion for the year ended 31 December 2016.
2017.	The Group acquired 94.55 per cent. stake in KUKA. It also acquired 79.36 per cent. stake in Servotronix Motion Control Ltd., marking its entry into robotics and automation industry. The Group's operating revenue reached RMB240.7 billion for the year ended 31 December 2017.
2019.	The Company received the CSRC Reply on the Approval of the Merger of Midea Group Co., Ltd. with Wuxi Little Swan Company Limited (the "**Merger**") (ZJXK [2019] No. 352).
2020.	The Group acquired WINONE ELEVATOR COMPANY LIMITED, marking its entry into elevator business. The Group acquired Hiconics Eco-energy Technology Co., Ltd. (SZSE: 300048) to strengthen its layout in core components area. The Group's operating revenue reached RMB284.2 billion for the year ended 31 December 2020.
2021.	The Group acquired controlling interest in Beijing Wandong Medical Technology Co., Ltd. ("**WDM**").

RECENT DEVELOPMENTS

Acquisition of WDM

On 2 February 2021, the Company, Yuyue Technology and Wu Guangming signed a share transfer agreement, according to which Yuyue Technology and Wu Guangming agreed to transfer their holdings of 130,294,312 non-restricted public shares in WDM (or 24.09 per cent. of WDM's total share capital) to the Company for a total consideration of RMB1,902,296,955.

On the same day, the Company and Mr. Yu Rong signed a share transfer agreement, according to which Mr. Yu Rong agreed to transfer his holdings of 27,040,810 non-restricted public shares in WDM (or 5 per cent. of WDM's total share capital) to the Company for a total consideration of RMB394,795,826.

The share transfer under both agreements were completed on 6 May 2021. As a result, the Company now holds 157,335,122 shares in WDM (or 29.09 per cent. of WDM's total share capital), making it the controlling shareholder of WDM.

2021 Third Quarter Financial Information

On 30 October 2021, the Group published its Quarterly Report for the nine months ended 30 September 2021 in accordance with applicable PRC regulations in relation to the disclosure of information in quarterly reports for listed companies. The Quarterly Report contains certain consolidated financial information of the Group for the nine months ended 30 September 2021 prepared in accordance with the requirements of the Accounting Standards for Business Enterprises.

The summary consolidated financial information as at and for the nine months ended 30 September 2021 and 2020 set forth in the Quarterly Report has been prepared and presented in accordance with CAS and has not been audited or reviewed by the Group's auditor. Consequently, such unaudited and unreviewed consolidated financial information should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors must exercise caution when using such information to evaluate the Group's financial condition, results of operations and results (financial or otherwise). Such unaudited and unreviewed consolidated quarterly financial information as at and for the nine months ended 30 September 2021 should not be taken as an indication of the expected financial condition, results of operations and results of the Group for the full financial year ending 31 December 2021.

Compared to the nine months ended 30 September 2020, the Group recorded a significant increase in total revenue coupled with a slightly higher increase percentage in total operating cost for the corresponding period in 2021 due to increases in the price of commodities in general. The Group's business remains stable with increases in operating profit and net profit. As at 30 September 2021, the Group's total borrowings increased compared to 31 December 2020, as it expanded its asset scale.

Takeover and privatisation of KUKA

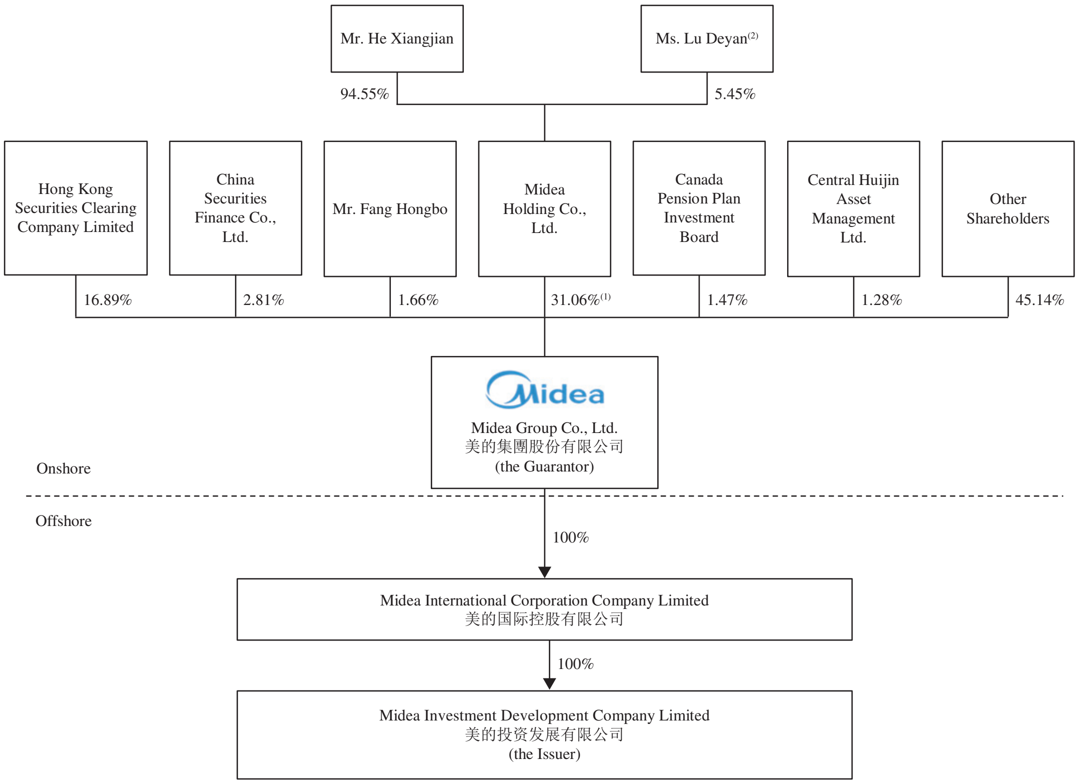
On 24 November 2021, the Company announced its intention to launch a take-over and privatisation of KUKA through its wholly-owned subsidiary.

Upon completion of the transaction, KUKA will become a wholly-owned offshore subsidiary of the Company and will be delisted from the Frankfurt Stock Exchange. The transaction aims to enable KUKA to focus on its business operations and enhance the synergy and sharing of resources within the Group's robotics and automation related businesses.

The completion of the transaction will be subject to certain reporting and approval procedures in accordance with relevant domestic and international laws and regulations. As of the date of this Offering Circular, the takeover and privatisation has not been completed.

SHAREHOLDING STRUCTURE

The chart below sets forth the shareholding structure of the Group as at 30 September 2021:



Notes:

(1) 100,000,000 shares held by Midea Holding Co., Ltd. were pledged.

(2) Ms. Lu Deyan is a member of Mr. He Xiangjian's family.

THE GROUP'S PRINCIPAL BUSINESSES

Overview

The Group is primarily engaged in the manufacture and sale of household appliances. The Group's core business segments are HVAC, consumer appliances (including refrigerators, laundry appliances, water heaters, kitchen appliances and various small home appliances), and robotics and automation system. For the years ended 31 December 2020, 2019 and 2018, the Group's total revenue was RMB285.7 billion, RMB279.4 billion and RMB261.8 billion, respectively.

The Group's export and domestic sales of its household appliances have increased steadily in the past three years, with revenue from domestic sales of RMB164.6 billion, RMB162.6 billion and RMB151.4 billion for the years ended 31 December 2020, 2019 and 2018, respectively, and revenue from sales to other countries and geographical areas of RMB121.1 billion, RMB116.8 billion and RMB110.4 billion for the years ended 31 December 2020, 2019 and 2018, respectively.

The table below sets out the Group's consolidated operating revenue by business segment for the years ended 31 December 2020, 2019 and 2018 and their respective percentage contribution to the Group's consolidated operating revenue.

	Year ended 31 December					
	2020		2019		2018	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Revenue from core business						
HVAC	121,215,043	42.6	119,607,379	43.0	109,394,649	42.1
Consumer Appliances	113,890,764	40.1	109,486,791	39.4	102,992,803	39.7
Robotics and Automation System	21,588,782	7.6	25,191,964	9.0	25,677,924	9.9
Others	4,780,110	1.7	2,773,591	1.0	2,915,172	1.1
Revenue from other operations(1)	22,746,550	8.0	21,156,292	7.6	18,684,272	7.2
Total	284,221,249	100.0	278,216,017	100.0	259,664,820	100.0

Note:

(1) Other operations mainly include sale, wholesale and processing of raw materials of household electrical appliances.

HVAC

The Group produces residential-use air conditioners, commercial-use air conditioners involved in various domestic and international projects, heating and ventilation conditioners as well as compressors, motors and chips for household appliances, automobile and computer, communication, and consumer electronics ("**3C**") products. The Group's HVAC portfolio includes the flagship brands of "Midea", "CLIVET", "MDV", "GMCC", "Welling", "SUNYE", "MR SEMI" and "M-BMS".

For the years ended 31 December 2020, 2019 and 2018, the Group's HVAC segment generated approximately RMB121.2 billion, RMB119.6 billion and RMB109.4 billion in revenue, respectively, contributing approximately 42.6 per cent., 43.0 per cent. and 42.1 per cent., respectively, of the Group's operating revenue. The Group's HVAC segment has grown rapidly since 2020.

Residential-use air conditioners

The Group launched its residential air conditioning business in 1985 and has now developed to offer a full range of residential air conditioning products, which comprises of split, window, portable, dehumidifiers and light commercial models, with a market leading position. According to the rankings published by AVC, in the first half of 2021, the Group ranked first in China in residential air conditioners by retail sales volume with a 36.5 per cent. market share in terms of offline sales and 37.6 per cent. market share in terms of online sales.

The Group's residential-use air conditioners are manufactured in its domestic production bases in Shunde, Guangzhou, Wuhu, Wuhan, Handan and Chongqing and overseas production bases including India, Egypt, Vietnam, Brazil and Argentina. The overseas bases are mainly responsible for the manufacturing and sales of "Midea", "Carrier", "Toshiba" and other independent brands in their respective regions.

The Group's advanced R&D infrastructure enables it to keep exploring and providing the world with innovative and intelligent air conditioners. The Group has developed numerous pioneering residential air conditioning products that were the first of their kind in China or anywhere the world. Such air conditioners launched by the Group in recent years include:

- ***AirX***: In 2018, in celebration for the Group's 50th anniversary, the Group launched an innovative microclimate management device "AirX" which was granted the Product Technical Innovation Award for its brand new concept of indoor environment adjustment and environmental simulation. The "AirX", being the world's first microclimate air conditioner, can adjust room air quality in five dimensions, namely, temperature, air flow, humidity, purity, and freshness.

- ***Breezeless+***: The Group launched an all-new Breezeless+ in 2019 which offers a redefined air conditioning experience in SPEEDY, SOFT, and SURROUND modes, ensuring quiet and efficient cooling without any harsh direct airflow for ultimate comfort.

- ***Multi-Airflow Floor Standing AC***: The Multi-Airflow Floor Standing AC won the AWE Gold Awards in 2019. It is the world's first disrotatory air conditioner, coming with an AI-Unique Wind Channel Innovative design and the first AC to use disrotatory technology in the industry. It cools with a breezeless and 20-meter airstream, while also cooling the surroundings by reaching every corner of the space.

- ***XtremeEngine***: Designed for extreme weather conditions, the XtremeEngine operates between -32°C and 67°C, ensuring strong performance in any conditions, from icy arctic climate to arid desert heat.

Commercial-use air conditioners

Established in 1999, Midea Commercial Air Conditioner has decades of experience in commercial HVAC systems, and can deliver major commercial and industrial projects with ease. The Group has a complete infrastructure encompassing R&D centres, various production facilities, sales companies, and after sales services to support its business. The Group supplies screw, centrifugal, magnetic chillers and airside HVAC systems, which are suitable for large commercial and industrial facilities such as sports stadiums, shopping malls, hotels, and factories.

The Group's commercial-use air conditioners comprise variable refrigerant flow ("**VRF**") system, large split, rooftop packaged, chiller system, fan coil units, air handling units, US-style products and heat pump solutions. Due to its advanced techniques, extensive product line, high quality products and convenient services, the Group's commercial-use air conditioner business sub-segment has helped fulfil the HVAC needs of hundreds of development projects around the globe since 1999. The Group has served the HVAC systems to a number of reputable clients during the past years, including Guangzhou Metro, Guangzhou Pharmaceutical, Tesla, China Li-Ning, BYD and Contemporary Amperex Technology and has successfully been awarded various domestic and international landmark projects, including the following:

- Singapore Changi Airport;

- Beijing Daxing International Airport;

- Sports Authority of Thailand;

- Top Glove in Malaysia;

- Chile Ministry of Foreign Affairs;

- Maybank Performing Arts Theatre;

- Ain AI Fayda Emirati Housing Development;
- Marriott Hotel (Five Star);
- 2014 FIFA World Cup Brazil Beira Rio Stadium;
- 2015 Youth Olympic Games;
- 2016 Rio Olympic Games Stadiums; and
- 2018 Russia World Cup Stadiums.

Electro-mechanical business

The Group's electro-mechanical business is specialised in 'humanising' the Group's latest technology and providing core component solutions for household appliances, automobile, industrial control and 3C industry with high precision level. According to the data published by ChinaIOL.com, in 2020, the Group ranked the first in the world in residential air conditioner compressors by sales with a 40 per cent. market share; the sales of motors for residential air conditioners and laundry appliances accounted for 37 per cent. and 18 per cent. market share worldwide, respectively, which ranked the first in the industry; and the Group's sales refrigerator and freezer compressors had a global market share of 17 per cent.

The Group produces compressors, motors and chips for household appliances and automobile and operates the production of these core components through a number of brands, including "Welling", "GMCC" and "MR SEMI". "Welling" is the Group's brand for motor and drive systems, which is also one of the largest motor manufacturers in the world. Welling's products are widely used for the manufacture of air conditioners, washing machines, refrigerators, dishwashers, small home appliances, vehicles etc. Welling has six production plants and four manufacturing bases in China with an annual capacity of over 220 million units. "GMCC", a joint venture of Midea Group, develops compressors for air-conditioning appliances and heat pumps, which has created one of the largest air conditioning compressor manufacturing operations in the world. "MR SEMI" focuses on the R&D of universal and dedicated micro control units (MCU) and power chips with high anti-jamming and high reliability, and provides customers with relevant application development tools and overall system solutions.

The Group also engages in producing high, medium and low variable frequency drives, servo systems and control systems, which are widely used in wide range of areas, including industrial automation, new energy vehicles and energy saving and environmental protection. It manages the production of core components of industrial control through a series of brands, including "HICONICS", "SUNYE", "SERVOTRONIX" and "DORNA".

For 3C industry, the Group mainly conducts its business through the brand "TOSHIBA", producing a list of products including heat sinks, cooling fans, turbo fans and wire reels, which are extensively used in various types of 3C products including smart phones, laptops and projectors.

Consumer Appliances

The Group's consumer appliances segment comprises of refrigerators, laundry appliances, water heaters, kitchen appliances and various small home appliances. The Group offers one of the widest-ranging product portfolios, from mass-market products to premium goods. The Group manages its consumer appliances business through a diverse range of brands, including globally recognised household names including "Toshiba", "Midea", "Comfee", "Eureka", "COLMO", "Beverly", "Vandelo", "Little Swan", "WAHIN", "Caffitaly", "Cuchen" and "Master Kitchen". According to the rankings published by AVC, in the first half of 2021, the market share of the Group's various major consumer appliances by retail sales volume ranked top three in China in terms of both offline sales and online sales, including washing machines, refrigerators, water heaters and rice cookers.

For the years ended 31 December 2020, 2019 and 2018, the Group's consumer appliances segment generated approximately RMB113.9 billion, RMB109.5 billion and RMB103.0 billion in revenue, respectively, contributing approximately 40.1 per cent., 39.4 per cent. and 39.7 per cent., respectively, of the Group's operating revenue.

Products

The product types under each category within the Group's consumer appliances segment are as follows:

Categories	Product types
Refrigerators	Refrigerators Freezers Wine coolers
Laundry appliances	Top-loading washing machines Front-loading washing machines Clothes dryers
Water heaters	Electric water heaters Gas water heaters Air-source heat pump water heaters
Kitchen appliances	Range hoods Rice cookers Electric pressure cookers Induction cookers
Small appliances	Vacuum cleaners Water purifiers Garment steamers Electric fans Food processors Blenders Electric radiators

Brands

The following table sets out the main brands in which the Group conducts its consumer appliances business:

Brand	Description
COLMO	COLMO specialises in premium AI-powered appliances. The brand advocates "simply extraordinary", with its design maximising the value of rationalism. COLMO brings intelligence into each customer's home and revolutionises the home appliance industry with innovative AI technology. COLMO believes seamless technology is the fundamental and defining characteristic of its product design in serving the customers. COLMO is committed to supplying the world with premium products using cutting-edge technology and avant-garde design. Product categories offered by COLMO include kitchen appliances, refrigerator, small appliances and laundry appliances.
TOSHIBA	Toshiba is a world-known Fortune 500 brand founded in Tokyo in 1875. The Group acquired Toshiba's home appliance business in 2016. This strategic partnership allows the Group and Toshiba to combine the best of their respective home appliance brands, enhance R&D activity, improve the scope and quality of their patents and supply chain. The acquisition also helps the Group strengthen its home appliance market position in Japan and South East Asia. Product categories offered by Toshiba include kitchen appliances, refrigerator, small appliances, laundry appliances, cleaning appliances and water appliances.
Midea	According to the 2020 rankings published by Euromonitor International, Midea is the world's No.1 major appliances producer and the world's No.1 brand in small cooking appliances sector such as kettles and rice cookers. Midea wins more than 40 design awards at different design shows around the world every year, including the Red Dot Design Awards, iF Design Awards, and Good Design awards. Midea's brand promise is to provide surprisingly friendly solutions that allow customers to treasure every moment spent at home. This is also expressed by the brand's slogan: "make yourself at home". Product categories offered by Midea include kitchen appliances, refrigerator, small appliances, laundry appliances, cleaning appliances and water appliances.
Comfee	Comfee is a dedicated brand for people who are seeking simple comfort and high efficiency. It is committed to offering products with simple, useful functions to maximise the satisfaction of its customers. Product categories offered by Comfee include refrigerators, small appliances and laundry appliances.

Brand	Description
Little Swan	"Little Swan" is a well-known brand which manufactures home appliances, particularly washing machines. Little Swan was established in 1958 and was the first washing machine manufacturer in China. Little Swan was acquired by the Group in 2008 and merged with the Group in 2019.
eureka	Eureka was founded in 1909 in Detroit, Michigan, the United States, and carries a complete line of vacuum cleaners, including uprights, canisters, sticks, handhelds, and cordless units. For over 100 years Eureka has always been at the forefront of innovation with new and exciting products, making it a household name all around the world. In 2016 Eureka was acquired by Midea America Corp, which created a partnership that combines Eureka's special heritage with the Group's extensive manufacturing capabilities and retail coverage.

Robotics and Automation System

The Group's robotics and automation system is centred in 'humanising' technology and providing solutions for 'Future Factories'. Its product portfolio incorporates industrial robots and solutions, logistic automation and transmission systems as well as medical care and entertainment solutions. The Group's robotics and automation system portfolio includes the flagship brands of "KUKA", "swisslog" and "swisslog healthcare".

For the years ended 31 December 2020, 2019 and 2018, the Group's robotics and automation system segment generated approximately RMB21.6 billion, RMB25.2 billion and RMB25.7 billion in revenue, respectively, contributing approximately 7.6 per cent., 9.0 per cent. and 9.9 per cent., respectively, of the Group's operating revenue.

The Group operates its robotics and automation system business segment mainly through the following subsidiaries:

- ***KUKA***: KUKA is one of the world's leading suppliers of intelligent robot-based automation solutions, with products ranging from single source robots and cells to fully automated systems. KUKA won "2019 Supplier of the Year" by General Motors and in 2020, for its innovative achievements in the field of medical robotics, KUKA received ″Global Company of the Year Award 2020″ from Frost & Sullivan.

  KUKA, a German-based company symbolic of Industry 4.0, joined the Group in 2016 and has been actively assisting the Group in improving its level of intelligent manufacturing. As at 31 July 2021, the robot usage density of the Group has exceeded 320 robots per 10,000 people. With decades of experience in automation, process management, and cloud-based services, KUKA aims to offer customers comprehensive automation and digitalization solutions with a focus on the digital networking of production, flexible manufacturing and new business models.

- ***Swisslog***: Swisslog is shaping the future of logistics automation and transforming warehouses and distribution centres to achieve maximum efficiency, flexibility and agility. By understanding and analysing the data of its customers, Swisslog optimises the performance of its logistics operations. Its complete solutions include consulting, concept studies, project implementation, customer service, best-in-class technologies and software, all tailored to the specific requirements of the business.

Established in the era of the manual warehouse, Swisslog quickly evolved into a leading supplier of crane-based automation in the 80s and 90s. By 2009 Swisslog was one of the first to implement an AutoStore system and one of the largest integrators of intralogistics automation. It is continually innovating its competitive technology to meet the demands of today's omni-channel storage and distribution. As a member of the KUKA Group since 2015, it is advancing digitalization and robotic technology in intralogistics.

- ***Midea Motion Control***: Following the acquisition of Servotronix, an Israeli hi-tech company with more than 30 years of expertise in the industry, Midea Motion Control now offers a complete range of industry-leading motion control products and solutions. It offers comprehensive customised motion control system solutions for different applications and industries including robotics, computer numerical control (CNC), lithium batteries, 3C, packing, printing, textile manufacturing, and more.

- ***Midea Industrial Automation***: Apart from providing a professional service platform that supports production automation internally throughout the Group, Midea Industrial Automation is also a mainstream service provider and system integrator of intelligent manufacturing solutions for the general manufacturing sector. Its business covers three main segments: production process automation, logistics automation and robotics, and automation services.

Other Services

The Group's other services mainly include the digital innovation business providing software services, unmanned retail solutions as well as service solution for the digital transformation of companies of any size.

For the years ended 31 December 2020, 2019 and 2018, the Group's other services segment generated approximately RMB4.8 billion, RMB2.8 billion and RMB2.9 billion in revenue, respectively, contributing approximately 1.7 per cent., 1.0 per cent. and 1.1 per cent., respectively, of the Group's operating revenue.

The Group operates its other services through a number of flagship brands, namely "Annto", "Meizhi Optoelectronics", "Midea Cloud", "MZi" and "Cuckoo".

Annto Logistics's smart logistics solution system is helping it become an exceptional logistics and distribution provider covering entire city networks. It offers direct delivery and warehouse delivery through its network, with coverage extending to the entire territory of China. With its nationwide e-commerce distribution centres separated for large products and small goods, Annto Logistics can offer same-day delivery, overnight delivery, and scheduled-date delivery. Its intra-city services not only cover distribution and delivery, but can also undertake household appliance installation.

Meizhi Optoelectronics is specialised in the R&D, production and sales of lighting and smart front-mounted electrical products. Its product categories cover lighting, bathroom heaters, smart door locks, smart panels, smart drying racks, etc.

Midea Cloud provides full value chain software services for enterprise digital transformation. Especially in the field of industrial internet, Midea Cloud holds a leading position in the domestic market and has led many leading enterprises in other industries to realise the transformation of digital speeding-up and efficiency increase.

MZi is a sub-brand of "Midea" that focuses on commercial solutions, providing a new generation of intelligent facilities, software and hardwire services and smart retail solutions for the commercial sector.

Cuckoo is a new brand developed by the Group currently piloting in the Chinese market. Cuckoo is dedicated to providing home appliances for the new generation of internet users. Based on its innovative business model, Cuckoo developed its ability in commercialising ecological products. Through the co-creation platform 'Cuckoo Research Institute', Cuckoo allows its users to experience the whole process of the product development from scratch.

CUSTOMERS AND SUPPLIERS

The Group has established a diverse and broad customer base across its businesses, including both international and domestic customers, with a greater proportion of customers on a long-term contract basis. For the years ended 31 December 2020, 2019 and 2018, total sales to the Company's top five customers were RMB39.5 billion, RMB35.8 billion and RMB25.3 billion, respectively, representing 13.9 per cent., 12.9 per cent. and 9.8 per cent., respectively, of the Company's total sales for that period.

The Group has developed broad and in-depth partnerships and cooperative relationships with various suppliers across its businesses, including both international and domestic suppliers. For the years ended 31 December 2020, 2019 and 2018, total purchases from the Company's top five suppliers were RMB10.2 billion, RMB9.1 billion and RMB8.6 billion, respectively, representing 5.1 per cent., 5.4 per cent. and 5.0 per cent., respectively, of the Company's total purchases for that period.

RESEARCH AND DEVELOPMENT

The Group owns industry-leading, competitive, multi-layered technology and R&D infrastructure. Through a consistent focus on R&D, continued innovation and a global R&D team presence, the Group has maintained its leading position in technology both domestically and globally. As at 30 June 2021, the "2+4+N" global R&D network consists of 28 research centres in 11 countries with Midea Global Innovation Centre in Shunde District, Foshan City and Midea Global Innovation Centre in Shanghai as the cores of the Group's domestic R&D arm, Midea America Research Centre, Midea Germany Research Centre, Midea Japan Research Centre and Midea Milan Design Centre as the Group's overseas cores.

For the years ended 31 December 2020, 2019 and 2018, the Group's total R&D expenditure was RMB10.12 billion, RMB9.64 billion and RMB8.38 billion, which represented 3.56 per cent., 3.46 per cent. and 3.23 per cent. of the Group's consolidated operating revenue, respectively.

As at 31 December 2020 and 2019, the Group employed 16,071 and 13,727 R&D personnel, respectively, representing 10.8 per cent. and 10.2 per cent., respectively, of the Group's total number of employees.

QUALITY CONTROL

The Group has established quality control systems to ensure the quality of its projects and products. The Group also has strict quality control procedures for the sourcing of raw materials. Accordingly, it only purchases from its internally approved list of qualified suppliers, which are required to have satisfied the relevant national standards. The Group carries out regular maintenance and customer surveys to ensure and seek customer feedback on the quality of its projects and products.

INTELLECTUAL PROPERTY

As at 31 December 2020, the Group owned more than 62,000 authorised patents. The Group places great importance on the invention, application, management and protection of its intellectual property rights. Through R&D and in its ordinary course of business, the Group has obtained various intellectual property rights which are valuable to its business. The Group protects and will continue to seek protection of these intellectual property rights through copyrights, patents, trademarks and other contractual rights.

ENVIRONMENTAL PROTECTION

The Group is subject to the environmental laws and regulations governing air pollution, hazardous substances, water and waste discharge and other environmental matters of national, provincial and municipal governments and authorities in the PRC and other countries or areas in which the Group operates. The Group believes that its businesses are in compliance with currently applicable environmental laws and regulations in both the PRC and other countries or areas in which it operates in all material aspects. As at the date of this Offering Circular, the Group is not aware of any material penalties associated with the breach of any existing environmental law or regulation.

INSURANCE

As part of the protection against operating hazards, the Group maintains insurance coverage which the Group believes is consistent with customary practice in the PRC and international practices in which the Group operates, including insurance coverage on all of its projects, businesses, third party liabilities and employer's liabilities. The Group maintains insurance coverage in amounts that the Group believes are consistent with its risk of loss and the customary practice in the relevant industries. However, the Group may not have sufficient coverage for some of the risks it faces, either because insurance is not available or because of the high premium costs. Losses and liabilities arising from uninsured or underinsured events could have a material impact on the Group's results of operations.

EMPLOYEES

As at 31 December 2020, the Group employed a total of 149,239 employees, of which 5,491 hold a doctorate degree or a master's degree, 27,770 hold a bachelor's degree and 59,393 hold a college or technical secondary school degree.

The Group adheres to, and complies with, the relevant labour laws of the PRC and other countries and areas in which the Group operates. The Group believes that its employees are critical to its success, and is committed to investing in the development of its employees through continuous education and training, and provision of career growth opportunities.

LEGAL PROCEEDINGS

The Group is from time to time involved in legal proceedings arising in the ordinary course of its business, including as both plaintiff or defendant in litigation or arbitration proceedings. There are no current litigation or arbitration proceedings against the Company or any member of the Group that could have a material adverse effect on its financial condition or results of operations or the ability of the Company to perform its obligations under the Notes.

DIRECTORS

The following table sets forth certain information concerning the directors of the Company:

Name	Position
Mr. FANG Hongbo	Chairman of the Board of Directors and Chief Executive Officer
Mr. HE Jianfeng	Director
Mr. YIN Bitong	Director and Vice President
Mr. GU Yanmin	Director and Vice President
Mr. WANG Jianguo	Director and Vice President
Mr. YU Gang	Director
Mr. XUE Yunkui	Independent Director
Mr. GUAN Qingyou	Independent Director
Ms. HAN Jian	Independent Director

Set forth below is a short biography of each director of the Company:

Mr. FANG Hongbo, holder of a master's degree, is Chairman of the Board of Directors and Chief Executive Officer of the Company. He joined the Group in 1992 and previously served as the General Manager of Midea Air-Conditioning Business Department, President of Midea Refrigeration Electric Appliances Group, and Chairman of the Board of Directors and Chief Executive Officer of GD Midea Holding Co., Ltd.

Mr. HE Jianfeng, holder of a bachelor's degree, is a Director and Vice President of the Company. He also serves as the Chairman of the Board of Directors and Chief Executive Officer of Infore Investments Holding Group Co., Ltd.

Mr. YIN Bitong, holder of a master's degree, is a Director and Vice President of the Company. He joined the Group in 1999 and previously served as General Manager Assistant and Marketing Director of the domestic marketing subsidiary of the Company as well as the General Manager and Director of Wuxi Little Swan Co. Ltd. He is also a Co-President of the Midea Smart Home Business Group, the President of Midea Residential Air Conditioning Division, and the President of Midea China.

Mr. GU Yanmin, holder of a doctoral degree, is a Director and Vice President of the Company. He joined the Group in 2000 and previously served as the Planning & Investment Head and Overseas Strategy Head of the Group. Mr. Gu also held various positions in Midea Air-Conditioning & Refrigeration Group, including Overseas Strategy & Development Head, Vice President and Head of Overseas Business Development. Currently he is also the President of the Media Robotics & Automation Division, as well as the Chairman of the Supervisory Committee of KUKA.

Mr. WANG Jianguo, holder of a master's degree, is a Director and Vice President of the Company. He joined the Group in 1999 and was previously the Director of the Supply Chain Management Department of the Group's Residential Air Conditioner Division, the Director of the Administration and Human Resources Department and the General Manager of the Refrigeration Division of the Group. Currently, he also serves as the Co-President of the Midea Smart Home Business Group, and the President of Midea International Business.

Mr. YU Gang, holder of a Doctoral degree from the Wharton School of the University of Pennsylvania, is a Director of the Company. He is also the Honorary Chairman and a co-founder of YHD.COM. Prior to joining the Group, he served as the Global Supply Chain Vice President of Amazon and the Global Procurement Vice President of Dell. He is also the Executive Chairman of the Board of Directors and a co-founder of 111, Inc.

Mr. XUE Yunkui, holder of a doctoral degree from the Southwest University and previously a postdoctoral researcher at Shanghai University of Finance and Economics, is an Independent Director of the Company. He previously served various positions, including the associate dean and a doctoral supervisor at the School of Accountancy of Shanghai University of Finance and Economics, the associate dean of Shanghai National Accounting Institute, the associate dean of Cheung Kong Graduate School of Business, the Secretary-General of China Association of Accounting Professors, and a Vice Chairman of the Steering Committee of the National Accounting Institute under the Ministry of Finance. He is now an accounting professor of Cheung Kong Graduate School of Business.

Mr. GUAN Qingyou, holder of a doctoral degree in economics from the Chinese Academy of Social Sciences and previously a postdoctoral researcher at Tsinghua University, is an Independent Director of the Company. He previously served as a Vice President of Minsheng Securities and the Director of its Research Institute. Currently, he serves as the President and Chief Economist of the Reality Institute of Advanced Finance, a professor of the Faculty of Economics of Hainan University, a Vice Chairman of China Private Economy Research Association, a member of Academic Committee of the International Monetary Institute of the Renmin University of China, the Chief Economist of Zhongguancun Equity Investment Association and Guangdong Province Venture Capital Association, etc.

Ms. HAN Jian, holder of a doctoral degree from the Cornell University, is an Independent Director of the Company. She is also a professor of management at China Europe International Business School and has served on various global expert councils of World Economic Forum.

SUPERVISORS

The following table sets forth certain information concerning the supervisors of the Company:

Name	Position
Mr. DONG Wentao	Chairman of the Supervisory Committee
Mr. ZHAO Jun	Supervisor
Ms. LIANG Huiming	Employee Supervisor

Set forth below is a short biography of each supervisor of the Company:

Mr. DONG Wentao, holder of a master's degree, is the Chairman of the Supervisory Committee of Company. He joined the Group in 2016 and successively served in the Law Department and Investor Relations Department of the Group. He has more than 10 years of working experience in legal risk control, market value management and capital operation.

Mr. ZHAO Jun, holder of a master's degree, is a Supervisor of the Company. He joined the Group in 2000 and previously served as the Director and Chief Financial Officer of GD Midea Holding Co., Ltd. He is now an Executive President of Midea Holding Co., Ltd. as well as a Non-Executive Director of Midea Real Estate Holding Limited.

Ms. LIANG Huiming, holder of a bachelor's degree, is the Employee Supervisor of the Company. She joined the Group in 2007 and previously served as the Chief Business Administration Commissioner in the Group's Administration and Human Resources Department.

SENIOR MANAGEMENT

The following table sets forth certain information concerning the senior management of the Company:

Name	Position
Mr. FANG Hongbo	Chairman of the Board of Directors and Chief Executive Officer
Mr. YIN Bitong	Director and Vice President
Mr. GU Yanmin	Director and Vice President
Mr. WANG Jianguo	Director and Vice President
Mr. ZHANG Xiaoyi	Vice President
Mr. HU Ziqiang	Vice President
Mr. WANG Jinliang	Vice President
Mr. LI Guolin	Vice President
Mr. FU Yongjun	Vice President
Mr. GUAN Jinwei	Vice President
Ms. ZHONG Zheng	Director of Finance
Mr. JIANG Peng	Company Secretary

Set forth below is a short biography of each member of the senior management of the Company:

Mr. FANG Hongbo, please refer to details in "*Directors*".

Mr. YIN Bitong, please refer to details in "*Directors*".

Mr. GU Yanmin, please refer to details in "*Directors*".

Mr. WANG Jianguo, please refer to details in "*Directors*".

Mr. ZHANG Xiaoyi, holder of a master's degree, is a Vice President of the Company. He joined the Group in 2010 and previously served various positions in the Group, including the Head of the overseas process IT system, and the Head of supply chain system of the Group. He also currently serves as the Chief Information Officer as well as the IT Director of the Company.

Mr. HU Ziqiang, holder of a doctoral degree, is a Vice President of the Company. He joined the Group in 2012 and formerly held positions in GE and Samsung and served as a Vice General Manager in Wuxi Little Swan Co., Ltd. At present he is also the Chief Technology Officer of the Company as well as the Chairman of the Board of Directors of WDM.

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

Mr. LI Guolin, holder of a master's degree, is a Vice President of the Company. He joined the Group in 1998 and previously served as a Vice President of the Residential Air Conditioner Division and the President of the Small Domestic Appliance Division of the Group. He is now the President of the Manufacturing Technology Research Institute of the Company.

Mr. FU Yongjun, holder of a master's degree, is a Vice President of the Company. He joined the Group in 1999 and was the General Manager of the Midea Environmental Appliance Division, the General Manager of the Midea Component Division and the President of Midea Electromechanical Division, and is now the President of Midea Electromechanical Business Group.

Mr. GUAN Jinwei, holder of a master's degree, is a Vice President of the Company. He joined the Group in 2002 and previously served various positions in the Group, including the Vice General Manager of Midea Central Air-conditioner Business Division and the General Manager of the overseas marketing subsidiary, the President Assistant of Midea International Business, and the General Manager of Association of Southeast Asian Nations (ASEAN) Region. He is now the President of Midea Building Technologies Division.

Ms. ZHONG Zheng, holder of a master's degree, is the Director of Finance of the Company. She joined the Group in 2002 and previously served various positions in the Group, including the Financial Manager of the factory in Guangzhou of Residential Air Conditioner Division and domestic and overseas marketing subsidiaries, Director of Finance of Financial Center and Component Division, as well as Audit Director of the Company.

Mr. JIANG Peng, holder of a master's degree, is the Secretary of the Company. He joined the Group in 2007 and previously served as the Securities Affairs Representative and Company Secretary of GD Midea Holding Co., Ltd. He has obtained the qualification certificate of secretary of the board of directors issued by Shenzhen Stock Exchange.

GREEN FINANCING FRAMEWORK

In January 2022, the Guarantor published the Framework in accordance with Green Bond Principles 2021 Edition.

For the avoidance of doubt, the Framework is not incorporated by reference into, and does not form part of, this Offering Circular. None of the Joint Lead Managers or any of the Agents or any of their respective directors, officers, employees, representatives, advisers, agents or affiliates accepts any responsibility for the contents of the Framework.

THE GROUP'S GREEN STRATEGY

With the vision of "building a green global supply chain, providing green products and services, and building a green and beautiful home", and the goal of promoting the "3060" strategy by proactively responding to the national vision of achieving carbon peak by 2030 and carbon neutrality by 2060, as well as supporting the global decarbonization pathway, the Group has divided the promotion plan of its green strategy into 4 stages, and built the whole green industry chain process around 6 pillars of "Green Design, Green Procurement, Green Manufacturing, Green Logistics, Green Recycling, and Green Services", to contribute to the China and worldwide target of "carbon peak and carbon neutrality".

The Group will consecutively implement its Green Strategy under the following 4 stages:

- **First Stage:** Early deployment of green energy, smooth peaking by 2030
- **Second Stage:** Increase the proportion of green power to reduce greenhouse gas emissions, and achieve gradual carbon reduction by 2040
- **Third Stage:** Significant carbon reduction by 2050 through the usage of carbon neutral power
- **Forth Stage:** Converging forces to move toward carbon neutrality by 2060

The Group has built the whole green industry chain process around 6 pillars with details in the below:

1. **Green Design**

    o Green Technology

    o Green Products

    o Green Standards

2. Green Procurement

- Fulfilling Social Responsibility
- Sourcing Green Materials
- Green Supply Integration
- Global Green Procurement

3. Green Manufacturing

- Intensification of land use
- Harmless raw materials
- Cleaner production
- Resourcefulness of waste
- Low carbonization of energy

4. Green Logistics

- Green Energy
- Digital Intelligence Logistics
- Green Packaging
- Green Cooperation

5. Green Recycling

- Customers can feel comfortable with a new one
- Convenient recycling channels
- Green dismantling and scrapping can be traced

6. Green Services

- o Building Digital Intelligence Solutions
- o Energy Integration Solutions

Through the adjustment of energy structure, on the premise of ensuring the incremental development of the enterprise, the Group responds to the national call to insist on green operation. With an expectation to achieve the carbon peak of the total direct and indirect emissions (Scope 1 and Scope 2[1]) within the enterprise around 2028, the Group aims to adopt 30% of green power by 2030.

THE GROUP'S GREEN FINANCING FRAMEWORK

The Framework is set up to define how the Guarantor and its fully-owned subsidiaries will raise fund through Green Bonds (including the Notes) to finance and/or refinance eligible green assets and green projects.

Green Bonds issued under the Framework will be structured in alignment with the Green Bond Principles 2021 Edition released by ICMA.

The Framework was structured under the following four main pillars:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

1 Use of Proceeds

An amount equivalent to the net proceeds of any Green Bonds launched by the Group will be allocated to finance and/or refinance, in whole or in part, new, under-construction or operating eligible green assets and green projects as defined below ("**Eligible Green Assets**").

[1] According to GHG Protocol, Scope 1 refers to Direct Emissions and Scope 2 refers to Indirect Emissions.

Eligible Green Asset Categories	Eligibility Criteria	UNSDG Alignment	Key Environmental Objectives
Eco-Efficient Product Design and Development . .	• Investments to develop and manufacture (including research and development "**R&D**" expenditures) eco-friendly and energy-efficient products, services, solutions and technologies in relation to: ◦ Products, components or systems which are expected to provide a minimum 15% improvement in energy efficiency or obtain recognized eco-performance labels such as China Energy Label Level 1 or above or EU Energy Label B or above. For example, the Midea Commercial Air Conditioner Building Management System which expects to increase the refrigeration energy efficiency of large public buildings by around 30% ◦ Core components of vehicles with zero tailpipe CO_2 emissions	UNSDG 11 – Target 11.B UNSDG 12 – Target 12.5	Climate change mitigation and Natural resource conservation
Energy Efficient and Eco-Efficient Manufacturing and Processes . .	• Investments related to the technologies, systems and facilities which make manufacturing processes at least 15% more energy efficient in terms of energy intensity per output value, examples include: digital energy management systems for intelligent production planning, energy efficient heating and cooling systems, energy-saving electrical equipment, exhaust air energy recovery systems, etc.	UNSDG 9 – Target 9.4 UNSDG 11 – Target 11.B	Climate change mitigation and Natural resource conservation

Eligible Green Asset Categories	Eligibility Criteria	UNSDG Alignment	Key Environmental Objectives
Pollution Prevention and Control	• Investments for the design improvement of product packaging to minimize, recycle and reuse packaging materials; or to make packaging material biodegradable in minimizing environmental impact	UNSDG 11 – Target 11.6 UNSDG 12 – Target 12.5	Pollution Prevention and Control
Clean Transportation .	• Acquisition of electric vehicles (including electric cargo trucks) • Development and manufacturing of essential components for zero tailpipe CO_2 emissions	UNSDG 11 – Target 11.2	Climate change mitigation
Sustainable Water and Wastewater Management. . .	• Investments and expenditures related to the operation and maintenance of sewage treatment systems and facilities to reduce water pollutant discharges; and those to filter, recycle and reuse wastewater to lower water consumption	UNSDG 6 – Target 6.3	Pollution Prevention and Control
Green Buildings .	• Acquisition or investment of buildings, including logistic centres and warehouses, which have received or are expected to receive recognized green building certifications such as the below: ◦ Chinese Green Building Evaluation Label – 3 Star (Design/Operations Label); or ◦ Building Research Establishment Environmental Assessment Method (BREEAM) – "Excellent" or "Outstanding"; or	UNSDG 11 – Target 11.C	Climate change mitigation and Natural resource conservation

Eligible Green Asset Categories	Eligibility Criteria	UNSDG Alignment	Key Environmental Objectives
	◦ U.S. Leadership in Energy and Environmental Design (LEED) – "Gold" or "Platinum"; or ◦ Any other green building label, that is an equivalent standard of the above. • Renovation, refurbishment and maintenance work of existing buildings (including warehouses and logistics centres) to optimize energy efficiency including the installation of LED and other energy efficient light and smart meters		
Renewable Energy	• Acquisition, installation, maintenance and upgrade of renewable energy generation including rooftop solar panel; • Energy storage equipment and facilities; • Procurement of renewable energy to reduce energy-related carbon footprint through the following: ◦ Long-term physical and virtual Power Purchase Agreements (PPAs); or ◦ Long-term energy attribute certificates such as Renewable Energy Certificates (RECs)	7 AFFORDABLE AND CLEAN ENERGY UNSDG 7 – Target 7.2	Climate change mitigation

Exclusionary criteria: energy efficiency projects which involve technologies or assets which hamper the development of low-carbon alternatives and cause carbon lock-in.

2 Process for Project Evaluation and Selection

The Group shall form a dedicated Green Finance working group (the "**Working Group**") including representatives from the Finance Department, in which some of the members will be equipped with green finance transaction experience or expertise, the Sustainability Department, in which some of the members will be nominated as subject matter experts, and representatives from business unit(s) which are responsible for the operations, acquisition or maintenance of the projects, in the selection of Eligible Green Assets when required. The Working Group is directly supervised by the Vice President of the Group.

Prior to the launch of any Green Bonds, the Finance Department shall conduct a preliminary screening of potential Eligible Green Assets in accordance with the criteria and standards described in the "*Use of Proceeds*" section in the Framework, and form a list of nominated green assets. Refinancing of Eligible Green Asset will have a look-back period of no longer than three years from the time of issuance.

Respective divisions responsible for the nominated green project(s) would identify the environmental and social risks associated with the projects and provide an analysis to the Working Group, according to internal environmental and social risk management policies and frameworks.

The Working Group will then review and approve[2] the list of nominated green assets based on a variety of factors, including but not limited to, the eligibility criteria defined in the Framework, the expected environmental and/or social risks and impact related to the green assets based on the associated feasibility report, environmental impact assessment reports, or product energy efficiency certifications if applicable.

The Group strictly observes the Environmental Protection Law of People's Republic of China, the Environmental Impact Assessment Law of the People's Republic of China, and the relevant laws and regulations of the places where the subsidiaries of the Group are located. The Group has clearly defined the red line of environmental protection management in production and operation activities and set forth requirements and regulations for management of environmental regulation compliance new reconstruction and expansion projects, waste water and gas discharge standards, etc.

The Group follows the ISO14001 environmental management system standard to manage and mitigate environmental risks related to its operations and projects. All business divisions have established EHS management organization and formulated environmental management policies for systematic management. In strict compliance with the Basel Ban Amendment in the disposal of e-waste, the Group does not export any such waste to any non-OECE country.

Focusing on health and safety, safety committees were set up in the Group's headquarters as well as each subordinate business division and product company to take charge of the management of production safety and occupational health of the Group and business divisions. The Group signed an annual safety responsibility letter with each subordinate business division to stipulate annual safety assessment indicators and guiding indicators, and regularly followed up on the indicator progress.

On sustainable supply chain, the Group has specified clear review requirements for suppliers' social responsibility fulfillment. The social responsibility assessment and assurance system for suppliers is incorporated into the Material Supplier Cooperation Agreement of Midea Group, the Midea Supplier Code of Conduct and other documents. Suppliers are bound in five aspects, including labor rights, occupational health and safety, environmental projection, business ethics and management system requirements.

Post-allocation, the proceeds allocation from the Green Bonds will be reviewed by the Working Group at least on an annual basis or as necessary, to ensure that the proceeds are fully earmarked to a portfolio of Eligible Green Assets in alignment with the eligibility criteria throughout the tenor of the Green Bonds. Allocated assets that no longer fulfil the eligibility criteria will be replaced by other Eligible Green Assets.

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2 Approval by majority by Working Group members would be required

3 Management of Proceeds

The Group's Finance Department shall establish and maintain a dedicated ledger (the "**Ledger**") to record and track the allocation of the proceeds to Eligible Green Assets. The proceeds will be managed and tracked through a formal internal process to ensure the link of the proceeds to the Eligible Green Assets.

The Ledger will contain, but not limited to, the following information:

- Information of issuances of the Green Bonds, including the issuance date, maturity date, coupons/interest rate, currency, amount, ISIN (for Green Bonds) etc.; and
- Information of the allocated Eligible Green Assets, including:
  - The aggregate amount of allocated proceeds to each eligible green asset;
  - Asset summary and its Eligible Green Asset Category; and
  - The expected environmental benefits.

Any balance of proceeds from Green Bonds not earmarked to Eligible Green Assets shall be held in accordance with the Group's internal liquidity management policy. The unallocated proceeds can be held in cash or cash equivalent.

On the best effort basis, the Group will fully allocate the net proceeds of Green Bonds within 36 months after launch or drawdown. The Group will maintain an aggregate amount of Eligible Green Assets that is at least equal to the aggregate net proceeds of all outstanding Green Bonds throughout the respective tenor.

In case of divestment or cancellation of an allocated green asset, or whenever an allocated green asset no longer meets the eligibility criteria depicted in the Framework, the Group will reallocate the proceeds to other Eligible Green Assets on a timely basis.

If the Group is informed or aware of any material environmental and/or social controversy from the allocated green project(s), the Group will undertake immediate internal review of the respective green project(s), and commits to keep the findings transparent, and make timely replacement.

4 Reporting

Until full allocation of the net proceeds from each green bond to the Eligible Green Assets, the Group will disclose the information of allocation reporting and impact reporting in the annual corporate social responsibility report or in a standalone annual green bond report. Subject to material changes to the allocated projects that causes them to no longer meet the eligibility criteria defined in the Framework, the Group will replace the ineligible assets into other Eligible Green Assets and notify the market in a timely manner.

(1) Allocation Reporting

The allocation reporting shall include the following information:

- Percentage of proceeds allocation by Eligible Green Asset category;
- Remaining balance of proceeds which have not yet been allocated;
- Case studies of selected allocated Eligible Green Assets, subject to confidentiality.

(2) Impact Reporting

The Group shall disclose the relevant information on the expected positive environmental benefits of the allocated Eligible Green Assets by Eligible Green Asset category. On a best effort basis, the Group will disclose the relevant calculation methodologies.

Where relevant and feasible, the Group will provide the impact report using the potential impact indicators recommended under the Harmonized Framework for Impact Reporting. Below is the list of potential impact indicators:

Eligible Green Asset Categories	**Potential Impact Indicators**
Eco-Efficient Product Design and Development	• Type of products supported by the R&D and the relevant certification expected/obtained • Energy efficiency or other environmental performance improved relative to an established baseline (%)
Energy Efficient and Eco-Efficient Manufacturing and Processes	• Annual reduction in electricity consumption (MWh/year) • Energy intensity improvement per production unit (%) • Annual energy efficiency gains relative to an established baseline (%) • Annual GHG emissions avoided (tCO_2e/year)
Pollution Prevention and Control . .	• Annual waste gas emissions avoided (tonnes/year) • Annual amount of solid waste treated/reduced (tonnes/year) • Annual GHG emissions avoided (tCO_2e/year)
Sustainable Water and Wastewater Management	• Annual volume of sewage discharge reduced (tonnes/year) • Annual reduction in water consumption (tonnes/year)
Green Buildings	• Type and level of green building certifications obtained • Annual energy savings (MW/year)
Renewable Energy	• Annual amount of renewable energy purchased (MW/year) • Annual GHG emissions avoided (tCO_2e/year)

EXTERNAL REVIEW

The Group has engaged S&P Global Ratings to obtain the Alignment Opinion on the Framework to confirm the Framework's alignment with the Green Bond Principles 2021 Edition. The Alignment Opinion is publicly available on the Guarantor's website.

PRC REGULATIONS

This section summarises the principal PRC laws and regulations which are relevant to the Issuer's and the Guarantor's business and operations. As this is a summary, it does not contain a detailed analysis of the PRC laws and regulations which are relevant to the Issuer's and the Guarantor's business and operations.

THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws, laws of Special Administrative Regions and laws resulting from international treaties entered into by the PRC government. In general, PRC court judgments do not constitute binding precedents. However, they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC (the "**NPC**") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies and civil, criminal and other matters. The Standing Committee of the NPC is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council is the highest committee of the State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local rules and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council, provincial and municipal governments may also enact or issue rules, regulations or directives in new areas of the law for experimental purposes or in order to enforce the law. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. The Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional rules and regulations is vested in the regional legislative and administrative bodies which promulgated such laws.

THE PRC JUDICIAL SYSTEM

Under the PRC Constitution (中華人民共和國憲法) and the Law of Organisation of the People's Courts (中華人民共和國人民法院組織法), the judicial system is made up of the Supreme People's Court, the local courts, military courts and other special courts.

The local courts are comprised of the basic courts, the intermediate courts and the higher courts. The basic courts are organised into civil, criminal, economic, administrative and other divisions. The intermediate courts are organised into divisions similar to those of the basic courts, and are further organised into other special divisions, such as the intellectual property division. The higher level courts supervise the basic and intermediate courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all other courts.

The courts employ a two-tier appellate system. A party may appeal against a judgment or order of a local court to the court at the next higher level. Second judgments or orders given at the next higher level and the first judgments or orders given by the Supreme People's Court are final. First judgments or orders of the Supreme People's Court are also final. If, however, the Supreme People's Court or a court at a higher level finds an error in a judgment which has been given by any court at a lower level, or the president of a court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried in accordance with the judicial supervision procedures.

The Civil Procedure Law of the PRC (中華人民共和國民事訴訟法) (the "**Civil Procedure Law**"), which was adopted on 9 April 1991 and amended on 28 October 2007 and 31 August 2012, and 27 June 2017, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by written agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the place of the object of the contract, etc or a venue which has actual connection with the dispute. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request for enforcement of the judgment, order or award. The time limit imposed on the right to apply for such enforcement is two years. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by any party to the action, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognised and enforced by a PRC court in accordance with the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination in accordance with the principle of reciprocity, unless the court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interests.

FOREIGN EXCHANGE CONTROLS

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency to jurisdictions outside China. Under existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local branch of the SAFE, by complying with certain procedural requirements. However, except as otherwise specified by laws and regulations, approval from the appropriate government authorities is usually required where Renminbi is to be converted into foreign currency and remitted to a jurisdiction outside China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access to foreign currencies for current account transactions in the future.

Prior to 31 December 1993, a quota system was used for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currency through the PBOC or other designated banks. Such conversion had to be effected at the official rate prescribed by SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centres. The exchange rates used by swap centres were largely determined by the demand for, and supply of, the foreign currency and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap centre had to obtain the prior approval of SAFE.

On 1 January 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which was determined by the demand and supply of Renminbi. Pursuant to such system, the PBOC set and published the daily Renminbi-U.S. dollar exchange rate. Such exchange rate was determined with reference to the transaction price for Renminbi-U.S. dollar in the inter-bank foreign exchange market on the previous day. Also, the PBOC, with reference to exchange rates in the international foreign exchange market, announced the exchange rates of Renminbi against other major foreign currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the rate announced by the PBOC.

On 29 January 1996, the State Council promulgated Regulations on Foreign Exchange Administration (外匯管理條例) ("**Foreign Exchange Administration Regulations**") which became effective from 1 April 1996. The Foreign Exchange Administration Regulations classifies all international payments and transfers into current account items and capital account items. Most current account items are subject to the approval by relevant banks that are duly authorised by SAFE to do so, while capital account items are still subject to SAFE approval directly. The Foreign Exchange Administration Regulations was subsequently amended on 14 January 1997. Such amendment affirms that the State shall not restrict international current account payments and transfers. On 1 August 2008, the Foreign Exchange Administration Regulations was further amended pursuant to a resolution of the State Council of China (中華人民共和國國務院令) and came into effect on 5 August 2008 (the "**New Forex Regulation**"). Under the New Forex Regulation, foreign currency received under current account by onshore entities will not be asked to be settled into Renminbi automatically, while foreign currency under capital account may also be maintained upon approval. The Renminbi will be convertible for current account items (including goods, services, gains and transactions items that are frequently transferred, etc. involved in international balance of payments) upon presentation of valid receipts and proof certifying the purposes of the conversion of Renminbi into foreign currency to the designated foreign exchange banks. Conversion of Renminbi into foreign exchange and remittance of foreign exchange funds outside of PRC for capital account items, like capital transfers, direct investment, securities investment and derivative products and loans, is still subject to restriction, and prior approval from SAFE or its competent branch.

On 20 June 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) (the "**Settlement Regulations**") which became effective on 1 July 1996. The Settlement Regulations superseded the Provisional Regulations and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. Domestic entities seeking to enter into foreign exchange transactions are required to open up foreign exchange accounts for current account or capital account transactions, as the case may be, at banks involved in foreign exchange business. Interest payments for foreign debt may be made from a foreign exchange account of a domestic entity or using foreign exchange purchased at designated foreign exchange banks after the verification of the *bona fide* nature of the transaction by SAFE. Domestic entities may apply to SAFE for approval to purchase foreign exchange by presenting valid documents required by the Settlement Regulations for repayment of foreign debt principal and such payment can be made upon the approval of SAFE.

On 25 October 1998, the PBOC and SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swap Business (關於停辦外匯調劑業務的通知) pursuant to which and with effect from 1 December 1998, all foreign exchange swap business in the PRC for foreign-invested enterprises was discontinued, while the trading of foreign exchange by foreign-invested enterprises was to be regulated under the system for the settlement and sale of foreign exchange applicable to banks.

On 21 July 2005, the PBOC announced that, beginning from 21 July 2005, China will implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the U.S. dollar. The PBOC will announce the closing price of a foreign currency such as the U.S. dollar traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each business day. This closing price sets the central parity for trading of the Renminbi on the following business day.

According to the Circular on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises issued by the General Affairs Department of the SAFE (國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) ("**Circular 142**") on 29 August 2008, for each conversion and withdrawal, an FIE is required to provide various supporting documents evidencing the authenticity of the transaction to relevant bank for review and verification. Also the converted RMB should only be used by FIEs in line with their business scope as approved by the examination and approval authorities, for example, for acquiring equipment and real property for self-use. Except for special type of FIEs such as venture capital and private equity enterprises, ordinary FIEs are generally prohibited from using the RMB converted from their capital account balance to make equity investments in other companies in China. And except for foreign-funded real estate enterprises, foreign-funded enterprise shall not use the RMB converted from their capital account balance to purchase domestic real estate for any purpose other than its own use.

In 2009, the PRC has commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. In June 2010, July 2011 and February 2012 respectively, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Program of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算試點有關問題的通知), the Circular on Expanding the Regions of Cross-border Trade Renminbi Settlement (關於擴大跨境貿易人民幣結算地區的通知) and the Notice on Matters Relevant to the Administration of Enterprises Engaged in Renminbi Settlement of Export Trade in Goods (關於出口貨物貿易人民幣結算企業管理有關

問題的通知) (together, the "**Circulars**") with regard to the expansion of designated cities and offshore jurisdictions implementing the pilot Renminbi settlement scheme for cross-border trades. Pursuant to these Circulars, (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts were expanded to cover all provinces and cities in the PRC, (iii) the restriction on designated offshore districts has been lifted and (iv) any enterprise qualified for the export and import business is permitted to use Renminbi as settlement currency for exports of goods, provided that the relevant provincial government has submitted to PBOC and five other PRC authorities (the "Six Authorities") a list of key enterprises subject to supervision and the Six Authorities have verified and signed off such list (the "Supervision List").

On 5 July 2013, PBOC promulgated the Circular on Policies related to Simplifying and Improving Cross-border Renminbi Business Procedures (關於簡化跨境人民幣業務流程和完善有關政策的通知) (the "**2013 PBOC Circular**"), which, in particular, simplifies the procedures for cross-border Renminbi trade settlement under current account items. For example, PRC banks may conduct settlement for PRC enterprises (excluding those on the Supervision List) upon the PRC enterprises presenting the payment instruction. PRC banks may also allow PRC enterprises to make/receive payments under current account items prior to the relevant PRC bank's verification of underlying transactions (noting that verification of underlying transactions is usually a precondition for cross-border remittance). The Circulars and the 2013 PBOC Circular will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these circulars and impose conditions for settlement of current account items.

On 8 April 2015, the SAFE promulgated the Circular of the SAFE on Relevant Issues Concerning the Reform of the Administrative Method of the Conversion of Foreign Exchange Funds by Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) ("**Circular 19**"), which will relax the capital account settlement for all foreign invested enterprises across the nation from 1 June 2015. According to Circular 19, Circular 142 will cease to be effective on the same date of the implementation of Circular 19. Circular 19 allows all foreign invested enterprises across the PRC to convert foreign exchange in their capital accounts into Renminbi at their own discretion without providing various supporting documents. However, to use the converted Renminbi, a foreign invested enterprise still needs to provide supporting documents and goes through the review process with the banks for each withdrawal.

On 29 April 2019, SAFE issued the Administrative Measures for Foreign Exchange Business of Payment Institutions (支付機構外匯業務管理辦法), which facilitates cross-border e-commerce settlement, promotes the sound development of foreign exchange business of payment institutions and prevents foreign exchange payment risks.

OVERSEAS INVESTMENT RULES

According to the Rules on Overseas Investment (境外投資管理辦法) issued by the MOFCOM on 16 March 2009, coming into effect on 1 May 2009 (the "**MOFCOM Overseas Investment Rules**"), local PRC enterprises proposing to engage in overseas investment where the total investment by the PRC party would be U.S.$100 million or more must first obtain approval from the commerce authorities at the local provincial level and thereafter must seek approval from the MOFCOM. On 6 September 2014, the MOFCOM Overseas Investment Rules was amended and came into effect on 6 October 2014. Under the New MOFCOM Overseas Investment Rules, any overseas investment involving a sensitive country or territory or a sensitive industry shall be subject to approval-based administration while other overseas investments shall be subject to filing-based administration. Such "**sensitive country**" refers to the countries which have not established diplomatic relations with the PRC or are sanctioned by the United

Nations, whereas "**sensitive industry**" refers to the industries of which the products and technologies are banned from export by the PRC government, or the industries of which the export may affect the interests of at least one country (region). With regards to an overseas investment that is subject to approval-based administration, a centrally administered enterprise shall file an application with the MOFCOM, and a local enterprise shall file an application to the MOFCOM via the local commerce authorities at the local provincial level. With regards to an overseas investment that is subject to filing- based administration, a centrally administered enterprise shall file for record the overseas investment with the MOFCOM; and a local enterprise shall file the same for record with the local commerce authorities at the local provincial level.

Pursuant to the Measures for the Administration of Overseas Investment of Enterprises (企業境外投資管理辦法) promulgated by the NDRC, which became effective on 1 March 2018, any overseas investment project involving any politically sensitive country or territory (such as countries with no diplomatic ties or which are sanctioned by the international community, or countries/territories where there is ongoing war or civil unrest etc.) or otherwise any sensitive industry (such as telecommunication operation, cross-border water resources development and utilisation, large-scale land development, electricity transmission lines, power grids or news media etc.) shall be subject to approval by the NDRC. In particular, where any such other overseas investment project is carried out by an enterprise administered by the PRC central government or carried out by an enterprise administered by the local government and involves investment by the Chinese party (parties) of an amount equal to or more than U.S.$300 million, such overseas investment project shall be filed with the NDRC. Any such other overseas investment project carried out by the local enterprise and involves investment by the Chinese party (parties) of an amount less than U.S.$300 million shall be filed with the investment department of the relevant government at the provincial level, including the government of each of the provinces, autonomous regions, municipalities directly under the Central Government and municipalities with independent planning status, as well as the Xinjiang Production and Construction Corps.

NDRC

On 14 September 2015, the National Development and Reform Commission (the "**NDRC**") promulgated the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates (Fa Gai Wai Zi [2015] No 2044) (the "**NDRC Notice**") (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知), which came into effect on the same day. According to the NDRC Notice, if a PRC enterprise or an offshore enterprise controlled by a PRC enterprise wishes to issue bonds outside of the PRC with a maturity of more than one year, such enterprise must, in advance of issuing such bonds, file certain prescribed documents with the NDRC and procure a registration certificate from the NDRC in respect of such issuance (the "**Pre-Issuance Registration Certificate**"). In addition, the enterprise must also report certain details of the bonds to the NDRC within 10 working days of the completion of the bond issue (the "**Post-Issuance Reporting Filing**"). The Guarantor obtained a Pre-Issuance Registration Certificate in respect of the Offering from the NDRC on 26 January 2022, which remains in full force and effect as of the date of this Offering Circular.

According to the NDRC Notice, the proceeds raised may be used onshore or offshore according to the actual needs of the enterprises, but priority must be given to supporting the investment in major construction projects and key sectors, such as "One Belt One Road (一帶一路)", the Integration of Beijing-Tianjin-Hebei, the Yangtze River Economic Belt, international cooperation on production capacity, and the manufacturing of equipment.

CROSS-BORDER SECURITY REGULATIONS

On 12 May 2014, the SAFE promulgated the Circular concerning Promulgation of the Foreign Exchange Administration Rules on Cross-Border Guarantees and the Relating Implementation Guidelines (國家外匯管理局關於發佈《跨境擔保外匯管理規定》的通知) (collectively the "**Circular 29**"). Circular 29, which came into force on 1 June 2014, replaces twelve other regulations regarding cross-border security and introduces a number of significant changes, including: (i) abolishing prior SAFE approval and quota requirements for cross-border security; (ii) requiring SAFE registration or filing for two specific types of cross-border security only; (iii) removing eligibility requirements for providers of cross-border security; (iv) the validity of any cross-border security agreement is no longer subject to SAFE approval, registration, filing, and any other SAFE administrative requirements; (v) removing SAFE verification requirement for performance of cross-border security. A cross-border guarantee is a form of security under the Circular 29. Circular 29 classifies cross-border security into three types:

- Nei Bao Wai Dai (內保外貸) ("**NBWD**"): security/guarantee provided by an onshore security provider for a debt owing by an offshore debtor to an offshore creditor.

- Wai Bao Nei Dai (外保內貸) ("**WBND**"): security/guarantee provided by an offshore security provider for a debt owing by an onshore debtor to an onshore creditor.

- Other Types of Cross-border Security (其他形式跨境擔保): any cross-border security/guarantee other than NBWD and WBND.

In respect of NBWD, in the case where the onshore security provider is a non-financial institution, it shall conduct a registration of the relevant security/guarantee with SAFE within 15 business days after the execution of the Deed of Guarantee. In the event of changes to the major clauses of the Deed of Guarantee, it shall conduct a change registration for the relevant security/guarantee. According to the Circular 29, the funds borrowed offshore shall not be directly or indirectly repatriated to or used onshore by means of loans, equity investments or securities investments without SAFE approval. According to Circular of the State Administration of Foreign Exchange on Further Advancing Foreign Exchange Administration Reform to Enhance Authenticity and Compliance Reviews (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知) issued by the SAFE on 26 January 2017, funds for overseas loans under domestic guarantees are allowed to be repatriated into the PRC for domestic use. Debtors can repatriate, directly or indirectly, the funds under guarantees for domestic use through issuing loans to or equity participation in domestic institutions. Further, according to the Policy Q&As (Issue II) on the Circular of the State Administration of Foreign Exchange on Further Advancing the Reform of Foreign Exchange Administration and Improving Examination of Authenticity and Compliance, in the case where the offshore debtor transfers the funds borrowed offshore by means of foreign loans onshore, the onshore borrower shall meet the relevant requirements for foreign debt administration and control the scale of funds repatriated according to the relevant requirements of the mode of macro-prudential management of full-covered cross-border financing or the mode required in the Administration Measures for Registration of Foreign Debts. In the case where the offshore debtor transfers the funds by means of equity investment onshore, it shall meet the requirements from the competent authorities in the area of foreign direct investment.

Upon enforcement, the onshore security provider can pay to the offshore creditor directly (by effecting remittance through an onshore bank) where the NBWD has been registered with SAFE. In addition, if any onshore security provider under a NBWD provides any security or guarantee for an offshore bond issuance, the offshore issuer's equity shares must be fully or partially held directly or indirectly by the onshore security provider. Moreover, the proceeds from any such offshore bond issuance must be applied towards the offshore project(s), where an onshore entity holds equity interest, and in respect of which the related approval, registration, record, or confirmation have been obtained from or made with the competent authorities subject to PRC Laws.

The Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Notes. The Guarantor's obligations in respect of the Notes are contained in the Deed of Guarantee. The Deed of Guarantee will be executed by the Guarantor on or before the Issue Date. Under the Circular 29, the Deed of Guarantee does not require any pre-approval by SAFE and is binding and effective upon execution.

The Guarantor is required to submit the Deed of Guarantee to the local SAFE for registration within 15 business days after its execution. The SAFE registration is merely a post signing registration requirement, which is not a condition to the effectiveness of the Guarantee of the Notes.

Under the Circular 29, the local SAFE will go through a procedural review (as opposed to a substantive examination process) of the Guarantor's application for registration. Upon completion of the review, the local SAFE will issue a registration notice or record to the Guarantor to confirm the completion of the registration.

Under the Circular 29:

- non-registration does not render the Guarantee of the Notes ineffective or invalid under PRC law although SAFE may impose penalties on the Guarantor if submission for registration is not carried out within the stipulated time frame of 15 business days; and

- there may be logistical hurdles at the time of remittance (if any cross-border payment is to be made by the Guarantor under the Guarantee of the Notes) as domestic banks require evidence of SAFE registration in order to effect such remittance, although this does not affect the validity of the Guarantee of the Notes itself.

The Terms and Conditions of the Notes provide that the Guarantor will use its best endeavours to complete the Cross-Border Security Registration on or before the Registration Deadline and obtain from SAFE a registration record relating to the registration of the Deed of Guarantee and comply with all applicable PRC laws and regulations in relation to the Guarantee of the Notes.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or any person acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes.

Persons considering the purchase of the Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of the Notes.

PRC

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, investors should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Enterprise Income Tax

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management bodies" are within the territory of China shall be PRC tax resident enterprises for the purpose of the EIT Law and they shall pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside China. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management body" of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside PRC. As confirmed by the Issuer and the Guarantor, as of the date of this Offering Circular, neither the Issuer nor the Guarantor has been notified or informed by the PRC tax authorities that the Issuer is considered as a PRC tax resident enterprise for the purpose of the EIT Law. On that basis, holders of the Notes will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or whose income has no actual connection to its establishment inside the PRC shall pay enterprise income tax at the rate of 10 per cent. on the income sourced inside the PRC, unless a preferential rate is provided by tax treaties or arrangements entered into between the country or region where the non-resident is established and the PRC, and such income tax shall be withheld by sources with the PRC payer acting as the obligatory withholder, who shall withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer shall withhold income tax from the payments of interest in respect of the Notes for any non-PRC Noteholder. However, despite the potential withholding of PRC tax by the Issuer, the Issuer has agreed to pay additional amounts to Noteholders so that Noteholders would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Notes.

In addition, in the event that the Guarantor is required to discharge its obligations under the Guarantee of the Notes, the Guarantor will be obliged to withhold PRC enterprise income tax at the rate up to 10 per cent. on the payments of interest made by it under the Guarantee of the Notes to non-PRC Noteholders as such payments of interest will be regarded as being derived from sources within the PRC. To the extent that the PRC has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified non-PRC Noteholders. Repayment of the principal made by the Issuer or the Guarantor will not be subject to PRC withholding tax.

Non-PRC Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside mainland China between non-PRC Noteholders, except however, if the Issuer is treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future, any gain realised by the non-PRC Noteholders from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to up to 10 per cent. of PRC withholding tax.

Value Added Tax

On 23 March 2016, the MOF and the SAT jointly issued the Circular 36 which confirms that business tax will be completely replaced by VAT from 1 May 2016. With effect from 1 May 2016, the income derived from the provision of financial services which previously attracted business tax are entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within PRC shall be subject to VAT. The services are treated as being provided within PRC where either the service provider or the service recipient is located in PRC. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the interpretation of "loans" under the Circular 36, the issuance of Notes may be treated as the Noteholders providing loans to the Issuer and the Guarantor, which thus could be regarded as the provision of financial services that could be subject to VAT. If the PRC tax authorities take the view that the holders of the Notes are providing loans within the PRC (due to the Issuer being treated as PRC tax residents or due to the fact that the Guarantor is located in the PRC), then the Noteholders could be regarded as providing financial services within PRC and consequently, the Noteholders shall be subject to VAT at the rate up to 6 per cent. when receiving the interest payments under the Notes from the Guarantor. In addition, the Noteholders shall be subject to the local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be around 6.7 per cent. Hence, if the Issuer or the Guarantor pays interest income to Noteholders who are located outside the PRC, the Issuer (if VAT applicable) or the Guarantor, acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to Noteholders who are located outside of the PRC.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and the

Issuer or the Guarantor does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located within the PRC.

Circular 36 has been issued quite recently and the above disclosure may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of the Circular 36.

On 20 March 2019, MOF, SAT and General Administration of Customs issued Announcement on Relevant Policies for Deepening the Value-Added Tax Reform (關於深化增值稅改革有關政策的公告) ("**Announcement 39**"), which came into force on 1 April 2019. Announcement 39 further deepened the VAT reform primarily by way of adjusting tax rate and calculating method. However, how the reforms will be implemented remains uncertain. The reforms may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority.

Pursuant to the EIT Law and the VAT reform detailed above, the Issuer or the Guarantor may need to withhold EIT (should such tax apply) from the payments of interest in respect of the Notes for any non-PRC Noteholder and the Issuer or the Guarantor may need to withhold business tax or VAT (should such tax apply) from the payments of interest in respect of the Notes for any Noteholders located outside the PRC. However, in the event that the Issuer or the Guarantor is required to make such a deduction or withholding (whether by way of EIT, business tax, VAT or otherwise), the Issuer and the Guarantor have agreed to pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required.

For more information, see "*Terms and Conditions of the Notes – Condition 7* (*Taxation*)".

Stamp Duty

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Noteholders is maintained outside the PRC) of a Note.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business;

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note.

THE BRITISH VIRGIN ISLANDS

The Issuer is exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands.

Payments of principal, premium or interest in respect of the Notes to persons who are not resident in the British Virgin Islands are not subject to British Virgin Islands tax or withholding tax.

Capital gains realised with respect to the Notes by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not resident in the British Virgin Islands with respect to the Notes.

All instruments relating to transactions in respect of the Notes are exempt from payment of stamp duty in the British Virgin Islands. This assumes that the Issuer does not hold an interest in real estate in the British Virgin Islands.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Hong Kong and the PRC) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment" are published in the U.S. Federal Register. However, if additional notes (as described under "*Terms and Conditions of the Notes – Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with Merrill Lynch (Asia Pacific) Limited, Crédit Agricole Corporate and Investment Bank, Standard Chartered Bank, Bank of China Limited, Singapore Branch, Industrial and Commercial Bank of China (Asia) Limited, China Construction Bank (Asia) Corporation Limited and DBS Bank Ltd. as the Joint Lead Managers dated 16 February 2022 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to sell to the Joint Lead Managers, and the Joint Lead Managers have severally agreed to procure subscribers to subscribe and pay for, or failing which, subscribe and pay for, the aggregate principal amount of the Notes set forth below:

	Principal amount of the Notes
	(U.S.$)
Merrill Lynch (Asia Pacific) Limited	120,000,000
Crédit Agricole Corporate and Investment Bank	120,000,000
Standard Chartered Bank	120,000,000
Bank of China Limited, Singapore Branch	22,500,000
Industrial and Commercial Bank of China (Asia) Limited	22,500,000
China Construction Bank (Asia) Corporation Limited	22,500,000
DBS Bank Ltd.	22,500,000
Total	450,000,000

In connection with the Offering, each Joint Lead Manager and/or its affiliate(s) may act as an investor for its own account and may take up the Notes in the Offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the Offering. Accordingly, references herein to the Notes being offered should be read as including any Offering of the Notes to the Joint Lead Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In connection with the Offering, the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) may effect transactions that stabilise or maintain the market price of the Notes at a higher level than such Notes might otherwise achieve in the open market. However, there is no obligation on the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) to effect such stabilising transactions, and such stabilising, if commenced, may be discontinued at any time.

The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and that the Joint Lead Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to the payment of the gross proceeds of the issue of the Notes to the Issuer on the Issue Date. The Issuer has agreed to pay the Joint Lead Managers certain fees and underwriting commissions, to reimburse the Joint Lead Managers for certain of their expenses in connection with the initial sale and distribution of the Notes, and to indemnify the Joint Lead Managers against certain liabilities in connection with the offering and sale of the Notes.

If a jurisdiction requires that the Offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the Offering shall be deemed to be made by that Joint Lead Manager or its affiliate on behalf of the Issuer and the Guarantor in such jurisdiction.

OTHER RELATIONSHIPS

Each Joint Lead Manager or its affiliates may purchase Notes for its own account and enter into transactions, including, without limitation, credit derivatives, including asset swaps, repackaging and credit default swaps relating to the Notes at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

Each of the Joint Lead Managers and its affiliates has engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer, the Guarantor or their respective subsidiaries, jointly controlled entities or associated companies from time to time. Each Joint Lead Manager or certain of its affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. In addition to the transactions noted above, each Joint Lead Manager and its affiliates may, from time to time, engage in other transactions with, and perform services for, the Issuer or the Guarantor or their respective subsidiaries, jointly controlled entities or associated companies in the ordinary course of their business. In addition, each Joint Lead Manager and certain of its subsidiaries and affiliates may hold shares or other securities in the Issuer as beneficial owner, on behalf of clients or in the capacity of investment adviser.

GENERAL

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken in any jurisdiction by the Issuer or the Guarantor or the Joint Lead Managers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular, any amendment or supplement thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Notes may be distributed or published, by the Issuer or the Guarantor or the Joint Lead Managers, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on the Issuer or the Guarantor or the Joint Lead Managers.

UNITED STATES

The Notes and the Guarantee of the Notes have not been and will not be registered under the Securities Act and may not be offered, marketed, sold or delivered within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Each Joint Lead Manager has represented, warranted and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any Notes within the United States. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(b) a customer within the meaning of Directive 2016/97/EU (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

UNITED KINGDOM

Prohibition of Sales to UK Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the United Kingdom. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); or

(b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

Other regulatory restrictions

Each Joint Lead Manager has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, or "**FSMA**") received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

HONG KONG

Each Joint Lead Manager has represented and agreed that: (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap.571) of Hong Kong) (the "**SFO**") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and (2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

PRC

Each Joint Lead Manager has represented, warranted and undertaken that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

SINGAPORE

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

***Singapore Securities and Futures Act Product Classification** – In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of SFA), that the Notes are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and "Excluded Investment Products" (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

JAPAN

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") and, accordingly, each Joint Lead Manager has represented, warranted and undertaken that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or resale, directly or indirectly, in Japan or to any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

THE BRITISH VIRGIN ISLANDS

Each Joint Lead Manager has represented, warranted and agreed that no invitation has been made or will be made, directly or indirectly, to any person in the British Virgin Islands or to the public in the British Virgin Islands to purchase the Notes and the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the British Virgin Islands, except as otherwise permitted by the British Virgin Islands law.

This Offering Circular does not constitute, and there will not be, an offering of the Notes to any person in the British Virgin Islands.

GENERAL INFORMATION

1. **Clearing Systems**: The Legal Entity Identifier (LEI) Code of the Issuer is 2549002AFC0XU0PWCW23.

   The Notes have been accepted for clearance through Euroclear and Clearstream. The securities codes for the Notes are as follows:

Common Code:	243213045
ISIN:	XS2432130453

2. **Authorisations**: The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of and performance of its obligations under the Notes, the Agency Agreement and the Deed of Covenant. The issue of the Notes was authorised by resolutions of the sole director of the Issuer passed on 14 December 2021. The Guarantor has obtained all consents, approvals and authorisations in connection with the giving of the Guarantee of the Notes and the performance of its obligations under the Deed of Guarantee and the Agency Agreement. The giving of the Guarantee of the Notes was authorised by resolutions of the Guarantor passed on 15 December 2021.

   The Guarantor intends to use its best endeavours to complete the Cross-Border Security Registration for the Notes on or before the Registration Deadline and obtain from SAFE a registration record relating to the registration of the Deed of Guarantee, and comply with all applicable PRC laws and regulations in relation to the Guarantee of the Notes.

   Pursuant to the NDRC Circular, the Guarantor has registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC dated 26 January 2022 evidencing such registration, which as of the date of this Offering Circular, remains valid and in full force and effect and the Guarantor intends to complete the Post-Issuance Reporting Filing and comply with all applicable PRC laws and regulations in relation thereto.

3. **Listing of the Notes**: Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes issued to Professional Investors only. It is expected that the listing of, and the permission to deal in, the Notes on the Hong Kong Stock Exchange will commence on or about 25 February 2022.

4. **No Material Adverse Change**: Except as disclosed in this Offering Circular, there has been no adverse change, nor any development reasonably likely to involve an adverse change, in the financial or trading position, condition (financial or otherwise), general affairs or prospects of the Issuer, the Guarantor or the Group since (in the case of the Issuer) the date of its incorporation or (in the case of the Guarantor and the Group) 31 December 2020.

5. **Litigation**: Neither the Issuer, the Guarantor, nor any member of the Group is involved in any litigation or arbitration proceedings which are material in the context of the issue of the Notes nor, so far as the Issuer or the Guarantor is aware, is any such litigation or arbitration pending or threatened.

6. **Available Documents**: Copies of the latest annual report and consolidated financial statements of the Guarantor may be obtained free of charge, and copies of the Agency Agreement, which includes the form of the Global Note Certificate, the Deed of Covenant and the Deed of Guarantee, will be available for inspection, at the specified office of the Guarantor at 28/F, Midea HQ Building, Midea Road, Beijiao, Shunde, Foshan City, Guangdong Province, China during normal business hours, so long as any of the Notes are outstanding.

   Auditor: The consolidated financial statements of the Guarantor for the years ended 31 December 2019 and 2020, which are included elsewhere in this Offering Circular, have been audited by PwC.

7. **Guarantor's Financial Statements**: The audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2019 and 2020, which are included elsewhere in this Offering Circular, have been audited by PwC, as stated in its reports appearing herein.

INDEX TO FINANCIAL STATEMENTS

Note: The Audited Financial Statements of the Group have been extracted from the Company's annual reports for the years ended 31 December 2019 and 2020, respectively, and contain page references to pages set forth in the audited consolidated financial statements. Should there be any inconsistencies between the English and Chinese versions, the Chinese version shall prevail.

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2021) No. 10017
(Page 1 of 6)

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 2020;
- 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 2020, 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 heating & ventilation, as well as air-conditioner (hereinafter referred to as "HVAC") and consumer appliances
- Impairment testing of goodwill

Key Audit Matters (Cont'd)	How our audit addressed the Key Audit Matters
Recognition of revenue from HVAC and consumer appliances Please refer to Note 2(26)(a) "Revenue - sales of products" and Note 4(44) "Operating revenue" to the financial statements. The Group recognises relevant revenue at the amount of the consideration which the Group is expected to receive when the customer obtains control over relevant goods or services. In 2020, the Group's consolidated operating revenue was RMB284,221,249,000 and the revenue from HVAC and consumer appliances was RMB235,105,807,000. We focused on recognition of revenue from HVAC and consumer appliances mainly due to the large size of both domestic and overseas customer base and high volume of sales through various distribution channels. In addition, the amount of revenue recognized is material to the financial statements as a whole. Therefore, completing the necessary audit procedures required substantial audit resources.	Regarding the Group's revenue from sales of HVAC and consumer appliances, we performed the following procedures: 1. We interviewed management from operation and financial departments to understand the necessary details of sales processes of all distribution channels and evaluate the internal control of processes relating to the revenue from sale of HVAC and consumer appliances designed by management and tested the operating effectiveness of key controls; 2. We reviewed 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 HVAC and consumer appliances based on our interview with management, understanding of the Group's business operation and audit experience; 3. Performed risk assessment through fluctuation analysis of monthly sales and gross margin by product; 4. Reviewed supporting documents relevant to revenue recognition on a sample basis, including sales contracts, orders, sales invoices, shipping orders, acknowledgement of goods receipts signed by customers, billing agreements with customers, etc.; 5. Validated the revenue by external confirmation on a sampling basis; 6. Evaluated whether or not the products sales occurred near year end was recorded in the proper period by checking the supporting documents which include acknowledgement of goods receipts signed by customers, billing agreements with customers or other supporting documents. Based on the work performed, the Group's recognition of revenue from sales of HVAC and consumer are supported by the available evidence.

Key Audit Matters (Cont'd)	How our audit addressed the Key Audit Matters
Impairment assessment of goodwill Please refer to Note 4(19) "Goodwill" to the financial statements. As at 31 December 2020, the goodwill recorded in the consolidated balance sheet of the Group amounted to RMB29,557,218,000, including RMB22,836,294,000 and RMB2,944,486,000 arising from business acquisition of KUKA Aktiengesellschaft and its subsidiaries ("KUKA Group") and Toshiba Lifestyle Products & Services Corporation ("TLSC"), respectively. Management believed that it was not necessary to make impairment provision for the goodwill based on the impairment testing prepared in accordance with the accounting policies stated in Note 2(19) to the consolidated financial statements. The impairment testing is performed by assessing the recoverable amount of the asset group and asset groups containing the relevant goodwill, based on the present value of cash flows forecasts. Key assumptions adopted in the impairment testing of goodwill included expected revenue growth rates, EBITDA margins, perpetual annual growth rates, discount rates, etc. which required key accounting estimates and judgement. We focused on the impairment assessment of the goodwill totalling RMB25,780,780,000 arising from the business acquisition of KUKA Group and TLSC due to the significance of the goodwill and degree of key estimates and judgements involved in the impairment assessment.	Regarding the impairment testing of goodwill arising from the acquisition of KUKA Group and TLSC, we performed the following procedures: 1. Understood the internal controls and evaluation process relating to impairment testing of goodwill, and assessed the inherent risks of material misstatement by considering the degree of estimation uncertainty and the level of other inherent risk factors, such as complexity, subjectivity, changes and susceptibility to management's bias and fraud; 2. Evaluated and tested the operating effectiveness of key controls relevant to the impairment testing of goodwill, including review and approval of key assumptions applied and internal control over calculating recoverable amounts of the asset group and asset groups containing the allocated goodwill; 3. Evaluated the rationality of the asset group and asset groups identification; 4. Evaluated the rationality of forecasts made by management by comparing the estimated future cash flows of the prior year with the actual business performance of the current year, and considered whether the judgement made by management during the selection of data would give rise to indicators of possible management bias; 5. Evaluated the rationality of key assumptions applied in the impairment testing of goodwill, such as expected revenue growth rates, EBITDA margins, perpetual annual growth rates and discount rates by reference to company's historical operating performance, future operation plan and market developments; 6. Verified the mathematical accuracy of the calculation process during the impairment assessment of goodwill; 7. Evaluated the appropriateness of the goodwill impairment testing model and discount rate employed by management with the involvement of internal valuation expert. Based on the work performed, management's judgments in goodwill impairment assessment are supported by the available evidences.

Other Information

Management of the Group is responsible for the other information. The other information comprises all the information included in 2020 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 it 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.

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

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.

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	_______________ Yao Wenping (Engagement Partner)
Shanghai, the People's Republic of China 28 April 2021	Signing CPA	_______________ Qiu Xiaoying

MIDEA GROUP CO., LTD.

CONSOLIDATED AND COMPANY BALANCE SHEETS
AS AT 31 DECEMBER 2020
(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

ASSETS	Note	31 December 2020 Consolidated	31 December 2019 Consolidated	31 December 2020 Company	31 December 2019 Company
Current assets					
Cash at bank and on hand	4(1)	81,210,482	70,916,841	49,240,180	52,291,056
Financial assets held for trading	4(2)	28,239,601	1,087,351	16,614,658	-
Derivative financial assets		420,494	197,412	-	-
Notes receivable	4(3)	5,304,510	4,768,520	-	-
Accounts receivable	4(4)	22,978,363	18,663,819	-	-
Receivables financing	4(6)	13,901,856	7,565,776	-	-
Advances to suppliers	4(7)	2,763,710	2,246,177	45,306	36,877
Contract assets	4(8)	3,236,848	——	-	——
Loans and advances	4(9)	16,469,069	10,869,396	-	-
Other receivables	4(5), 17(1)	2,973,945	2,712,974	28,318,670	18,369,865
Inventories	4(10)	31,076,529	32,443,399	-	-
Other current assets	4(11)	33,079,918	65,011,027	20,533,745	42,665,884
Total current assets		241,655,325	216,482,692	114,752,559	113,363,682
Non-current assets					
Other debt investments	4(12)	21,456,155	-	20,064,155	-
Long-term receivables	4(13)	981,623	1,208,079	-	-
Loans and advances	4(9)	1,113,501	790,101	-	-
Long-term equity investments	4(14), 17(2)	2,901,337	2,790,806	54,991,161	52,605,859
Investments in other equity instruments		46,651	-	-	-
Other non-current financial assets	4(15)	3,360,849	1,750,107	80,937	487,564
Investment properties		405,559	399,335	476,839	518,828
Fixed assets	4(16)	22,239,214	21,664,682	749,835	878,239
Construction in progress	4(17)	1,477,302	1,194,650	204,304	155,681
Intangible assets	4(18)	15,422,393	15,484,179	684,997	700,836
Goodwill	4(19)	29,557,218	28,207,065	-	-
Long-term prepaid expenses	4(20)	1,300,962	1,267,127	97,078	123,548
Deferred tax assets	4(21)	7,208,635	5,768,993	287,360	189,888
Other non-current assets	4(22)	11,255,879	4,947,603	10,141,031	4,359,507
Total non-current assets		118,727,278	85,472,727	87,777,697	60,019,950
TOTAL ASSETS		360,382,603	301,955,419	202,530,256	173,383,632

MIDEA GROUP CO., LTD.

CONSOLIDATED AND COMPANY BALANCE SHEETS (CONT'D)
AS AT 31 DECEMBER 2020

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 December 2020 Consolidated	31 December 2019 Consolidated	31 December 2020 Company	31 December 2019 Company
Current liabilities					
Short-term borrowings	4(25)	9,943,929	5,701,838	799,314	4,550,064
Customer deposits and deposits from banks and other financial institutions		87,535	62,477	-	-
Derivative financial liabilities		161,225	27,100	-	-
Notes payable	4(26)	28,249,939	23,891,600	-	-
Accounts payable	4(27)	53,930,261	42,535,777	-	-
Advances from customers	4(28)	-	16,231,854	-	-
Contract liabilities	4(29)	18,400,922	——	-	——
Employee benefits payable	4(30)	6,954,822	6,436,109	562,954	566,861
Taxes payable	4(31)	5,758,058	5,096,267	1,326,219	1,059,246
Other payables	4(32)	4,501,391	3,800,568	123,120,354	103,624,998
Current portion of non-current liabilities	4(33)	6,310,181	1,460,117	4,000,000	-
Other current liabilities	4(34)	49,852,239	39,074,777	3,048,794	19,539
Total current liabilities		184,150,502	144,318,484	132,857,635	109,820,708
Non-current liabilities					
Long-term borrowings	4(35)	42,827,287	41,298,377	5,800,000	4,000,000
Long-term payables		13,260	33,646	-	-
Provisions		298,110	353,269	-	-
Deferred income		779,729	617,155	-	-
Long-term employee benefits payable	4(36)	2,159,675	2,418,563	-	-
Deferred tax liabilities	4(21)	5,223,954	4,556,002	67,792	59,032
Other non-current liabilities	4(37)	692,986	863,826	-	-
Total non-current liabilities		51,995,001	50,140,838	5,867,792	4,059,032
Total liabilities		236,145,503	194,459,322	138,725,427	113,879,740
Shareholders' equity					
Share capital	4(38)	7,029,976	6,971,900	7,029,976	6,971,900
Capital surplus	4(40)	22,488,105	19,640,313	29,123,547	26,592,959
Less: Treasury stock	4(39)	(6,094,347)	(3,759,732)	(6,094,347)	(3,759,732)
Other comprehensive income	4(41)	(1,549,003)	(711,554)	(16,009)	1,735
General risk reserve		587,984	366,947	-	-
Special reserve		12,730	-	-	-
Surplus reserve	4(42)	7,966,362	6,447,658	7,966,362	6,447,658
Undistributed profits	4(43)	87,074,453	72,713,631	25,795,300	23,249,372
Total equity attributable to shareholders of the Company		117,516,260	101,669,163	63,804,829	59,503,892
Minority interests		6,720,840	5,826,934	-	-
Total shareholders' equity		124,237,100	107,496,097	63,804,829	59,503,892
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		360,382,603	301,955,419	202,530,256	173,383,632

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 2020

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

Item	Note	2020 Consolidated	2019 Consolidated	2020 Company	2019 Company
Total revenue		285,709,729	279,380,506	1,852,312	1,767,902
Including: Operating revenue	4(44), 17(3)	284,221,249	278,216,017	1,852,312	1,767,902
Interest income	4(45)	1,488,211	1,163,180	-	-
Fee and commission income		269	1,309	-	-
Less: Cost of sales	4(44)	(212,839,592)	(197,913,928)	(51,350)	(45,823)
Interest costs	4(45)	(105,168)	(122,618)	-	-
Fee and commission expenses		(6,972)	(11,633)	-	-
Taxes and surcharges	4(46)	(1,533,646)	(1,720,616)	(32,546)	(37,481)
Selling and distribution expenses	4(47)	(27,522,276)	(34,611,231)	-	-
General and administrative expenses	4(48)	(9,264,148)	(9,531,361)	(701,711)	(579,072)
Research and development expenses	4(49)	(10,118,667)	(9,638,137)	-	-
Financial income	4(50)	2,638,032	2,231,636	1,421,019	1,974,379
Including: Interest expenses		(1,305,591)	(880,703)	(1,903,866)	(1,402,376)
Interest income		3,663,028	3,807,136	3,352,633	3,363,003
Add: Other income	4(56)	1,424,090	1,194,665	369,889	464,034
Investment income	4(54), 17(4)	2,362,462	164,132	12,578,455	10,384,466
Including: Investment income from associates		402,528	506,225	216,318	272,089
Profit or loss arising from derecognition of financial assets measured at amortised costs		-	(709)	-	-
Gains on changes in fair value	4(53)	1,762,950	1,361,163	108,605	162,565
Credit impairment losses	4(52)	(247,605)	(96,446)	(6,340)	(418)
Asset impairment losses	4(51)	(705,209)	(871,909)	-	-
(Losses)/Gains on disposal of assets	4(55)	(60,523)	(131,131)	146	(1,040)
Operating profit		31,493,457	29,683,092	15,538,479	14,089,512
Add: Non-operating income		384,986	613,310	102,429	39,832
Less: Non-operating expenses		(214,904)	(367,288)	(116,120)	(22,741)
Total profit		31,663,539	29,929,114	15,524,788	14,106,603
Less: Income tax expenses	4(57)	(4,156,997)	(4,651,970)	(337,750)	(420,984)
Net profit		27,506,542	25,277,144	15,187,038	13,685,619
(1) Classified by continuity of operations					
Net profit from continuing operations		27,506,542	25,277,144	15,187,038	13,685,619
Net profit from discontinued operations		-	-	-	-
(2) Classified by ownership of the equity					
Attributable to shareholders of the Company		27,222,969	24,211,222	15,187,038	13,685,619
Minority interests		283,573	1,065,922	-	-

MIDEA GROUP CO., LTD.

CONSOLIDATED AND COMPANY INCOME STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2020

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

Item	Note	2020 Consolidated	2019 Consolidated	2020 Company	2019 Company
Other comprehensive income, net of tax		(1,177,809)	348,040	(17,744)	(4,285)
Other comprehensive income attributable to shareholders of the Company, net of tax		(837,449)	283,152	(17,744)	(4,285)
(1) Other comprehensive income items which will not be reclassified subsequently to profit or loss		112,388	(142,753)	-	-
1) Changes arising from remeasurement of defined benefit plan		111,895	(142,753)	-	-
2) Changes in fair value of investments in other equity instruments		493	-	-	-
(2) Other comprehensive income items which will be reclassified subsequently to profit or loss		(949,837)	425,905	(17,744)	(4,285)
1) Other comprehensive income that will be transferred subsequently to profit or loss under the equity method		(20,445)	(6,590)	(17,744)	(4,285)
2) Effective portion of cash flow hedging gains or losses		298,721	113,890	-	-
3) Differences on translation of foreign currency financial statements		(1,228,113)	318,605	-	-
Other comprehensive income attributable to minority shareholders, net of tax		(340,360)	64,888	-	-
Total comprehensive income		26,328,733	25,625,184	15,169,294	13,681,334
Attributable to shareholders of the Company		26,385,520	24,494,374	15,169,294	13,681,334
Minority interests		(56,787)	1,130,810	-	-
Earnings per share					
Basic earnings per share (RMB Yuan)	4(58)	3.93	3.60	Not applicable	Not applicable
Diluted earnings per share (RMB Yuan)	4(58)	3.90	3.58	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 2020
(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

Item	Note	2020 Consolidated	2019 Consolidated	2020 Company	2019 Company
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		240,052,501	238,815,589	-	-
Net increase in customer deposits and deposits from banks and other financial institutions		25,058	18,091	-	-
Net decrease in deposits with the Central Bank		-	693,023	-	-
Cash received from interest, fee and commission		1,381,851	1,315,921	-	-
Refund of taxes and surcharges		6,574,762	6,271,733	-	-
Cash received relating to other operating activities	4(59)(a)	4,950,874	5,008,821	21,491,325	30,809,036
Sub-total of cash inflows		252,985,046	252,123,178	21,491,325	30,809,036
Cash paid for goods and services		(139,660,744)	(130,099,497)	-	-
Net increase in loans and advances		(6,078,053)	(318,859)	-	-
Net decrease in loans with the Central Bank		-	(99,754)	-	-
Net increase in balances with the Central Bank		(1,274,496)		-	-
Cash paid for interest, fee and commission		(113,517)	(134,251)	-	-
Cash paid to and on behalf of employees		(28,460,318)	(26,851,139)	(72,404)	(52,269)
Payments of taxes and surcharges		(13,407,607)	(14,897,513)	(342,190)	(133,421)
Cash paid relating to other operating activities	4(59)(b)	(34,433,194)	(41,131,761)	(10,178,648)	(6,818,472)
Sub-total of cash outflows		(223,427,929)	(213,532,774)	(10,593,242)	(7,004,162)
Net cash flows from operating activities	4(59)(c)	29,557,117	38,590,404	10,898,083	23,804,874
2. Cash flows (in)/from investing activities					
Cash received from disposal of investments		141,821,724	84,852,601	103,460,300	56,920,222
Cash received from returns on investments		4,874,990	4,026,590	15,565,104	12,812,869
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		273,544	125,419	255	1,040
Net cash received from disposal of subsidiaries and other business units		42,398	-	13,000	-
Sub-total of cash inflows		147,012,656	89,004,610	119,038,659	69,734,131
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(4,656,582)	(3,451,856)	(187,723)	(183,326)
Cash paid to acquire investments		(176,621,347)	(108,457,398)	(117,386,281)	(88,883,737)
Net cash paid to acquire subsidiaries and other business units		(1,045,390)	(203,057)	-	-
Sub-total of cash outflows		(182,323,319)	(112,112,311)	(117,574,004)	(89,067,063)
Net cash flows (in)/from investing activities		(35,310,663)	(23,107,701)	1,464,655	(19,332,932)
3. Cash flows in financing activities					
Cash received from capital contributions		2,657,489	2,897,917	2,542,556	2,777,490
Including: Cash received from capital contributions by minority shareholders of subsidiaries		114,933	120,427	-	-
Cash received from borrowings		18,070,961	17,117,677	6,599,314	11,059,564
Cash received from issuance of short-term financing bonds		33,998,238	-	33,998,238	-
Cash received relating to other financing activities		22,725	-	-	-
Sub-total of cash inflows		54,749,413	20,015,594	43,140,108	13,837,054
Cash repayments of borrowings		(8,354,338)	(8,643,875)	(4,550,064)	(3,084,500)
Cash paid for repayment of short-term financing bonds		(31,000,000)	-	(31,000,000)	-
Cash payments for interest expenses and distribution of dividends or profits		(12,822,636)	(11,055,769)	(12,831,949)	(9,740,298)
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		(425,461)	(1,651,504)	-	-
Cash payments relating to other financing activities		(3,328,734)	(3,589,551)	(2,934,420)	(3,257,482)
Sub-total of cash outflows		(55,505,708)	(23,289,195)	(51,316,433)	(16,082,280)
Net cash flows in financing activities		(756,295)	(3,273,601)	(8,176,325)	(2,245,226)
4. Effect of foreign exchange rate changes on cash and cash equivalents		(383,411)	280,376	-	-
5. Net (decrease)/increase in cash and cash equivalents	4(59)(c)	(6,893,252)	12,489,478	4,186,413	2,226,716
Add: Cash and cash equivalents at the beginning of the year		30,441,760	17,952,282	12,408,650	10,181,934
6. Cash and cash equivalents at the end of the year	4(59)(d)	23,548,508	30,441,760	16,595,063	12,408,650

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

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

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

Item	Equity attributable to shareholders of the Company								
	Share capital (Note 4(38))	Capital surplus (Note 4(40))	Less: Treasury stock (Note 4(39))	Other comprehensive income	General risk reserve	Surplus reserve	Undistributed profits	Minority interests	Total shareholders' equity
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									
Appropriation to general risk reserve	-	-	-	-	-	-	-	-	-
Appropriation to surplus reserve	-	-	-	-	-	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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONT'D) FOR THE YEAR ENDED 31 DECEMBER 2020

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

Item	Equity attributable to shareholders of the Company								Minority interests	Total shareholders' equity
	Share capital (Note 4(38))	Capital surplus (Note 4(40))	Less: Treasury stock (Note 4(39))	Other comprehensive income	General risk reserve	Special reserve	Surplus reserve	Undistributed profits		
Balance at 1 January 2020	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
Movements for the year ended 31 December 2020										
Total comprehensive income										
Net profit	-	-	-	-	-	-	-	27,222,969	283,573	27,506,542
Other comprehensive income, net of tax	-	-	-	(837,449)	-	-	-	-	(340,360)	(1,177,809)
Total comprehensive income	-	-	-	(837,449)	-	-	-	27,222,969	(56,787)	26,328,733
Capital contribution and withdrawal by shareholders										
Ordinary shares invested by shareholders	63,801	2,157,530	-	-	-	-	-	-	89,465	2,310,796
Business combinations	-	-	-	-	-	13,618	-	-	1,663,792	1,677,410
Share-based payment included in shareholders' equity	-	508,256	-	-	-	-	-	-	55,314	563,570
Others	(5,725)	(193,357)	(2,334,615)	-	-	-	-	-	(517,436)	(3,051,133)
Profit distribution										
Appropriation to general risk reserve	-	-	-	-	221,037	-	-	(221,037)	-	-
Appropriation to surplus reserve	-	-	-	-	-	-	1,518,704	(1,518,704)	-	-
Profit distribution to shareholders	-	-	-	-	-	-	-	(11,122,406)	(417,486)	(11,539,892)
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-
Appropriation in the current period	-	-	-	-	-	165	-	-	41	206
Use in the current period	-	-	-	-	-	(1,053)	-	-	(263)	(1,316)
Others	-	375,363	-	-	-	-	-	-	77,266	452,629
Balance at 31 December 2020	7,029,976	22,488,105	(6,094,347)	(1,549,003)	587,984	12,730	7,966,362	87,074,453	6,720,840	124,237,100

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

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

MIDEA GROUP CO., LTD.

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

(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 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

MIDEA GROUP CO., LTD.

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2020

(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 1 January 2020	6,971,900	26,592,959	(3,759,732)	1,735	6,447,658	23,249,372	59,503,892
Movements for the year ended 31 December 2020							
Total comprehensive income							
Net profit	-	-	-	-	-	15,187,038	15,187,038
Other comprehensive income, net of tax	-	-	-	(17,744)	-	-	(17,744)
Total comprehensive income	-	-	-	(17,744)	-	15,187,038	15,169,294
Capital contribution and withdrawal by shareholders							
Ordinary shares invested by shareholders	63,801	2,157,530	-	-	-	-	2,221,331
Share-based payment included in shareholders' equity	-	566,167	-	-	-	-	566,167
Others	(5,725)	(193,357)	(2,334,615)	-	-	-	(2,533,697)
Profit distribution							
Appropriation to surplus reserve	-	-	-	-	1,518,704	(1,518,704)	-
Profit distribution to shareholders	-	-	-	-	-	(11,122,406)	(11,122,406)
Transfer from capital surplus to share capital	-	-	-	-	-	-	-
Others	-	248	-	-	-	-	248
Balance at 31 December 2020	7,029,976	29,123,547	(6,094,347)	(16,009)	7,966,362	25,795,300	63,804,829

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

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

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 residential air-conditioner, central air-conditioner, heating and ventilation systems, kitchen appliances, refrigerators, washing machines and various small appliances, robotics and automation system. Other services include the smart supply chain; 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 were listed on Shenzhen Stock Exchange.

As at 31 December 2020, the Company's share capital is RMB 7,029,975,999, and the total number of shares in issue is 7,029,975,999, of which 182,862,631 shares are restricted tradable A shares and 6,847,113,368 shares are unrestricted tradable A shares.

The detailed information of major subsidiaries included in the consolidation scope in the current year is set out in Notes 5 and 6. Subsidiaries newly included in the consolidation scope via acquisition in the current year mainly include Hiconics Eco-energy Technology Co., Ltd. and its subsidiaries ("Hiconics Eco-energy") and WINONE ELEVATOR COMPANY LIMITED and its subsidiaries ("WINONE ELEVATOR"), and are detailed in Note 5(1)(a); subsidiaries newly included in the consolidation scope via establishment in the current year are detailed in Note 5(2)(a); subsidiaries no longer included in the consolidation scope in the current year are detailed in Note 5(2)(b).

These financial statements were authorised for issue by the Company's Board of Directors on 28 April 2021.

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 receivables and contract assets (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)).

Key judgements and critical accounting estimates and key assumptions applied by the Group on the determination of significant accounting policies are set out in Note 2(31).

(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 "CASs") 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 2020 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 2020 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.

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

(5) Business combinations

(a) Business combinations involving enterprises under common control

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

(b) Business combinations involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the Group 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. 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.

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

(6) Preparation of consolidated financial statements

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

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

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

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' shareholders' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognised as minority interests, net profit attributed to minority interests and total comprehensive incomes attributed to non-controlling interests and presented separately in the consolidated financial statements under shareholders' equity, net profit and total comprehensive income respectively. Where the loss for the current period attributable to the minority shareholders of the subsidiaries exceeds the share of the minority interests in the opening balance of equity, the excess is deducted against minority interests. Unrealised profits and losses resulting from the sales of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to shareholders of the parent company. Unrealised profits and losses resulting from the sales of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to shareholders of the parent company and net profit attributable to minority interests in accordance with the allocation proportion of the parent company in the subsidiary. Unrealised profits and losses resulting from the sales of assets by one subsidiary to another are eliminated and allocated between net profit attributable to shareholders of the parent company and net profit attributable to minority interests in accordance with the allocation proportion of the parent company in the subsidiary. If the accounting treatment of a transaction is inconsistent in the financial statements at the Group level and at the Company or its subsidiary level, adjustment will be made from the perspective of the Group.

(7) Determination criterion for 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.

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

(8) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into functional currency 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 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 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 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 recognised 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.

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 instruments

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, 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.

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 instruments (Cont'd)

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 mainly include receivables financing, other debt investments, etc. Other debt investments of the Group 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.

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. At initial recognition, the 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, and others are included in financial assets held for trading.

(i-2) Equity instruments

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.

In addition, a portion of certain investments in equity instruments not held for trading are designated as financial assets at fair value through other comprehensive income under other investments in equity instruments. The relevant dividend income of such financial assets is recognised in profit or loss for the current period.

(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.

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)

The method for recognising changes in fair value of the derivative financial instrument depends on whether the derivative financial instrument is designated as a hedging instrument and meets the requirement for it, and if so, the nature of the item being hedged. 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.

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 contract assets and financial guarantee contracts is recognised on the basis of ECL.

Giving consideration to reasonable and supportable information on past events, current conditions, forecasts of future economic conditions and forward-looking information, 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.

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)

As at each balance sheet date, the ECL 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.

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 instruments 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).

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 notes receivable, accounts receivable, receivables financing and contract assets arising from sales of goods and rendering of services in the ordinary course of operating activities, the Group recognises the lifetime ECL provision regardless of whether there exists a significant financing component. Since contract assets are related to work in progress without invoice, essentially, their risk characteristics are the same as the accounts receivable of similar contracts. Therefore, the Group believes that the ECL rate of accounts receivable is an approximation to that of contract assets.

In case the ECL of an individually assessed financial asset cannot be evaluated with reasonable cost, the Group divides the receivables and contract assets 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
Notes receivable - Trade acceptance notes	Non-bank credit risk grouping
Accounts receivable	Domestic/overseas business grouping
Contract assets	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.

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 short-term financing bonds payable in other current liabilities, 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.

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

(9) Financial instruments (Cont'd)

(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.

(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, contract performance costs and finished goods, are measured at the lower of cost and net realisable value.

(b) Costing of inventories

Cost is determined using the first-in, first-out method when issued. The cost of 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.

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

(11) Inventories (Cont'd)

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

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.

(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 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.

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

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

(a) Determination of investment cost (Cont'd)

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 investments acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

(b) Subsequent measurement and recognition methods of gains and losses

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.

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

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

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

(c) Basis for determining existence of control, joint control, significant influence over investees (Cont'd)

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)).

(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 for the period in which they are incurred.

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

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

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

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

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

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

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

(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.

(b) Depreciation method 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% - 10%	6.7% - 1.8%
Machinery and equipment	2 to 25 years	0% - 10%	50% - 3.6%
Motor vehicles	2 to 20 years	0% - 10%	50% - 4.5%
Electronic equipment and others	2 to 20 years	0% - 10%	50% - 4.5%
Overseas land	Permanent	Not applicable	Not applicable

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

(c) 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)).

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

(14) Fixed assets (Cont'd)

(d) 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.

(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.

(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.

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

(16) Borrowing costs (Cont'd)

For the specific borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by actual interest expenses 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 and others, are measured at cost.

(a) Land use rights

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

(b) Patents and non-patent technologies

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

(c) Trademark rights

The trademark rights is measured at cost when acquired and is amortised over the estimated useful life of 4 to 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 life and are presented based upon the carrying amounts after deducting the provision for impairment (Note 4(18)).

(d) Trademark use rights

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

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

(17) Intangible assets (Cont'd)

(e) Periodical review of useful life and amortisation method

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

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

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

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

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

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

(g) Impairment of intangible assets

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

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

(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, intangible assets with infinite useful lives 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 asset 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 group or asset groups which are expected to benefit from the synergies of the business combination If the result of the test indicates that the recoverable amount of an asset group or asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or asset groups, and then deducted from the carrying amounts of other assets within the asset group or 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.

(a) Short-term employee benefits

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

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

(20) Employee benefits (Cont'd)

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's defined contribution plans mainly include basic pensions and unemployment insurance, while the defined benefit plans are Toshiba Lifestyle Products & Services Corporation ("TLSC"), and KUKA Aktiengesellschaft ("KUKA") and its subsidiaries ("KUKA Group") 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 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.

(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 for the current period at the earlier of the following dates: 1) when the Group cannot unilaterally withdraw an employment termination plan or a curtailment proposal; 2) when the Group recognises costs or expenses related to the restructuring that involves the payment of termination benefits.

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

(20) Employee benefits (Cont'd)

(c) Termination benefits (Cont'd)

Early retirement benefits

The Group offers early retirement benefits to those employees who accept early retirement arrangements. The early retirement benefits refer to the salaries and social security contributions to be paid to and for the employees who accept voluntary retirement before the normal retirement date prescribed by the State, as approved by the management. The Group pays early retirement benefits to those early retired employees from the early retirement date until the normal retirement date. The Group accounts for the early retirement benefits in accordance with the treatment for termination benefits, in which the salaries and social security contributions to be paid to and for the early retired employees from the off-duty date to the normal retirement date are recognised as liabilities with a corresponding charge to the profit or loss for the current period. The differences arising from the changes in the respective actuarial assumptions of the early retirement benefits and the adjustments of benefit standards are recognised in profit or loss in the period in which they occur.

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

(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.

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 expenses.

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.

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

(24) Share-based payment

(a) Type of share-based payment

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

Equity-settled share-based payment

The Group's 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 the 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 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

As at each balance sheet date in the vesting period, the Group would make best estimate in accordance with the newly acquired information such as changes in the number of employees entitled with exercisable or tradable equity instruments, and amend the estimated number of exercisable or tradable equity instruments. On the exercise or desterilisation date, the final number of estimated exercisable or tradable equity instruments is consistent with the actual number of exercised or tradable equity instruments.

(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 paid by the Group for repurchasing equity instruments are presented as treasury stock, and the related transaction costs are recognised in owners' equity.

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

(25) Treasury stock (Cont'd)

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 Group recognises revenue at the amount of the consideration which the Group is expected to receive when the customer obtains control over relevant goods or services. Revenue is stated net of discounts, rebates and returns.

When any of the following conditions is met, the Group is subject to performance obligations within a period of time; otherwise, at a point in time.

(1) Customers obtain and consume economic benefits coming from the Group's performance of contract while the Group performs the contract.
(2) Customers can control goods under construction during the Group's performance of contract.
(3) Goods produced during the Group's performance of contract are irreplaceable. During the whole contract period, the Group is entitled to collect payments for those which have been accumulated up to now.

For a contract obligation within a period of time, the Group shall recognise the revenue based on the progress of the obligation fulfilment within that period of time, except where the progress of the obligation fulfilment cannot be determined reasonably.

Where the status of completion cannot be reasonably determined, revenue shall be recognised at the amount of cost incurred if it is predicted that the cost can be compensated till the progress of the obligation fulfilment can be reasonably determined.

For a contract obligation at a point in time, the Group shall recognise the revenue when a customer is in control of the underlying goods.

(a) Sales of products

The Group are principally engaged in the manufacturing and sales of heating & ventilation, as well as air-conditioner (hereinafter referred to as "HVAC") (mainly comprises residential air conditioner, central air-conditioner, heating and ventilation systems, etc.) and consumer appliances (mainly comprises kitchen appliances, refrigerators, washing machines and various small appliances, etc.), and robotics and automation system.

Revenue from domestic sales of HVAC and consumer appliances is recognised when the Group has delivered products to the location specified in the sales contract and the buyer has confirmed the acceptance of the products, and the delivery order is signed by both parties. 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.

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

(26) Revenue (Cont'd)

(a) Sales of products (Cont'd)

Revenue from overseas sales of HVAC and consumer appliances is recognised when the goods have been declared to the customs and shipped out of the port in accordance with the sales contract.

Revenue from sales of robotics and automation system is recognised when the Group has delivered products to the location specified in the sales contract and the buyer has confirmed the acceptance of the products, and the delivery order is signed by both parties.

The credit period granted to distributors by the Group is determined based on their credit risk characteristics, which is consistent with industry practice, and there is no significant financing component. Generally, the retail customers of the Group are entitled to return the products within 7 days after the confirmation of receipt.

The Group provides distributors with sales discount, and the relevant revenue is recognised at contract consideration net of the discount amount estimated.

The periods and terms of product quality warranty are provided in accordance with the laws and regulations related to the products. The Group has not provided any additional services or product quality warranty, so the product quality warranty does not constitute a separate performance obligation.

(b) Rendering of services

The Group provides robotics and automation system construction service, intelligent logistics integration solution, storage services, delivery services, installation services and transportation service, which are recognised in a certain period of time based on the stage of completion. On the balance sheet date, the Group re-estimates the stage of completion to reflect the actual status of contract performance.

When the Group recognises revenue based on the stage of completion, the amount with unconditional collection right obtained by the Group is recognised as accounts receivable, and the rest is recognised as contract assets. Meanwhile, loss provision for accounts receivable and contract assets are recognised on the basis of ECL (Note 2(9)). If the contract price received or receivable exceeds the amount for the completed service, the excess portion will be recognised as contract liabilities. Contract assets and contract liabilities under the same contract are presented on a net basis.

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

(26) Revenue (Cont'd)

(b) Rendering of services (Cont'd)

Contract costs include contract performance costs and contract acquisition costs. The costs incurred by the Group for the provision of services are recognised as contract performance costs. The recognised revenue is carried forward to the cost of sales from main operations based on the stage of completion. Incremental costs incurred by the Group for the acquisition of contract are recognised as the costs to obtain a contract. For the costs to obtain a contract with the amortisation period within one year, the costs are charged to profit or loss when incurred. For the costs to obtain a contract with the amortisation period beyond one year, the costs are charged in the current profit or loss on the same basis as aforesaid revenue of rendering of services recognised under the relevant contract. If the carrying amount of the contract costs is higher than the remaining consideration expected to be obtained by rendering of the service net of the estimated cost to be incurred, the Group makes provision for impairment on the excess portion and recognises it as asset impairment losses. As at the balance sheet date, based on whether the amortisation period of the costs to fulfil a contract is more than one year when initially recognised, the amount of the Group's costs to fulfil a contract net of related provision for asset impairment is presented as inventories or other non-current assets. For costs to obtain a contract with amortisation period beyond one year at the initial recognition, the amount net of related provision for asset impairment is presented as other non-current assets.

(c) Interest income

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

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

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

(d) Dividend income

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

(e) Rental income

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

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

(26) Revenue (Cont'd)

(f) Fee and commission income

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

(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 the Group 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 the other in non-operating income and expenses.

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

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

(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 tax assets and liabilities 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.

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.

For the rental waivers as a result of COVID-19 and for the period ended 30 June 2021 only, the Group applies the practical expedient and records the waivers in profit or loss in the waiving period.

(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.

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

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

Critical accounting estimates and key assumptions

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

(i) Provision for impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of the asset group and 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 asset group and asset groups 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 and deferred income tax

The Group is subject to enterprise income tax 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.

As stated in Note 3(1), some subsidiaries of the Group are high-tech enterprises. The "High-Tech Enterprise Certificate" is effective for three years. Upon expiration, application for high-tech enterprise assessment should be submitted again to the relevant government authorities. Based on the past experience of reassessment for high-tech enterprise upon expiration and the actual condition of the subsidiaries, the Group considers that the subsidiaries are able to obtain the qualification for high-tech enterprises in future years, and therefore a preferential tax rate of 15% is used to calculate the corresponding deferred income tax. If some subsidiaries cannot obtain the qualification for high-tech enterprise upon expiration, then the subsidiaries are subject to a statutory tax rate of 25% for the calculation of the income tax, which further influences the recognised deferred tax assets, deferred tax liabilities and income tax expenses.

Deferred tax assets are recognised for the deductible tax losses that can be carried forward to subsequent years to the extent that it is probable that taxable profit will be available in the future against which the deductible tax losses can be utilised. Taxable profit that will be available in the future includes the taxable profit that will be realised through normal operations and the taxable profit that will be increased upon the reversal of taxable temporary differences incurred in prior periods. Judgements and estimates are required to determine the time and amounts of taxable profit in the future. Any difference between the reality and the estimate may result in adjustment to the carrying amount of deferred tax assets.

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

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

(32) Significant changes in accounting policies

The Ministry of Finance released the revised *Accounting Standard for Business Enterprises No. 14 - Revenue* ("new revenue standard") in 2017 and the *Circular on Accounting Regulations of Rental Waivers Against COVID-19* (Cai Kuai [2020] No. 10) and the *Questions and Answers on the Implementation of Accounting Standards for Business Enterprises* (issued on 11 December 2020) in 2020. The financial statements for the year ended 31 December 2020 are prepared in accordance with the above standard and circular, and impacts on the Group's and the Company's financial statements are as follows:

(a) Revenue

(a-1) In accordance with relevant provisions of the new revenue standard, the Group and the Company recognised the cumulative effect of initially applying the standard as an adjustment to the relevant line items in the financial statements for the year ended 31 December 2020. The comparatives for the year ended 31 December 2019 were not restated.

The nature and the reasons of the changes in accounting policies	The line items affected	The amounts affected 1 January 2020	
		Consolidated	Company
Due to the implementation of new revenue standard, the amount of revenue recognised in relation to rendering of services based on progress of the obligation fulfilment in excess of the settled price is reclassified from inventories to contract assets.	Contract assets	Increase by 4,009,176	-
	Inventories	Decrease by 4,009,176	-
Due to the implementation of the new revenue standard, advances from customers arising from rendering of services and sales of goods as well as other current liabilities arising from provision of installation services are reclassified to contract liabilities.	Advances from customers	Decrease by 16,231,854	-
	Contract liabilities	Increase by 18,436,559	-
	Other current liabilities	Decrease by 2,204,705	-

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

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

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

(a) Revenue (Cont'd)

(a-2) Compared with the original revenue standard, the impact of the implementation of the new revenue standard on main items of the balance sheets as at 31 December 2020 is as follows:

Balance sheet items affected	The amounts affected 31 December 2020	
	Consolidated	Company
Contract assets	Increase by 3,236,848	-
Inventories	Decrease by 3,236,848	-
Advances from customers	Decrease by 14,942,068	-
Contract liabilities	Increase by 18,400,922	-
Other current liabilities	Decrease by 3,458,854	-

The impact of the implementation of the new revenue standard on main items of the consolidated income statement is that approximately RMB 8,928,186,000 of selling and distribution expenses is reclassified to the cost of sales and operating revenue.

(b) Accounting treatment of rental waivers against COVID-19

For the rental waivers as a result of COVID-19 and agreed with lessees and lessors respectively for the period ended 30 June 2021 only, the Group and the Company have applied the above circular for the preparation of the financial statements for the year ended 31 December 2020; and the circular exerts no significant impacts on the Group's and the Company's financial statements.

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

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 input VAT of the current period)	Note (b)
City maintenance and construction tax	The amount of VAT paid	1% or 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%

(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 2020 as they qualified as high-tech enterprises and obtained the *High-tech Enterprise Certificate*:

Name of taxpayer	No. of the *High-tech Enterprise Certificate*	Dates of issuance	Term of validity
Jiangsu Midea Cleaning Appliances Co., Ltd.	GR202032012131	2 December 2020	3 years
GD Midea Environment Appliances Mfg. Co., Ltd.	GR201944000430	2 December 2019	3 years
Guangdong Midea Kitchen Appliances Manufacturing Co., Ltd.	GR201844000250	28 November 2018	3 years
Guangdong Witol Vacuum Electronic Manufacture Co., Ltd.	GR202044001986	1 December 2020	3 years
Foshan Shunde Midea Washing Appliances Manufacturing Co., Ltd.	GR202044003557	9 December 2020	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.	GR202044006087	9 December 2020	3 years
Foshan Welling Washer Motor Manufacturing Co., Ltd.	GR202044005425	9 December 2020	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
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.	GR202044003059	1 December 2020	3 years
Handan Midea Air-Conditioning Equipment Co., Ltd.	GR202013000191	27 September 2020	3 years

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

3 Taxation (Cont'd)

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

(a) Notes to the 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 2020 as they qualified as high-tech enterprises and obtained the *High-tech Enterprise Certificate* (Cont'd):

Name of taxpayer	No. of the *High-tech Enterprise Certificate*	Dates of issuance	Term of validity
Midea Group Wuhan Refrigeration Equipment Co., Ltd.	GR202042000684	1 December 2020	3 years
Guangzhou Hualing Refrigerating Equipment Co., Ltd.	GR202044001953	1 December 2020	3 years
Wuhu Maty Air-Conditioning Equipment Co., Ltd.	GR202034001383	17 August 2020	3 years
Chongqing Midea General Refrigeration Equipment Co., Ltd.	GR202051100347	9 October 2020	3 years
Guangdong Meizhi Compressor Limited	GR202044004270	9 December 2020	3 years
Hubei Midea Refrigerator Co., Ltd.	GR202042000745	1 December 2020	3 years
Guangdong Midea Consumer Electric Manufacturing Co., Ltd.	GR202044007232	11 December 2020	3 years
Anhui Meizhi Compressor Co., Ltd.	GR201934000046	9 September 2019	3 years
Foshan Shunde Midea Water Dispenser Manufacturing Co., Ltd.	GR202044004098	9 December 2020	3 years
Midea Welling Motor Technology (Shanghai) Co., Ltd.	GR202031001304	12 November 2020	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
WINONE ELEVATOR COMPANY LIMITED	GR201844000152	28 November 2018	3 years
Hiconics Eco-energy Technology Co., Ltd.	GR201811002361	10 September 2018	3 years
Beijing Hiconics Eco-energy Frequency Conversion Technology Co., Ltd.	GR202011003365	21 October 2020	3 years
Hiconics Drive Technology (Wuhan) Co., Ltd.	GR201842000036	15 November 2018	3 years
Wuhan Hiconics Electric Drive Technology Co., Ltd.	GR202042001428	1 December 2020	3 years
Wuhan Hiconics Power Technology Co., Ltd.	GR201942001459	15 November 2019	3 years
Wuhan Hiconics Intelligent Electric Co., Ltd.	GR202042001512	1 December 2020	3 years
Changsha Sunye Electric Co., Ltd.	GR201843000432	17 October 2018	3 years
Beijing Huatairunda Energy Saving Co., Ltd.	GF201811003128	10 September 2018	3 years
Dorna Technology Co., Ltd.	GR202033006717	1 December 2020	3 years
Wuxi Little Swan Company Limited	GR202032006759	2 December 2020	3 years
KUKA Robotics Manufacturing China Co., Ltd.	GR201931001602	28 October 2019	3 years
KUKA Robotics Guangdong Co., Ltd.	GR202044003841	9 December 2020	3 years
Midea Intelligent Lighting & Controls Technology Co., Ltd	GR202036000935	14 September 2020	3 years

(a-2) The application on exemption and reduction of enterprise income tax for the Development of Western China raised 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. And according to the *Announcement on Continuing the Enterprise Income Tax Policies for the Development of Western China* jointly issued by the Ministry of Finance, the State Taxation Administration and the National Development and Reform Commission on 23 April 2020, the company was subject to enterprise income tax at a rate of 15% in 2020.

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-3) On 24 March 2016, Luanping Huitong Photovoltaic Power Co., Ltd., a subsidiary of the Company, obtained the Record Form for Enterprise Income Tax Preference issued by the Luanping County Office of the State Taxation Administration. According to *Announcement of the State Taxation Administration on the Income Tax Preference Policies for New Power Grid Projects of Power Grid Enterprises* (State Taxation Administration Announcement in 2013, No.26), Phase I Project of the Company was subject to the preferential policy of enterprise income tax exemption from 2016 to 2018, and is subject to the preferential policy of enterprise income tax reduction of 50% from 2019 to 2021. On 28 November 2017, Luanping Huitong Photovoltaic Power Co., Ltd., a subsidiary of the Company, obtained the *Record Form for Enterprise Income Tax Preference* issued by the Luanping County Office of the State Taxation Administration. According to Item 2 of Article 27 in the *Enterprise Income Tax Law of the People's Republic of China*, Order of the President of the People's Republic of China (No. 63), Phase II Project of the Company was subject to the preferential policy of enterprise income tax exemption from 2017 to 2019, and is subject to the preferential policy of enterprise income tax reduction of 50% from 2020 to 2022.

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

(a-5) 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 and subject to the applicable preferential income tax rate of 5.5% for 2020. Midea Singapore Trading Co., Pte Ltd. and Little Swan International (Singapore) Co., Pte Ltd., the Company's subsidiaries, are subject to enterprise income tax at the rate of 17%.

(a-6) The Company's subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5%. Such subsidiaries include Midea International 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-7) 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-8) Springer Carrier Ltda., the Company's subsidiary in Brazil, is subject to Brazil enterprise income tax at the rate of 34%.

(a-9) TLSC, the Company's subsidiary in Japan, and its subsidiaries ("TLSC Group"), are subject to Japan enterprise income tax at the rate of 34.01%.

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-10) Clivet S.P.A ("Clivet"), the Company's subsidiaries in Italy, are subject to Italy enterprise income tax at the rate between 20% and 31.4%.

(a-11) KUKA Group, the Company's subsidiary in Germany, is subject to Germany enterprise income tax at the rate of 32%.

(a-12) Servotronix Motion Control Ltd. ("SMC"), the Company's subsidiary in Israel, is subject to Israel enterprise income tax at the rate of 23%.

(a-13) 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 Value-Added Tax Reform* (Announcement [2019] No. 39) jointly issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs and relevant regulations, 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.

(b-2) Pursuant to the *Announcement on Relevant Policies for Deepening Value-Added Tax Reform* (Announcement [2019] No. 39) jointly issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs and relevant regulations, 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 the Company's certain subsidiaries 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.

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

4 Notes to the consolidated financial statements

(1) Cash at bank and on hand

	31 December 2020	31 December 2019
Cash on hand	2,538	3,128
Cash at bank (a)	51,253,132	49,012,677
Other cash balances (b)	688,481	153,022
Statutory reserve deposits with the Central Bank (c)	1,707,645	433,149
Surplus reserve with the Central Bank	344,860	355,471
Deposits with banks and other financial institutions (d)	26,515,276	20,562,160
Accrued interest	698,550	397,234
	81,210,482	70,916,841
Including: Total amounts deposited with banks overseas (including Hong Kong, China, Macau, China, Singapore, Japan, Italy, Brazil, Germany, etc.)	7,014,620	5,270,085

(a) As at 31 December 2020, cash at bank included fixed deposits with the term of over 3 months, amounting to RMB 37,067,298,000 (31 December 2019: RMB 39,491,676,000).

(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 2020, deposits with banks and other financial institutions included fixed deposits with the term of over 3 months, amounting to RMB 17,500,000,000 (31 December 2019: Nil).

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

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

(2) Financial assets held for trading

	31 December 2020	31 December 2019
Structural deposits (a)	25,626,631	-
Investments in equity instrument held for trading (b)	2,314,965	1,087,351
Others	298,005	-
	28,239,601	1,087,351

(a) As at 31 December 2020, structural deposits were deposits with financial institutions due within 1 year, which were measured at fair value through profit or loss.

(b) As at 31 December 2020, investments in equity instrument held for trading referred to equity investments in listed companies, which were measured at fair value through profit or loss.

(3) Notes receivable

	31 December 2020	31 December 2019
Bank acceptance notes	5,086,749	4,768,520
Trade acceptance notes	218,108	-
Less: Provision for bad debts	(347)	-
	5,304,510	4,768,520

(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 measures bad debts based on the lifetime ECL regardless of whether there exists a significant financing component. As at 31 December 2020, the Company considered that there was no significant credit risk associated with its bank acceptance notes and did not expect that there would be any significant losses from non-performance by these banks.

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

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

(4) Accounts receivable

	31 December 2020	31 December 2019
Accounts receivable	23,854,936	19,631,644
Less: Provision for bad debts	(876,573)	(967,825)
	22,978,363	18,663,819

(a) The ageing of accounts receivable is analysed as follows:

	31 December 2020	31 December 2019
Within 1 year	23,015,280	19,168,694
1 to 2 years	580,644	301,554
2 to 3 years	159,427	101,643
3 to 5 years	87,938	42,106
Over 5 years	11,647	17,647
	23,854,936	19,631,644

As at 31 December 2020, the Group had no significant overdue accounts receivable.

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

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

(4) Accounts receivable (Cont'd)

(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 2020, accounts receivable for which the related provision for bad debts was provided on the individual basis were analysed as follows:

	Book balance	Lifetime ECL rate	Provision for bad debts	Reason
Domestic customers	14,288	100.00%	(14,288)	The debtor encountered financial distress, etc.
Overseas customers	1,000	100.00%	(1,000)	
	15,288		(15,288)	

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 ECL rate	Provision for bad debts	Reason
Domestic customers	2,998	100.00%	(2,998)	The debtor encountered financial distress, etc.
Overseas customers	4,767	100.00%	(4,767)	
	7,765		(7,765)	

As at 31 December 2020, accounts receivable for which the related provision for bad debts was provided on the grouping basis were analysed as follows:

	31 December 2020		
	Book balance	Provision for bad debts	
	Amount	Lifetime ECL rate	Amount
Domestic business grouping	11,521,032	3.71%	(427,912)
Overseas business grouping	12,318,616	3.52%	(433,373)
	23,839,648		(861,285)

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

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

(4) Accounts receivable (Cont'd)

(b) Under the new financial instruments standards, the Group measures the loss provision for accounts receivable according to the lifetime ECL. (Cont'd)

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 ECL rate	Amount
Domestic business grouping	7,908,831	5.53%	(437,578)
Overseas business grouping	11,715,048	4.46%	(522,482)
	19,623,879		(960,060)

(c) The provision for bad debts in the current year amounted to RMB 168,438,000 (2019: RMB 215,902,000). The provision for bad debts reversed in the current year amounted to RMB 81,179,000 (2019: RMB 145,990,000). The provision for bad debts written off in the current year amounted to RMB 114,893,000 (2019: RMB 97,348,000).

(d) As at 31 December 2020, the five largest accounts receivable aggregated by debtor were summarised and analysed as follows:

	Amount	Provision for bad debts	% of total balance
Total amount of the five largest accounts receivable	3,493,123	(64,023)	14.64%

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

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

(5) Other receivables

	31 December 2020	31 December 2019
Other receivables	3,026,970	2,766,098
Less: Provision for bad debts	(53,025)	(53,124)
	2,973,945	2,712,974

(a) Other receivables mainly include deposits, receivables related to share options, current accounts and petty cash to staff.

The ageing of other receivables is analysed as follows:

	31 December 2020	31 December 2019
Within 1 year	2,708,730	2,643,584
1 to 2 years	222,785	69,490
2 to 3 years	50,457	16,555
3 to 5 years	30,867	25,773
Over 5 years	14,131	10,696
	3,026,970	2,766,098

(b) Provision for bad debts and changes in book balance statement

	Stage 1				Stage 3		
	12-month ECL (Grouping)		12-month ECL (Individual)		Lifetime ECL (Credit impaired)		Sub-total
	Book balance	Provision for bad debts	Book balance	Provision for bad debts	Book balance	Provision for bad debts	Provision for bad debts
31 December 2019	2,701,638	49,767	61,103	-	3,357	3,357	53,124
Transfer to Stage 3	(5,991)	(2,396)	-	-	5,991	2,396	-
Net increase/(decrease) in the current year	288,006	613	(23,362)	-	(3,772)	(107)	506
Including: Write-off in the current year	-	-	-	-	(3,772)	(3,772)	(3,772)
Derecognition	-	-	-	-	-	-	-
Differences on translation of foreign currency financial statements	-	(535)	-	-	-	(70)	(605)
31 December 2020	2,983,653	47,449	37,741	-	5,576	5,576	53,025

As at 31 December 2020 and 31 December 2019, the Group had no other receivables at Stage 2.

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

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

(5) Other receivables (Cont'd)

(c) As at 31 December 2020 and 31 December 2019, other receivables of the Group at Stage 1 and Stage 3 were analysed as follows:

(i) As at 31 December 2020, 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 following 12 months	Provision for bad debts	Reason
Stage 1	37,741	0%	-	Relatively low bad debt risks

	Book balance	ECL rate in the following 12 months	Provision for bad debts	Reason
Stage 3	5,576	100.00%	(5,576)	The debtor encountered financial distress, etc.

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 following 12 months	Provision for bad debts	Reason
Stage 1	61,103	0%	-	Relatively low bad debt risks

	Book balance	ECL rate in the following 12 months	Provision for bad debts	Reason
Stage 3	3,357	100.00%	(3,357)	The debtor encountered financial distress, etc.

(ii) As at 31 December 2020 and 31 December 2019, other receivables of which provision for bad debts was provided on the grouping basis were all at Stage 1, which were analysed as follows:

	31 December 2020			31 December 2019		
	Book balance	Provision for bad debts		Book balance	Provision for bad debts	
	Amount	Amount	Provision ratio	Amount	Amount	Provision ratio
Security deposit/guarantee payables grouping	2,983,653	(47,449)	1.59%	2,701,638	(49,767)	1.84%

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

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

(5) Other receivables (Cont'd)

(c) As at 31 December 2020 and 31 December 2019, other receivables of the Group at Stage 1 and Stage 3 were analysed as follows: (Cont'd)

(iii) The provision for bad debts in the current year amounted to RMB 19,151,000 (2019: RMB 19,276,000). The provision for bad debts reversed in the current year amounted to RMB 14,873,000 (2019: RMB 8,481,000). The provision for bad debts written off in the current year amounted to RMB 3,772,000 (2019: RMB 475,000).

(d) As at 31 December 2020, the five largest other receivables aggregated by debtor were summarised and analysed as follows:

	Amount	Provision for bad debts	% of total balance
Total amount of the five largest other receivables	189,911	(3,559)	6.27%

(e) As at 31 December 2020, the Group had no significant government grants recognised at amounts receivable.

(6) Receivables financing

	31 December 2020	31 December 2019
Receivables financing	13,901,856	7,565,776

The Group's receivables financing were mainly accounts receivable and bank acceptance notes 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 2020 and 31 December 2019, the Group measured provision for 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 would be any significant losses from non-performance by these banks.

As at 31 December 2020, the Group's notes receivable and accounts receivable transferred, endorsed or discounted but not matured presented in receivables financing were as follows:

	Derecognised	Not derecognised
Receivables financing	13,318,731	3,728,875

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

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

(7) Advances to suppliers

	31 December 2020	31 December 2019
Prepayments for raw materials and others	2,763,710	2,246,177

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

	31 December 2020		31 December 2019	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	2,562,904	92.73%	2,176,110	96.88%
1 to 2 years	163,765	5.93%	26,925	1.20%
2 to 3 years	17,579	0.64%	22,895	1.02%
Over 3 years	19,462	0.70%	20,247	0.90%
	2,763,710	100.00%	2,246,177	100.00%

As at 31 December 2020, advances to suppliers over 1 year with a carrying amount of RMB 200,806,000 (31 December 2019: RMB 70,067,000) were mainly unsettled prepayments for raw materials.

As at 31 December 2020, the five largest advances to suppliers aggregated by debtor were summarised and analysed as follows:

	Amount	% of total balance
Total amount of the five largest advances to suppliers	708,564	25.64%

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

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

(8) Contract assets

	31 December 2020	1 January 2020	31 December 2019
Contract assets	3,289,783	4,009,176	——
Less: Provision for impairment of contract assets	(52,935)	-	——
Total	3,236,848	4,009,176	——

For contract assets, the Group measures the loss provision based on the lifetime ECL regardless of whether there exists a significant financing component. As at 31 December 2020, the Group's contract assets were not overdue, and the provision for impairment was made on the grouping basis.

	Book balance	Lifetime ECL rate	Provision for impairment
Domestic business grouping	749,521	5.23%	(39,218)
Overseas business grouping	2,540,262	0.54%	(13,717)
	3,289,783		(52,935)

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

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

(9) Loans and advances

(a) By individual and corporation:

	31 December 2020	31 December 2019
Loans and advances measured at amortised cost		
Loans and advances to individuals	2,235,275	1,110,127
Loans and advances to corporations	15,660,149	10,708,289
Including: Loans	10,133,447	9,558,953
Discounted bills	5,526,702	1,149,336
	17,895,424	11,818,416
Less: Provision for bad debts	(312,854)	(158,919)
	17,582,570	11,659,497

As at 31 December 2020, loans and advances over 1 year amounted to RMB 1,113,501,000 (31 December 2019: RMB 790,101,000).

(b) By type of collateral held

	31 December 2020	31 December 2019
Unsecured loans	1,645,282	1,075,217
Guaranteed loans	885,659	1,476,273
Pledged loans	15,364,483	9,266,926
	17,895,424	11,818,416
Less: Provision for bad debts	(312,854)	(158,919)
	17,582,570	11,659,497

(c) The provision for bad debts in the current year amounted to RMB 169,043,000 (2019: RMB 68,617,000), the provision for bad debts written off in the current year amounted to RMB 1,786,000 (2019: RMB 10,826,000) and the provision for bad debts reversed in the current year amounted to RMB 13,322,000 (2019: RMB 52,878,000) (Note 4(23)).

(d) As at 31 December 2020, the Group's loans and advances for which the provision for bad debts was provided on the individual basis amounted to RMB 5,347,295,000, of which the provision for bad debts amounted to RMB 123,882,000.

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

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

(10) Inventories

(a) Inventories are summarised by category as follows:

	31 December 2020			1 January 2020			31 December 2019		
	Book balance	Provision for decline in the value of inventories	Carrying amount	Book balance	Provision for decline in the value of inventories	Carrying amount	Book balance	Provision for decline in the value of inventories	Carrying amount
Finished goods	21,718,749	(372,474)	21,346,275	22,046,730	(407,598)	21,639,132	22,046,730	(407,598)	21,639,132
Raw materials	7,402,034	(70,221)	7,331,813	5,009,197	(67,875)	4,941,322	5,009,197	(67,875)	4,941,322
Work in progress	1,875,881	-	1,875,881	1,596,042	-	1,596,042	1,596,042	-	1,596,042
Consigned processing materials, etc.	522,560	-	522,560	257,727	-	257,727	257,727	-	257,727
Projects completed but unsettled	——	——	——	——	——	——	4,009,176	-	4,009,176
	31,519,224	(442,695)	31,076,529	28,909,696	(475,473)	28,434,223	32,918,872	(475,473)	32,443,399

(b) Analysis of provision for decline in the value of inventories is as follows:

	31 December 2019	Changes in accounting policies	1 January 2020	Increase in the current year	Decrease in the current year	Difference on translation of foreign currency financial statements	31 December 2020
				Provision	Reversal or write-off		
Finished goods	407,598	-	407,598	301,876	(315,860)	(21,140)	372,474
Raw materials	67,875	-	67,875	69,089	(65,860)	(883)	70,221
	475,473	-	475,473	370,965	(381,720)	(22,023)	442,695

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

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

(10) Inventories (Cont'd)

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

	Specific basis for determining net realisable value	Reason for reversal or write-off of provision for decline in the value of inventories
Finished goods	Stated at the lower of cost and net realisable value	Sales
Raw materials, etc.	Stated at the lower of cost and net realisable value	Requisition for production

(11) Other current assets

	31 December 2020	31 December 2019
Structural deposits (a)	-	60,038,855
Monetary investment products (b)	25,542,595	-
Input VAT to be deducted	4,336,260	3,159,794
Prepaid expenses	786,140	875,451
Others	2,414,923	936,927
	33,079,918	65,011,027

(a) As at 31 December 2019, structural deposits were deposits with financial institutions due within 1 year, which were mainly measured at fair value through profit or loss.

(b) As at 31 December 2020, monetary investment products were fixed income products with financial institutions due within 1 year, which were mainly measured at amortised cost.

(12) Other debt investments

	31 December 2020	31 December 2019
Fair value through other comprehensive income		
- Transferable certificate of deposit	21,456,155	-

As at 31 December 2020, the cost of the Group's transferable certificate of deposit approximated its fair value.

As at 31 December 2020, the Group expected that there has no significant increase in credit risk of transferable certificate of deposit since initial recognition and made provision for loss based on 12-month ECL. The Group considered that there was no significant credit risk associated with transferable certificate of deposit and did not expect that there would be any significant losses from non-performance by these banks.

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

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

(13) Long-term receivables

	31 December 2020	31 December 2019
Long-term receivables	981,623	1,208,079
Less: Provision for bad debts	-	-
	981,623	1,208,079

The Group's long-term receivables are presented in net amount of finance lease receivables after offsetting the unrealised financing income.

(14) Long-term equity investments

Long-term equity investments are classified as follows:

	31 December 2020	31 December 2019
Investments in associates (a)	2,901,337	2,790,806
Less: Provision for impairment of long-term equity investments	-	-
	2,901,337	2,790,806

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

(15) Other non-current financial assets

	31 December 2020	31 December 2019
Measured at fair value		
- Equity of unlisted companies, etc.	3,360,849	1,750,107
Less: Provision for impairment of other non-current financial assets	-	-
	3,360,849	1,750,107

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

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

(16) Fixed assets

	Buildings	Overseas land	Machinery and equipment	Motor vehicles	Electronic equipment and others	Total
Cost						
31 December 2019	17,900,603	1,296,493	19,702,128	707,703	4,510,738	44,117,665
Increase in the current year						
Purchase	160,770	109,950	1,530,408	22,849	780,575	2,604,552
Transfer from construction in progress	509,876	-	84,865	2,577	33,389	630,707
Increase by business combinations	547,527	-	485,357	153,797	13,835	1,200,516
Others	55,728	-	-	-	-	55,728
Decrease in the current year						
Disposal and retirement	(55,749)	(2,214)	(762,320)	(54,391)	(319,979)	(1,194,953)
Others	(49,106)	-	(26,625)	(18,748)	(172)	(94,651)
Differences on translation of foreign currency financial statements	(57,387)	(9,790)	(121,971)	(1,036)	(15,000)	(205,184)
31 December 2020	19,012,262	1,394,439	20,891,842	812,751	5,003,386	47,114,680
Accumulated depreciation						
31 December 2019	7,362,635	-	11,405,514	509,473	3,135,874	22,413,496
Increase in the current year						
Provision	909,579	-	1,640,339	104,194	755,409	3,409,521
Others	15,506	-	-	-	-	15,506
Decrease in the current year						
Disposal and retirement	(37,184)	-	(527,487)	(52,022)	(292,352)	(909,045)
Others	(38,542)	-	(832)	(937)	(9)	(40,320)
Differences on translation of foreign currency financial statements	(32,913)	-	(55,169)	(574)	(13,809)	(102,465)
31 December 2020	8,179,081	-	12,462,365	560,134	3,585,113	24,786,693
Provision for impairment						
31 December 2019	6,746	5,907	17,713	210	8,911	39,487
Increase in the current year						
Provision	620	-	20,425	32,965	-	54,010
Decrease in the current year						
Disposal and retirement	-	-	(4,513)	-	(45)	(4,558)
Differences on translation of foreign currency financial statements	(35)	(15)	(24)	(4)	(88)	(166)
31 December 2020	7,331	5,892	33,601	33,171	8,778	88,773
Carrying amount						
31 December 2020	10,825,850	1,388,547	8,395,876	219,446	1,409,495	22,239,214
31 December 2019	10,531,222	1,290,586	8,278,901	198,020	1,365,953	21,664,682

(a) In 2020, the depreciation of fixed assets amounted to RMB 3,409,521,000 (2019: RMB 3,355,820,000) and was included in the income statement.

(b) As at 31 December 2020, the Company was still in the course of obtaining the ownership certificate for the fixed asset with a carrying amount of RMB 123,789,000 (31 December 2019: RMB 219,475,000).

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

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

(17) Construction in progress

	31 December 2020			31 December 2019		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Indian Science Park	364,554	-	364,554	274,429	-	274,429
Midea Headquarters A04 Land Parcel Project	197,540	-	197,540	85,493	-	85,493
Other projects	964,524	(49,316)	915,208	834,728	-	834,728
	1,526,618	(49,316)	1,477,302	1,194,650	-	1,194,650

(a) Movements of significant projects of construction in progress

	31 December 2019 Book balance	Increase in the current year	Transfer to fixed assets in the current year	Other decreases	Difference on translation of foreign currency financial statements	31 December 2020 Book balance	Source of funds
Indian Science Park	274,429	263,096	(142,977)	-	(29,994)	364,554	Self-financing
Midea Headquarters A04 Land Parcel Project	85,493	112,047	-	-	-	197,540	Self-financing
Other projects(a)	834,728	703,597	(487,730)	(79,856)	(6,215)	964,524	Loan/Self-financing
	1,194,650	1,078,740	(630,707)	(79,856)	(36,209)	1,526,618	

(a) In 2020, Accumulative amount of capitalised borrowing costs was RMB 155,000, and the capitalisation rate of borrowing costs in the current year was 6.08%

(b) As at 31 December 2020, the cost of construction in progress matched the budget amount, and the projects were carried out on schedule.

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

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

(18) Intangible assets

	Land use rights	Patents and non-patent technologies	Trademark rights	Trademark use rights	Others	Total
Cost						
31 December 2019	4,655,273	2,088,792	4,993,393	2,689,087	5,021,178	19,447,723
Increase in the current year						
Purchase	21,540	27,320	-	-	313,132	361,992
Increase by business combinations	208,259	105,087	150,300	-	223,986	687,632
Others	11,887	6,291	23	-	149,720	167,921
Decrease in the current year						
Disposal	(55,756)	(43,458)	(1,733)	-	(281,740)	(382,687)
Other decreases	(7,901)	-	-	-	-	(7,901)
Differences on translation of foreign currency financial statements	(5,461)	7,147	117,133	(42,280)	55,345	131,884
31 December 2020	4,827,841	2,191,179	5,259,116	2,646,807	5,481,621	20,406,564
Accumulated amortisation						
31 December 2019	912,013	578,738	108,928	238,714	2,112,508	3,950,901
Increase in the current year						
Provision	94,467	228,593	4,507	92,218	663,899	1,083,684
Others	1,778	-	-	-	-	1,778
Decrease in the current year						
Disposal	(6,131)	(25,881)	-	-	(229,728)	(261,740)
Others	(1,482)	-	-	-	-	(1,482)
Differences on translation of foreign currency financial statements	(134)	(6,023)	(169)	(940)	24,768	17,502
31 December 2020	1,000,511	775,427	113,266	329,992	2,571,447	4,790,643
Provision for impairment						
31 December 2019	-	11,412	-	-	1,231	12,643
Increase in the current year						
Provision	-	120,819	-	-	76,557	197,376
Decrease in the current year						
Disposal	-	(11,719)	-	-	-	(11,719)
Differences on translation of foreign currency financial statements	-	(5,903)	-	-	1,131	(4,772)
31 December 2020	-	114,609	-	-	78,919	193,528
Carrying amount						
31 December 2020	3,827,330	1,301,143	5,145,850	2,316,815	2,831,255	15,422,393
31 December 2019	3,743,260	1,498,642	4,884,465	2,450,373	2,907,439	15,484,179

(a) In 2020, the amortisation of intangible assets amounted to RMB 1,083,684,000 (2019: RMB 1,243,970,000) and was included in the income statement in full amount.

(b) As at 31 December 2020, the Group had no certificates of land use rights that were still in process.

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

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

(19) Goodwill

The Group's goodwill had been allocated to the asset group and asset groups at the acquisition date, without any change of goodwill allocation in 2020, and the allocation is as follows:

	31 December 2020	31 December 2019
Goodwill -		
KUKA Group	22,836,294	22,240,132
TLSC Group	2,944,486	2,984,110
Little Swan	1,361,306	1,361,306
Others	2,931,654	2,173,765
	30,073,740	28,759,313
Less: Provision for impairment	(516,522)	(552,248)
	29,557,218	28,207,065

When making an impairment testing of goodwill for assets, the Group compares the carrying amounts of related asset group and asset groups (including goodwill) with their recoverable amounts. If the recoverable amount is lower than the carrying amount, the difference shall be included in profit or loss for the current period. The Group's goodwill allocation was unchanged in 2020.

As at 31 December 2020, the recoverable amount of asset group and 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 period are calculated based on the estimated perpetual annual growth rates. The perpetual annual growth rates (mainly 1%-2%) applied by management are consistent with the estimates of the industry, and do not exceed the long-term average growth rates of each product. Management determines expected revenue growth rates (mainly 2.00%-15.87%) and EBITDA margins (mainly 3.05%-11.47%) based on past experience and forecast on future market development. The discount rates (mainly 9.48%-14.49%) used by management are the pre-tax rates that are able to reflect the risks specific to the related asset group and asset groups. Management analyses the recoverable amount of each asset group and asset groups based on these assumptions and considers that no further provision for impairment is necessary for the goodwill.

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

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

(20) Long-term prepaid expenses

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

(21) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offsetting

	31 December 2020		31 December 2019	
	Deductible temporary differences and deductible losses	Deferred tax assets	Deductible temporary differences and deductible losses	Deferred tax assets
Deductible losses	2,825,364	693,098	1,457,853	416,248
Provision for asset impairment	2,023,621	409,576	1,489,044	291,763
Employee benefits payable	1,821,805	426,845	1,394,921	337,172
Other current liabilities	29,914,787	5,305,009	24,574,237	4,767,558
Others	6,615,646	1,700,311	6,408,056	1,484,817
	43,201,223	8,534,839	35,324,111	7,297,558
Including:				
Expected to be recovered within 1 year (inclusive)		6,415,757		6,073,311
Expected to be recovered after 1 year		2,119,082		1,224,247
		8,534,839		7,297,558

(b) Deferred tax liabilities before offsetting

	31 December 2020		31 December 2019	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Changes in fair value	1,495,449	205,628	827,153	162,129
Business combination involving enterprise not under common control	11,673,627	3,415,470	11,785,555	3,474,098
Others	11,296,707	2,929,060	9,644,666	2,448,340
	24,465,783	6,550,158	22,257,374	6,084,567
Including:				
Expected to be recovered within 1 year (inclusive)		1,026,806		1,145,971
Expected to be recovered after 1 year		5,523,352		4,938,596
		6,550,158		6,084,567

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

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

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

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

	31 December 2020 Balance after offsetting	31 December 2019 Balance after offsetting
Deferred tax assets	7,208,635	5,768,993
Deferred tax liabilities	5,223,954	4,556,002

(22) Other non-current assets

	31 December 2020	31 December 2019
Structural deposits (a)	-	4,355,799
Monetary investment products (b)	10,128,172	-
Others	1,127,707	591,804
	11,255,879	4,947,603

(a) As at 31 December 2019, structural deposits were deposits with financial institutions due over 1 year, which were mainly measured at fair value through profit or loss.

(b) As at 31 December 2020, monetary investment products were fixed income products with financial institutions due over 1 year, which were mainly measured at amortised cost.

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

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

(23) Asset impairment and provision for loss

	31 December 2019	Changes in accounting policies	1 January 2020	Increase in the current year	Decrease in the current year		Difference on translation of foreign currency financial statements	31 December 2020
					Reversal	Charge-off/ Written-off		
Provision for bad debts	1,179,868	——	1,179,868	356,979	(109,374)	(120,451)	(64,223)	1,242,799
Including: Provision for bad debts of accounts receivable	967,825	——	967,825	168,438	(81,179)	(114,893)	(63,618)	876,573
Provision for bad debts of loans and advances	158,919	——	158,919	169,043	(13,322)	(1,786)	-	312,854
Provision for bad debts of notes receivable	-	——	-	347	-	-	-	347
Provision for bad debts of other receivables	53,124	——	53,124	19,151	(14,873)	(3,772)	(605)	53,025
Provision for decline in the value of inventories	475,473	——	475,473	370,965	(15,270)	(366,450)	(22,023)	442,695
Provision for impairment of fixed assets	39,487	——	39,487	54,010	-	(4,558)	(166)	88,773
Provision for impairment of intangible assets	12,643	——	12,643	197,376	-	(11,719)	(4,772)	193,528
Provision for impairment of contract assets	——	-	-	52,153	-	-	782	52,935
Provision for impairment of investment properties	12,576	——	12,576	-	-	-	-	12,576
Provision for impairment of construction in progress	-	——	-	45,975	-	-	3,341	49,316
Provision for impairment of goodwill	552,248	——	552,248	-	-	-	(35,726)	516,522
	2,272,295	-	2,272,295	1,077,458	(124,644)	(503,178)	(122,787)	2,599,144

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

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

(24) Assets with use rights restricted

As at 31 December 2020, assets with use rights restricted were as follows:

	31 December 2020	31 December 2019
Cash at bank and on hand		
Including: Cash at bank (Note 4(1))	37,067,298	39,491,676
Other cash balances (Note 4(1))	688,481	153,022
Legal reserves with the Central Bank (Note 4(1))	1,707,645	433,149
Deposits with banks and other financial institutions (Note 4(1))	17,500,000	-
	56,963,424	40,077,847

(25) Short-term borrowings

	31 December 2020	31 December 2019
Unsecured borrowings	2,281,509	5,665,756
Guaranteed borrowings	7,402,260	36,082
Pledged borrowings	192,569	-
Mortgage borrowings	67,591	-
	9,943,929	5,701,838

As at 31 December 2020, the annual interest rate range of short-term borrowings was 0.90% to 9.40% (31 December 2019: 0.57% to 9.40%).

(26) Notes payable

	31 December 2020	31 December 2019
Bank acceptance notes	28,233,818	23,891,600
Trade acceptance notes	16,121	-
	28,249,939	23,891,600

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

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

(27) Accounts payable

	31 December 2020	31 December 2019
Materials cost payable	49,451,076	39,528,815
Others	4,479,185	3,006,962
	53,930,261	42,535,777

As at 31 December 2020, accounts payable over 1 year with a carrying amount of RMB 985,248,000 (31 December 2019: RMB 886,355,000) were mainly unsettled accounts payable for materials.

(28) Advances from customers

	31 December 2020	1 January 2020	31 December 2019
Advances on sales	-	-	14,054,839
Settled but not completed	-	-	2,177,015
	-	-	16,231,854

(29) Contract liabilities

	31 December 2020	1 January 2020	31 December 2019
Advances on sales and services	16,511,435	16,259,544	——
Advances for construction projects	1,889,487	2,177,015	——
	18,400,922	18,436,559	——

More than 90% of contract liabilities included in the carrying amount as at 1 January 2020 were transferred to revenue in 2020.

As mentioned in Note 5(1), due to business combinations involving enterprises not under common control in the current year, the amount of contract liabilities increased by RMB 491,780,000.

(30) Employee benefits payable

	31 December 2020	31 December 2019
Short-term employee benefits payable (a)	6,666,830	6,118,722
Others	287,992	317,387
	6,954,822	6,436,109

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

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

(30) Employee benefits payable (Cont'd)

(a) Short-term employee benefits

	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Wages and salaries, bonus, allowances and subsidies	5,714,684	23,936,384	(23,469,332)	6,181,736
Staff welfare	255,901	1,118,803	(1,032,894)	341,810
Social security contributions	89,603	2,037,550	(2,053,335)	73,818
Including: Medical insurance	87,173	1,958,163	(1,973,697)	71,639
Work injury insurance	1,303	14,743	(14,990)	1,056
Maternity insurance	1,127	64,644	(64,648)	1,123
Housing funds	28,445	463,190	(468,098)	23,537
Labour union funds and employee education funds	20,361	107,501	(110,349)	17,513
Other short-term employee benefits	9,728	509,454	(490,766)	28,416
	6,118,722	28,172,882	(27,624,774)	6,666,830

(31) Taxes payable

	31 December 2020	31 December 2019
Enterprise income tax payable	3,121,236	2,985,670
Unpaid VAT	1,013,378	900,204
Others	1,623,444	1,210,393
	5,758,058	5,096,267

(32) Other payables

	31 December 2020	31 December 2019
Other payables	4,501,391	3,800,568

(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 2020, other payables with ageing over 1 year with a carrying amount of RMB 1,392,059,000 (31 December 2019: RMB 765,092,000) were mainly those recognised for performing equity incentive plan and deposit and security deposit payable, which were unsettled since related projects were uncompleted.

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

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

(33) Current portion of non-current liabilities

	31 December 2020	31 December 2019
Current portion of long-term borrowings (Note 4(35))	6,284,643	1,230,966
Current portion of long-term payables	25,538	39,426
Current portion of equity purchase payables	-	189,725
	6,310,181	1,460,117

(34) Other current liabilities

	31 December 2020	1 January 2020	31 December 2019
Accrued sale rebates	31,192,652	26,175,014	26,175,014
Short-term financing bonds payable (a)	3,030,785	-	-
Others	15,628,802	10,695,058	12,899,763
	49,852,239	36,870,072	39,074,777

(a) As at 31 December 2020, short-term financing bonds payable represented super short-term financing bonds with a total face value of RMB 3,000,000,000 issued by the Company, with a term of 240 days, and a coupon rate of 1.65%.

(35) Long-term borrowings

	31 December 2020	31 December 2019
Mortgage borrowings (a)	29,673,661	28,892,783
Guaranteed borrowings (b)	7,785,898	6,569,414
Unsecured borrowings	11,633,434	7,067,146
Pledged borrowings	18,937	-
	49,111,930	42,529,343
Less: Current portion of mortgage borrowings (Note 4(33))	(48,962)	(39,078)
Current portion of guaranteed borrowings (Note 4(33))	(2,174,775)	-
Current portion of unsecured borrowings (Note 4(33))	(4,054,593)	(1,191,888)
Current portion of pledged borrowings (Note 4(33))	(6,313)	-
	42,827,287	41,298,377

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

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

(35) Long-term borrowings (Cont'd)

(a) As at 31 December 2020, bank mortgage borrowings were mainly mortgage borrowings with a cost of EUR 3,691,857,000, equivalent to RMB 29,627,150,000 (31 December 2019: a cost of EUR 3,696,857,000, equivalent to RMB 28,892,783,000) and were 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 in August 2022.

(b) As at 31 December 2020, bank guaranteed borrowings mainly included: (i) guaranteed borrowings with a cost of EUR 271,000,000, equivalent to RMB 2,174,775,000 (31 December 2019: a cost of EUR 271,000,000, equivalent to RMB 2,118,000,000) guaranteed by the Company, with interest paid every 3 months, which will be due in April 2021; (ii) guaranteed borrowings with a cost of JPY 69,460,000,000, equivalent to RMB 4,392,373,000 (31 December 2019: a cost of JPY 69,460,000,000, equivalent to RMB 4,451,414,000) guaranteed by the Company, with interest paid on a monthly basis, which will be due in May 2024.

(c) As at 31 December 2020, the annual interest rate range of long-term borrowings was 0.49% to 6.08% (31 December 2019: 0.5% to 5.5%).

(36) Long-term employee benefits payable

	31 December 2020	31 December 2019
Supplementary retirement benefits (a)	2,014,651	2,267,015
Others	145,024	151,548
	2,159,675	2,418,563

(a) Supplementary retirement benefits

Supplementary retirement benefits obligation of the Group recognised on 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 2020	31 December 2019
Defined benefit obligation	3,850,400	3,896,591
Less: Fair value of planned assets	(1,835,749)	(1,629,576)
Liabilities of defined benefit obligation	2,014,651	2,267,015

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

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

(36) 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 2020
Discount rate	0.00%-6.00%
Inflation rate	1.00%
Salary growth rate	0.00%-8.10%
Pension dynamics	0.00%-3.65%
Retirement rate	0.00%-12.57%
Changes in cost of medical services	6.50%

(37) Other non-current liabilities

Other non-current liabilities are mainly equity purchase payables.

(38) Share capital

		Movements in the current year					
	31 December 2019	Share-based payment incentive plan (a)	Desterilisation	Additional issuance	Repurchases and write-offs	Sub-total	31 December 2020
RMB-denominated ordinary shares -							
RMB-denominated ordinary shares subject to trading restriction	165,403	33,245	(10,060)	-	(5,725)	17,460	182,863
RMB-denominated ordinary shares not subject to trading restriction	6,806,497	30,556	10,060	-	-	40,616	6,847,113
	6,971,900	63,801	-	-	(5,725)	58,076	7,029,976

		Movements in the current year					
	31 December 2018	Share-based payment incentive plan (a)	Desterilisation	Additional issuance	Repurchases and write-offs	Sub-total	31 December 2019
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
	6,663,031	87,150	-	323,657	(101,938)	308,869	6,971,900

(a) In 2020, the share-based payment incentive plan increased the share capital by 63,801,000 shares (2019: 87,150,000 shares).

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

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

(39) Treasury stock

	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Treasury stock used for share-based payment incentive plan	3,759,732	2,798,468	(463,853)	6,094,347

	31 December 2018	Increase in the current year	Decrease in the current year	31 December 2019
Treasury stock used for share-based payment incentive plan	918,171	3,157,236	(315,675)	3,759,732
Repurchased shares that have not yet been written off	4,000,256	-	(4,000,256)	-
	4,918,427	3,157,236	(4,315,931)	3,759,732

In 2020, the Group's repurchased treasury stock amounted to RMB 2,798,468,000, and the restricted shares and employee stock ownership plans granted in 2020 were approximately RMB 2,012,093,000. As at 31 December 2020, treasury stock mainly comprised treasury stock of RMB 2,185,356,000 used for share-based payment incentive plan and restricted shares amounting to RMB 3,908,991,000 that have not met unlock condition, amounting to RMB 6,094,347,000 in total (31 December 2019: RMB 3,759,732,000).

(40) Capital surplus

	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Share premium (a)	15,683,499	2,694,886	(193,357)	18,185,028
Share-based payment incentive plan (b)	1,443,942	1,022,236	(1,051,336)	1,414,842
Others (c)	2,512,872	513,951	(138,588)	2,888,235
	19,640,313	4,231,073	(1,383,281)	22,488,105

	31 December 2018	Increase in the current year	Decrease in the current year	31 December 2019
Share premium	14,478,244	5,260,907	(4,055,652)	15,683,499
Share-based payment incentive plan	1,299,655	733,330	(589,043)	1,443,942
Others	2,673,408	10,806	(171,342)	2,512,872
	18,451,307	6,005,043	(4,816,037)	19,640,313

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

(40) Capital surplus (Cont'd)

(a) The increase in share premium arose from the exercise of share options with the amount of RMB 2,157,530,000, the unlocking of restricted shares with the amount of RMB 537,356,000; the decrease in share premium arose from the repurchase of restricted shares with the amount of RMB 193,357,000.

(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 1,022,236,000, while the decrease arose from the transfer of RMB 1,051,336,000 to share premium due to exercise of share-based payment incentive plan.

(c) Other increases in the capital surplus were mainly due to the Group's purchase of equity held by the minority shareholders of subsidiaries, including Clivet, Annto Logistics, etc.

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

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

(41) Other comprehensive income

	Other comprehensive income in the balance sheet			Other comprehensive income in the income statement for the year ended 31 December 2020				
	31 December 2019	Attributable to the parent company after tax	31 December 2020	Amount arising before income tax	Less: Reclassification of 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	(92,685)	111,895	19,210	102,595	-	8,909	111,895	(391)
Changes in fair value of investments in other equity instruments	-	493	493	(5,132)	-	(594)	493	(6,219)
Other comprehensive income items which will be reclassified to profit or loss		-	-	-	-	-	-	-
Other comprehensive income that will be transferred subsequently to profit or loss under the equity method	(65,736)	(20,445)	(86,181)	(20,445)	-	-	(20,445)	-
Effective portion of gains or losses on hedging instruments in a cash flow hedge	12,620	298,721	311,341	348,437	(13,175)	(33,459)	298,721	3,082
Differences on translation of foreign currency financial statements	(565,753)	(1,228,113)	(1,793,866)	(1,564,945)	-	-	(1,228,113)	(336,832)
	(711,554)	(837,449)	(1,549,003)	(1,139,490)	(13,175)	(25,144)	(837,449)	(340,360)

	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 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										
Other comprehensive income that will be transferred subsequently to profit or loss under the equity method	(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 statements	(884,358)	-	(884,358)	318,605	(565,753)	386,670	-	-	318,605	68,065
	(1,332,153)	337,447	(994,706)	283,152	(711,554)	232,859	107,675	7,506	283,152	64,888

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

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

(42) Surplus reserve

	31 December 2019	Increase in the current year	31 December 2020
Statutory surplus reserve	6,447,658	1,518,704	7,966,362

	31 December 2018	Increase in the current year	31 December 2019
Statutory surplus reserve	5,079,096	1,368,562	6,447,658

In accordance with the *Company Law of the People's Republic of China* and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the losses or increase the share capital after approval from the appropriate authorities. According to a resolution at the Board of Directors' meeting, the Company appropriated 10% of net profit for the year, amounting to RMB 1,518,704,000 (2019: 10% of net profit, amounting to RMB 1,368,562,000) to the statutory surplus reserve in 2020.

(43) Undistributed profits

	2020	2019
Undistributed profits at the beginning of the year	72,713,631	58,424,868
Add: Net profit attributable to shareholders of the parent company for the current year	27,222,969	24,211,222
Less: Ordinary share dividends payable (a)	(11,122,406)	(8,553,897)
Appropriation to general risk reserve (b)	(221,037)	-
Appropriation to statutory surplus reserve (Note 4 (42))	(1,518,704)	(1,368,562)
Undistributed profits at the end of the year	87,074,453	72,713,631

(a) Ordinary share dividends distributed in the current year

In accordance with the resolution at the Board of Shareholders' meeting, dated 22 May 2020, the Company distributed a cash dividend to the shareholders at RMB 1.60 per share, amounting to approximately RMB 11,131,490,000 calculated by 6,957,181,058 issued shares less those repurchased; 5,725,000 repurchased incentive shares in the restricted shares incentive plan were written off (Note 4(38)), and cash dividend amounting to RMB 9,084,000 was cancelled. The actual cash dividend distributed in the current year amounted to RMB 11,122,406,000.

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

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

(43) Undistributed profits (Cont'd)

(b) General risk reserve

In 2020, according to the *Notice on Strengthening the Supervision and Administration of Commercial Factoring Enterprises* issued by China Banking and Insurance Regulatory Commission and the *Administrative Measures for the Provision of Reserves of Financial Enterprises* issued by the Ministry of Finance, certain subsidiaries of the Group provided general risk reserve amounting to RMB 221,037,000 (2019: Nil).

(44) Revenue and cost of sales

	2020	2019
Revenue from main operations	261,474,699	257,059,725
Other operating income	22,746,550	21,156,292
	284,221,249	278,216,017

	2020	2019
Cost of sales from main operations	192,791,358	179,314,385
Cost of sales from other operations	20,048,234	18,599,543
	212,839,592	197,913,928

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

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

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

(a) Revenue and cost of sales from main operations

	2020		2019	
	Revenue from main operations	Cost of sales from main operations	Revenue from main operations	Cost of sales from main operations
HVAC	121,215,043	91,925,363	119,607,379	81,626,941
Consumer appliances	113,890,764	79,112,626	109,486,791	75,014,044
Robotics and automation system	21,588,782	17,297,837	25,191,964	19,953,437
Others	4,780,110	4,455,532	2,773,591	2,719,963
	261,474,699	192,791,358	257,059,725	179,314,385

In 2020, 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 (2019: over 80%).

(b) Revenue and cost of sales from other operations

	2020		2019	
	Revenue from other operations	Cost of sales from other operations	Revenue from other operations	Cost of sales from other operations
Revenue from sales of materials	20,190,867	19,378,005	18,933,525	17,997,520
Others	2,555,683	670,229	2,222,767	602,023
	22,746,550	20,048,234	21,156,292	18,599,543

In 2020, cost of sales from other operations was mainly material costs, which accounted for over 80% of total cost of sales from other operations (2019: over 80%).

(c) In 2020, among the Group's revenue from main operations, the amount recognised at a point in time accounted for above 90% and the amount recognised within a certain period of time mainly included revenue from main operations of robotics and automation system segment. The Group's revenue from other operations was recognised at a point in time.

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

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

(45) Interest income and interest costs

The Group's interest income and expenses arising from financial business are presented as follows:

	2020	2019
Interest income from loans and advances	1,229,255	1,058,536
Including: Interest income from loans and advances to corporations and individuals	1,072,209	730,885
Interest income from note discounting	157,046	327,651
Interest income from deposits with banks, other financial institutions and the Central Bank	258,956	104,644
Interest income	1,488,211	1,163,180
Interest costs	(105,168)	(122,618)
	1,383,043	1,040,562

(46) Taxes and surcharges

	2020	2019
City maintenance and construction tax	642,902	699,256
Educational surcharge	470,229	508,523
Others	420,515	512,837
	1,533,646	1,720,616

(47) Selling and distribution expenses

	2020	2019
Selling and distribution expenses	27,522,276	34,611,231

In 2020, selling and distribution expenses were mainly maintenance expenses, advertisement and promotion fee, employee benefits, rental expenses and transportation and storage fee, which accounted for over 70% of total selling and distribution expenses (2019: over 70%).

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

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

(48) General and administrative expenses

	2020	2019
General and administrative expenses	9,264,148	9,531,361

In 2020, general and administrative expenses were mainly employee benefits, depreciation and amortisation expenses, technical maintenance expenses, administrative office expenses and rental expenses and property management expenses, which accounted for over 70% of total general and administrative expenses (2019: over 70%).

(49) R&D expenses

	2020	2019
R&D expenses	10,118,667	9,638,137

In 2020, R&D expenses were mainly employee benefits, depreciation and amortisation expenses, trial products and material inputs expenses, which accounted for over 80% of total R&D expenses (2019: over 80%).

(50) Financial income

The Group's financial income, other than those arising from financial business (Note 4(45)), are presented as follows:

	2020	2019
Interest expenses	(1,305,591)	(880,703)
Less: Interest income	3,663,028	3,807,136
Exchange gains or losses	446,352	(531,088)
Others	(165,757)	(163,709)
	2,638,032	2,231,636

(51) Asset impairment losses

	2020	2019
Losses on decline in the value of inventories (Note 4(10))	355,695	311,195
Impairment losses on contract assets (Note 4(8))	52,153	——
Impairment losses on fixed assets (Note 4(16))	54,010	8,466
Impairment losses on intangible assets (Note 4(18))	197,376	-
Impairment losses on construction in progress (Note 4(17))	45,975	-
Impairment loss on goodwill (Note 4(19))	-	552,248
	705,209	871,909

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

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

(52) Credit impairment losses

	2020	2019
Losses on bad debts of accounts receivable (Note 4(4))	87,259	69,912
Losses on bad debts of other receivables (Note 4(5))	4,278	10,795
Losses on bad debts of notes receivable (Note 4(3))	347	-
Impairment losses on loans and advances (Note 4(9))	155,721	15,739
	247,605	96,446

(53) Gains on changes in fair value

	2020	2019
Derivative financial assets and liabilities	86,950	707,527
Other financial assets	1,676,000	653,636
	1,762,950	1,361,163

(54) Investment income

	2020	2019
Investment income from wealth management products	-	91,359
Investment income from holding of financial assets held for trading	1,598,107	-
Investment income from disposal of financial assets held for trading	295,802	-
Investment income/(loss) from disposal of derivative financial assets and liabilities	122,576	(357,265)
Investment income from associates	402,528	506,225
Profit or loss arising from derecognition of financial assets measured at amortised cost	-	(709)
Others	(56,551)	(75,478)
	2,362,462	164,132

There is no significant restriction on recovery of investment income of the Group.

(55) Losses on disposal of assets

	2020	2019
Gains on disposal of non-current assets	26,876	48,152
Losses on disposal of non-current assets	(87,399)	(179,283)
	(60,523)	(131,131)

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

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

(56) Other income

	2020	2019	Assets related/ Income related
Special subsidy	1,424,090	1,194,665	Income related

(57) Income tax expenses

	2020	2019
Current income tax calculated based on tax law and related regulations	4,928,687	5,865,722
Deferred income tax	(771,690)	(1,213,752)
	4,156,997	4,651,970

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

	2020	2019
Total profit	31,663,539	29,929,114
Income tax calculated at tax rate of 25%	7,915,885	7,482,279
Effect of different tax rates applicable to subsidiaries	(3,314,153)	(2,418,377)
Effect of income tax annual filing for prior periods	(241,941)	(132,198)
Income not subject to tax	(163,339)	(225,015)
Costs, expenses and losses not deductible for tax purposes	459,501	435,334
Utilisation of previous temporary differences or deductible losses for which no deferred tax assets were recognised in prior periods	(33,534)	(52,064)
Others	(465,422)	(437,989)
Income tax expenses	4,156,997	4,651,970

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

(58) 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 outstanding ordinary shares:

	Unit	2020	2019
Consolidated net profit attributable to ordinary shareholders of the parent company	RMB'000	27,222,969	24,211,222
Less: Dividends payable to restricted shares	RMB'000	(64,930)	(41,095)
		27,158,039	24,170,127
Weighted average number of outstanding ordinary shares	Thousands shares	6,908,891	6,707,294
Basic earnings per share	RMB Yuan/share	3.93	3.60
Including:			
- Basic earnings per share from continuing operations:		3.93	3.60
- Basic earnings per share for discontinued operations:		-	-

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

(58) Calculation of basic and diluted earnings per share (Cont'd)

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

	Unit	2020	2019
Consolidated net profit attributable to ordinary shareholders of the Company	RMB'000	27,222,969	24,211,222
Weighted average number of outstanding ordinary shares	Thousands shares	6,908,891	6,707,294
Weighted average number of ordinary shares increased from share-based payment	Thousands shares	63,495	64,256
Weighted average number of diluted outstanding ordinary shares	Thousands shares	6,972,386	6,771,550
Diluted earnings per share	RMB Yuan/share	3.90	3.58

(59) Notes to the cash flow statement

(a) Cash received relating to other operating activities

	2020	2019
Other income	1,522,883	1,218,555
Revenue from other operations	2,450,466	2,116,396
Non-operating income	383,436	612,867
Financial income - interest income	441,016	339,475
Others	153,073	721,528
	4,950,874	5,008,821

(b) Cash paid relating to other operating activities

	2020	2019
Selling and distribution expenses (excluding employee benefits and taxes and surcharges)	22,851,294	30,246,514
General and administrative expenses and R&D expenses (excluding employee benefits and taxes and surcharges)	10,305,790	9,601,758
Others	1,276,110	1,283,489
	34,433,194	41,131,761

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

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

(59) Notes to the cash flow statement (Cont'd)

(c) Supplementary information to the cash flow statement

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

	2020	2019
Net profit	27,506,542	25,277,144
Add: Asset impairment losses	705,209	871,909
Credit impairment losses	247,605	96,446
Depreciation and amortisation	5,020,256	5,168,262
Losses on disposal of assets	60,523	131,131
Gains on changes in fair value	(1,762,950)	(1,361,163)
Financial income	(1,714,530)	(2,847,411)
Investment income	(2,362,462)	(164,132)
Increase in deferred tax assets	(1,424,584)	(1,347,604)
Increase in deferred tax liabilities	625,273	149,942
Increase in inventories	(1,803,072)	(2,670,712)
Increase in operating receivables	(16,538,695)	(1,445,679)
Increase in operating payables	19,916,109	15,916,673
Share-based payments and others	1,081,893	815,598
Net cash flows from operating activities	29,557,117	38,590,404

	2020	2019
Net increase/(decrease) in cash and cash equivalents:		
Cash and cash equivalents at the end of the year	23,548,508	30,441,760
Less: Cash and cash equivalents at the beginning of the year	(30,441,760)	(17,952,282)
Net (decrease)/increase in cash and cash equivalents	(6,893,252)	12,489,478

(d) Composition of cash and cash equivalents

	31 December 2020	31 December 2019
Cash on hand	2,538	3,128
Cash at bank that can be readily drawn on demand	14,185,834	9,521,001
Deposits with the Central Bank that can be readily drawn on demand	344,860	355,471
Deposits with banks and other financial institutions that can be readily drawn on demand	9,015,276	20,562,160
Cash and cash equivalents at the end of the year	23,548,508	30,441,760

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

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

(60) Monetary items denominated in foreign currencies

	31 December 2020		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand			
USD	606,052	6.5249	3,954,427
JPY	12,604,953	0.0632	796,633
HKD	2,415,846	0.8416	2,033,176
EUR	118,549	8.0250	951,354
BRL	285,067	1.2556	357,930
VND	508,313,333	0.0003	152,494
Other currencies	Not applicable	Not applicable	1,422,214
Sub-total			9,668,228
Accounts receivable			
USD	1,275,071	6.5249	8,319,713
JPY	12,798,608	0.0632	808,872
HKD	11,535	0.8416	9,708
EUR	361,026	8.0250	2,897,230
BRL	677,500	1.2556	850,669
VND	2,435,706,667	0.0003	730,712
Other currencies	Not applicable	Not applicable	2,034,429
Sub-total			15,651,333
Other receivables			
USD	144,189	6.5249	940,820
JPY	1,329,367	0.0632	84,016
HKD	10,903	0.8416	9,176
EUR	55,540	8.0250	445,707
BRL	179,288	1.2556	225,114
Other currencies	Not applicable	Not applicable	253,468
Sub-total			1,958,301
Total			27,277,862

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

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

(60) Monetary items dominated in foreign currencies (Cont'd)

	31 December 2020		
	Foreign currency balance	Exchange rate	RMB balance
Short-term borrowings			
USD	280,000	6.5249	1,826,972
EUR	154,489	8.0250	1,239,777
BRL	105,884	1.2556	132,948
Other currencies	Not applicable	Not applicable	122,280
Sub-total			3,321,977
Accounts payable			
USD	280,661	6.5249	1,831,288
JPY	5,637,532	0.0632	356,292
HKD	14,244	0.8416	11,988
EUR	156,419	8.0250	1,255,266
BRL	222,265	1.2556	279,076
Other currencies	Not applicable	Not applicable	1,656,574
Sub-total			5,390,484
Other payables			
USD	12,737	6.5249	83,109
JPY	7,245,791	0.0632	457,934
HKD	7,272	0.8416	6,120
EUR	1,182	8.0250	9,485
Other currencies	Not applicable	Not applicable	173,688
Sub-total			730,336
Current portion of non-current liabilities			
USD	3,769	6.5249	24,593
EUR	276,000	8.0250	2,214,900
Other currencies	Not applicable	Not applicable	22,833
Sub-total			2,262,326
Long-term borrowings			
USD	140,061	6.5249	913,886
EUR	3,944,261	8.0250	31,652,691
JPY	69,460,000	0.0632	4,392,373
Other currencies	Not applicable	Not applicable	3,039
Sub-total			36,961,989
Total			48,667,112

Monetary items denominated in foreign currencies above present all foreign currencies except RMB.

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

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

(60) Monetary items dominated in foreign currency (Cont'd)

	31 December 2019		
	Foreign currency 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			5,732,642
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			13,080,062
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			1,999,196
Total			20,811,900

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

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

(60) Monetary items dominated in foreign currency (Cont'd)

	31 December 2019		
	Foreign currency 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			1,501,838
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			5,244,556
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			865,495
Current portion of non-current 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			1,460,117
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			37,298,377
Total			46,370,383

Monetary items denominated in foreign currencies above present all foreign currencies except RMB.

5 Changes of consolidation scope

(1) Business combinations involving enterprises not under common control

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

GD Midea Heating & Ventilating Equipment Co., Ltd., a wholly-owned subsidiary of the Company, acquired Hiconics Eco-energy in May 2020. Hainan Midea Building Co., Ltd., a wholly-owned subsidiary of the Company, acquired WINONE ELEVATOR and Foshan Longyue Investment Co., Ltd. in December 2020.

The acquisition has no significant impact on the Group's consolidated financial statements.

(2) Changes of consolidation scope due to other reasons

(a) Increase of consolidation scope

The Company and Foshan Midea Air-conditioning Industry Investment Co., Ltd., a wholly-owned subsidiary of the Company, established Midea Group (Shanghai) Co., Ltd. in January 2020, holding 90% and 10% of the shares respectively.

Foshan Shunde Midea Household Appliances Industry Co., Ltd., a wholly-owned subsidiary of the Company, established Chongqing Midea Commercial Factoring Co., Ltd. in March 2020, holding 100% of its shares.

Wuhu Annto Investment Co., Ltd. and Annto Logistics Technology Co., Ltd., the Company's wholly-owned subsidiaries, established Tianjin Annto Network Technology Co., Ltd. in April 2020, holding 99% and 1% of the shares respectively.

The Company and Foshan Midea Air-conditioning Industry Investment Co., Ltd., a wholly-owned subsidiary of the Company, established Western-style Electric Products Company in June 2020, holding 90% and 10% of the shares respectively.

The Company and Foshan Midea Air-conditioning Industry Investment Co., Ltd., a wholly-owned subsidiary of the Company, established Shanghai Kaizhao Commercial and Trading Co., Ltd. in August 2020, holding 95% and 5% of the shares respectively.

The Company and Foshan Midea Air-conditioning Industry Investment Co., Ltd., a wholly-owned subsidiary of the Company, established Guangdong MeiKong Intelligent Building Co., Ltd. in August 2020, holding 95% and 5% of the shares respectively.

The Company and Foshan Midea Air-conditioning Industry Investment Co., Ltd., a wholly-owned subsidiary of the Company, established Midea Smart Life (Shanghai) Technology Co., Ltd. in September 2020, holding 90% and 10% of the shares respectively.

The Company established Midea (Shanghai) Supply Chain Technology Co., Ltd. in September 2020, holding 100% of its shares.

KUKA Systems GmbH, the Company's holding subsidiary, spun off KUKA Assembly & Test GmbH in September 2020, holding 100% of its shares.

5 Changes of consolidation scope (Cont'd)

(2) Changes in consolidation scope due to other reasons (Cont'd)

(a) Increase of consolidation scope (Cont'd)

Chongqing Midea General Refrigeration Equipment Co., Ltd., the Company's holding subsidiary, established Meitong Energy Technology (Chongqing) Co., Ltd. in October 2020, holding 100% of its shares.

The Company established Maytech Technology Co., LTD. in October 2020, holding 100% of its shares.

GD Midea Heating & Ventilating Equipment Co., Ltd. and Foshan Midea Air-conditioning Industry Investment Co., Ltd., the Company's wholly-owned subsidiaries, established Hainan Midea Building Co., Ltd. in November 2020, holding 95% and 5% of the shares respectively.

Midea Group (Shanghai) Co., Ltd. and Foshan Midea Air-conditioning Industry Investment Co., Ltd., the Company's wholly-owned subsidiaries, established Shanghai M-BMS Intelligent Construction Co., Ltd. in November 2020, holding 95% and 5% of the shares respectively.

KUKA Group, the Company's holding subsidiary, established KUKA Real Estate Management GmbH. in November 2020, holding 100% of its shares.

Midea Electrics Netherlands B.V. and Midea Electric Trading (Singapore) Co., Pte. Ltd., the Company's wholly-owned subsidiaries, established Midea (Egypt) Kitchen & Water Heater Appliance Co., Ltd. in November 2020, holding 99% and 1% of the shares respectively.

The Company and Foshan Midea Air-conditioning Industry Investment Co., Ltd., a wholly-owned subsidiary of the Company, established Hainan Midea United Supplies Co., Ltd. in December 2020, holding 95% and 5% of the shares respectively.

The Company and Foshan Midea Air-conditioning Industry Investment Co., Ltd., a wholly-owned subsidiary of the Company, established Midea Group Wuhan Heating Ventilation Equipment Co., Ltd. in December 2020, holding 95% and 5% of the shares respectively.

Midea Group (Shanghai) Co., Ltd. and Foshan Midea Air-conditioning Industry Investment Co., Ltd., the Company's wholly-owned subsidiaries, established Hainan Xingchenghai Electric Appliance Co., Ltd. in December 2020, holding 95% and 5% of the shares respectively.

Midea Group (Shanghai) Co., Ltd. and Foshan Midea Air-conditioning Industry Investment Co., Ltd., the Company's wholly-owned subsidiaries, established Hainan Midea Kitch Co., Ltd. in December 2020, holding 95% and 5% of the shares respectively.

Wuxi Little Swan Electric Co., Ltd. and Foshan Midea Air-conditioning Industry Investment Co., Ltd., the Company's wholly-owned subsidiaries, established Hubei Midea Laundry Appliance Co., Ltd. in December 2020, holding 95% and 5% of the shares respectively.

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

5 Changes of consolidation scope (Cont'd)

(2) Changes in consolidation scope due to other reasons (Cont'd)

(a) Increase of consolidation scope (Cont'd)

WINONE ELEVATOR COMPANY LIMITED, the Company's holding subsidiary, established Guangdong Ling Mei Technology Co., Ltd. in December 2020, holding 100% of its shares.

The Company established Guangdong Midea Electromechanical Technology Co., Ltd. in December 2020, holding 100% of its shares.

KUKA Group, the Company's holding subsidiary, established KUKA Real Estate GmbH & Co. KG. in December 2020, holding 100% of its shares.

(b) Decrease of consolidation scope

Decrease of consolidation scope in the current year mainly includes deregistration of subsidiaries. Details are as follows:

Name of company	Disposal method of the equity	Disposal time-point of the equity
Wuhu Midea Washing Appliances Trade Co., Ltd.	Deregistration	January 2020
GD Midea Carfitaly Coffee Machine Manufacturing Co., Ltd.	Deregistration	March 2020
Reis SCI i. L., Pontault Combault	Deregistration	March 2020
Guangdong De Yi Jie Appliances Co., Ltd.	Change of equity	August 2020
Shandong Chang Dee Technology Development Co., Ltd.	Change of equity	August 2020
Wuhan Changdi Technology Co., Ltd.	Change of equity	August 2020
Shijiazhuang Chang Dee Technology Co., Ltd.	Change of equity	September 2020
Hangzhou Chang Dee Technology Development Co., Ltd.	Change of equity	September 2020
KUKU Industries Italia i. L., Bellusco	Deregistration	September 2020
Foshan Welling Materials Supply Co., Ltd.	Deregistration	October 2020
Hiconics Ruima Motor (Ningbo) Co., Ltd.	Change of equity	November 2020
Guizhou Chang Dee Technology Co., Ltd.	Change of equity	November 2020
Wuxi Little Swan Company Limited	Deregistration	December 2020

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

6 Interests in other entities

(1) Interests in subsidiaries

(a) Composition of significant subsidiaries

Subsidiaries	Major business location	Place of registration	Nature of business	Shareholding (%)		Acquisition method
				Direct	Indirect	
GD Midea Air-Conditioning Equipment Co., Ltd.	Foshan, PRC	Foshan, PRC	Manufacture and sales of air conditioner	73%	7%	Business combinations involving enterprises not under common control
GD Midea Group Wuhu Air-Conditioning Equipment Co., Ltd.	Wuhu, PRC	Wuhu, PRC	Manufacture and sales of air conditioner	73%	7%	Business combinations involving enterprises not under common control
Midea Group Wuhan Refrigeration Equipment Co., Ltd.	Wuhan, PRC	Wuhan, PRC	Manufacture of air conditioner	73%	7%	Establishment
Wuhu Maty Air-Conditioning Equipment Co., Ltd.	Wuhu, PRC	Wuhu, PRC	Manufacture of air conditioner	87%	13%	Establishment
Chongqing Midea Air-Conditioning Equipment Co., Ltd.	Chongqing, PRC	Chongqing, PRC	Manufacture and sales of air conditioner	95%	5%	Establishment
GD Midea Heating & Ventilating Equipment Co., Ltd.	Foshan, PRC	Foshan, PRC	Manufacture of air conditioner	90%	10%	Establishment
Zhejiang Meizhi Compressor Co., Ltd.	Ningbo, PRC	Ningbo, PRC	Manufacture of air conditioner	100%	-	Establishment
Hefei Midea Refrigerator Co., Ltd.	Hefei, PRC	Hefei, PRC	Manufacture of refrigerator	75%	25%	Business combinations involving enterprises not under common control
Hefei Hualing Co., Ltd.	Hefei, PRC	Hefei, PRC	Manufacture of refrigerator	75%	25%	Business combinations involving enterprises 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 combinations involving enterprises under common control
Wuxi Little Swan Electric Co., Ltd.	Wuxi, PRC	Wuxi, PRC	Manufacture of washing machine	100%	-	Establishment
Midea Electric Trading (Singapore) Co., Pte. Ltd.	Singapore	Singapore	Export trade	-	100%	Establishment

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

6 Interests in other entities (Cont'd)

(1) 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 Group Finance Co., Ltd.	Foshan, PRC	Foshan, PRC	Financial industry	95%	5%	Establishment
Midea Microfinance Loan Co., Ltd.	Wuhu, PRC	Wuhu, PRC	Petty loan	5%	95%	Business combinations involving enterprises not under common control
Mecca International (BVI) Limited	British Virgin Islands	British Virgin Islands	Investment holding	-	100%	Establishment
Midea International Corporation Company Limited	Hong Kong	Hong Kong	Investment holding	100%	-	Establishment
Wuhu Midea Life Appliances Mfg Co., Ltd.	Wuhu, PRC	Wuhu, PRC	Manufacture of small household appliances	100%	-	Establishment
Midea Electric Netherlands (I) B.V.	Netherlands	Netherlands	Investment holding	-	100%	Establishment
Toshiba Consumer Marketing Corporation	Japan	Japan	Manufacture of home appliances	-	100%	Business combinations involving enterprises not under common control
TLSC	Japan	Japan	Manufacture of home appliances	-	100%	Business combinations involving enterprises not under common control
KUKA	Germany	Germany	Manufacture and sales of robots	-	95%	Business combinations involving enterprises not under common control
Ningbo Midea United Materials Supply Co., Ltd.	Ningbo, PRC	Ningbo, PRC	Wholesale and retail	100%	-	Establishment
Chongqing Midea Commercial Factoring Co., Ltd.	Chongqing, PRC	Chongqing, PRC	Factoring	-	100%	Establishment
Tianjin Midea Commercial Factoring Co., Ltd.	Tianjin, PRC	Tianjin, PRC	Factoring	-	100%	Establishment
Midea Innovation Investment Co., Ltd.	Shenzhen, PRC	Shenzhen, PRC	Investment holding	85%	15%	Establishment

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

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:

	2020	2019
Aggregated carrying amount of investments	2,901,337	2,790,806
Aggregate of the following items in proportion		
Net profit (i)	402,528	506,225
Other comprehensive income (i)	(20,445)	(9,378)
Total comprehensive income	382,083	496,847

(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 associates and the unification of accounting policies adopted by 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 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 determined by reference to selling prices for third parties.

The assets are allocated based on the operations of the segments and the physical locations of the assets. The liabilities are allocated based on the operations of the segments. 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, R&D expenses and financial income.

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

8 Segment reporting

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

Segment information as at and for the year ended 31 December 2020 is as follows:

	Heating & ventilation, as well as air-conditioner	Consumer appliances	Robotics and automation system	Other segments and unallocated	Elimination	Total
Revenue from external customers	137,750,899	120,229,314	21,743,789	5,985,727	-	285,709,729
Inter-segment revenue	2,969,649	417,949	174,762	7,504,091	(11,066,451)	-
Operating expenses	(127,623,183)	(107,643,923)	(23,045,690)	(11,197,652)	10,758,011	(258,752,437)
Segment profit	13,097,365	13,003,340	(1,127,139)	2,292,166	(308,440)	26,957,292
Other profit or loss						4,706,247
Total profit						31,663,539
Total assets	141,224,648	126,922,410	34,082,837	174,557,282	(116,404,574)	360,382,603
Total liabilities	100,386,504	100,604,599	24,094,633	150,399,172	(139,339,405)	236,145,503
Long-term equity investment in associates	240,925	124,128	31,877	2,504,407	-	2,901,337
Investment income from associates	115,265	12,692	(19,464)	294,035	-	402,528
Increase in non-current assets (excluding long-term equity investments, financial assets, goodwill and deferred tax assets)	2,958,978	1,558,622	1,872,743	352,374	-	6,742,717
Asset impairment losses	22,389	252,621	424,710	5,489	-	705,209
(Reversal of)/losses on credit impairment	(11,271)	(79,131)	25,641	311,653	713	247,605
Depreciation and amortisation	1,660,118	1,629,611	1,104,376	626,151	-	5,020,256

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

8 Segment reporting (Cont'd)

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

Segment information as at and for the year ended 31 December 2019 is as follows:

	Heating & ventilation, as well as air-conditioner	Consumer appliances	Robotics and automation system	Other segments 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						29,929,114
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 investment in 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 long-term equity investments, financial assets, goodwill and deferred tax 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 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

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

8 Segment reporting (Cont'd)

(b) Geographical area information

The Group's revenue from external customers domestically and in foreign countries or geographical areas, and the total non-current assets other than 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	2020	2019
Domestic	164,628,321	162,596,802
In other countries/geographical areas	121,081,408	116,783,704
	285,709,729	279,380,506

Total non-current assets	31 December 2020	31 December 2019
Domestic	24,258,048	22,206,308
In other countries/geographical areas	17,715,088	18,395,469
	41,973,136	40,601,777

In 2020 and 2019, 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 2020 and 31 December 2019
Midea Holding Co., Ltd.	330,000

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

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

(1) Information of the parent company (Cont'd)

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

	31 December 2020			31 December 2019		
	Shareholding (%)		Voting rights	Shareholding (%)		Voting rights
	Direct	Indirect	(%)	Direct	Indirect	(%)
Midea Holding Co., Ltd.	30.86%	-	30.86%	31.73%	-	31.73%

(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 Technoloy 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.

(a) Purchase of goods:

Related parties	Content of related party transactions	Pricing policies of related party transactions	2020	2019
Guangdong Wellkey Electrician Material Co., Ltd.	Purchase of goods	Agreed price	708,793	851,608
Foshan Micro Midea Filter Mfg. Co., Ltd.	Purchase of goods	Agreed price	312,860	298,143
Anhui Wellkey Electrician Material Co., Ltd.	Purchase of goods	Agreed price	242,408	312,038
Orinko New Material Co., Ltd.	Purchase of goods	Agreed price	1,238,817	1,159,702
			2,502,878	2,621,491

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

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

(4) Information of related party transactions (Cont'd)

(b) Sales of goods

Related parties	Content of related party transactions	Pricing policies of related party transactions	2020	2019
Guangdong Ruizhu Intelligent Technoloy Co., Ltd.	Sales of goods	Agreed price	198,903	105,382

(c) Investment income and interest income

	2020	2019
Guangdong Shunde Rural Commercial Bank Co., Ltd.	130,457	78,696

(d) Remuneration of key management

	2020	2019
Remuneration of key management	76,940	57,800

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

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

(5) Receivables from and payables to related parties

Receivables from related parties:

Items	Related parties	31 December 2020	31 December 2019
Cash at bank and on hand, and other debt investments	Guangdong Shunde Rural Commercial Bank Co., Ltd.	3,653,592	3,058,300

Payables to related parties:

Items	Related parties	31 December 2020	31 December 2019
Accounts payable	Guangdong Wellkey Electrician Material Co., Ltd.	133,290	201,956
	Foshan Micro Midea Filter Mfg. Co., Ltd.	62,837	68,258
	Anhui Wellkey Electrician Material Co., Ltd.	53,889	60,373
	Orinko New Material Co., Ltd.	218,888	80,121
	Sub-total	468,904	410,708
Notes payable	Guangdong Wellkey Electrician Material Co., Ltd.	52,246	-
	Total	521,150	410,708

10 Share-based payment

(1) Share option incentive plan

(a) Pursuant to the seventh share option incentive plan (the "Seventh Share Option Incentive Plan") approved at the 2019 annual shareholders' meeting in 2020, the Company granted 65,180,000 share options with exercise price of RMB 50.43 to 1,423 employees. Under the circumstance that the Company meets expected performance, 1/3 of the total share options granted will become effective after 1 year, 2 years and 3 years respectively since 5 June 2020.

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

Exercise price of options:	RMB 50.43
Effective period of options:	4 years
Current price of underlying shares:	RMB 58.95
Estimated fluctuation rate of share price:	35.67%
Estimated dividend rate:	3.13%
Risk-free interest rate within effective period of options:	2.06%

The fair value of the Seventh Share Option Incentive Plan calculated pursuant to the above parameters is: RMB 1,001,164,000.

(b) Movements in share options during the year

	2020 (Share in thousands)
Share options issued at the beginning of the year	182,905
Share options granted during the year	65,180
Share options exercised during the year	(63,801)
Share options lapsed during the year	(16,053)
Share options issued at the end of the year	168,231

As at 31 December 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. The residual contractual maturity date of the Seventh Share Option Incentive Plan is 4 June 2024.

10 Share-based payment (Cont'd)

(2) Restricted share plan

(a) Pursuant to the restricted shares incentive plan for 2020 approved at the 2019 annual shareholders' meeting in 2020 (the "Restricted Shares Incentive Plan for 2020"), the Company granted 33,245,000 restricted shares with exercise price of RMB 24.42 to 506 employees. Under the circumstance that the Company meets expected performance, 1/3 of the total restricted shares granted will be unlocked after 1 year, 2 years and 3 years respectively, since 5 June 2020. The listing date for the granted restricted shares of this plan is 14 July 2020.

(b) Movements in restricted shares during the year

	2020 (Share in thousands)
Restricted shares issued at the beginning of the year	57,139
Restricted shares granted during the year	33,245
Restricted shares unlocked during the year	(10,577)
Restricted shares lapsed during the year	(5,725)
Restricted shares issued at the end of the year	74,082

(3) Employee stock ownership plan

Pursuant to the sixth stock ownership plan of the Midea Global Partner Plan (the "Sixth Global Partner Plan") approved at the shareholders' meeting for the year ended 31 December 2019 held during the year 2020, the Company would purchase a total of 3,537,663 shares of Midea Group from the secondary market, with an average purchase price of RMB 52.04 per share and the purchase fund was the special fund of approximately RMB 184,100,000 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 14 July 2020 to 13 July 2021.

Pursuant to the second stock ownership plan of the Midea Business Partner Plan (the "Third Business Partner Plan") approved at the shareholders' meeting for the year ended 31 December 2019 held during the year 2020. The Company would purchase a total of 1,873,559 shares of Midea Group from the secondary market, with an average purchase price of RMB 52.04 per share. The purchase fund was the special fund and part of performance bonus for management of RMB 97,500,000 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 17 July 2020 to 16 July 2021.

(4) The total expenses due to the above share-based payment incentive plan, which were granted, recognised for the year ended 31 December 2020 were RMB 1,077,550,000 (2019: RMB 815,598,000). As at 31 December 2020, the balance relating to the share-based payment incentive plan and accrued from capital surplus was RMB 1,414,842,000 (31 December 2019: RMB 1,443,942,000).

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

11 Contingencies

As at 31 December 2020, the amount in tax disputes involving Brazilian subsidiary with 51% interests held by the Company is about BRL 670 million (equivalent to RMB 841 million) (Some cases have lasted for more than 10 years. The above amount includes the principal and interest). As at 31 December 2020, 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 197 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 2020	31 December 2019
Buildings, machinery and equipment	2,896,245	1,433,420

(2) Operating lease commitments

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

13 Events after the balance sheet date

(1) Business acquisition

On 2 February 2021, the Group acquired 29.09% equity of Beijing Wandong Medical Technology Co., Ltd. by agreement, with a purchase price of approximately RMB 2,297 million. As at the date on which the financial statements were authorised for issue, the acquisition had not been completed yet.

(2) Repurchased shares

Pursuant to the *Proposal on the Scheme for the Repurchase of Certain Social Public Shares* approved at the twenty-ninth meeting of the third Board of Directors dated 23 February 2021, 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 50 million to 100 million and purchase price not exceeding RMB 140 per share. 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 100 million shares, and purchase price was RMB 8.7 billion.

(3) Overview of profit distribution

On 28 April 2021, on the basis of the total shares 6,916,495,109 to be distributed (total existing 7,047,686,070 shares net of repurchased 131,190,961 shares) of the Company, the Board of Directors proposed a distribution of cash dividends of approximately RMB 11,066,392,000 at RMB 16 every 10 shares (including tax). Such proposal is pending for approval at the shareholders' meeting. The distribution of cash dividends proposed after the balance sheet date is not recognised as liabilities at the balance sheet date.

14 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.

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.

14 Financial risk (Cont'd)

(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 2020, the Group's long-term interest bearing borrowings at floating rates amounting to RMB 933,886,000 (31 December 2019: RMB 971,090,000) (Note 4(35)).

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 costs 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 2020, 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 4,669,000.

(c) Other price risk

The Group's other price risk arises mainly from financial assets held for trading (Note 4(2)), other non-current financial assets (Note 4(15)) and investments in other equity instruments measured at fair value. As at 31 December 2020, if expected price of the investments held by the Group fluctuated, the Group's gains or losses on changes in fair value and other comprehensive income would be affected accordingly.

As at 31 December 2020, 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 567,581,000 (31 December 2019: RMB 283,746,000), and an increase or decrease other comprehensive income amounting to RMB 4,665,000 (31 December 2019: Nil).

14 Financial risk (Cont'd)

(2) Credit risk

Credit risk is managed on the grouping basis. Credit risk mainly arises from cash at bank and on hand, deposits with the Central Bank, deposits with banks and other financial institutions, notes receivable, accounts receivable, receivables financing, loans and advances, other receivables, contract assets, other debt investments and derivative financial assets at fair value through profit or loss that are not included in the impairment assessment scope.

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, contract assets, loans and advances, other receivables, monetary investments in other current assets and other debt investments. 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 2020, the Group had no significant collateral or other credit enhancements held as a result of the debtor's mortgage (31 December 2019: Nil).

(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 2020, monetary assets held by the Group, including cash at bank and on hand, notes receivable, notes receivable included in loans and advances, notes receivable included in receivables financing, wealth management funds and structural deposits included in financial assets held for trading and monetary investments included in other current assets amounted to RMB 155,886,115,000.

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

14 Financial risk (Cont'd)

(3) Liquidity risk (Cont'd)

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

	31 December 2020				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Short-term borrowings (including interest)	10,033,656	-	-	-	10,033,656
Customer deposits and deposits from banks and other financial institutions (including interest)	87,596	-	-	-	87,596
Notes payable	28,249,939	-	-	-	28,249,939
Accounts payable	53,930,261	-	-	-	53,930,261
Other payables	4,501,391	-	-	-	4,501,391
Derivative financial liabilities	161,225	-	-	-	161,225
Other current liabilities (including interest)	18,661,350	-	-	-	18,661,350
Current portion of non-current liabilities (including interest)	6,355,016	-	-	-	6,355,016
Long-term borrowings (including interest)	557,805	31,435,123	12,002,785	-	43,995,713
Long-term payables	-	8,870	4,390	-	13,260
Other non-current liabilities	-	-	692,986	-	692,986
	122,538,239	31,443,993	12,700,161	-	166,682,393

	31 December 2019				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Short-term borrowings (including interest)	5,840,214	-	-	-	5,840,214
Customer deposits and deposits from banks and other financial institutions (including interest)	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
	91,041,273	4,455,011	38,335,768	-	133,832,052

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

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 2020, 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	2,324,965	25,914,636	-	28,239,601
Derivative financial assets	-	420,494	-	420,494
Receivables financing	-	13,901,856	-	13,901,856
Other current assets - hedging instruments	-	767,934	-	767,934
Other debt investments	-	21,456,155	-	21,456,155
Investments in other equity instruments	-	-	46,651	46,651
Other non-current financial assets	-	-	3,360,849	3,360,849
Total assets	2,324,965	62,461,075	3,407,500	68,193,540
Financial liabilities measured at fair value -				
Derivative financial liabilities	-	161,225	-	161,225
Other financial liabilities - hedging instruments	-	19,511	-	19,511
Total liabilities	-	180,736	-	180,736

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

15 Fair value estimates (Cont'd)

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

As at 31 December 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
Other current assets - structural deposits	-	50,557,518	-	50,557,518
Other non-current financial assets	-	-	1,750,107	1,750,107
Total assets	1,087,351	58,419,278	1,750,107	61,256,736
Financial liabilities measured at fair value -				
Derivative financial liabilities	-	27,100	-	27,100
Other financial liabilities - hedging instruments	-	32	-	32
Total liabilities	-	27,132	-	27,132

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.

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

15 Fair value estimates (Cont'd)

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

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

The changes in Level 3 financial assets are analysed below:

	Financial assets held for trading, investments in other equity instruments and other non-current financial assets
1 January 2020	1,750,107
Increase	1,872,884
Decrease	(63,570)
Transfer out of Level 3	(226,060)
Total gains of current period	
Investment income recognised in the income statement	181,583
Gains recognised in other comprehensive income	(107,444)
31 December 2020	3,407,500

	Financial assets held for trading and other non-current financial assets
1 January 2019	2,315,705
Increase	4,232,805
Decrease	(5,274,444)
Transfer out of Level 3	(56,340)
Total gains of current period	
Investment income recognised in the income statement	509,578
Gains recognised in other comprehensive income	22,803
31 December 2019	1,750,107

(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.

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

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, contract assets, loans and advances, other receivables, other current assets (excluding those mentioned in Note 15(1)), notes payable, accounts payable, contract liabilities, short-term borrowings, 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 financial assets and financial liabilities measured at amortised cost as at 31 December 2020 and 31 December 2019 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 2020 and 31 December 2019, the Group's gearing ratio was as follows:

	31 December 2020	31 December 2019
Total liabilities	236,145,503	194,459,322
Total assets	360,382,603	301,955,419
Gearing ratio	65.53%	64.40%

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

17 Notes to the parent company's financial statements

(1) Other receivables

	31 December 2020	31 December 2019
Other receivables	28,332,268	18,377,123
Less: Provision for bad debts	(13,598)	(7,258)
	28,318,670	18,369,865

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

	31 December 2020	31 December 2019
Within 1 year	28,205,960	18,356,942
1 to 2 years	125,127	19,000
Over 2 years	1,181	1,181
	28,332,268	18,377,123

(b) Provision for bad debts and changes in book balance statements:

	Stage 1				Stage 3		
	12-month ECL (Grouping)		12-month ECL (Individual)		Lifetime ECL (Credit impaired)		Sub-total
	Book balance	Provision for bad debts	Book balance	Provision for bad debts	Book balance	Provision for bad debts	Provision for bad debts
31 December 2019	732,508	7,200	17,644,557	-	58	58	7,258
Transfer to Stage 3 in the current year	-	-	-	-	-	-	-
Net (decrease)/increase in the current year	(308,992)	6,340	10,264,137	-	-	-	6,340
Including: Written-off in the current year	-	-	-	-	-	-	-
Derecognition	-	-	-	-	-	-	-
31 December 2020	423,516	13,540	27,908,694	-	58	58	13,598

As at 31 December 2020 and 31 December 2019, the Company did not have other receivables in Stage 2.

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

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

(1) Other receivables (Cont'd)

(c) As at 31 December 2020 and 31 December 2019, other receivables of the Company at Stage 1 and Stage 3 were analysed as follows:

(i) As at 31 December 2020, 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 following 12 months	Provision for bad debts	Reason
Stage 1	27,908,694	0%	-	Relatively low expected loss risk

	Book balance	ECL rate in the following 12 months	Provision for bad debts	Reason
Stage 3	58	100.00%	(58)	The debtor encountered financial distress, etc.

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 following 12 months	Provision for bad debts	Reason
Stage 1	17,644,557	0%	-	Relatively low expected loss risk

	Carrying amount	ECL rate in the following 12 months	Provision for bad debts	Reason
Stage 3	58	100.00%	(58)	The debtor encountered financial distress, etc.

(ii) As at 31 December 2020 and 31 December 2019, other receivables of which provision for bad debts was calculated on grouping basis were all in Stage 1, which was analysed as follows:

	31 December 2020			31 December 2019		
	Book balance	Provision for bad debts		Book balance	Provision for bad debts	
	Amount	Amount	Provision ratio	Amount	Amount	Provision ratio
Security deposit/guarantee payables grouping	423,516	(13,540)	3.20%	732,508	(7,200)	0.98%

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

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

(1) Other receivables (Cont'd)

(d) As at 31 December 2020, the five largest other receivables aggregated by debtors were analysed as follows:

	Nature	Balance	Ageing	% of total balance	Provision for bad debts
Company A	Current accounts	23,260,000	Within 1 year	82.10%	-
Company B	Current accounts	2,141,890	Within 1 year	7.56%	-
Company C	Current accounts	952,572	Within 1 year	3.36%	-
Company D	Current accounts	787,000	Within 1 year	2.78%	-
Company E	Current accounts	230,309	Within 1 year	0.81%	-
		27,371,771		96.61%	-

(2) Long-term equity investments

Long-term equity investments are classified as follows:

	31 December 2020	31 December 2019
Subsidiaries (a)	53,320,578	51,025,905
Associates (b)	1,670,583	1,579,954
	54,991,161	52,605,859
Less: Provision for impairment	-	-
	54,991,161	52,605,859

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

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

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

(a) Subsidiaries

		Movements in the current year						
	31 December 2019	Increase in investment	Decrease in investment	Provision for impairment	Others	31 December 2020	Provision for impairment loss Ending balance	Cash dividends attributable to the parent company declared in the current year
Little Swan	20,117,836	-	-	-	76,404	20,194,240	-	-
Guangdong Midea Electric Co., Ltd.	5,000,000	-	-	-	-	5,000,000	-	-
Midea Group Finance Co., Ltd.	3,358,112	-	-	-	2,465	3,360,577	-	-
Foshan Shunde Midea Household Appliances Industry Co., Ltd.	2,949,000	-	-	-	-	2,949,000	-	-
Guangdong Midea Microwave Oven Manufacturing Co., Ltd.	1,880,041	-	-	-	-	1,880,041	-	-
GD Midea Air-Conditioning Equipment Co., Ltd.	1,662,637	-	-	-	129,533	1,792,170	-	405,835
Guangdong Midea Consumer Electric Manufacturing Co., Ltd.	1,109,106	-	-	-	37,036	1,146,142	-	-
Hefei Midea Heating & Ventilation Equipment Co., Ltd.	1,071,459	-	-	-	4,794	1,076,253	-	1,499,310
Guangdong Midea Intelligent Technologies Co., Ltd.	1,051,011	-	-	-	2,473	1,053,484	-	-
Midea Group (Shanghai) Co., Ltd.	-	900,000	-	-	3,368	903,368	-	-
Hubei Midea Refrigerator Co., Ltd.	847,490	-	-	-	7,513	855,003	-	-
Anhui Meizhi Precision Manufacturing Co., Ltd.	823,738	-	-	-	3,865	827,603	-	-
GD Midea Heating & Ventilating Equipment Co., Ltd.	700,228	-	-	-	79,900	780,128	-	1,045,319
Wuhu Maty Air-Conditioning Equipment Co., Ltd.	757,331	-	-	-	7,109	764,440	-	1,596,658
Annto Logistics Technology Co., Ltd.	485,328	245,631	-	-	11,725	742,684	-	157,417
Hefei Midea Refrigerator Co., Ltd.	512,920	-	-	-	19,128	532,048	-	-
Ningbo Midea United Materials Supply Co., Ltd.	495,419	-	-	-	2,448	497,867	-	656,827
GD Midea Group Wuhu Air-Conditioning Equipment Co., Ltd.	352,041	-	-	-	20	352,061	-	-
Hefei Hualing Co., Ltd.	212,852	-	-	-	52,778	265,630	-	-
Midea International Corporation Company Limited	176,974	-	-	-	-	176,974	-	-
Wuhu Midea Kitchen & Bath Appliances Mfg. Co., Ltd.	161,185	-	-	-	11,427	172,612	-	976,385
Midea Group Wuhan Refrigeration Equipment Co., Ltd.	102,959	-	-	-	7,368	110,327	-	268,823
Chongqing Midea Air-Conditioning Equipment Co., Ltd.	77,820	-	-	-	6,133	83,953	-	511,843
Zhejiang Meizhi Compressor Co., Ltd.	65,654	-	-	-	626	66,280	-	857,440
Wuhu Midea Life Appliances Mfg Co., Ltd.	56,223	-	-	-	-	56,223	-	-
Others	6,998,541	214,498	(13,000)	-	481,431	7,681,470	-	3,379,569
	51,025,905	1,360,129	(13,000)	-	947,544	53,320,578	-	11,355,426

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

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

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

(b) Associates

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 Company.

(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

	2020	2019
Income from long-term equity investments under cost method	11,355,426	9,637,326
Investment income from wealth management products purchased from financial institutions	-	91,359
Investment income from holding of financial assets held for trading	1,063,774	-
Investment income from associates	216,318	272,089
Others	(57,063)	383,692
	12,578,455	10,384,466

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

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

1 Details of non-recurring profit or loss

	2020	2019
Gains or losses on disposal of non-current assets	(52,424)	(131,131)
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, 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.	2,204,165	676,430
Others (mainly including government grants, compensation income, penalty income and other non-operating income and expenses)	1,378,105	1,347,788
	3,529,846	1,893,087
Less: Effect of income tax	(765,871)	(394,095)
Effect of minority interests (after tax)	(155,659)	(12,162)
	2,608,316	1,486,830

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.

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

2 Return on net assets and earnings per share

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

	Weighted average Return on net assets (%)		Earnings per share (in RMB Yuan)			
			Basic earnings per share		Diluted earnings per share	
	2020	2019	2020	2019	2020	2019
Net profit attributable to shareholders of the Company	24.95%	26.43%	3.93	3.60	3.90	3.58
Net profit attributable to shareholders of the Company net of non-recurring profit or loss	22.56%	24.80%	3.55	3.38	3.53	3.36

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2020) No. 10017
(Page 1 of 6)

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

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

Recognition of revenue from sales of household appliances

Please refer to Note 2(26)(a) "Revenue - sales of goods" and Note 4(42) "Operating revenue" to the financial statements.

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

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

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

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

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

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

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;

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.;

3. We checked the amount of revenue by sending confirmations to customers on a sampling basis;

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.

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

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Key Audit Matters (Cont'd)	How our audit addressed the Key Audit Matters
Impairment testing of goodwill Please refer to Note 4(17) "Goodwill" to the financial statements. 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 & 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. 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.	Regarding the impairment testing of goodwill arising from the acquisition of KUKA Group and TLSC, we performed the procedures as followings: 1. We understood and evaluated the internal controls relevant to the impairment testing of goodwill, and tested the operating effectiveness of key control, including review and approval of key assumptions applied and internal control of calculation of the recoverable amounts of the asset groups containing the allocated goodwill. 2. We evaluated the appropriateness of methodologies of impairment testing of goodwill adopted by management with the assistance of internal valuers, and evaluated and recalculated the discount rates adopted in the test by comparing industry or market data; 3. We tested the accuracy of arithmetic applied in the calculating process during the impairment testing of goodwill; 4. We evaluated the accuracy of historical estimates on future cash flows by comparing the actual financial performance of current year with the forecasts of prior year, so as to check whether there was any bias from management during the evaluation of the impairment testing of goodwill; 5. We evaluated the reasonableness of key assumptions on expected revenue growth rates, EBITDA margins, perpetual annual growth rates, discount rates, etc. adopted in the impairment testing of goodwill by interviewing with management and considering the market developments. We concluded that the audit evidence we have obtained could support the accounting estimates and judgement applied by management in the evaluation of impairment testing of goodwill based on the audit procedures performed.

Other Information

Management of the Group is responsible for the other information. Other information comprises all the information included in the 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	

		Huang MeiMei (Engagement Partner)
Shanghai , the People's Republic of China 28 April 2020	Signing CPA	

		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 2019 Consolidated	31 December 2018 Consolidated	31 December 2019 Company	31 December 2018 Company
Current assets					
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
Total current assets		216,482,692	182,689,438	113,363,682	82,061,971
Non-current assets					
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
Total non-current assets		85,472,727	81,011,710	60,019,950	31,056,907
TOTAL ASSETS		301,955,419	263,701,148	173,383,632	113,118,878

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]

LIABILITIES AND OWNERS' EQUITY	Note	31 December 2019 Consolidated	31 December 2018 Consolidated	31 December 2019 Company	31 December 2018 Company
Current liabilities					
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
Total current liabilities		144,318,484	130,231,088	109,820,708	76,187,557
Non-current liabilities					
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	-	-
Total non-current liabilities		50,140,838	41,015,543	4,059,032	-
Total liabilities		194,459,322	171,246,631	113,879,740	76,187,557
Shareholders' equity					
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	-	-
Total shareholders' equity		107,496,097	92,454,517	59,503,892	36,931,321
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		301,955,419	263,701,148	173,383,632	113,118,878

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

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

MIDEA GROUP CO., LTD.

CONSOLIDATED AND COMPANY INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

Item	Note	2019 Consolidated	2018 Consolidated	2019 Company	2018 Company
Total revenue		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
Operating profit		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)
Total profit		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
Net profit		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 Consolidated	2018 Consolidated	2019 Company	2018 Company
Other comprehensive income, net of tax		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)	-	-
Total comprehensive income		25,625,184	20,434,594	13,681,334	11,941,198
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	-	-
Earnings per share					
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 Consolidated	2018 Consolidated	2019 Company	2018 Company
1. Cash flows from operating activities					
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
Sub-total of cash inflows		252,123,178	226,341,706	30,809,036	19,248,174
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)
Sub-total of cash outflows		(213,532,774)	(198,480,626)	(7,004,162)	(3,387,630)
Net cash flows from operating activities	4(57)(c)	38,590,404	27,861,080	23,804,874	15,860,544
2. Cash flows from investing activities					
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	-	-
Sub-total of cash inflows		89,004,610	67,998,046	69,734,131	38,392,920
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)	-	-
Sub-total of cash outflows		(112,112,311)	(86,640,334)	(89,067,063)	(60,309,290)
Net cash flows from investing activities		(23,107,701)	(18,642,288)	(19,332,932)	(21,916,370)
3. Cash flows from financing activities					
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
Sub-total of cash inflows		20,015,594	5,237,681	13,837,054	3,098,273
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)
Sub-total of cash outflows		(23,289,195)	(18,624,845)	(16,082,280)	(12,839,056)
Net cash flows from financing activities		(3,273,601)	(13,387,164)	(2,245,226)	(9,740,783)
4. Effect of foreign exchange rate changes on cash and cash equivalents		280,376	289,001	-	-
5. Net increase/(decrease) in cash and cash equivalents		12,489,478	(3,879,371)	2,226,716	(15,796,609)
Add: Cash and cash equivalents at beginning of year		17,952,282	21,831,653	10,181,934	25,978,543
6. Cash and cash equivalents at end of year	4(57)(d)	30,441,760	17,952,282	12,408,650	10,181,934

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

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

MIDEA GROUP CO., LTD.

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

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

Item	Equity attributable to shareholders of the Company								
	Share capital (Note 4(35))	Capital surplus (Note 4(37))	Less: Treasury stock (Note 4(36))	Other comprehensive income	General reserve	Surplus reserve	Undistributed profits	Minority interests	Total shareholders' equity
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

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								
	Share capital (Note 4(35))	Capital surplus (Note 4(37))	Less: Treasury stock (Note 4(36))	Other comprehensive income	General reserve	Surplus reserve	Undistributed profits	Minority interests	Total shareholders' equity
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

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	Surplu sreserve	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

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

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).

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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)).

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

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.

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

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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:

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.

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

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.

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

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
			Financial assets held for trading	Fair value through profit or loss	10,429
Other current assets	Fair value through other comprehensive income (hedging instruments)	38,822	Other current assets	Fair value through other comprehensive income	38,822
	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
	Amortised cost (structural deposits)	70,402,509	Other current assets	Amortised cost	70,402,509
Derivative financial assets	Fair value through profit or loss	220,197	Derivative financial assets	Fair value through profit or loss	220,197
Loans and advances	Amortised cost	11,328,392	Loans and advances	Amortised cost	11,328,392
Long-term receivables	Amortised cost	34,815	Long-term receivables	Amortised cost	34,815
Available-for-sale financial assets	Fair value through other comprehensive income (equity instruments) (Note)	1,184,859	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.

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

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
Other current assets	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
	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

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

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	27,888,280	15,361,626
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	32,687,272	11,593,020
Loans and advances		
31 December 2018	11,328,392	-
Less: Disclosure and measurement under the new financial instruments standards	-	-
1 January 2019	11,328,392	-
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	70,402,509	53,164,300
Total financial assets measured at amortised cost (under the new financial instruments standards) as at 1 January 2019	142,306,453	80,118,946

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

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	2,654,045	1,521,007
Derivative financial instruments		
31 December 2018	220,197	-
Less: Disclosure and measurement under the new financial instruments standards	-	-
1 January 2019	220,197	-
Other non-current financial assets		
31 December 2018	-	-
Add: Transferred from available-for-sale financial assets	784,269	56,579
1 January 2019	784,269	56,579
Total financial instruments at fair value through profit or loss (under the new financial instruments standards) as at 1 January 2019	3,658,511	1,577,586

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

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	2,254,950	-
Other current assets - Hedging instruments		
31 December 2018	38,822	-
Less: Disclosure and measurement under the new financial instruments standards	-	-
1 January 2019	38,822	-
Total financial instruments at fair value through profit or loss (under the new financial instruments standards) as at 1 January 2019	2,293,772	-

(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	1,181,132	(2,287)	-	1,178,845

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

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%

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

3 **Taxation (Cont'd)**

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

(a) Notes to the 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 *High-tech Enterprise Certificate*	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 Refrigerat or 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

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

3 Taxation (Cont'd)

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

(a) Notes to the 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 *High-tech Enterprise Certificate*	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%.

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.

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

3 Taxation (Cont'd)

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

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

(b-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	——
	70,916,841	27,888,280

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

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

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 2019	1 January 2019	31 December 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 2019	1 January 2019	31 December 2018
Bank acceptance notes	4,768,520	11,049,539	12,556,294
Less: Provision for bad debts	-	-	-
	4,768,520	11,049,539	12,556,294

(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 2019	1 January 2019	31 December 2018
Accounts receivable	19,631,644	19,624,088	20,372,283
Less: Provision for bad debts	(967,825)	(982,109)	(982,109)
	18,663,819	18,641,979	19,390,174

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

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 2019	1 January 2019	31 December 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
	19,631,644	19,624,088	20,372,283

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 ECL rate	Provision for bad debts	Reason
Domestic customers	2,998	100%	(2,998)	The debtor encountered financial difficulties
Overseas customers	4,767	100%	(4,767)	
	7,765		(7,765)	

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 ECL rate	Amount
Domestic business grouping	7,908,831	5.53%	(437,578)
Overseas business grouping	11,715,048	4.46%	(522,482)
	19,623,879		(960,060)

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

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 bad debts	% of total balance
Total amount of the five largest accounts receivable	2,021,879	(47,562)	10.30%

(5) Other receivables

	31 December 2019	1 January 2019	31 December 2018
Other receivables	2,766,098	3,003,669	3,014,098
Less: Provision for bad debts	(53,124)	(42,730)	(42,730)
	2,712,974	2,960,939	2,971,368

(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 2019	1 January 2019	31 December 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
	2,766,098	3,003,669	3,014,098

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

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 3		
	12-month ECL (Grouping)		12-month ECL (Individual)		Lifetime ECL (Credit impaired)		Sub-total
	Book balance	Provision for bad debts	Book balance	Provision for bad debts	Book balance	Provision for bad debts	Provision for bad debts
31 December 2018	2,844,783	42,730	169,315	-	-	-	42,730
Changes in accounting 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 in current year	(128,884)	8,511	(108,212)	-	(475)	1,809	10,320
Including: Written-off in current year	-	-	-	-	(475)	(475)	(475)
Derecognition	-	-	-	-	-	-	-
Differences on translation of foreign currency financial statements	-	59	-	-	-	15	74
31 December 2019	2,701,638	49,767	61,103	-	3,357	3,357	53,124

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 following 12 months	Provision for bad debts	Reason
Stage 1	61,103	0%	-	Relatively low bad debt risks

	Book balance	ECL rate in the following 12 months	Provision for bad debts	Reason
Stage 3	3,357	100%	(3,357)	The debtor encountered financial difficulties

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

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	-

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

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	2,246,177	2,215,888

(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%
	2,246,177	100.00%	2,215,888	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	494,085	22.00%

(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	(158,919)	(154,006)
	11,659,497	11,328,392

As at 31 December 2019, loans and advances to customers over 1 year amounted to RMB 790,101,000 (31 December 2018: Nil).

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

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
	11,818,416	11,482,398
Less: Provision for bad debts	(158,919)	(154,006)
	11,659,497	11,328,392

(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 balance	Provision for declines in the value of inventories	Carrying amount	Book balance	Provision for declines in the value of inventories	Carrying 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 processing material	219,542	-	219,542	239,741	-	239,741
Low value consumables	38,185	-	38,185	38,763	-	38,763
Projects completed but unsettled	4,009,176	-	4,009,176	3,924,807	-	3,924,807
	32,918,872	(475,473)	32,443,399	30,025,862	(380,844)	29,645,018

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

	31 December 2018	Increase in current year	Decrease in current year	Differences on translation of foreign currency financial statements	31 December 2019
		Provision	Reversal or 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
	380,844	323,235	(233,565)	4,959	475,473

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

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
	65,011,027	74,952,820	76,473,827

(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	-	-
	1,208,079	34,815

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	-	-
	2,790,806	2,713,316

(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.

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

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

(13) Other non-current financial assets

	31 December 2019	1 January 2019	31 December 2018
Measured at fair value			
- Equity of unlisted companies	1,750,107	784,269	——

(14) Fixed assets

	Buildings	Overses land	Machinery and equipment	Motor vehicles	Electronic equipment and others	Total
Cost						
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 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 foreign currency financial 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
Accumulated depreciation						
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 foreign currency financial 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
Provision for impairment loss						
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 foreign currency financial statements	98	58	241	4	17	418
31 December 2019	6,746	5,907	17,713	210	8,911	39,487
Carrying amount						
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).

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

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

(15) Construction in progress

(a) Movement of significant projects of construction in progress

	31 December 2018 Carrying amount	Increase in current year	Transfer to fixed assets in current year	Transfer to long-term receivables in current year	Differences on translation of foreign currency financial statements	31 December 2019 Carrying amount	Accumulative amount of capitalised borrowing costs	Including: Borrowing costs capitalised in current year	Capitalisation rate of borrowing costs in current year	Source of funds
Kuka Toledo Production Operations	1,152,820	151,170	-	(1,285,005)	(18,985)	-	-	-	-	Self-financing
Media Kuka Intelligent Manufacturing Plant	173,549	51,102	(224,651)	-	-	-	-	-	-	Self-financing
Indian Science & 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
	2,077,621	1,136,848	(688,542)	(1,310,424)	(20,853)	1,194,650	-	-	-	

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.

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

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

(16) Intangible assets

	Land use rights	Patents and non-patent technologies	Trademark rights	Trademark use rights	Others	Total
Cost						
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 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
Accumulated amortisation						
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 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
Provision for impairment loss						
31 December 2018	-	10,951	-	-	1,187	12,138
Differences on translation of foreign currency financial statements	-	461	-	-	44	505
31 December 2019	-	11,412	-	-	1,231	12,643
Carrying amount						
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
	28,759,313	29,100,390
Less: Provision for impairment	(552,248)	-
	28,207,065	29,100,390

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

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
	35,324,111	7,297,558	26,299,361	5,821,365
Including:				
Expected to be recovered within one year (inclusive)		6,073,311		4,755,720
Expected to be recovered after one year		1,224,247		1,065,645
		7,297,558		5,821,365

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

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
	22,257,374	6,084,567	20,892,027	5,822,126
Including:				
Expected to be recovered within one year (inclusive)		1,145,971		1,194,871
Expected to be recovered after one year		4,938,596		4,627,255
		6,084,567		5,822,126

(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
	4,947,603	550,352

(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.

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

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

(21) Details of provision for asset impairments

	31 December 2018	Changes in accounting policies	1 January 2019	Increase in current year	Decrease in current year		Differences on translation of foreign currency financial statements	31 December 2019
					Reversal	Charge-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 accounts receivable	982,109	-	982,109	215,902	(145,990)	(97,348)	13,152	967,825
Provision for bad debts of loans and advances	154,006	-	154,006	68,617	(52,878)	(10,826)	-	158,919
Provision for bad debts of other receivables	42,730	-	42,730	19,276	(8,481)	(475)	74	53,124
Provision for decline in the value of inventories	380,844	-	380,844	323,235	(12,040)	(221,525)	4,959	475,473
Provision for impairment of available-for-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 assets	12,138	-	12,138	-	-	-	505	12,643
Provision for impairment of investment properties	12,576	-	12,576	-	-	-	-	12,576
Provision for impairment of goodwill	-	-	-	552,248	-	-	-	552,248
	1,619,971	(2,287)	1,617,684	1,187,744	(219,389)	(332,852)	19,108	2,272,295

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

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 (Note 4(1))	153,022	123,197
Legal reserves with the Central Bank (Note 4(1))	433,149	1,126,172
Deposits with banks and other financial institutions (Note 4(1))	-	3,000,000
	40,077,847	9,935,998

(23) Short-term borrowings

	31 December 2019	31 December 2018
Unsecured	5,665,756	807,097
Guaranteed borrowings	36,082	63,293
	5,701,838	870,390

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%).

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

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
	42,535,777	36,901,626

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
	16,231,854	16,781,666

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
	6,436,109	5,788,004

(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
	5,624,918	26,384,581	(25,890,777)	6,118,722

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

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
	5,096,267	3,875,298

(29) Other payables

	31 December 2019	31 December 2018
Other payables	3,800,568	3,346,129

(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 (Note 4(32))	1,230,966	2,166,041
Current portion of long-term payables	39,426	159,027
Current portion of equity purchase payables	189,725	-
	1,460,117	7,122,712

(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
	39,074,777	31,319,709

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

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
	42,529,343	34,257,480
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)
	41,298,377	32,091,439

(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
	2,418,563	2,480,318

(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	2,267,015	2,329,652

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

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 2018	Share-based payment incentive plan (a)	Desterilisation	Share issuance (b)	Repurchases and written-offs	Sub-total	31 December 2019
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
	6,663,031	87,150	-	323,657	(101,938)	308,869	6,971,900

		Movements in the previous year					
	31 December 2017	Share-based payment incentive plan	Desterilisation	Share issuance	Repurchases and written-offs	Sub-total	31 December 2018
RMB-denominated ordinary shares - RMB-denominated ordinary shares subject to trading restriction	212,023	25,955	(89,102)	-	(1,701)	(64,848)	147,175
RMB-denominated ordinary shares not subject to trading restriction	6,349,030	77,724	89,102	-	-	166,826	6,515,856
	6,561,053	103,679	-	-	(1,701)	101,978	6,663,031

(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)).

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

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

(36) Treasury stock

	31 December 2018	Increase in current year	Decrease in current year	31 December 2019
Restricted shares locked	918,171	3,157,236	(315,675)	3,759,732
Repurchased shares that have not yet written off	4,000,256	-	(4,000,256)	-
	4,918,427	3,157,236	(4,315,931)	3,759,732

	31 December 2018	Increase in current year	Decrease in current year	31 December 2019
Restricted shares locked	366,842	717,841	(166,512)	918,171
Repurchased shares that have not yet written off	-	4,000,256	-	4,000,256
	366,842	4,718,097	(166,512)	4,918,427

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 2018	Increase in current year	Decrease in current year	31 December 2019
Share premium (a)	14,478,244	5,260,907	(4,055,652)	15,683,499
Share-based payment 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
	18,451,307	6,005,043	(4,816,037)	19,640,313

	31 December 2017	Increase in current year	Decrease in current year	31 December 2018
Share premium	11,908,475	2,596,878	(27,109)	14,478,244
Share-based payment incentive plan	943,243	825,330	(468,918)	1,299,655
Others	3,059,786	21,902	(408,280)	2,673,408
	15,911,504	3,444,110	(904,307)	18,451,307

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.

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

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
	(1,332,153)	337,447	(994,706)	283,152	(711,554)	232,859	107,675	7,506	283,152	64,888

	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)
	(244,692)	(1,087,461)	(1,332,153)	(727,820)	(534,236)	46,231	(1,087,461)	(128,364)

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

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

(39) Surplus reserve

	31 December 2018	Increase in current year	31 December 2019
Statutory surplus reserve	5,079,096	1,368,562	6,447,658

	31 December 2017	Increase in current year	31 December 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.

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

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
	278,216,017	259,664,820

	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
	197,913,928	188,164,557

(a) Revenue and cost of sales from main operations

	2019		2018	
	Revenue from main operations	Cost of sales from main operations	Revenue from main operations	Cost of sales from main 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
	257,059,725	179,314,385	240,980,548	171,493,579

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%).

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

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
	21,156,292	18,599,543	18,684,272	16,670,978

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)
	1,040,562	1,964,902

(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
	1,720,616	1,617,566

(45) Selling and distribution expenses

	2019	2018
Selling and distribution expenses	34,611,231	31,085,879

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%).

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

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

(46) General and administrative expenses

	2019	2018
General and administrative expenses	9,531,361	9,571,639

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	9,638,137	8,377,201

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)
	2,231,636	1,823,040

(49) Asset impairment losses

	2019	2018
Losses on bad debts	——	189,942
Losses on decline in the value of inventories (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	-
	871,909	447,864

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

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	——
	96,446	——

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

	2019	2018
Derivative financial assets and liabilities	707,527	(810,450)
Other financial assets	653,636	——
	1,361,163	(810,450)

(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
	164,132	907,326

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)
	(131,131)	(34,934)

(54) Other income

	2019	2018	Asset related/ Income related
Special subsidy	1,194,665	1,316,904	Income related

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
	4,651,970	4,122,639

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	29,929,114	25,773,058
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	4,651,970	4,122,639

(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)
		24,170,127	20,207,241
Weighted average number of outstanding ordinary shares	Thousands shares	6,707,294	6,561,297
Basic earnings per share	RMB Yuan/share	3.60	3.08
Including:			
- Basic earnings per share from continuing operations:		3.60	3.08
- Basic earnings per share for discontinued operations:		-	-

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
	5,008,821	5,558,221

(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
	41,131,761	32,400,672

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

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	38,590,404	27,861,080
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	(17,952,282)	(21,831,653)
Net increase/(decrease) in cash and cash equivalents	12,489,478	(3,879,371)

(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	20,562,160	7,573,622
Cash and cash equivalents at end of year	30,441,760	17,952,282

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

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

(58) Monetary items denominated in foreign currencies

	31 December 2019		
	Foreign currency 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			5,732,642
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			13,080,062
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			1,999,196
Total			20,811,900

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

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

(58) Monetary items dominated in foreign currency (Cont'd)

	31 December 2019		
	Foreign currency 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			1,501,838
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			5,244,556
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			865,495
Current portion of non-current 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			1,460,117
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			37,298,377
Total			46,370,383

Monetary items denominated in foreign currencies above present all foreign currencies except RMB.

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

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

(58) Monetary items dominated in foreign currency (Cont'd)

	31 December 2018		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand			
USD	1,395,190	6.8632	9,575,470
JPY	2,338,433	0.0619	144,749
HKD	260,111	0.8762	227,909
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			12,310,043
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			13,300,246
Other receivables			
USD	124,888	6.8632	857,132
JPY	2,067,932	0.0619	128,005
HKD	18,648	0.8762	16,339
EUR	74,408	7.8473	583,899
BRL	15,827	1.7714	28,036
Other currencies	Not applicable	Not applicable	156,264
Sub-total			1,769,675
Total			27,379,964

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

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

(58) Monetary items dominated in foreign currency (Cont'd)

	31 December 2018		
	Foreign currency balance	Exchange rate	RMB balance
Short-term borrowings			
USD	22,169	6.8632	152,148
EUR	27,744	7.8473	217,714
BRL	92,000	1.7714	162,969
Other currencies	Not applicable	Not applicable	219,956
Sub-total			752,787
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			6,127,757
Other payables			
USD	21,765	6.8632	149,379
JPY	5,035,719	0.0619	311,711
HKD	153,811	0.8762	134,769
EUR	21,064	7.8473	165,293
Other currencies	Not applicable	Not applicable	70,231
Sub-total			831,383
Current portion of non-current liabilities			
USD	699,039	6.8632	4,797,644
EUR	276,024	7.8473	2,166,041
Other currencies	Not applicable	Not applicable	159,027
Sub-total			7,122,712
Long-term borrowings			
USD	162,918	6.8632	1,118,139
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			32,091,439
Total			46,926,078

Monetary items denominated in foreign currencies above present all foreign currencies except RMB.

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

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

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

6 Interests in other entities

(1) Interests in subsidiaries

(a) Composition of significant subsidiaries

Subsidiaries	Major business location	Place of registration	Nature of business	Shareholding (%) Direct	Indirect	Acquisition method
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

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

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 (%) Direct	Shareholding (%) Indirect	Acquisition method
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

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

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.

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

8 Segment reporting

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

Segment information as at and for the year ended 31 December 2019 is as follows:

	Heating & ventilation, as well as air-conditioner	Consumer appliances	Robotics and automation system	Other segments 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						29,929,114
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 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 long-term equity investments, financial assets, goodwill and deferred tax 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 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

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FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB'000 Yuan unless otherwise stated)
[English translation for reference only]

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 & ventilation, as well as air-conditioner	Consumer appliances	Robotics and automation system	Other segments 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						25,773,058
Total assets	107,186,255	104,567,409	32,248,141	94,734,450	(75,035,107)	263,701,148
Total liabilities	71,901,268	71,644,039	26,081,586	86,771,167	(85,151,429)	171,246,631
Long-term equity investments in associates	130,668	82,038	111,212	2,389,398	-	2,713,316
Investment income from associates	72,022	(13,897)	(18,003)	309,199	-	349,321
Increase in non-current assets (excluding long-term equity investments, financial assets, goodwill and deferred tax 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

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

8 Segment reporting (Cont'd)

(b) Geographical area information

The Group's revenue from external customers domestically and in foreign countries or geographical areas, and the total non-current assets other than 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
	279,380,506	261,819,635

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
	40,601,777	42,869,813

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 31 December 2018
Midea Holding Co., Ltd.	330,000

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 Technoloy 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.

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

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

(4) Information of related party transactions (Cont'd)

(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
			2,621,491	1,690,341

(b) Selling of goods

Related parties	Content of related party transactions	Pricing policies of related party transactions	2019	2018
Guangdong Ruizhu Intelligent Technoloy Co.,ltd.	Selling of goods	Agreed price	105,382	10,812

(c) Remuneration of key management

	2019	2018
Remuneration of key management	57,800	41,590

(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.	3,058,300	88,084

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

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

(5) Receivables from and payables to related parties (Cont'd)

Payables to related parties:

Items	Related parties	31 December 2019	31 December 2018
Accounts payable	Guangdong Wellkey Electrician Material Co., Ltd.	201,956	169,592
	Foshan Micro Midea Filter Mfg. Co., Ltd	68,258	60,885
	Anhui Wellkey Electrician Material Co., Ltd.	60,373	59,011
	Orinko New Material Co., Ltd.	80,121	25,321
		410,708	314,809

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.

10 Share-based payment (Cont'd)

(1) Share option incentive plan (Cont'd)

(b) Movements in share options during the year

	2019 (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	182,905

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 (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	57,139

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

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.

13 Events after the balance sheet date

(1) Significant non-adjusting events

(a) Outbreak of Coronavirus Empidemic 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 preventation 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 epedimic.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.

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).

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.

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

14 Financial risk (Cont'd)

(3) Liquidity risk (Cont'd)

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

	31 December 2019				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
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
	91,041,273	4,455,011	38,335,768	-	133,832,052

	31 December 2018				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Short-term borrowings (including interest)	897,699	-	-	-	897,699
Borrowings from the Central Bank (including interest)	100,260	-	-	-	100,260
Customer deposits and deposits from banks and other financial institutions	44,386	-	-	-	44,386
Notes 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
	84,466,050	1,849,787	31,652,310	666,012	118,634,159

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

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
Total assets	1,087,351	58,419,278	1,750,107	61,256,736
Financial liabilities measured at fair value -				
Derivative financial liabilities	-	27,100	-	27,100
Other financial liabilities – hedging instruments	-	32	-	32
Total liabilities	-	27,132	-	27,132

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

15 Fair value estimates (Cont'd)

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

As at 31 December 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
Total assets	1,122,609	259,019	1,583,257	2,964,885
Financial liabilities measured at fair value -				
Derivative financial liabilities	-	756,299	-	756,299
Other financial liabilities - hedging instruments	-	146,496	-	146,496
Total liabilities	-	902,795	-	902,795

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.

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

15 Fair value estimates (Cont'd)

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

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 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 statement	509,578
Gains recognised in other comprehensive income	22,803
31 December 2019	1,750,107

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 income	(27,188)
31 December 2018	1,583,257

(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.

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

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

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

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

(1) Other receivables (Cont'd)

(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 3		
	Expected credit losses in the following 12 months (grouping)		Expected credit losses in the following 12 months (individual)		Lifetime expected credit losses (credit impaired)		Sub-total
	Book balance	Provision for bad debts	Book balance	Provision for bad debts	Book balance	Provision for bad debts	Provision for bad debts
31 December 2018	557,395	6,840	11,042,465	-	-	-	6,840
Changes in accounting policies	-	-	-	-	-	-	-
1 January 2019	557,395	6,840	11,042,465	-	-	-	6,840
Transfer to stage 3 in current year	(58)	(35)	-	-	58	35	-
Net increase in current year	175,171	395	6,602,092	-	-	23	418
Including: Written-off 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 following 12 months	Provision for bad debts	Reason
Stage 1	17,644,557	0%	-	Relatively low bad debt risks

	Book balance	ECL rate in the following 12 months	Provision for bad debts	Reason
Stage 3	58	100.00%	(58)	The debtor encountered financial difficulties

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

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

(1) Other receivables (Cont'd)

(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%	-
		17,512,747		95.29%	-

(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
	52,605,859	28,236,295
Less: Provision for impairment	-	-
	52,605,859	28,236,295

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

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

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

(a) Subsidiaries

		Movements in current year					Provision for impairment loss	Cash dividends attributable to the parent company declared in current year
	31 December 2018	Increase in investment	Decrease in investment	Provision for impairment	Others	31 December 2019	Ending balance	
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 Appliances Industry Co., Ltd.	2,949,000	-	-	-	-	2,949,000	-	-
Guangdong Midea Microwave Oven Manufacturing Co., Ltd.	1,880,041	-	-	-	-	1,880,041	-	-
GD Midea Air-Conditioning Equipment Co., Ltd.	1,436,506	-	-	-	226,131	1,662,637	-	435,132
Guangdong Midea Consumer Electric Manufacturing Co., Ltd.	1,073,448	-	-	-	35,658	1,109,106	-	-
Hefei Midea Heating & Ventilation Equipment Co., Ltd.	1,065,941	-	-	-	5,518	1,071,459	-	1,132,080
Guangdong Midea Intelligent Technologies 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 Co., Ltd.	753,225	-	-	-	4,106	757,331	-	1,063,279
GD Midea Heating & Ventilating Equipment 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., Ltd.	491,350	-	-	-	4,069	495,419	-	593,117
GD Midea Group Wuhu Air-Conditioning Equipment Co., Ltd.	352,041	-	-	-	-	352,041	-	-
Hefei Hualing Co., Ltd.	174,228	-	-	-	38,624	212,852	-	-

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

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

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

(a) Subsidiaries (Cont'd)

		Movements in current year						
	31 December 2018	Increase in investment	Decrease in investment	Provision for impairment	Others	31 December 2019	Provision for impairment loss Ending balance	Cash dividends attributable to the parent company declared in current year
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
	26,586,165	6,067,600	(151,648)	-	18,523,788	51,025,905	-	9,637,326

(i) In 2019, other changes in long-term equity investments movements is mainly from shares in exchange for the equity of Little Swan.

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

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

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

(b) Associates

Investments in associates are mainly the investments in 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)
	10,384,466	9,720,094

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

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

1 Details of non-recurring profit or loss

	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)
	1,486,830	172,624

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 Return on net assets (%)		Earnings per share (in RMB Yuan) 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	24.80%	25.44%	3.38	3.05	3.36	3.03

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