|  |  |  |
| --- | --- | --- |
|  |  | H:\shared\Partners-External\Suppliers\China-Europe International Business School (CEIBS)\Logos and Templates\CEIBS-New logo.jpg |

9B17C012

Midea Group: Founder to CEO Succession

Jean Lee and Ziqian Zhao wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

*This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of* the *copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e)* [*cases@ivey.ca*](mailto:cases@ivey.ca)*;* [*www.iveycases.com*](http://www.iveycases.com)*.*

Copyright © 2017, China Europe International Business School Version: 2017-03-09

On August 25, 2012, the 70-year-old founder and chairman of Midea Group Co., Ltd. (Midea Group), He Xiangjian (He), retired as board chairman to focus solely on Midea Group’s holding company. This was He’s second voluntary retreat from a chairmanship: in 2009, He had handed over the chairman position of Guangdong Midea Electric Appliances Co., Ltd. (Midea EA), a former listed company controlled by Midea Group, before the group’s overall listing in 2013. Midea Group was a white goods empire built by He over decades, and the Midea brand led the home appliance industry. He’s successor was Fang Hongbo, a 45-year-old professional manager, and the former chairman and chief executive officer (CEO) of Midea EA. Fang faced a grim situation as he took over the position: business performance was plummeting, Midea Group was urgently in need of a strategic transformation, senior management would likely resist taking orders from Fang, and, at a basic level, the organization was overstaffed and ineffective. In addition, many senior managers felt that He’s son would have been a better choice as successor to his father, according to Chinese cultural traditions.

Fang was worried about how to handle his new position. His duties would be much heavier than those he had faced after becoming chairman of Midea EA in 2009. He knew that even if he did his utmost for Midea Group’s growth, he might not be able to count on the allegiance of all of its senior managers, who had been equally competitive in the successor contest. If they did not listen to—or deliberately sabotaged—Fang’s commands, his leadership could lead to adverse business results and wild accusations. Fang reflected and came to a grave realization: “Only hard operating data is convincing enough. It is high time the old operating model was changed. Changing business operations while keeping key staff stabilized will be challenging, [but it is] imperative for Midea Group to thrive in the future.”

Before THE Succession

He Xiangjian, Founder of Midea Group

Born in 1942, He was the founder of Midea Group. Before founding the company, He was an undereducated but sophisticated serial entrepreneur struggling to fit into a social system that did not acknowledge private businesses or market economy. After China’s market was reformed and opened up in 1978, his business shifted from producing fan parts to producing fans, and then air conditioners. In 1993, Midea EA went public as the first private listed company transformed from collective ownership in China. From 1990 to 1994, Midea EA was among the top three companies in China in terms of air conditioner sales.

Building Business Units

In the 1990s, every competitor in the white goods market tried to bring down opponents by executing significant price cuts; most firms stumbled with across-the-board losses. In 1996, Midea EA’s air conditioner sales dropped to seventh place in the industry. The company’s only profits that year came from outside investment returns. In painful reflection, He believed the root of this decline was bureaucracy. At that time, Midea Group had built five product lines (mainly air conditioners, fans, and electric cookers), accounting for hundreds of product models. All operating decisions were centrally made by the headquarters, and that caused inefficiency.

In 1997, He decided to reform the organization into five business units (BUs)—namely, air conditioners, home appliances, air compressors, electric motors, and kitchenware—and gave each unit a high degree of autonomy. Business relationships between BUs were market oriented and transactional. Meanwhile, the company appointed several professional managers as heads of these BUs. For example, Fang was in charge of domestic sales of Midea Group’s air conditioner BU. The head office mainly focused on overall strategic decision-making and management control. In order to clarify the boundaries of power and responsibility, Midea Group laid out principles in a “Manual of Power.” This became the foundation of many future structural changes.

Taking the opportunity to enact organizational reform and power decentralization, He persuaded some founding members of Midea Group (including his wife) to retire early, and purposely reduced family influence in the company. He also retired from most daily operations. Young professional managers replaced old ones in key positions soon after. Since 1997, Midea Group’s executive team had only professional managers and no family members. He believed that talent was naturally attracted to the organization because of “appropriate incentives, power separation, and accountability systems in place.” However, after decades of a centrally planned social system, China did not have a mature talent market, especially for professional managers. In fact, almost all of Midea Group’s newly appointed managers were promoted from within.

Fang Hongbo’s Career in Midea Group

In 1992, 25-year-old Fang joined Midea Group as an editor of the corporate magazine, working in the president’s office. His talent was recognized by He, who promoted Fang repeatedly over the next five years (see Exhibit 1). Fang recalled, “I do feel he was purposely mentoring me. He often called me to his office, and took out a small piece of paper full of things that he recorded about me. He would specifically talk to me about some of my indiscretions he saw, including a bad speech or impulsive reflexes.”

In 1997, He promoted Fang to oversee Midea EA’s biggest business—domestic sales of air conditioners. Most of the company’s senior managers objected to this appointment, but He insisted that he wanted Fang to execute his customer-oriented marketing philosophy and a flat channel system. Fang helped Midea EA’s air conditioner sales regain the number-three position the next year, with a 200 per cent growth rate. His success impressed He, who commented, “What gratifies me more than anything else is not sales growth, but being right in seeing the potential in young people.” After this first victory, Fang was soon promoted to even higher positions (see Exhibit 1).

The Problem of Countless Subcultures

From 2000 onward, nearly all home appliance manufacturers chose to prioritize rapid expansion; through mergers and acquisitions, they aspired to build the world’s largest production lines, seek product diversification, and grow further. Fang recalled, “In 2004, Midea Group did not have refrigerator or washer businesses. In only five years’ time, Midea Group was already able to rival Haier Group Co., Ltd., the market leader at that time in the home appliance market.”

Meanwhile, Midea Group’s organizational structure became complicated. Management determined that the ultimate reason for repetitive investment and lack of synergy was due to the large number of BUs. In 2004, the group added a new management layer—so-called “secondary groups”—to oversee the BUs. He intended to make Midea Group an investment holding group. Some powers previously held by BUs were centralized to these secondary groups, creating higher positions for professional managers. From this point onward, Midea Group’s structure included four tiers: Midea Group, secondary groups (such as the listed company Midea EA), 25 business divisions, and product companies. Every tier had functional departments and staff; He believed that such a structure reflected the horizontal and vertical power balance.

The 2009 Succession: The Listed Company

Rumour in 2004

Around the end of 2004, it was rumoured that Midea EA’s board of directors was about to change. He’s only son, He Jianfeng (Jianfeng), was expected to become a board member soon. This rumour collapsed when He announced a group restructuring plan in 2004, which actually gave two professional managers even more power. Yet the media quickly gathered evidence to support a new theory that Jianfeng was aiming for the chairman position of the overall group, rather than that of the listed company Midea EA.

He Jianfeng and Infore Group

Jianfeng started his own business, Infore Group (Infore), in 1994. Infore was primarily concerned with manufacturing products for Midea Group. By 2002, Infore had seven subsidiaries, with more than 5,000 employees. The firm was regarded by outsiders as a training ground that He had prepared for Jianfeng, because if Jianfeng eventually intended to join Midea Group, he would be faced with many senior executives who might dwarf him in business decisions. However, Jianfeng chose not to follow his father’s path of home appliance manufacturing, and instead declared that his company would pursue business opportunities in the capital market in 2008.

He also had two daughters, He Qianchang (QC, the elder daughter) and He Qianxing (QX). He and his daughters invested in Infore. QC and QX were running a moulding company and a new materials company. Both daughters were undertaking upstream business in relation to Midea Group. Meanwhile, QX also ran an electronic device company.

He had long felt that “Midea Group was never a family business. The company needs professional managers to sustain future growth.” In 2009, after Jianfeng declared the strategic change for Infore Group, He’s thoughts became more crystallized as he confidently stated, “CEOs of the group will all be professional managers, and my family will always stay in the role of shareholder.”

Succession on the Fast Track

On August 26, 2009, He resigned as chairman and director of Midea EA. Fang, then vice-chairman and CEO of the company, succeeded He as chairman of the board. From then on, the board of Midea EA contained no members of the He family. This was the point in time when Midea EA completely entered into a “professional manager era,” as dubbed by many professional managers. Fang was not surprised by his appointment as chairman. Ten years before, He had told him, “You need to look beyond the current position and shoulder more responsibilities in the days to come.” Fang clearly remembered He changed his wording to be more concrete, but without specifying a time: “In the future, I will hand this over to you.”

The handover of Midea EA was timely because Midea Group was experiencing a period of unprecedented growth. The company’s growth-oriented strategy led to revenues of over CN¥100 billion[[1]](#footnote-1) for the first time in 2010. At that exciting point in time, He (who was 68 at the time) announced a five-year plan to “recreate a new Midea.” The new plan involved realizing ¥200 billion revenue by 2015. Employees and managers were excited about this goal, and began to develop new business areas and projects. A senior executive recalled, “We thought the ¥200 billion target could easily be achieved before 2015.”

Business Downturn and Transformation Efforts

Setback in Expansion

At the end of the second quarter of 2011, Midea Group experienced some disturbing financial results. For example, in the first quarter of 2011, Midea EA’s sales revenue grew by 59 per cent, but net profit only increased by 13.7 per cent. Internal analyses concluded that actual market demand did not show substantial growth. Overstocking channels with inventory and conducting price-cutting campaigns effectively ballooned revenue figures, but these measures inevitably undermined Midea Group’s profitability. In addition, many projects had been hastened into operations to boost revenue levels.

Midea EA Leads the Transformation

Midea EA, under Fang’s leadership, was the first branch to transform within Midea Group. In the second half of 2011, Fang proposed a new product upgrade strategy: making premium products to boost prices and the Midea brand image. However, it was hard for the whole management team to transform its old mindset of producing basic products and recklessly cutting prices.

The inefficient and unprofitable businesses within Midea EA caused year-over-year (YoY) growth of revenue and profits to slow. As chairman and CEO, Fang was able to close them (see Exhibit 2). In the first half of 2012, the number of product models decreased from 22,000 to 15,000. Fang remembered, “It was like if you didn’t cut off the infected arm, you’d lose your life.” From 2010 to 2011, Midea EA cut its 100,000 employees by one-third. Fang also streamlined the channel system. At the peak of scale expansion, Midea EA had distributors in every county in China. When China’s policy of “home appliances outreach to the countryside” stopped, neither distributors nor Midea EA saw profits.[[2]](#footnote-2)

Midea EA began to integrate channels, and changed key performance indicators in accordance with the new strategy. In the previous performance measurement system, profit was not as important as revenue, which created a giant company that could not generate value to shareholders. Since 2012, it was required that profit growth must be higher than revenue growth, so that profit margins would rise. New products that could generate higher margins were developed, while many lines of low-price products were reduced. The company started declining large orders of low-profit products, which was alarming to some managers who firmly believed that no order should be dismissed.

The 2012 Succession: Midea Group

Largely due to the increased efforts in the second half of 2011, Midea EA’s operating profits jumped by 96 per cent, although its YoY revenue growth dropped by 24.9 per cent (see Exhibit 2). He was satisfied with Fang’s success, and began to contemplate how to turn around Midea Group as a whole. But Fang was worried: he knew that Midea Group was encountering a bottleneck after years of growth and expansion (see Exhibit 3). Fang felt that Midea Group needed a leader powerful enough to press the brakes, find another direction, and regain high speed soon afterward. He would be the perfect person for that role, but Fang also knew that the role would involve reducing the interests of very senior people—something He would not feel comfortable doing on his own.

The Handover

In the summer of 2012, He’s idea of complete retirement from all positions in Midea Group came to fruition. He summoned key executives and asked them to discuss how they felt about Fang. On August 25, 2012, He officially handed over the whole group to Fang, the new board chairman. At the farewell meeting, He made it clear to all that he no longer wanted to be involved in any “daily affairs and meetings.” The newly announced board of directors included Fang, Jianfeng, six other professional managers, and two representatives from strategic investors. Fang and the other six directors had been at Midea Group since the 1990s, and had all been promoted by He (see Exhibit 4). According to a former executive, He had been monitoring professional managers’ personal performance for over 10 years, assigning independent tasks to them and observing the results, so that he could identify his ideal successor.

Preparations for the Handover

Overall Listing

Before handing the Group over to Fang, He planned for an overall listing; first, Midea EA would be delisted, then all other businesses under the Midea Group but formerly outside Midea EA would be combined to form a packaged portfolio, which would be a new, overall listing. The added businesses included small household appliances, electric motors, and logistics services. Midea Group became the largest listed white goods company in China’s domestic stock exchange market, surpassing the market capitalization of Haier Group and Gree Electric Appliances Inc.

Group Restructuring

He also restructured the group before handing it over to Fang. He dismantled the four secondary groups and split them into 15 product BUs. Many powers and resources were centralized in the head office to realize synergies in finance, supply chains, sales channels, storage, and other resources. The disappearing secondary groups had been on the same level as Midea EA. After Fang became group chairman, the president of the home appliance group (Huang Jian) and the head of the electric motor group (Cai Qiwu) were appointed president and vice-president, respectively, reporting to Fang; both had seats on the board of directors. In a media report, a previous employee suspected that there would be difficulties between Fang and these two heads: “When He was still the figurehead of the company, the professional managers looked up to him and listened to him. Now they needed to learn how to live in harmony under the current power structure; after all, their positions are no longer in parallel like before.”[[3]](#footnote-3) However, these appointments paved the way for Fang, giving him actual authority over the whole Midea Group. Fang quickly clarified Midea Group’s future organizational guideline: a small head office and an integrated system.

Stock Ownership Plans

Midea Group’s 2012 performance figures looked grim. Revenue was just over ¥100 billion, meaning ¥30 billion in revenue had evaporated compared to the previous year. Fang knew that the senior executives’ mindset had to change immediately to facilitate the new operating model that he was calling for, and he would need to convince these executives using hard numbers rather than wordy explanations. Fang also knew that appropriate incentive plans needed to be in place for the change in strategy to work. The incentive system needed to be oriented toward future growth, rather than based on immediate financial performance.

2007: The First Stock Ownership Plan

Since 2007, Midea Group had been trying to raise senior executives’ personal salaries to international standards to reward the executives’ contributions toward the company’s rapid growth in past years. A virtual stock ownership plan was developed, covering seven core executives, including all heads of secondary groups and several functional department heads. When Midea Group completed its overall listing in 2013, these executives immediately became very wealthy (see Exhibit 5). Only five of them remained at Midea Group.

Midea Group’s compensation structure adopted a “low basic salary, high performance salary” pattern. The year-end bonus could be five times as much as the basic monthly salary, and the company mostly distributed bonuses in cash. Midea Group managers’ overall pay level was admired by their peers working for competing firms. One Midea executive commented, “We worked [very hard] to achieve performance targets so that we could get the bonus, but many business analysts thought we were pushing next year’s business ahead of time, and this practice lacked sustainability.” The 2007 stock ownership plan did not cover BU general managers—not even for the biggest BU, which had greater revenue than a secondary group.

Meisheng Plan

When Midea Group’s structure changed to encompass 15 BUs in 2012, the group initiated a new stock ownership plan, the “Meisheng (MS) Plan,” to cover 47 BU general managers, deputy general managers, and some departmental heads in the head office. These executives co-founded a partnership to purchase 3 per cent of the pre-listing equity of Midea Group (diluted to 1.75 per cent after overall listing) from Midea Group’s holding company, at book value (see Exhibit 6). Because the executives could sell their shares at market price after a three-year lock-up period starting from September 18, 2013, the actual personal income from the MS Plan could be remarkably high. As one executive understood it, “[He] used his own money to motivate us, and thus we were able to lead a decent life. The stock ownership plan supplemented the existing cash incentive system, and urged managers to look seriously at long-term growth.”

Future Stock Ownership Plans

Fang believed long-term incentives should be extended to middle management. In 2014, and every year afterward, Fang planned to launch a new plan that might cover up to 1,000 middle managers. Fang realized that such an incentive plan would not satisfy everyone, and might even hurt some feelings, but he decided that BU heads would have to be able to identify key talents and motivate them using long-term incentive tools.

Challenges for Fang Hongbo

Fang was very sure of the direction that Midea Group’s transformation would take, but there was no guarantee that the group’s financial results would rebound immediately. There were already doubts circulating throughout the company: what if things did not turn around soon? Fang tried to keep calm and resolute. He knew that selling unprofitable businesses and laying off employees could turn the group inside out, so he decided to move quickly, before employees started to raise questions based on speculation and rumour.

Activating Managers

Fang recognized a lack of willingness to learn new things among some managers. Many managers also resisted change. Fang analyzed their collective mindset: “It usually takes several years for a manager to be promoted to director. After that, their personal growth stagnates. They resist learning new concepts like Internet-based business models. They form small circles, protect members, and do not work with others.” On many occasions, Fang reiterated to managers how the company should change to conform to the new era (e.g., with respect to e-commerce and customer orientation). For those who did not want to follow, Fang was clear and direct about the consequences: “At this critical point in time, you either change or go. . . . Whoever you are, no matter how senior you are, I’ll remove you if you can’t follow my lead. I don’t care if this means I have to lose the chairman title because of this.” In fact, after the head office BU restructuring, Fang’s former competitors (the other former secondary group heads) were gradually deprived of most of their authority.

Fang knew that he had disrupted many people’s equanimity by streamlining businesses and firing people. He believed that the moment he took over at Midea Group, certain people had already secretly decided to leave. But there was no turning back. Fang had to boost performance results or else he would fall into a very difficult position with everyone turning on him. What was troubling for Fang was that, even if the streamlining initiative did boost efficiency, revenue would still drop in the short term. He also knew that his tough approach was in sharp contrast to He’s genial and easy-going style. Fang might not have been a “people person,” but he tried to let everyone know that while he had high expectations of his staff members, they should not take his attitude personally. To show his solidarity with the other employees, Fang refused to use the exclusive elevator and private dining room for executives, and started to take the ordinary elevator, wait in lines, and have lunch in the cafeteria like everyone else.

Facing He Xiangjian

Fang thought he had to report major changes to the board of directors. After 20 years of service, He and Fang were almost like father and son. Would the succession change the nature of their relationship? He left enough power and space for Fang to do what he needed to do. In fact, He only attended meetings to listen to Fang’s updates twice a year. Jianfeng also had a seat on the board, but like his father, he seldom gave feedback. However, Fang thought he needed to guard against developing any arrogance and self-importance. He doubted that he needed to redefine his relationship with He as that of “agent and owner.” The trust between them needed to be solidified rather than sabotaged by doubts that could be triggered by unexpected events. Fang believed he needed to act as professionally as possible by reporting to He periodically, even though he rarely offered feedback.

Fang tried to analyze the subtleness of his relationship with He: “Our relationship had dozens of years of trust as its foundation. But every second after my succession, it could go sour if I did not attend to [all necessary] details. It was not a blood relationship after all. It was much weaker, as it was employment based in nature.” At the same time, Fang realized that this relationship was stronger than those between other professional managers. He commented, “I had followed [He] since the beginning. His every look, every move, and even how he put his hands—I knew exactly what he was thinking. No outside CEOs would be able to do this. I don’t think this succession case is replicable in the future.” This realization prompted Fang to think about the next generation of Midea Group’s leaders: “The situation between me and the next generation of leaders might be a lot different than what [developed] between He and me.”

Fang sometimes asked himself why he was taking on this new role. His increased authority had isolated him from his peers. Performance pressures, the resistant management team, and his complex relationship with the He family were all heavy burdens for Fang. Excluding equity gains, Fang’s nominal annual salary was only half that of his previous position. Fang knew he was driven by the need to repay He, saying, “If only driven by personal interest, I would not be able to lead the company further. I was very grateful that [He] had dug me up and made me extraordinary.”

Change in Top Management

In October 2013, the resignation of one BU president, Huang Jian, shook the whole company. Employees traded internal details about how fierce the power struggle was among top managers. In April 2014, senior vice-president Huang Xiaoming also resigned, and in July of the same year, Cai Qiwu followed. Huang took a new position in Midea Holding. Under China’s stock exchange rules, if managers resigned, their shares from the MS Plan were locked until September 18, 2016. It struck Fang that every manager who had participated in the 2013 MS Plan would become very wealthy in 2016. He had to design a new plan to motivate them when that time came. The MS Plan, based on He’s personal contribution, was not sustainable. New sources of incentive shares needed to be in place.

New Business Direction

He assigned Fang a hard task: “accelerating while looking for new exits,” as Fang put it. Midea Group’s past success represented China’s competitive advantage in terms of low manufacturing costs. However, China was at a turning point; its labour cost was rising quickly. Midea Group had to find a new core competency to replace low-cost production, while at the same time maintaining fast growth. Fang had a term for the new strategy: “second track.” From 2013 to 2015, Midea Group chose to pursue a mobile strategy, developing smart home appliances that could be controlled by mobile apps. Encouraging new businesses might represent the way forward for Midea Group, but it could also complicate the firm’s motivation system. Fang needed to bear that consideration in mind when designing the new stock ownership plans. It seemed that too many things needed to be balanced to achieve sustainable success.

Exhibit 1: Fang Hongbo’s Career

|  |  |
| --- | --- |
| 1992 | Resigned from Dongfeng Motor; joined Midea Group, working in president’s office |
| 1995 | Worked in Midea Group’s marketing department, and acted as a manager at an advertisement company within the Midea Group |
| 1996 | Marketing director, in charge of overall advertising, marketing, and sales |
| 1997 | General manager of domestic marketing of Midea Group’s air conditioner business division |
| 2000 | General manager of Midea Group’s air conditioner business division |
| 2001 | Vice-president of Midea Group and general manager of air conditioner business division |
| 2005 | Chief executive officer of Midea EA |
| 2009 | Chairman of Midea EA |
| 2012 | Chairman of Midea Group |

Source: Company documents.

Exhibit 2: Midea EA—Key Financials, 2005 to SECOND QUARTER of 2013 (in ¥)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **as of 2013-06** |
| Revenue (¥ millions) | 21,314 | 21,171 | 33,297 | 45,313 | 47,278 | 74,559 | 93,108 | 68,071 | 46,287 |
| Growth, YoY (%) |  | −0.70 | 57.30 | 36.10 | 4.30 | 57.70 | 24.90 | −26.90 |  |
| Operating Profit (¥ millions) | 698 | 843 | 1,816 | 1,727 | 2,520 | 2,557 | 5,023 | 4,744 | 3,624 |
| Growth, YoY (%) |  | 20.80 | 115.40 | −4.90 | 45.90 | 1.50 | 96.40 | −5.60 |  |
| Net Profit (¥ millions) | 637 | 804 | 1,674 | 1,551 | 2,514 | 4,043 | 4,541 | 4,129 | 3,069 |
| Growth, YoY (%) |  | 26.30 | 108.20 | −7.40 | 62.10 | 60.80 | 12.30 | −9.10 |  |
| Gross Profit Margin (%) | 18 | 18 | 19 | 19 | 22 | 17 | 19 | 23 | 22 |
| Net Profit Margin (%) | 2.99 | 3.80 | 5.03 | 3.42 | 5.32 | 5.42 | 4.88 | 6.07 | 6.63 |
| Number of Staff | 20,558 | 39,198 | 46,158 | 40,795 | 59,654 | 98,676 | 66,497 | 67,521 | 67,521 |
| Growth, YoY (%) |  | 90.70 | 17.80 | −11.60 | 46.20 | 65.40 | −32.60 | 1.50 | 0 |

Note: ¥ = CNY = Chinese yuan; US$1=CN¥6.8 on January 1, 2010; YoY = year over year.

Source: Company materials.

Exhibit 3: Midea Group—Key Financials, 2005 to SECOND QUARTER of 2015 (in ¥)

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **as of 2015-06** |
| Revenue (¥ millions) | 29,545 | 36,825 | 47,921 | 63,992 | 68,534 | 103,848 | 134,046 | 102,598 | 120,975 | 141,668 | 82,509 |
| Growth, YoY (%) |  | 24.60 | 30.10 | 33.50 | 7.10 | 51.50 | 29.10 | −23.50 | 17.90 | 17.10 |  |
| Operating Profit (¥ millions) | 935 | 1,704 | 2,726 | 2,818 | 3,577 | 5,509 | 7,464 | 7,005 | 9,324 | 13,451 | 10,206 |
| Growth, YoY (%) |  | 82.20 | 60 | 3.40 | 26.90 | 54 | 35.50 | −6.10 | 33.10 | 44.30 |  |
| Net Profit (¥ millions) | 819 | 1,656 | 2,617 | 2,658 | 3,315 | 6,406 | 6,641 | 6,141 | 8,298 | 11,646 | 8,949 |
| Growth, YoY (%) |  | 102.30 | 58 | 1.60 | 24.70 | 93.30 | 3.70 | −7.50 | 35.10 | 40.40 |  |
| Gross Profit Margin (%) | 17.40 | 17.70 | 19.55 | 18.88 | 22.58 | 18 | 19.12 | 22.56 | 23.27 | 25.41 | 27.43 |
| Net Profit Margin (%) | 2.77 | 4.50 | 5.46 | 4.15 | 4.84 | 6.17 | 4.95 | 5.99 | 6.86 | 8.22 | 10.85 |
| Number of Staff |  |  |  |  |  |  |  | 99,539 | 109,085 | 108,120 | 108,120 |
| Growth, YoY (%) |  |  |  |  |  |  |  |  | 9.60 | −0.90 |  |

Source: Company materials.

Exhibit 4: PROFILEs of KEY MIDEA EXECUTIVES

|  |  |  |  |
| --- | --- | --- | --- |
| **Name** | **Birth Year** | **Gender** | **Career** |
| Huang Jian | 1967 | M | Joined Midea in 1992. Had been general manager of the small electric appliance BU and president of the home appliance group (a secondary group of Midea Group). Became board director and president of Midea Group in August 2012. |
| Cai Qiwu | 1963 | M | Joined Midea in 1992. Had been general manager of the air compressor BU, and president of the electromechanical equipment group (a secondary group of Midea Group). Became board director, vice-president, and director of quality control of Midea Group in August 2012. |
| Monica Yuan  (Yuan Liqun) | 1969 | F | Joined Midea in 1992. Had worked as a supervisory director and caller of the board of supervisors, and as board director of Midea EA and Midea Group. Served as director of the board of supervisors of Midea Group. Became vice-president of Midea Group in April 2014. |
| Huang Xiaoming | 1971 | M | Joined Midea in 1996. Had been secretary and vice-chairman of the board of directors of Midea EA, human resources director of Midea Group, and board director and vice-president of Midea EA. Became vice-president and director of public relations, and board director of Midea Group in August 2012. |
| Li Jianwei | 1966 | M | Joined Midea Group in 1994. Had been the secretary and vice-chairman of Midea EA’s board of directors. Simultaneously acted as board director and vice-president of Midea Group. |
| Li Feide | 1977 | M | Joined Midea Group in 1999. Had worked as secretary of Midea Group ‘s board of directors, head of strategy, head of operations, assistant to president, vice-president, and board director of Midea Group. |

Note: All of the above individuals were Chinese nationals with master’s-level educations.

Source: Company materials.

Exhibit 5: ExecutiveS’ ShareholdingS and Value When Midea Group Listed

|  |  |  |  |
| --- | --- | --- | --- |
| **Name** | **Title** | **Shares (%)** | **Value** (¥) |
| Fang Hongbo | Chairman | 2.10 | 1.6 billion |
| Huang Jian | President | 1.75 | 1.3 billion |
| Monica Yuan  (Yuan Liqun) | Senior Vice-President | 1.40 | 1.1 billion |
| Cai Qiwu | Senior Vice-President | 1.17 | 0.9 billion |
| Huang Xiaoming | Senior Vice-President | 1.17 | 0.9 billion |
| Li Jianwei | Director | 1.17 | 0.9 billion |
| Zheng Weikang | Supervisor | 0.58 | 0.4 billion |

Note: Shareholding value based on issuing price of ¥44.56 per share.

Source: Company materials.

Exhibit 6: Midea Holding

Midea Investments Holding was founded on August 5, 2002, with registered capital of CN¥330 million and only two natural-person shareholders: He Xiangjian, holding 94.55%, and He Xiangjian’s daughter-in-law, Lu Deyan, holding the remainder. This meant He Xiangjian’s family held 100% of Midea Holding. He Xiangjian became executive director of Midea Holding; his wife, Liang Fengchai, was supervisor; and Li Jianwei was manager. Midea Group, Midea Real Estate, and other secondary groups were subordinate to Midea Holding. In October 2011, Midea Holding held 84% of Midea Group’s shares, and by June 30, 2012, this percentage had fallen to 59.85%. After the overall listing of Midea Group, Midea Holding and Ningbo Kailian Industrial Development Co., Ltd., controlled by He Xiangjian’s family, held over one-third of Midea Group’s shares and were still the controlling shareholders.

Source: “Midea Group Chaos Increasing: 3 of the 7 Core Executives Left,” *Wealth Management Weekly*, July 14, 2014, accessed December 23, 2016, http://money.163.com/14/0714/07/A13LAIRC00253B0H.html.

1. ¥ = CNY = Chinese yuan; all currency amounts are in CNY unless stated otherwise; US$1=CN¥6.8 on January 1, 2010. [↑](#footnote-ref-1)
2. From late 2008 to late 2011, domestic sales of home appliances were subsidized by the government to sustain the operations of the industry, which had been affected by shrinking exports after the global financial crisis. [↑](#footnote-ref-2)
3. Lang Lang, “Midea Group Goes for Overall Listing: Fang Hongbo Succeeded He Xiangjian,” *21 Century Business* He*rald*, August 29, 2012, accessed October 26, 2016, http://tech.163.com/12/0829/02/8A1TA105000915BD.html. [↑](#footnote-ref-3)