



昆明机床
KUNMING MACHINE TOOL

沈機集團昆明機床股份有限公司

SHENJI GROUP KUNMING MACHINE TOOL COMPANY LIMITED

(A sino-foreign joint stock limited company established in the People's Republic of China with limited liability)
(Stock Code: 0300)

**Create Classic of
High Precision Machine Made in China**

Annual Report 2015

IMPORTANT NOTICE

1. The Board of Directors, Supervisory Committee, Directors, Supervisors and Senior Management Officers of the Company have declared that the content of this annual report is true, accurate and complete with no false information, misleading statements or material omissions for which they jointly and severally accept legal responsibility.
2. Directors' not attendance of the Board meeting

Positions	Names	Reasons for not attending	Appointee
Director	Zhang Zeshun	Office duty	Zhang Tao
3. Ruihua Certified Public Accountants has issued standard unqualified audit report for the Company.
4. Wang Xing, Chairman, Jin Xiaofeng, the person in charge of accounting affairs, and Li Hongning, head of accounting department (Accounting Supervisor), have declared that they assured for the truthfulness, accuracy and completeness of the financial statements in the Annual Report.
5. Proposal on profit distribution or capitalization of capital reserve to increase share capital for the reporting period approved by the board of directors of the Company
In accordance with the China Accounting Standards, in 2015, the Group recorded a net loss of RMB196,385,000 attributable to shareholders of the Company. No surplus reserves was made, the accumulated profit available for distribution amounted to RMB221,249,000. In particular, the Company recorded a net loss of RMB168,794,000. No surplus reserves was made, the accumulated profit available for distribution amounted to RMB221,351,000. There is no cash dividend for 2015.
6. Risk declaration for the forward-looking statements
The forward-looking statements contained in this annual report regarding the Company's future plans do not constitute any substantive commitment to investors and investors are reminded of the investment risks and to exercise caution in their investment.
7. Any appropriation of non-operating fund by the controlling shareholder and its related parties?
No
8. Any external guarantee provided not in compliance with the required decision-making procedures?
No
9. Significant Risk Warning
The Company had consecutive losses in the last two years, it is implemented delisting risk warning (*ST).
10. Others
No

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DEFINITION

I. DEFINITION

In this report, unless the context requires otherwise, the following terms and expressions shall have the following meanings:

Meanings of the following terms

"The Company", "Company", "Parent"	Shenji Group Kunming Machine Tool Company Limited
"Industry"	the machine tool industry in the PRC
"Horizontal machine"	horizontal boring and milling machine tool
"Floor-type machine"	floor-type boring and milling machine tool
"Machining center"	horizontal products machining center
"Gantry machine"	gantry boring and milling machine tool
"Company Law"	the Company Law of the People's Republic of China
"Securities Law"	the Securities Law of the People's Republic of China
"Accounting Law"	the Accounting Law of the People's Republic of China
"RMB", "RMB'000" and "RMB'0000"	RMB, RMB thousand and RMB ten thousands

COMPANY PROFILE AND FINANCIAL HIGHLIGHTS

I. COMPANY INFORMATION

Name of the Company (Chinese)	沈機集團昆明機床股份有限公司
Abbreviated Name of the Company (Chinese)	昆明機床
Name of the Company (English)	SHENJI GROUP KUNMING MACHINE TOOL COMPANY LIMITED
Abbreviated Name of the Company (English)	kmtcl
Legal Representative	Wang Xing

II. CONTACT PERSON AND CONTACT INFORMATION

	Secretary to the Board (Company secretary)	Securities Affairs Representative
Name	Luo Tao	Wang Bihui
Correspondence address	23 Ciba Road, Kunming City, Yunnan Province	23 Ciba Road, Kunming City, Yunnan Province
Telephone number	86-871-66166612	86-871-66166623
Facsimile number	86-871-66166288	86-871-66166288
E-mail	luotao@kmtcl.com.cn	wangbh@kmtcl.com.cn

III. BASIC INFORMATION

Registered address	23 Ciba Road, Kunming City, Yunnan Province, the PRC
Post code of registered address	650203
Business address	23 Ciba Road, Kunming City, Yunnan Province, the PRC
Post code of business address	650203
Website	www.kmtcl.com.cn
E-mail	www.kmtcl.com.cn

IV. PLACE OF INFORMATION DISCLOSURE AND DOCUMENT INSPECTION

Designated newspapers for publishing	China Securities Daily, Shanghai Securities News and Securities Times
Designated internet websites by CSRC for publishing annual report	www.sse.com.cn, www.hkex.com.hk, kmtcl.com.cn
Annual report available at	Office Building, 23 Ciba Road, Kunming City, Yunnan Province

COMPANY PROFILE AND FINANCIAL HIGHLIGHTS

V. SHARE LISTING

Class of Shares	Particulars of the Company's Shares		Stock Code
	Stock exchange	Short Name	
A Shares	Shanghai Stock Exchange	Kunming Machine	600806
H Shares	The Stock Exchange of Hong Kong Limited	Kunming Machine	0300

VI. OTHER RELEVANT INFORMATION

Appointed Auditor of the Company (domestic)	Name	Ruihua Certified Public Accountants
	Address	3-4/F, Tower 2, No.16 Xisihuanzhong Road, Haidian District, Beijing, P.R.C.
	Signature of accountants	Gao Zhe, Sun Rui

VII. PRINCIPAL ACCOUNTING DATA AND FINANCIAL HIGHLIGHTS FOR THE LATEST FIVE YEARS

1. Principal accounting data

Unit: RMB

Principal accounting data			Increase/ Decrease as compared with the corresponding period last year (%)			
	2015	2014		2013	2012	2011
Operating income	776,594,761.09	867,889,305.64	(10.52)	1,029,488,879.74	1,086,311,095.78	1,804,857,564.29
Net profit attributable to equity shareholders of the Company	(196,385,215.66)	(204,091,306.53)	(3.78)	8,521,796.32	(102,851,352.78)	54,567,125.16
Net profit (excluding extraordinary gains and losses) attributable to equity shareholders of the Company	(218,582,693.59)	(224,165,737.61)	(2.49)	(24,012,543.98)	(114,564,603.47)	51,897,930.57
Net cash flow from operating activities	(163,568,963.03)	(132,256,016.53)	23.68	(77,588,452.04)	7,571,011.30	654,756.70
	As at the end of 2015	As at the end of 2014	Increase/ Decrease as compared with the corresponding period last year (%)	As at the end of 2013	As at the end of 2012	As at the end of 2011
Net assets attributable to equity shareholders of the Company	889,172,358.16	1,085,557,573.82	(18.09)	1,297,187,170.90	1,288,665,374.58	1,402,138,349.42
Total assets	2,796,144,096.72	2,815,121,513.91	(0.67)	2,764,961,985.20	2,519,121,043.82	2,558,664,361.12
Total share capital at the end of the period	531,081,103.00	531,081,103.00	-	531,081,103.00	531,081,103.00	531,081,103.00

COMPANY PROFILE AND FINANCIAL HIGHLIGHTS

2. Principal financial data

	2015	2014	Increase/ Decreases compared with the corresponding period last year (%)	2013	2012	2011
Basic earnings per share (RMB/share)	(0.37)	(0.38)	(2.69)	0.02	(0.19)	0.10
Diluted earnings per share (RMB/share)	(0.37)	(0.38)	(2.69)	0.02	(0.19)	0.10
Basic earnings per share excluding extraordinary gains and losses (RMB/share)	(0.41)	(0.42)	(2.00)	(0.05)	(0.22)	0.10
Return on net assets (weighted average) (%)	(19.89)	(17.08)	(2.81)	0.66	(7.65)	3.93
Return on net assets based on net profit excluding extraordinary gains and losses (weighted average) (%)	(22.39)	(18.92)	(3.47)	(1.88)	(8.52)	3.74

VIII. DIFFERENCE IN ACCOUNTING DATA UNDER DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS

1. Differences in net profits and net assets attributable to equity shareholders of the Company prepared under international accounting standards and PRC GAAP

Applicable Not applicable

2. Differences in net profits and net assets attributable to equity shareholders of the Company prepared under foreign accounting standards and PRC GAAP

Applicable Not applicable

3. Explanation on difference in accounting data under domestic and overseas accounting standards

No

XV. PRINCIPAL FINANCIAL DATA IN 2015 BY QUARTER

	The first quarter (Jan - March)	The second quarter (April - June)	The third quarter (July - Sept)	<i>Unit: RMB</i> The fourth quarter (Oct - Dec)
Operating income	206,350,275.11	275,098,132.38	148,311,771.59	146,834,582.01
Net profit attributable to equity shareholders of the Company	1,390,331.36	(20,770,911.92)	(24,808,375.37)	(152,196,259.73)
Net profit (excluding extraordinary gains and losses) attributable to equity shareholders of the Company	71,278.67	(34,530,183.53)	(23,930,520.44)	(160,193,268.29)
Net cash flow from operating activities	(43,794,271.42)	(57,964,615.03)	38,752,727.95	(100,562,804.53)

Explanation on differences between quarterly information and regular reports information

Applicable Not applicable

COMPANY PROFILE AND FINANCIAL HIGHLIGHTS

X. EXTRAORDINARY GAINS AND LOSSES AND AMOUNTS

✓Applicable □Not applicable

	Note	2015	2014	Unit: RMB 2013
Disposal of non-current assets		(223,313.83)	(117,122.40)	1,123,606.41
Government grants recognized through profit and loss (excluding those having close relationship with the Group's operation and enjoyed in fixed amount or quantity according to uniform national standard)		19,299,669.51	7,315,597.49	4,222,272.70
Other non-operating income and expenses besides items above		(3,363,747.30)	394,706.37	(2,630,478.37)
Gain on financial liabilities adjustment		11,567,813.06	7,657,445.80	21,472,524.42
Gain on transfer of accounts receivable		-	-	14,555,496.15
Investment income on disposal of long-term equity investment		-	7,538,290.55	-
Effect of non-controlling interests		(746,161.12)	(426,892.64)	(5,811,513.20)
Effect of income tax		(4,336,782.39)	(2,287,594.09)	(397,567.81)
Total		<u>22,197,477.93</u>	<u>20,074,431.08</u>	<u>32,534,340.30</u>

XI. Others

No

OVERVIEW OF MAIN BUSINESS

I. The Company's main business, business model and sector conditions during the reporting period

The Company's main business includes R&D, design, manufacture and sale of horizontal boring machine, large NC floor-type milling and boring machine, NC gantry-type boring and milling machine, NC planer-type boring and milling machine, jig boring machine, horizontal boring and milling machining center, precision rotary table and other products; most of the main products maintain a leadership position in China. The machine tool industry remained sluggish in 2015, shortage of market orders was the most prominent factor affecting the industry operation. Many economic fields will continue to see "de-stocking, de-capacity, de-leverage, cost reduction and support of weak businesses" in 2016. In this context, the Company will proactively follow up structural reform and maintain its sustainable and healthy development under its business guideline of being an innovation-driven, customer-centered, budget-guided and cash flow-led company that will refine its products to seize the market, build up itself and develop new businesses, so as to reduce cost and increase efficiency and profitability.

II. ANALYSIS OF CORE COMPETITIVENESS

1. Technical advantages of products:

Horizontal boring and milling machine tool series, jig boring machine tool series, and CNC floor-type boring and milling machine tool series are major products of the Company. NC floor-type boring and milling machine product series are heavy machine tool products developed by the Company, a pioneer in applying made-in-China simple NC system to control the motion coordinates of machine tools, and quickly become commodities after successful development. With continuous improvement and optimization over the years, the Company has increased the scientific and technological components of the products and made breakthroughs in five-axis linkage, thus pushing the overall quality of the products to a leading position in China. In the meanwhile, the products have also become one of our most competitive leading products thanks to the Company's efforts to continuously expand specification and varieties of machine tools.

2. Technical R&D advantages:

The Company has a national level enterprise technology center, representing the Company's competitive strength and important position in the precision machine tools area in China, which will play an important role in further enhancement of the Company's technological innovation, improvement of R&D capability and market competitiveness of products, and achieving sustainable development. The Company has undertaken several national projects and also set up a postdoctoral working station for enhancing R&D of technology in strength and level.

3. Precision manufacturing advantages:

The motto of "to take innovation as the priority, take quality as the foundation and take precision as the soul" is the concentrated reflection of the spirit of Kunji. The high precision machine tools continuously launched by the Company are all high precision, high-speed and highly automatic products with complete independent intelligent property right. Moreover, the Company is able to manufacture products with precision based on R&D, and many products have reached the advanced world standard in precision indexes, inheriting and carrying forward a fine tradition of precision manufacturing.

4. Participation in national intelligent manufacturing projects:

Upon receipt of Reply on Implementation Plan of Intelligent Manufacturing Equipment Development Projects in 2013 issued by the National Development and Reform Commission, the Ministry of Finance and the Ministry of Industry and Information Technology, the Company participated in building digital NC lathe manufacturing workshops of Yunnan Machine Tool Works, which satisfied the demand for highly flexible, automatic and intelligent mass and multi-type production of key parts of high-end machine tools, realized system intelligence and reached out for intelligent manufacturing.

MANAGEMENT DISCUSSION AND ANALYSIS

I. MANAGEMENT DISCUSSION AND ANALYSIS

Given sluggish domestic economy, sustained weak market demand and increased difficulties in transformation and upgrading, the machine tool industry continued to post obvious decline in 2015. According to the statistics from the industry's key contact network, among the key enterprises in contact with the government in the machine tool industry, in 2015, about 70% saw a year-on-year decrease in the three economic indicators, namely, main business income, total industrial output value and sales value of products, and over 60% witnessed a year-on-year decrease in the two economic indicators, namely, profits and taxes. The downturn tendency is now spreading across the whole industry.

In response to the adverse situation, the Company's management has taken various market-centered strategies such as active transformation into industry service providers. Albeit poor performance in 2015, some departments recorded increase in some series of products. In particular, a year-on-year increase was logged in the new contracts concerning horizontal machining centers and a breakthrough was achieved in the structural layout of products.

1. Marketing: the Company entered market segments of downstream industries through the key projects of Yunnei Power, and core auto manufacturing through providing production lines of engine cylinder blocks and heads. We gained in-depth understanding of the mold industry's requirements for machine tools and optimized solutions, improved solutions to key parts of wind turbines and reinforced the share in wind power market, etc.

The Company provided a quick response by launching 400 call center and regulated service flow, which enhanced customer satisfaction; and updated customer profiles in due time for easy retrieval and sharing, which both improved management of regular customers and played a role in radiating to new customers based on regular customers.

2. Production: Improve the rationality of production scheduling through reasonable resource allocation, to ensure that machine tool products were delivered on time and up to quality standards and quantity requirements; adopted lean management concept to improve on-site production conditions and product quality; made every effort in installation and commissioning; and attached great importance to production safety along with sound production scheduling.
3. Technology: The Company set up the aviation, auto, wind power teams; studied solutions to hubs of wind turbines and engine cylinder blocks and heads and five-axis machining technology; proposed intelligent workshop solutions to Yunji intelligent project; developed European THS6916 floor-type milling and boring machining center based on European market demand and launched the trial-produced RT200 rotary table with a load-carrying capacity of 150T; trial-produced Chengdu Aircraft KHC160-5A five-axis precision horizontal machining center, which participated in the Beijing exhibition; completed the industrialization of H2 series horizontal machining center with horizontal machining module based on Yunnei project; developed bridge- and gantry-type XH25 series products; had SKTD project, key projects THM46100/65100 and TGK46100 project pass national acceptance inspection; and developed full-automation partial universal milling heads, installed the fourth axis for vertical machining centers and commercialized high-speed milling heads.
4. Quality: Under the guideline of two work focuses of "polishing the brand and participating in quality engineering projects", the Company, relying on organizational guarantee protection and system operation, effectively conducted quality control by quality control means and approaches while promoting the mechanism.
5. Finance: The recovery of receivables in 2015 was inadequate and consisted of a majority of bank acceptances, leading to a serious shortage of cash and the difficulties in turnover of working capital. Our credit facilities were also affected by the decline in business performance. Given the hiking bank financing costs and the increasingly stringent lending conditions, the Company made its best efforts to seek bank loans to finance its working capital through rational financing.

MANAGEMENT DISCUSSION AND ANALYSIS

II. BUSINESS OPERATION DURING THE REPORTING PERIOD REVIEW

In 2015, China's machine tool industry was faced with a mix of unprecedented challenges. Fundamental changes were seen in economic climate, competitive landscape and market demand: in the context of a sluggish global recovery, China's economy headed into a new normal; and the serious overcapacity of traditional products amid the rapidly evolving needs led to intensifying international competition and radical changes in profit model. At the same time, a new round of technology innovations is burgeoning worldwide, backed by the emerging tides of Internet-based integrated intelligent manufacturing. The pressure of transformation and upgrade of the machine tool industry gradually increased.

Principal financial data of 2015 of the Company as follows: achieved sales revenue of RMB777 million, of which, sales revenue of machine tool was RMB685 million; comprehensive gross profit margin was 15.03%; net loss for the year attributable to shareholders of the Company was RMB196 million and loss per share was RMB0.37 dollar.

1. Analysis of principal activities

Table of analysis of changes in relevant items of income statement and cash flow statement

Item	2015	2014	Unit: RMB
			Percentage of change(%)
Operating income	776,594,761.09	867,889,305.64	(10.52)
Operating costs	659,881,483.14	702,862,972.16	(6.12)
Selling and distribution expenses	95,638,144.61	116,018,784.59	(17.57)
General and administrative expenses	156,963,195.41	185,208,914.45	(15.25)
Financial expenses	35,097,266.77	17,591,439.64	99.51
Net cash flow from operating activities	(163,568,963.03)	(132,256,016.53)	(23.68)
Net cash flow from investing activities	(72,731,056.22)	(16,624,353.67)	(337.50)
Net cash flow from financing activities	183,887,494.88	134,210,715.91	37.01
R&D expenses	44,583,792.77	54,553,457.55	(18.28)
Impairment losses	67,139,035.29	36,349,437.09	84.70
Non-operating income	32,487,347.83	15,634,552.71	107.79
Income tax ("") for income tax benefits)	282,851.88	36,970,917.88	(99.23)

1. Analysis of revenue and cost

Notes:

- A. Operating income inched down on a year-on-year basis because machine tool market demand decreased amid slowdown of global economic growth, although the Company proactively adjusted its product mix and intensified promotion and sales;
- B. Operating cost retreated along with the decrease of operating income, but the decrease was milder than that of operating income as restricted by fixed cost;
- C. R&D expense edged down as compared with the same period of the preceding year because various expenses necessary for key national projects declared by the Company over the past years were mostly disbursed in the past and the work in 2015 relatively focused on acceptance, inspection, examination and audit of the projects;
- D. The impairment losses increased because fewer of the long-age receivables in the period were collected and the age increased accordingly;
- E. The non-operating income increased mainly due to the increase in revenues from earnings-related government subsidy programs in the period;
- F. The income tax expense decreased mainly because the deferred income tax assets withdrawn in the past periods were switched back in the previous period and no deferred income tax assets were withdrawn in the period.

MANAGEMENT DISCUSSION AND ANALYSIS

(1) Segment, product and regional operation

Unit: RMB

Analysis of principal activities by segments						
Business segments	Operating income	Operating cost	Gross profit margin (%)	Percentage change in operating income (%)	Percentage change in operating cost (%)	Percentage change in gross profit margin (%)
Machine tools	684,610,249.23	574,951,981.07	16.02	(9.92)	(7.93)	(1.82)
Turbo machines	91,984,511.86	84,929,502.07	7.67	(14.71)	8.31	(19.63)

Analysis of principal activities by products						
Products	Operating income	Operating cost	Gross profit margin (%)	Percentage change in operating income (%)	Percentage change in operating cost (%)	Percentage change in gross profit margin (%)
Horizontal boring and milling machine tools	88,423,660.1	87,377,793.22	1.18	(51.5)	(50.97)	(1.08)
Floor-type boring and milling machine tools	150,773,504.24	125,949,719.15	16.46	(45.16)	(40.48)	(6.56)
Table-type boring and milling machine tools	98,280,341.87	78,565,750.35	20.06	0.96	6.58	decreased by 4.22 percentage points
Horizontal products machining center	155,733,162.42	122,454,328.89	21.37	376.92	432.83	decreased by 8.25 percentage points
Gantry boring and milling machine tools	84,862,393.15	69,021,230.37	18.67	(16.00)	(12.24)	decreased by 3.48 percentage points
Turbo machines	91,984,511.86	84,929,502.07	7.67	(14.71)	8.31	decreased by 19.36 percentage points
Others	106,537,187.45	91,583,159.09	14.04	48.45	54.51	decreased by 3.37 percentage points

Principal business by industry and by product

The gross profit margin of the machine tool segment declined by 1.82 percentage points year-on-year, mainly attributable to: i) lower product selling prices given the more intensified market competition in 2015; and ii) an increase in unit operating cost due to a shrinkage of sales, in contrast with no reduction in labor costs and total fixed assets. The adverse changes both in product selling prices and operating costs led to a year-on-year decrease in gross profit margin of the machine tool segment.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Table of analysis of production and sales

Main products	Production	Sales	Inventory	Percentage change in production (%)	Percentage change in sales (%)	Percentage change in inventory (%)
Horizontal boring and milling machine tools	189	149	212	(54.13)	(56.3)	23.26
Floor-type boring and milling machine tools	38	30	15	(4.88)	(50.79)	128.57
Table-type boring and milling machine tools	50	39	22	25.58	(6.52)	109.09
Horizontal products machining center	86	84	6	855.56	425	-
Gantry boring and milling machine tools	41	37	5	(26.79)	(35.09)	400
Turbo machines	12	16	26	(14.29)	(40.74)	(13.33)

Description of production and sales volumes

- The Company mainly organized the production of machine tools according to the users' orders. However, given factors such as sluggish domestic and international economies., the customers postponed or suspended taking delivery of goods. This has resulted in overstocked machine tools and increasing inventories.
- In the reporting period, the Company undertook the production line project of Yunnei auto parts and organized the production of horizontal machining centers. Moreover, horizontal machining centers and gantry machining centers will be the Company's points of market growth in the future. Their production volumes had thus increased significantly as compared with the previous year.

(3) Information on the major customers

As at 31st December 2015, the total sales revenue of the top 5 customers amounted to RMB248 million, which accounted for 31.92% of the total sales revenue for the year. Of which, the sales revenue of the first place customer amounted to RMB134 million, representing 17.29% of the total sales revenue for the year.

(4) Table of analysis of costs

Unit: RMB

Business segments	Items of costs structure	Analysis by segments				Increase/Decrease (%)
		2015	Proportion (%)	2014	Proportion (%)	
Machine tools	Raw materials	418,180,339.67	63.37	423,406,593.42	60.24	(1.23)
	Direct labor costs	81,300,833.27	12.32	99,424,191.08	14.15	(18.23)
	Benefits expenses	25,525,032.64	3.87	35,352,666.39	5.03	(27.8)
	Fuel and power	6,849,921.74	1.04	7,461,957.32	1.06	(8.2)
	Manufacturing costs	33,746,953.60	5.11	37,258,766.30	5.3	(9.43)
	External processing expenses	9,348,900.15	1.42	21,548,564.20	3.07	(56.61)
Turbo machines	Raw materials	51,599,871.81	7.82	49,784,141.41	7.08	3.65
	Direct labor costs	7,478,911.95	1.13	6,917,522.65	0.98	8.12
	Benefits expenses	2,266,868.54	0.34	2,210,905.23	0.31	2.53
	Fuel and power	1,164,134.30	0.18	1,174,187.30	0.17	(0.86)
	Manufacturing costs	9,630,897.97	1.46	6,890,292.58	0.98	39.77
	External processing expenses	12,788,817.50	1.94	11,433,184.28	1.63	11.86

MANAGEMENT DISCUSSION AND ANALYSIS

Other information relating to cost analysis

The declining market demand in the year has exerted some influence on the sales volume of machine tools. While reducing the production volume of machine tools and clearing out the inventories, we first tried to satisfy our internal production, gradually reduced the scale of outsourced processing, cut off the overstaffed offices and strictly control expenditure. This had contributed to a decrease of the overall input cost of production. Meanwhile, our efforts to meet customers' need for customization led to a slight increase in the material cost and its percentage in some machine tools. Besides, the increased single-piece production of compressors and decreased batch production of blast furnace blowers led to the higher costs of raw materials and outsourcing. In the meantime, we witnessed a decrease in production volume due to sharp drop in the number of contracts, an increase in the proportion of pay shared by unit product finished, depreciation and other fixed expenses, and a decrease in gross margin of products.

Major suppliers: The total purchase from the top 5 suppliers as at 31 December 2015 amounted to RMB136 million, representing 27.7% of the total purchase for the year.

2. Expenses

Item	2015	2014	Percentage of change (%)
Selling and distribution expenses	95,638,144.61	116,018,784.59	(17.57)
General and administrative expenses	156,963,195.41	185,208,914.45	(15.25)
Financial expenses	35,097,266.77	17,591,439.64	99.51

Notes:

- A. The selling and distribution expenses declined mainly because the marketing system was effectively controlled via definition of responsibilities, all-staff appraisal and all-round responsibility-based expenditure and effect was achieved in lowering cost and improving efficiency;
- B. The general and administrative expenses decreased mainly due to the Company's effective control of expenditures and optimization of human resources;
- C. The financial expenses increased mainly due to greater financing scale in the period;

3. R&D expenses

Table of R&D expenses

R&D expenses expensed for the current period	<i>Unit: RMB</i> 44,583,792.77
R&D expenses capitalized for the current period	0
Total R&D expenses	44,583,792.77
Percentage of total R&D expenses to operating income (%)	5.74
Number of R & D personnel	326
Percentage of R & D personnel to total number of personnel of the Company (%)	12.43
Percentage of R & D expenses capitalized (%)	-

Explanation:

In 2015, the Company had no capitalized R&D projects and all R&D costs were accounted for as expenses, to mainly fund the following projects: "THM-μ series precision horizontal machining center", "Key technologies for digital design, development of tools and typical product applications of high-end CNC machine tools" and other major national special projects, and new products self developed by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Cash flows

- A. The net cash outflows from operating activities increased year on year because the cash received from sale of commodities in the period decreased as compared with the same period of the previous year;
- B. The net cash outflows from investing activities increased year on year mainly because the investment in projects under construction in the period increased as compared with the previous period. Furthermore, the increase of RMB22.57 million in cash balance resulting from inclusion of Kunming TOS Machine Tool Co., Ltd. in the consolidation scope in the previous period is also a factor for the decrease in cash flows in the period as compared with the previous period;
- C. The net cash inflows from financing activities increased mainly because of insufficient cash in the sales proceeds in the period and the Company's expansion of the financing scale so as to ensure normal production and operation. As a result, cash from borrowing increased as compared with the same period of the previous year.

2. Explanation on Non-principal business led to significant changes profit

Applicable Not applicable

3. Analysis of Assets and Liability

Table of assets and liabilities

Item	2015	Percentage of total assets (%)	2014	Percentage of total assets (%)	<i>Unit: RMB</i>
					Percentage change in closing balance (%)
Cash at bank and on hand	121,188,722.30	4.33	163,027,997.62	5.79	(25.66)
Bills receivable	157,239,974.08	5.62	65,234,659.97	2.32	141.04
Accounts receivable	502,055,775.50	17.96	573,067,324.65	20.36	(12.39)
Inventories	914,209,060.05	32.70	896,675,761.84	31.85	1.96
Construction in progress	288,677,829.89	10.32	268,623,936.12	9.54	7.47
Other current assets	15,704,457.06	0.56	1,724,042.72	0.06	810.91
Short-term borrowings	400,600,000.00	14.33	284,500,000.00	10.11	40.81
Bills payable	123,265,837.23	4.41	75,048,188.00	2.67	64.25
Taxes payable	3,765,152.92	0.13	6,877,214.09	0.24	(45.25)
Employee benefits payable	25,658,651.73	0.92	12,709,724.16	0.45	101.88
Other payables	170,573,524.53	6.10	144,228,412.53	5.12	18.27
Non-current liabilities due within one year	210,558,420.61	7.53	19,747,105.78	0.70	966.27
Long-term borrowings	129,005,572.45	4.61	200,000,000.00	7.10	(35.5)
Long-term payables	1,066,045.50	0.04	11,445,098.47	0.41	(90.69)

MANAGEMENT DISCUSSION AND ANALYSIS

Other notes

- A. The cash at bank and on hand decreased because the utilization efficiency of the working capital was improved and capital turnover was accelerated in the period, so that the balance of cash at bank and on hand decreased at the end of the period;
- B. The bills receivable increased because greater efforts were made to recover the sales proceeds of machine tools in the period and the acceptance bills accounted for a large proportion in the sales proceeds;
- C. The accounts receivable decreased because greater efforts were made to recover loans in the period so that the balance of receivables reduced at the end of the period;
- D. The inventories increased because customers postponed or suspended taking delivery of goods given the economic downturn in the market, this had led to increased inventory;
- E. The construction in progress increased because of continuation of such projects as heavy processing and assembly plants in Yanglin Base and bar iron platform foundations of heavy processing and assembly plants and the newly-introduced equipment entered the stage of installation and debugging;
- F. Other current assets increased mainly because the recall of the machine tools sold to Jilin Haoyu Electric Co., Ltd. was recognized according to the post-balance sheet events in the period, stated the costs, etc. of the machine tools not carried back as other current assets of RMB7.63 million and the value-added tax to be deducted in the period increased RMB6.35 million as compared with the previous period;
- G. The short-term borrowings increased because more short-term loans were borrowed from the bank to maintain normal operation of working capitals for production;
- H. The bills payable increased because the acceptance bills were fully used for payment for materials and projects, etc., so that the bills payable increased markedly at the end of the period;
- I. The taxes payable decreased mainly because the declining operating income in the period led to less value-added tax payable;
- J. The employee benefits payable increased due to the delay in payment of housing provident fund in the period;
- K. Other payables increased because the current accounts payable to Shenyang Machine Tool (Group) Co., Ltd. increased;
- L. Non-current liabilities due within one year increased because the Company's long-term borrowings of RMB200 million and mortgage loan from International Far Eastern Leasing Co., Ltd. will become due within one year;
- M. The long-term borrowings decreased because the long-term loan of RMB200 million that will mature within one year was adjusted as a non-current liability maturing within one year;
- N. The long-term payables decreased because the loan from International Far Eastern Leasing Co., Ltd. that will due within one year was adjusted as a non-current liability due within one year;

MANAGEMENT DISCUSSION AND ANALYSIS

4. Analysis of sector business information

The Company's revenue mainly comes from sales of machine tools, which is affected by three factors: market, price and inventory. Product services and machining business do not have significant impact on the Company's revenue.

1) *Market factor*

In 2015, against the background of domestic and international economic downturn, weak market demand and greater difficulties in transformation and upgrading, the Company suffered from decreased sale of machine tools, a sharp fall in machine tool production and piled-up inventory. Owing to easing growth of national fixed-asset investment, the investment-driven downstream heavy and chemical industries were severely affected, leading to a notable decline in the quality of customers in these fields. More and more customers suspending or partially suspending production caused delayed or suspended delivery of the machine tools they have ordered. As a result, there was a decline in our sales revenue as our inventory piled up and we were under the pressure of fund return.

2) *Price factor*

Increasingly keen market competition put buyers at the dominant position. They had more choices and therefore were more sensitive to price. To grab market share and get orders, the Company maintained the strategy of quick returns and small margins and flexibly adjusted prices from time to time. Meanwhile, sales volume decreased somewhat under the market climate, the sales revenue was affected as a result.

3) *Inventory factor*

Customers' delay or suspension of delivery caused piling up of our inventory of machines tools, which retarded our return of funds, reproduction and operation. To reduce inventory, the Company lowered the prices of some machines tools in stock, thereby resulting in a drop in sales revenue.

5. Investment Analysis

1. *External Equity Investment Analysis*

No

- (1) Significant equity investment
There was no significant equity investment during the year.
- (2) Significant non-equity investment
There was no significant non-equity investment during the year.
- (3) Financial assets measured at fair value
There was no financial assets measured at fair value during the year.

6. Disposal of material equity interest

There was no disposal of material equity interest during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

7. Information of major subsidiaries and invested companies

Name	Business nature	Main products and services	Registered Capita (RMB)	Asset size	Operating income	Net profit
Xi'an Ser Turbo Machinery Manufacturing Co., Ltd. ("Xi'an Ser")	Special equipment production	turbo machines,	50,000,000	283,314,386.25	91,984,511.86	(37,480,248.48)
Kunming TOS Machine Tool Manufacturing Co., Ltd. ("Kunming TOS")	Development, design, production and sales of self-produced machine tool series products and accessories	Floor-type, table-type boring and milling machine tools, Horizontal products machining center	5,000,000 Euros	111,309,642.28	22,986,661.74	(5,307,686.57)
Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd. ("Xi'an Ruite")	Laser prototyping machine	Laser prototyping machine	60,000,000	137,891,689.09	71,193,355.33	(1,770,527.01)
Kunming Kunji General Machine Co., Ltd.	Development, design and sales of machine tool products and accessories	Turntable, milling head and machine parts, contract machining; measurement, physical and chemical testing and maintenance services;	3,000,000	103,778,609.38	27,000,699.55	(5,139,668.98)

8. Structured entities controlled by the Company

No

III. DISCUSSION AND ANALYSIS OF THE COMPANY'S FUTURE DEVELOPMENT

1. Landscape of competition and development trend of the industry

During January-December 2015, the new orders for metal-working machine tools decreased 15.4% year on year. In particular, the new orders for metal-cutting machine tools and metal forming machine tools decreased 15% and 16.8% year on year, respectively. During January-December 2015, the total profits from metal-working machine tools decreased 71% year on year. Specifically, metal-cutting machine tools recorded a year-on-year decrease of 121.6% and metal forming machine tools recorded a year-on-year decrease of 15.3%; total export amounted to US\$10.83 billion, down 6.9% as compared with the same period last year; amount of exported metal-cutting machine tools was US\$2.1 billion, down 7.5% as compared with the same period last year; total import amounted to US\$14.69 billion, down 17.3% as compared with the same period last year; amount of imported metal-cutting machine tools was US\$7 billion, down 20.8% as compared with the same period last year; investment-related consumption of metal-cutting machine tools decreased, so was consumption of metal forming machine tools for consumer goods manufacture.

With the advent of world-leading manufacturing technology, the application of technologies like super-high-speed cutting and ultra-precision machining, rapid development of flexible manufacturing system and maturation of computer integrated manufacturing system, nowadays NC machine tool technique is developing toward the directions of high speed, high precision, multi-function, intelligence, NC programming automation, maximization of reliability and miniaturization of control system. Machine tool manufacturers are also supposed to conduct processing technique experimental study, collect information, improve products and enhance the ability to provide a "complete solution" for users, increasing their own additional value while providing improved services for users.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Development Strategies of the Company

(1) *Strategic transition*

- 1) Transition from universal machine tools to industry specialized machine tools. Aim at national strategic focuses and emerging industries and re-divide the market by region and industry.
- 2) Transition from single-machine manufacturing to intelligent solutions. Machine tool + Internet; transition to industry service provider.
- 3) Transition from domestic market to international market. Target emerging markets based on international market demand.

(2) *Ways of realizing strategies*

- 1) Give full play to precision manufacturing and realize marketization, branding and scale strategies of key product technologies.
- 2) Intensify the R&D and manufacturing capabilities of key functional parts, e.g. accessories head, rotary table, frock clamp and principal axis.
- 3) Explore new business and find the right industry interface to achieve the strategic goal of industrial restructuring.
- 4) Actively promote Kunming Machine intelligence 2.0 edition and accelerate the market application of i5 system.
- 5) Expand the remanufacturing market and further develop the upgrading and rebuilding market of high-end products outside China.

(3) *Four strategic breakthroughs*

- 1) Optimize the export product structure;
- 2) Improve international cooperation standards;
- 3) Increase investment in technological development and further promote the development of major technologies; and
- 4) Reach out for new markets.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Operating plan

(1) *Achievement of business objectives in 2015:*

new contracts amounted to RMB735 million, achieved revenue of RMB777 million and an aggregate loss of RMB219 million;

(2) *The business targets for 2016:*

to achieve a revenue of RMB840 million and an aggregate profit of RMB12 million.

4. Potential risks

Given that sluggish demand from traditional fields usually has a great influence on the machine tool industry and newly emerged demand is insufficient for transformation and upgrading in the short term, there will be more uncertainties in the operational environment and the Company will still face severe challenges in 2016.

5. Others

No

IV. EXPLANATION ON CIRCUMSTANCES AND REASONS OF FAILURE DISCLOSURE UNDER GUIDELINES BY NOT APPLICABLE GUIDELINES' REQUIREMENTS OR SPECIAL REASONS

Applicable Not applicable

SIGNIFICANT EVENTS

I. PROFIT DISTRIBUTION FOR ORDINARY SHARES OF THE COMPANY AND CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL

1. Formulation, implementation or adjustment of profit distribution policy

According to the *Circular on Further Implementing Relevant Matters Concerning Cash Bonus in Listed Companies* issued by the China Securities Regulatory Commission ("CSRC") on 8 May 2012, the Company had amended the clauses relating to profit distribution in its *Articles of Association* and the amended *Articles of Association* had been adopted at the Company's second general meeting of 2012.

The Company strictly carried out the cash bonus policies specified in the *Articles of Association*.

As at the end of the reporting period, the cash bonus policies remained unchanged.

2. The dividend distribution plans for ordinary shares (proposed) and the proposals on conversion of capital reserves into share capital (proposed) over the past three years (the reporting period inclusive)

Year of distribution	Numbers of bonus share per 10 shares (share(s))	Dividend distribution per 10 shares (RMB) (tax inclusive)	Conversion per 10 shares (share(s))	Amount of cash dividends (tax inclusive)	Unit: RMB	
					Net profit attributable to ordinary shareholders of the Company in the consolidated financial statements during the year of distribution	As a percentage of net profit attributable to ordinary shareholders of the Company in the consolidated financial statements
2015	0	0	0	0	(196,385,215.66)	0
2014	0	0	0	0	(204,091,306.53)	0
2013	0	0	0	0	8,521,796.32	0

3. Repurchase of shares by cash included in cash dividends

There is no repurchase of shares by cash included in cash dividends during the year.

4. The Company should disclose reasons in detail and the purpose and use plan of undistributed profit if the Company made a profit and had positive retained profit available for ordinary shareholders during the reporting period without cash dividend for ordinary shares being proposed

Applicable Not applicable

SIGNIFICANT EVENTS

II. PERFORMANCE OF COMMITMENTS

Applicable Not applicable

1. Commitments of the Company, shareholders of the Company, beneficial controller, the acquirer, directors, supervisors, senior management or other related parties made or subsisting during the reporting period

Background of commitment	Type of commitment	Commitment making party	Content of commitment	Date of commitment and duration	Is there a fulfillment time limit	Whether duly and timely fulfilled
Commitment in relation to share reform	Other	Shenyang Machine Tool (Group) Co., Ltd.	It would provide full support to the business development of the Company in terms of technology, business and resources and would consolidate the relevant resources and markets by leveraging on its own unique strengths based on the principles and models favorable to accelerating the growth of the Company within two years after the completion of the share transfer and share reform with a view to developing Kunming Machine Tool as an important platform for technological upgrade, business expansion and sector growth to provide comprehensive support and facilitate the sustainable and healthy development of the Company. Currently, Shenyang Machine Tool (Group) Co., Ltd. has introduced production management officers to the Company in order to facilitate the enhancement of the production management capabilities and provide convenience for the exports of the Company in terms of market expansion.		No	Yes
Commitment in relation to major assets restructuring		Shenyang Machine Tool (Group) Co., Ltd.	No longer planning a major asset restructuring within six months from the date of the announcement,	9 October 2015, duration: 6 months	Yes	
Other commitments	Restricted shares	Yunnan Industrial Investment Holding Group Co., Ltd.	The increase in shareholding in the Company through directional asset management plan would not be reduced within six months after the completion.	29 December 2015, duration: 6 months	Yes	

2. Explanation on the Company's assets or items in meeting original profit forecast and the reasons if the assets or items exist profit forecast and the reporting period is still in the profit forecast period

No

III. EMBEZZLEMENT OF FUNDS AND REPAYMENT OF DEBT DURING THE REPORTING PERIOD

Applicable Not applicable

SIGNIFICANT EVENTS

IV. EXPLANATION OF THE BOARD ON THE “NON-STANDARD AUDIT REPORT” ISSUED BY THE AUDITOR

1. Explanation of the Board and supervisory committee on the “non-standard audit report” issued by the auditor

Applicable Not applicable

2. Analysis and explanation of the Board on the reasons for and impacts of the changes in accounting policies, accounting estimates and auditing methods

Applicable Not applicable

3. Analysis and explanation of the Board on the reasons for and impacts of corrections of material accounting errors of prior periods

Applicable Not applicable

V. APPOINTMENT AND REMOVAL OF AUDITORS

Unit: RMB

Domestic auditor	Currently engaged Ruihua Certified Public Accountants
Domestic accounting firm remuneration	2,800,000
Domestic accounting firm auditing years	1

	Name	Remuneration
Internal control auditor	Ruihua Certified Public Accountants	

Explanation on appointment and dismissal of accounting firm

Applicable Not applicable

Explanation on change appointment of accounting firm during the audit period

No

VI. FACING THE CIRCUMSTANCE OF THE RISK OF SUSPENSION OF LISTING

1. Reasons for suspension of listing and measures taken by the company to eliminate the elements of suspension the listing

No

VII. BANKRUPTCY AND RESTRUCTURING RELATED MATTERS

Applicable Not applicable

SIGNIFICANT EVENTS

VIII. MAJOR LITIGATION AND ARBITRATION

Applicable Not applicable

1. Other explanation

The Company and its distributor Beijing Hanhai Hongzheng Machinery Co., Ltd. ("Beijing Hanhai") signed a Machine Tool Sales Contract in August 2011, and the Company signed a Manufacturer Authorization Letter authorizing Beijing Hanhai to participate in a tender exercise conducted by Jilin Haoyu Electrical Co., Ltd. ("Jilin Haoyu") using the tool machine, and the Company undertook to assume responsibility for quality assurance of the tool machine. Subsequent to being awarded the tender, Beijing Hanhai signed a Machine Tool Sales Contract with the end-user, Jilin Haoyu. Jilin Haoyu instituted legal proceedings in November 2013 whereby Beijing Hanhai and the Company was named the 1st and 2nd defendants, respectively. Jilin Haoyu considered that Beijing Hanhai and the Company were unable to resolve product quality issues effectively within the product warranty period, and requested that the product be returned and the amount of RMB11.7325 million paid to Beijing Hanhai be refunded, and liquidated damages of RMB1.235 million be paid; and at the same time requested that the Company assume joint and several liabilities for payment.

At the beginning of 2016, the Company received the final judgment made by the Higher People's Court of Jilin Province which required the Company returning the consideration of the contract of RMB11,732,500 to Jilin Haoyu Electrical Co., Ltd., together with a payment of RMB617,500 as liquidated damages; and may at its own cost fetch the TK6926 CNC floor-type boring and milling machine tool deposited at Jilin Haoyu Electrical Co., Ltd.; and the Court costs and authentication fee shall be borne by the Company.

IX. PENALTIES ON THE COMPANY, ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS, HOLDING SHAREHOLDER OF THE COMPANY, BENEFICIAL CONTROLLER AND ACQUIRER, AND RECTIFICATION ISSUES

Applicable Not applicable

In December 2015 the Company received from the Shanghai Stock Exchange (SSE) *The Decision on Circulating a Notice of Criticism on Shenji Group Kunming Machine Tool Co., Ltd. and Relevant Persons-in-charge* ([2015] No. 53). The Company and its controlling shareholder Shenyang Machine Tool (Group) Co., Ltd. had violated the rules in suspension and resumption of trading as well as information disclosure in major assets restructuring and SSE's Listing Supervision Department submitted the case of misconduct to SSE's Disciplinary Sanction Commission for examination. SSE's Disciplinary Sanction Commission served a notice of criticism on the Company, the then Chairman, the then Secretary of the Board and Shenyang Machine Tool Group pursuant to the *Listing Rules of Shanghai Stock Exchange and the Implementing Measures of Shanghai Stock Exchange on Disciplinary and Supervisory Methods*.

X. CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND BENEFICIAL CONTROLLERS

During the reporting period, there was no non-fulfillment of the court effective verdict and there was no circumstance of bad credibility such as debt(s) with large amount due but outstanding existed.

XI. IMPLEMENTATION OF THE EQUITY INCENTIVE PLAN, EMPLOYEE SHAREHOLDING PLAN OR OTHER EMPLOYEE INCENTIVE MEASURE OF THE COMPANY

Applicable Not applicable

SIGNIFICANT EVENTS

XII. RELATED PARTY TRANSACTIONS OF THE COMPANY DURING THE REPORTING PERIOD

✓Applicable Not applicable

1. Related party transactions associated with day-to-day operation

(1) *The transactions disclosed in the provisional announcements and the subsequent implementation unchanged*

<u>Summary and type of event</u>	<u>Index for details</u>
The Company purchased or sold products from/to the related parties, Yunnan CY Group Company Limited, Yunnan CY Group Jinhui Coating Factory and Shenyang Machine Tool Holding Company Limited	For details, please refer to the provisional announcement no.2014-035
Kunming Kunji Group Co., Ltd. was authorized by the People's Government of Yunnan Province to succeed the rights and obligations of the "Land Use Rights Rental Agreement" and the "Premise Rental Agreement" signed between the People's Government of Yunnan Province and the Company on 12 November 2001. The Company and Kunming Kunji Group Co., Ltd. renewed the said land use rights and premise rental agreements at unchanged rents for the period from 12 November 2013 to 11 November 2016.	For details, please refer to the provisional announcement no. 2014-039
The related transaction between the Company and Tos Varnsdorf (a foreign related party) during year 2016 in relation to purchase of goods, receipt of services, sales of goods and provision of services.	For details, please refer to the provisional announcement no. 2015-107
The Company was responsible for developing the major national special project on intelligent manufacturing equipment – Yunji digital workshop five production lines, and entered into five sales contracts with Yunnan CY Group for the manufacturing and assembly of the CNC Production Lines by the Company for Yunnan CY	For details, please refer to the provisional announcement no. 2015-107
The connected transaction (the "Transaction") is about undertaking the national intelligent manufacturing equipment development project. The Company commissioned Shenyang Machine Tool (Group) Design & Research Institute Shanghai Branch ("Shanghai Branch") to develop digitized workshop software system suitable for processing key components with high-end CNC lathe and would pay the research and development expenditure and remuneration to Shanghai Branch.	For details, please refer to the provisional announcement no. 2015-108

2. Others

For details of the Company's related party transactions, please refer to the notes of financial statements: Related parties and related party transactions.

During the reporting period, except for the related party transactions disclosed in the section of Related Party Transaction of the Company in this annual report, the directors, supervisors and related parties of the Company or any shareholders holding over 5% shares of the Company were not found having any interest in the above-mentioned major suppliers and customers.

SIGNIFICANT EVENTS

XIII. MATERIAL CONTRACTS AND THEIR PERFORMANCE

- 1. Escrow agency, contracting and lease matters**
Applicable Not applicable
- 2. Guarantee**
Applicable Not applicable
- 3. Entrusted cash and asset management**
 - (1) *Entrusted wealth management*
Applicable Not applicable
 - (2) *Entrusted loans*
Applicable Not applicable
 - (3) *Other wealth management and derivatives investment*
Applicable Not applicable
- 4. Other material contracts**
No

XIV. OTHER SIGNIFICANT EVENTS

Applicable Not applicable

1. Construction progress of Yanglin Industrial Base

The second EGM of 2011 of the Company approved the resolution to start up the investment proposal of the first stage of construction of heavy casting workshop of the second phase Yanglin CNC precision machine tool manufacturing and heavy casting base. Since the adjustment of the proposal, the project has not started up. On 10 February 2015, the adjustment proposal was passed at the 4th Board meeting of the 8th term of board of directors of the Company. The original proposal was adjusted as: from original investing RMB414,630,000 for 60,000 tons production capacity decreased to invest RMB286,420,000 for 30,000 tons production capacity.

The above adjustment proposal pending the approval by the first extraordinary general meeting of the Company to be held on 31 March, 2015.

2. Issue of medium-term notes

At the third extraordinary general meeting of 2012, the Board of directors was approved and authorized to handle the issue of medium-term notes. On 15 May 2013, the Company amended the proposal of the issue of medium-term notes, which determined the Medium-term Notes Prospectus, and determined to issue, after announcement, 5-year notes in two tranches with an aggregate principal amount of no more than RMB500 million for the purpose of supplementing working capital and repaying bank loans.

On 8 July 2015, the Company has submitted a withdrawal application to the National Association of Financial Market Institutional Investors.

SIGNIFICANT EVENTS

3. Asset-backed loans

- (1) At the 2013 third extraordinary general meeting of the Company on 12 December 2013, the Company was approved to apply bank mortgage loans secured by assets of RMB470 million, and the Board was authorized to determine and deal with the specific matters at its sole discretion.
- (2) At the 4th meeting of the eighth session of the Board on 11 February 2015, the Company was approved to apply to the Export-Import Bank of China for mortgage loan secured by its assets in Yanglin Base.

Currently, the Company has reached the intent on a loan of RMB320 million with the Export-Import Bank of China. The loan is proposed to be secured mainly by the project land and plants of the Company's CNC heavy and precision machine tool manufacturing and casting base in Yanglin, as well as guarantees from related parties for the shortfall. As approved recently by Yunnan Branch of the Export-Import Bank of China, major terms of the project loan include: total principal amount of loans is RMB320 million; the term of loan is 8.5 years, including a grace period of 2 years; and a prime interest rate for the category of project loans will be granted to the Company. Accordingly, the Company has completed the related procedures with the Export-Import Bank of China for the mortgage loan secured by assets of Yanglin Base.

4. On 8 July 2015, based on the responsibility of promoting the stable and healthy development of the capital market, Yunnan Industrial Investment Holding Group Company Limited ("Yunnan Industrial Investment") plans to increase its shareholding in the Company within three months after the Company's resumption of trading and the increase in shareholding will not less than 10% of its cumulative reduction shareholding in the Company in six months.

From 21 October 2015 to 29 October 2015, Yunnan Industrial Investment increased its shareholding of 1,934,500 shares in the Company through asset management plan(s) of securities company(ies) which represented 0.36% of total issued shares of the Company, amounted to RMB27,696,236.50. Then the plan of increasing shareholding was completed. Before the increasing, Yunnan Industrial Investment held 32,218,944 shares of the Company, representing 6.07% of total issued shares of the Company. After the completion of increasing, Yunnan Industrial Investment holds 34,153,444 shares of the Company, representing 6.43% of total issued shares of the Company. Yunnan Industrial Investment committed that the shares increased through asset management plan(s) of securities company(ies) would not be decreased within six months after the completion.

5. On 4 March 2015, the Company received a notice from the first large shareholder of the Company, Shenyang Machine Tool (Group) Company Limited (the "Shenyang Group") that Shenyang Group was planning important issues related to the Company and applied for shares suspension. The trading in shares and derivative products of the Company were suspended since 4 March 2015. Trading in shares of the Company had been suspended on major assets restructuring with effect from 18 March 2015. During the suspension period, Shenyang Group had contacted and negotiated with potential target company. The target company contacted engaged in information transmission, software and information technology services and was an overseas listed company. The Company intended to acquire the equity interest of the target company by cash. After completion of the acquisition, the main business of the Company would be changed.

SIGNIFICANT EVENTS

From 18 March 2015 to 18 May 2015, trading in shares of the Company was suspended on major assets restructuring. Since the related work was completed, trading in shares of the Company continued to be suspended from 18 May to 17 June, 18 June to 17 August and 18 August to 17 September 2015. During the suspension and assets restructuring period, Shenyang Group had researched and demonstrated the feasibility of major assets restructure and confirmed the share transfer of the Company issue and passed the internal decision-making procedure. In May 2015, Shenyang Group submitted the proposal of share transfer of the Company to the state-owned assets supervision authorities. After that, according to the requirement of the state-owned assets supervision authority, Shenyang Group submitted supplementary information in relation to the share transfer of the Company to the state-owned assets supervision authorities several times. The matter had been approved by the Shenyang city state-owned assets supervision authority, the municipal government of Shenyang city and Liaoning provincial government. And the public solicitation procedure was announced on 9 October 2015.

During the suspension period, capital markets of domestic and international have appeared large fluctuations. In addition, the Company's substantial shareholder intended to transfer its shares of the Company. The Company's future substantial shareholder is uncertain. The conditions of promoting the major asset restructuring were not mature. Based on the principle of prudence and through communication, restructuring-related parties decided to terminate the planning of major assets restructuring on 8 October 2015. Shenyang Group committed that it would not plan major assets restructuring again within six months from the date of this announcement (9 October 2015).

6. Proposal on non-public issuance of A Shares

On 18 November 2015, matters related to the non-public issuance of A Shares was considered and approved at the 18th meeting of the 8th term of the board of directors, subject to approval by the general meeting of the Company. For details, please refer to the relevant announcement (2015-100). Under the non-public issuance of A Shares, 44,491,525 shares will be offered. Of which, US Services Investment Management (Beijing) Co., Ltd. ("TUS Services Investment") and Shenzhen Wan'an Xingye Industrial Development Co., Ltd. (the "Wan'an Xingye") would subscribe 39,194,915 shares and 5,296,610 shares respectively. The total proceeds raised from the non-public issuance of A Shares would be not more than RMB420 million which would be used for repayment of bank loans.

7. In October 2015, the Company received the notice from Shenyang Group that Liaoning provincial government and provincial SASAC agreed Shenyang Group through public bidding to choose the best transferee to transfer its 133,222,774 shares of the Company (representing 25.08% of the total issued shares of the Company). On 29 October 2015, the Company published the Announcement on Substantial Shareholder Intending to Transfer Shares of the Company and Public Solicitation Transferee which Tibet Unis-zhuoyuan equity Investment Co., Ltd. (the "Unis-zhuoyuan") was determined to be the preferred transferee of the transfer agreement.

Unis-zhuoyuan and Shenyang Group entered into the Share Transfer Agreement on 10 November 2015, and the approval procedures of SASAC were carried out.

However, on 15 February 2016, the Company received the information about the share transfer issue of Shenyang Group and Unis-zhuoyuan. Since within the agreed the period on 8 February 2016, the approval of the State-owned Assets Supervision and Administration Commission of the State Council of the Share Transfer Agreement (the "Agreement") was unfinished, the effective condition of the Agreement had not been reached, the Agreement had not taken effect. Therefore, the Agreement was automatically terminated. The Agreement was not postponed by both sides and the project was terminated.

Since the termination of the share transfer and the Company had received the clear opinion from Unis-zhuoyuan, the Company terminated the Non-Public Issuance of A Shares.

SIGNIFICANT EVENTS

XV. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITY

1. Fulfillment of social responsibility

Please refer to the report on social responsibilities of the Company published on the website of the Company (www.kmtcl.com.cn) and the website of Shanghai Stock Exchange (www.sse.com.cn) on 31st March 2016 for details.

2. Explanation on environmental information of heavy pollution listed companies and their subsidiaries as required by the state environmental protection department

The Company does not belong to the heavy pollution industry as required by the state environmental protection department.

XVI. INFORMATION OF CONVERTIBLE BONDS

Applicable Not applicable

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. CHANGES IN ORDINARY SHARES

1. Table of Changes in Ordinary Shares

(1) *Table of changes in ordinary shares*

There is no changes in total number of ordinary shares and share capital structure

(2) *Explanation on changes in ordinary shares*

No

(3) *Effect on changes in ordinary shares to the earnings per share and net assets per share etc. financial indicators of the past year and the latest period (if fit)*

No

(4) *Other information which the Company considered necessary or required disclosure by the securities authority*

No

2. Changes in restricted shares

applicable Not applicable

II. SECURITIES ISSUANCE AND LISTING

1. During the reporting period, the securities issuance and listing

Explanation on securities issuance during the reporting period (Please explain respectively if bonds with different interest rate in the duration period):

No

2. Changes in total number of ordinary shares and share capital of the Company and changes in assets and liability structure of the Company

No

3. Existing internal employee shares

No

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

III. SHAREHOLDERS AND BENEFICIAL CONTROLLERS

1. Number of shareholders

Total number of Shareholders as at the end of the reporting period	37,466 (among which, 37,350 were holders of A Shares, 116 were holders of H Shares)
Total number of shareholders of ordinary shares as at the end of the month prior to the publication date of this annual report	65,043 (among which, 64,930 were holders of A Shares, and 113 were holders of H Shares)
Total number of shareholders of preference shares with restored voting right as at the end of the reporting period	0
Total number of shareholders of preference shares with restored voting right as at the end of the month prior to the disclosure date of the annual report	0

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

2. As at the End of the Reporting Period, Shareholdings of the Top Ten Shareholders or Top Ten Holders with Circulating Shares (Or Selling Unrestricted Shares) and their shareholdings

Unit: shares

Shareholdings of the top ten shareholders

Name of shareholders	Total number of shares held at the end of the period	Proportion (%)	Number of selling restricted shares held	Number of shares pledged or frozen Status of shares	Nature of share holders
HKSCC NOMINEES LIMITED	134,396,015	25.31	Nil	Unknown	Unknown
Shenyang Machine Tool (Group) Co., Ltd.	133,222,774	25.08	Nil	Unknown	State-owned legal person
Yunnan Industrial Investment Holding Group Co., Ltd.	34,153,444	6.43	Nil	Unknown	State-owned legal person
China Citi Bank – intelligent manufacturing stocks securities investment fund	8,828,532	1.66	Nil	Unknown	Unknown
ICBC – Hui Tian Fu Growth Focus mixed type securities investment fund	8,500,072	1.60	Nil	Unknown	Unknown
Li Jing	8,179,503	1.54	Nil	Unknown	Domestic nature person
CHAN KWOK TAI EDDIE	3,000,000	0.56	Nil	Unknown	Foreign natural person
Xu Jingxian	2,219,445	0.42	Nil	Unknown	Domestic nature person
ICBC – Hui Tian Fu Value Selection mixed type securities investment fund	2,000,000	0.38	Nil	Unknown	Unknown
Bank of Communications – ABC-CA Industry-leading mixed type securities investment fund	1,171,959	0.22	Nil	Unknown	Unknown

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Selling unrestricted shares held by the top ten shareholders

Name of shareholders	Number of selling unrestricted circulating shares held	Type and quantity of shares Type
HKSCC NOMINEES LIMITED	134,396,015	Overseas listed foreign shares
Shenyang Machine Tool (Group) Co., Ltd.	133,222,774	RMB ordinary shares
Yunnan Industrial Investment Holding Group Co., Ltd.	34,153,444	RMB ordinary shares
China Citi Bank – intelligent manufacturing stocks securities investment fund	8,828,532	RMB ordinary shares
ICBC – Hui Tian Fu Growth Focus mixed type securities investment fund	8,500,072	RMB ordinary shares
Li Jing	8,179,503	RMB ordinary shares
CHAN KWOK TAI EDDIE	3,000,000	Overseas listed foreign shares
Xu Jingxian	2,219,445	RMB ordinary shares
ICBC – Hui Tian Fu Value Selection mixed type securities investment fund	2,000,000	RMB ordinary shares
Bank of Communications – ABC-CA Industry-leading mixed type securities investment fund	1,171,959	RMB ordinary shares

Explanation of the connected relationship or acting in concert relationship among the above shareholders:

Except for no connected relationship between state-owned legal person shareholders, the Company was not notified of any connected relationship or acting in concert relationship regulated by “Information Disclosure Management Procedure to Changes of Shareholding of Listed Company” among the top ten shareholders. Other than the substantial shareholders disclosed above, as at 31 December 2015, there were no other shareholders whose shareholdings exceeded the amount required to be disclosed under Article 60 of “Administration of the Issuing and Trading of Shares Provisional Regulations” of the PRC and Issue No.2 of “The Content and Format of Disclosure of Information of the Listed Companies” (amended in 2005); and under Section 16(1) of the Securities and Futures Ordinance under the Hong Kong Exchanges and Clearing Limited, the Company was not notified of any interests representing 10% or more of the issued share capital of the Company. Among top ten shareholders, there are three shareholders holding 5% or more of the Company's shares. They are HKSCC Nominees Limited (hereinafter referred to as “HKSCC Nominees Limited”), which holds the overseas listed foreign shares; Shenyang Machine Tool (Group) Co., Ltd., which holds the state-owned legal person shares; and Yunnan Industrial Investment Holding Group Co., Ltd., which holds state-owned legal person shares. All of the shares held by these shareholders are not pledged, frozen, nor designated.

Explanation of preferred shareholders of recovery voting rights and shareholdings No

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Notes:

- 1) HKSCC (Nominees) Limited holds shares on behalf of clients. The Company did not receive any notification that any H shareholder held more than 10% in total share capital of the Company. Holders of H Shares who held more than 5% of total issued H Shares were as follows: on 17 February 2016, UBS Group AG held 8,443,000 H Shares of the Company, representing 5.99% of total issued H Shares of the Company and 1.59% of total share capital of the Company.
- 2) Save as disclosed above, the Directors were not notified by any person (who is not a Director or a chief executive officer) who owns the interest or short position in the shares or underlying shares of the Company that shall be disclosed to the Company in compliance with the requirements contained in Divisions 2 and 3 of Part XV of Securities and Future Ordinance ("SFO"), or the interest or short position that shall be included in the prescribed register in accordance with Section 336 of SFO.
- 3) As at 31 December 2015, none of the Directors and the Supervisors had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests or short positions which the Directors or the Supervisors are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

This issue was announced in accordance with the regulation – Notice of Supervising the Shareholders of Listed Companies Implementing the Rules on Lessening Terminated Selling Restricted Shareholding issued by Shanghai Stock Exchange.

Selling restricted shares held by the top ten shareholders and the restrictions

No

3. Strategic Investors or General Legal Persons Became Top Ten Shareholders By Placing of New Shares

No

IV. CONTROLLING SHAREHOLDER AND BENEFICIAL CONTROLLER

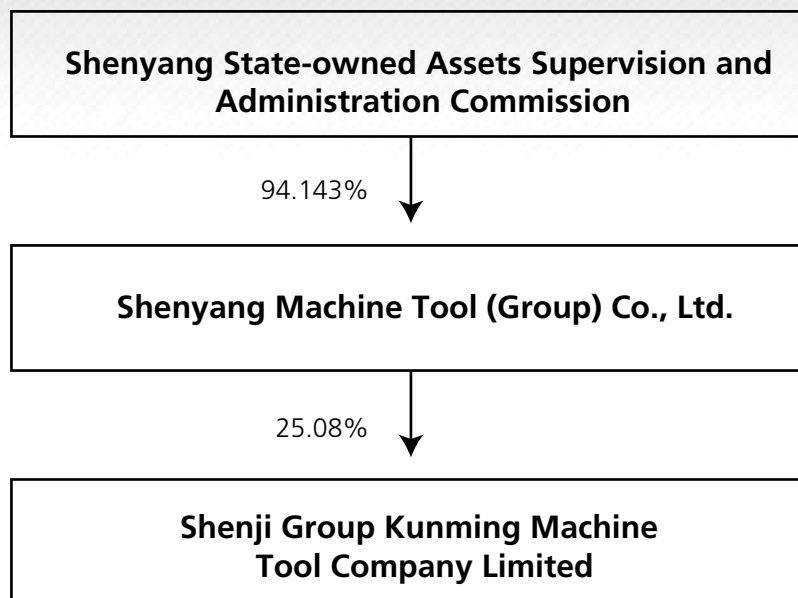
1. Controlling Shareholder

1. Legal person

Name	Shenyang Machine Tool (Group) Co., Ltd.
Person in charge or legal representative	Guan Xiyou
Date of incorporation	18th December 1995
Principal activities	Manufacturing of metal cutting machines, CNC machines and mechanical equipment; general commercial trading, technology trading, property leasing within the PRC, economic information consulting services.
Equity interests in other domestic and overseas listed controlling and invested companies during the reporting period	Shenyang Machine Tool (Group) Co., Ltd. holds 30.12% equity interest in Shenyang Machine Tool Co., Ltd., whose beneficial controller is Shenyang State-owned Assets Supervision and Administration Commission
Explanation on other information	No

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

2. *Diagram of the ownership and controlling relationship between the Company and its beneficial controller*



2. **Other information of controlling shareholder and beneficial controller**

No

V. OTHER LEGAL PERSON SHAREHOLDERS HOLDING OVER 10% SHARES OF THE COMPANY

No

VI. EXPLANATION ON RESTRICTIONS ON DECREASE IN SHAREHOLDING

applicable Not applicable

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

I. MOVEMENT IN SHAREHOLDING AND EMOLUMENTS

1. Movement in shareholding and emoluments of existing and resigned directors, supervisors and senior management during the reporting period

✓ applicable □ Not applicable

Unit: share

Name	Title (note)	Gender	Age	Date of appointment	End date of appointment	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Change in number of shares held during the year	Reason for change	emoluments received from the Company during the reporting period (RMB ten thousand) (before tax) (RMB'0000)
Wang Xing	Chairman, Executive director	Male	50	28 July 2011	31 October 2017	-	-	-		39.87
Zhang Xiaoyi	Vice chairman, Executive director	Male	51	31 October 2008	31 October 2017	-	-	-		36.66
Zhang Tao	Non-executive director	Male	45	31 October 2008	31 October 2017	-	-	-		0
Chang Baoqiang	Executive director General manager	Male	49	31 October 2014 28 March 2013	31 October 2017 31 October 2017	- -	- -	- -		36.65
Jin Xiaofeng	Executive director Chief financial officer	Male	49	31 March 2015 9 March 2015	31 October 2017 31 October 2017	- -	- -	- -		28.69
Zhang Zeshun	Executive director Chief financial officer	Male	36	18 March 2014 28 January 2014	31 October 2017 8 March 2015	- -	- -	- -	Job transfers	15.49
Liu Yan	Non-executive director	Male	51	31 October 2014	31 October 2017	-	-	-		0
Liu Haijie	Non-executive director	Female	49	31 October 2014	31 October 2017	-	-	-		0
Yang Xiongsheng	Independent non-executive director	Male	55	23 March 2013	31 October 2017	-	-	-		14.29
Chen Fusheng	Independent non-executive director	Male	50	16 June 2011	15 June 2017	-	-	-		20
Tang Chunsheng	Independent non-executive director	Male	50	18 March 2014	31 October 2017	-	-	-		14.29
Liu Qiang	Independent non-executive director	Male	53	15 May 2014	31 October 2017	-	-	-		14.29
Shao Li	Chairman of supervisory committee	Male	57	31 October 2008	31 October 2017	-	-	-		34.81
Fan Hong	Supervisor	Male	52	31 October 2008	31 October 2017	-	-	-		0
Cai Zhemin	Supervisor	Male	52	10 May 2011	31 October 2017	-	-	-		0
Jiang Jingying	Supervisor	Female	39	31 October 2014	31 October 2017	-	-	-		0
Zhou Guoxing	Employee Supervisor	Male	53	31 October 2014	31 October 2017	-	-	-		28.70
Ye Nong	Vice general manager	Male	55	30 December 2006	31 October 2017	-	-	-		26.90
Zhu Xiang	Vice general manager	Male	49	20 August 2007	31 October 2017	-	-	-		24.17
Peng Liangfeng	Vice general manager	Male	34	30 March 2015	31 October 2017	-	-	-		25.06
Luo Tao	Secretary to the Board, company secretary	Male	40	28 May 2008	31 October 2017	-	-	-		23.91
Gao Minghui	Former director	Male	52	30 October 2006	11 February 2015	-	-	-		0.56
Total	/	/	/	/	/	-	-	-	/	384.34

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Working Experience
Wang Xing	male, born in 1965. He graduated from Harbin University of Science and Technology majoring in auditing in 1989. He is currently an undergraduate of the MPACC at Dongbei University of Finance and Economics. In 1989, he worked for the Auditing Department of Shenyang First Machine Tool Factory. In early 1996, he worked for the Finance Department of Shenyang Machine Tool (Group) Co., Ltd. Later that year he joined the liquidation team of Shenyang Third Machine Tool Factory. In January 2001, he acted as the vice general manager and the head of Finance Department of Zhong Jie Machine Tool Co., Ltd. At the end of 2003, he worked as the vice general manager and the head of Finance Department of Shenyang CNC Machine Tool Co., Ltd. From 2006, he was the director and the head of Finance Department of Shenyang Machine Tool (Group) Kunming Co., Ltd. Since March 2007, he has held the positions of vice general manager and the head of Finance Department of Yunnan CY (Group) Co., Ltd. On 23rd March 2007, he was appointed as the director of the Company. On 28th July 2011, he was appointed as the chairman of the Company. His tenure of appointment will expire on 31st October 2017.
Zhang Xiaoyi	male, born in April 1964, holding master postgraduate qualification and a bachelor degree of engineering and is a senior engineer. He is currently the vice-chairman, executive director and deputy secretary to the Committee of Communist Party of China ("CPC") of the Company. Mr. Zhang joined Kunming Machine Tool Factory in 1985. He has extensive experience in machinery design and technology management. He worked as the deputy manager, manager of the technical center of the Company, general manager assistant and chief engineer, vice general manager and general manager of the Company. From 29th April 2008 to May 2013, he was the general manager of the Company. From 31st October 2008, he has been a director of the Company. His tenure of appointment will expire on 31st October 2017.
Zhang Tao	male, born in June 1970, holding a bachelor degree and is an engineer. Mr. Zhang graduated from the Department of Architecture of Yunnan Industrial University majoring in city roads and bridges in 1991. During July 1991 to December 1993, he worked as the technician and subsequently the assistant engineer for the Kunming railroad second maintenance team under Chengdu Railroad Bureau. During December 1993 to May 1996, he was the secretary to the office of Kunming Railroad Bureau. During May 1996 to June 2004, he worked as the vice manager, manager and the vice chairman of the labor union of Yunnan Guangda Railroad Co., Ltd. During June 2004 to March 2008, he held the positions of office manager, secretary to the board, general manager assistant and vice chief engineer at Dianxi Railroad Co., Ltd. Since March 2008, he has been the general manager of Investment Department of Yunnan Industrial Investment Holding Group Co., Ltd. From 31st October 2008, he has been a director of the Company. From 18th March 2014, he has been the vice chairman of the Company. His tenure of appointment will expire on 31st October 2017.
Chang Baoqiang	male, born in 1966, graduated at Harbin University of Science of Technology with major in equipment and process of precision machinery manufacturing, holding master degree, senior engineer. Currently, he is the general manager of the Company. Mr. Chang started his career in 1988. He was a designer of Shenyang Third Machine Tool Plant; chief designer of Shenyang Machine Tool Center; deputy chief engineer of Shenyang CNC Machine Tool Plant; head of development department, manufacturing department, and deputy general manager of Shenyang CNC Machine Tool Co., Ltd.; head of engineering department of Shenyang Machine Tool (Group) Co., Ltd.; head of manufacturing coordinating department, manufacturing and supply department of Shenyang Machine Tool Co., Ltd.; Deputy general manager of Shenyang First Machine Tool Plant; general manager and party secretary of Shenyang Machine Tool Co., Ltd. Shen Yi Lathe Factory. From March 2013, he has been the general manager of the Company. His tenure of appointment will expire on 31st October 2017.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Working Experience
Jin Xiaofeng	male, born in November 1966, CPC member, having postgraduate education, accountant. Currently, he is the vice general manager, chief financial officer of the Company. From August 1986 to May 2004 Mr. Jin worked for Shenyang First Machine Tool Factory as a staff for costing in financial department, team leader, assistant department director, vice department director, assistant general manager and vice general manager. From May 2004 to June 2008, Mr. Jin was the vice director of financial department, director of treasury management department and director of fund settlement center of Shenyang Machine Tool (Group) Co. Ltd.. From June 2008 to November 2009, he was the director of financial and assessment department of Shenyang Machine Tool Co. Ltd. From November 2009 up to now, he has been the director of investment department, accounting department of Shenyang Machine Tool (Group) Co. Ltd. From 28th February 2014, he has been the vice general manager of the Company. From 8 March 2015, he also has been the chief financial officer of the Company. His tenure of appointment will expire on 31st October 2017.
Zhang Zeshun	male, Han nationality, born in June 1979, university graduate, senior accountant, certified public accountant. Currently, he is a director of the Company. Mr. Zhang graduated from Jiangxi University of Science and Technology in accounting auditing major in 2002. From August 2002 to July 2004, he worked as an auditor in the auditor department for Yunda Technologies Co., Ltd. From July 2004 to July 2007, he was the accounting supervisor, financial manager of the finance department of Yunda Technologies Co., Ltd. From July 2007 to October 2007, he worked for Yunnan Investment Guarantee Co., Ltd. business development department; from October 2007 to now, he has worked as the manager of the finance department of Yunnan State-owned Kunming Economic Development Zone Industrial Development Co., Ltd.. From 18th March 2014, he has been a director of the Company. His tenure of appointment will expire on 31st October 2017.
Liu Yan	male, born in September 1964, holding a master degree, senior economist. Mr. Liu started his career in December 1980. In September 2008, he was appointed as the general manager, secretary to the Committee of CPC of Zhong Jie Drilling and Boring Machine Factory. In August 2011, he was also appointed as the special assistant to the general manager of Shenyang Machine Tool (Group) Co., Ltd. and project manager of Foxconn joint venture. In October 2012, he was appointed as the head of financial department and the special assistant to the general manager of Shenyang Machine Tool (Group) Co., Ltd.. In February 2013, he was appointed as the vice general manager of Shenyang Machine Tool (Group) Co., Ltd.. From July 2013 to now, he has been the senior vice president and COO, vice General Manager of Shenyang Machine Tool (Group) Co., Ltd.. His tenure of appointment will expire on 31st October 2017.
Liu Haijie	female, born in December 1966, holding a master degree. She started her career in July 1989. In February 2006, she was a chief judge of Shenyang City Intermediate People's Court. In July 2009, she was appointed as the general legal counsel of Shenyang Machine Tool (Group) Co., Ltd.. From July 2013 to now, she has been the senior vice president and CLO, general legal counsel, secretary to the board of directors and head of legal affairs of Shenyang Machine Tool (Group) Co., Ltd.. Her tenure of appointment will expire on 31st October 2017.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Working Experience
Yang Xiongsheng (independent non-executive director)	male, born in February 1960, chair of the accounting department of the school of business of Nanjing University, professor, doctoral tutor. Mr. Yang was graduated at Xuzhou Normal University in 1981, and he has doctorate of accounting at Dongbei University of Finance and Economics. He had worked for Lianyungang Finance School and Lianyungang audit bureau. From 1995, he has worked at the accounting department of Nanjing University. Presently, he is the chair of the accounting department of Nanjing University, the vice president of the fifth council of Chinese Institute of Finance and Cost for Young and mid-career professionals, deputy secretary-general of Accounting Society of China, vice president of Accounting Society of Jiangsu Province, advisory expert of accounting standards for China Accounting Standards Committee under the Ministry of Finance; adjunct doctoral tutor at Nanjing University of Science and Technology, adjunct professor at Anhui University of Finance and Economics. The main research areas of Mr. Yang: internal control, basic theory of accounting, financial management and management accounting. Presently, he has published more than 200 papers, monographs and more than 20 textbooks. He directly involved in the research of specific control criterion and drafting work of the Internal Accounting Control Standards-Basic Standards by the Ministry of Finance, and he undertook a number of key scientific researches for the Ministry of Finance. From 22nd March 2013, he has been an independent non-executive director of the Company. His tenure of appointment will expire on 31st October 2017.
Chen Fusheng (independent non-executive director)	male, born in 1965, doctor of accountancy, master of economics, member of American Accounting Association, member of Hong Kong Academic Accounting Association. During 1996 to 1998, he was a part-time demonstrator of the Faculty of Business at University of Alberta in Canada. In 2006, he was a visiting professor at Tsinghua University. He is now an associate professor in accounting of the Faculty of Business at the Hong Kong University of Science and Technology, editor of "International Accounting Research Journal", specialized professor of the Faculty of Business at Nanjing University and the Faculty of Accounting at Shanghai University of Finance and Economics. From 18th July 2011, he has been an independent non-executive director of the Company. His tenure of appointment will expire on 15 June 2017.
Tang Chunsheng (independent non-executive director)	male, born in 1966, Ni nationality, holding a master degree, senior accountant, China CPA, China CPV, Certified Valuation Analyst (CVA), vice chairman of Yunnan assets valuation association, director of Yunnan CPA association, member of evaluation expert group of major asset restructuring projects for Yunnan State-owned Assets Supervision and Commission ("SASAC"), member of senior accountant professional title judging panel of department of human resources and social security of Yunnan Province, financial expert of the financial office of Yunnan provincial government, outside campus graduate mentor of Yunnan Financial and Economics and, Yunnan University. From 1985 to 1998, he took the positions of manager of financial department, manager of audit department, chief accountant at Chuxiong Autonomous Prefectures Power Industry Company. From 1999 to October 2000, he worked in Kunming High-tech Industrial Development Zone. From November 2000 to 2008, he worked as senior manager, chief appraiser, vice general manager in Yunnan Tianying accounting firm, and the chairman of Yun Tianying Appraisal Co., Ltd. From 2009 to now, he is the partner of Zhonghe Appraisal Company Limited and general manager of Zhonghe Appraisal Company Limited south-west branch. From 18th March 2014, he has been an independent non-executive director of the Company. His tenure of appointment will expire on 31st October 2017.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Working Experience
Liu Qiang (independent non-executive director)	male, born in March 1963, doctor of engineering, professor at School of Mechanical Engineering & Automation – BUAA, doctoral supervisor, director of National Defense Industry Efficient CNC Machining Technology Research And Application Center, leader of “Advanced Manufacturing Technology” Innovation Team and a member of the University Academic Committee. Mr. Liu graduated at Central South Institute of Mining Metallurgy with a bachelor degree in 1983. In 1989, he has his master’s degree in engineering at Beihang University. From 1996 to 1998, he studied in Canada at the University of British Columbia as a visiting scholar and joint training doctoral student. In 2000, he has his doctoral degree at Beihang University. He was selected in former National Defense “511 Talents Project” and became an academic leader. Presently, he also handles the important academic work: subject matter expert in the field of Advanced Manufacturing Technology under National “863 Project”; expert of the CNC first general application demonstration project overall group under the Ministry of Science and Technology; team leader of expert group of technology and equipment; chairman of Machinery Industry Automation Branch under Chinese Mechanical Engineering Society; vice chairman of the national numerical control system technology standardization committee; consultant of the fourth expert group on technology to China Aerospace Science & Industry Corporation; member of professional and technical committee under AVIC aviation special equipment R & D Engineering Center; member of academic committee of Mathematics and Advanced Manufacturing Cross Research Department under Mathematics and Interdisciplinary Science Center; editor of Journal of Mechanical Engineering etc.. His main research direction: CNC machining process simulation and optimization; CNC machine dynamics and control; High-performance motion control etc.. He has hosted more than 30 various kinds of important research projects; gained a second prize of National Defense Science and Technology Award, two second prize of China Aviation Industry Corporation (ministerial level) Technology Progress Award, a first prize of Aeronautical Science and Technology Award, and China Instrument Invention Award/National Invention Exhibition Gold Award; published more than 100 academic papers; granted more than 20 patents and software copyrights; also won the title of outstanding teacher in Beijing, outstanding young backbone teacher in Beijing, won American UTC Rong Hong Science and Technology Education Award and the top ten best teachers of Beihang University etc. From 15 May 2014, he has been appointed as an independent non-executive director of the Company. His tenure of appointment will expire on 31st October 2017.
Shao Li	male, Han nationality, born in 1958, holding a master degree and is a deputy researcher. He is currently the deputy secretary to the Committee of CPC of the Company and chairman of the Supervisory Committee. Mr. Shao joined the Second Light Industry Bureau of Kunming City in March 1982 as a deputy office manager. In May 1987, he worked for Publicity Department under the Committee of CPC in Kunming City as the office manager, and subsequently the assistant to the director of the department. In December 1992, he worked for Research Center of Kunming City Government as a deputy director. In June 2000, he worked for the Enterprises Union Department under the Committee of CPC in Yunnan Province as the deputy office manager and subsequently the director of the research center. In February 2003, he worked for Yunnan State-owned Assets Supervision and Administration Commission as the director of Policy and Statute Department. Since October 2007, Mr. Shao has been the deputy secretary to the Committee of CPC of the Company. From 31st October 2008, he has been a supervisor of the Company. His tenure of appointment will expire on 31st October 2017.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Working Experience
Fan Hong	male, born in June 1963, holding a bachelor degree and is an economics. Mr. Fan graduated from Jiangxi University of Finance & Economics majoring in finance in 1987. During July 1987 to September 1992, he worked for the Provincial Department of Finance of Yunnan. During August 1992 to February 2005, he worked as the department manager for Yunnan International Trust and Investment Company. Since February 2005, he has held the positions of trust department manager, risk control department manager and policy and statute department manager and general manager assistant of Yunnan State-owned Assets Operation Co., Ltd. In August 2011, he was appointed as chairman of Yunnan Equity Exchange Co. Ltd.. From 31st October 2008, he has been a supervisor of the Company. His tenure of appointment will expire on 31st October 2017.
Cai Zhemin	male, born in 1962, member of the CPC, holding college diploma, engineer, now is the head of the strategy planning department of Shenyang Machine Tool (Group) Company Limited. Mr. Cai went into workforce in 1981. In 1996, he joined Shenyang Machine Tool (Group) Company Limited and was successively the official of technology department, production department, planning department. From 2007 to 2008, he was the manager of the planning department. From 2008 to 2009, he was the manager of engineering planning department of Shenyang Machine Tool Company Limited. From 2009, he has been the head of the strategy planning department of Shenyang Machine Tool (Group) Company Limited. His tenure of appointment will expire on 31st October 2017.
Jiang Jingying	female, born in June 1977, holding a master degree. She started her career in March 2002. She was an accountant of Shenyang Machine Tool Co., Ltd. Shenzhen Branch, head of budget and accounting division of financial department of Shenyang First Machine Tool Factory. In June 2008, she was appointed as the vice general manager of Shenyang Machine Tool Yin Feng Foundry Co., Ltd.. In November 2009, she was appointed as the vice general manager of Shenyang Machine Tool Co., Ltd. Shenyi Lathe Factory. From July 2013 to now, she has been the head of investment department of Shenyang Machine Tool (Group) Co., Ltd.. Her tenure of appointment will expire on 31st October 2017.
Zhou Guoxing	male, born in November 1962, holding a master degree and is a senior engineer. He is currently the chairman of the union and employee supervisor of the Company,. Mr. Zhou joined Kunming Machine Tool Factory in 1987 and has extensive experience in machine tool design and production management. He was the manager of the Laboratory of the Company; vice manager and manager of the Technical Center; deputy chief engineer; manager of the Manufacture Center; general manager assistant and the head of the assembly sub-plant; chief engineer and vice general manager of the Company. From October 2014, he has been an employee supervisor of the Company. His tenure of appointment will expire on 31st October 2017.
Ye Nong	male, born in November 1960, holding postgraduate qualification and is an engineer. Mr. Ye currently is the vice general manager of the Company. During February 2000 to May 2002, he was the manager of the Technology Department of Shenyang Machine Tool (Group) and the vice president of Shenyang Machine Tool Design Institute. During May 2002 to December 2003, he was the manager of the Quality Control Department of Zhongjie Machine Tool Co., Ltd. He was the manager of Production Department of Zhongjie Machine Tool Co., Ltd. from December 2003 to June 2006. Since June 2006, he has worked for the Company as general manager assistant and vice general manager. From 30th December 2006, he has been the vice general manager of the Company. His tenure of appointment will expire on 31st October 2017.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Working Experience
Zhu Xiang	male, born in April 1966, holding master postgraduate qualification and is a senior engineer. He is currently the vice general manager of the Company. He joined Kunming Machine Tool Factory in 1988. He has extensive experience in machine tool products design and sales management. He has held the positions of vice director of Assembly Sub-Plant of Kunming Machine Tool Factory, deputy director of the Technology Centre, vice manager of the Sales Department, manager of Sales Company, general manager assistant, and from 20th August 2007, he has been the vice general manager of the Company. His tenure of appointment will expire on 31st October 2017.
Peng Liangfeng	male, born in August 1981, member of CCP, holding a master degree in engineering, engineer. Mr. Peng graduated from Mechanical and Electrical Engineering College of Kunming University of Science and Technology in July 2006 holding a master degree in engineering. From July 2006 to December 2012, he was a designer of Technology Center, designer of product parts, executive designer of products and director of gantry product designing office of the Company. From December 2012 to February 2014, he was a product manager of gantry product line of CNC machine tool division, director of technology department, vice chief engineer. From February 2014 up to now, he has been the general manager of gantry division of the Company. His tenure of appointment will expire on 31st October 2017.
Luo Tao	male, born in July 1975, holding a master degree and postgraduate qualification. He is currently the secretary to the Board, company secretary of the Company. From October 2005, he has held the positions of assistant secretary to the Board and the manager of the office of the Board of the Company, manager of the office of general manager and securities affairs representative. Since May 2008, he has been the secretary to the Board of the Company. From November 2014, he has been the company secretary of the Company. His tenure of appointment will expire on 31st October 2017.
Gao Minghui	male, born in 1963, holding a bachelor degree and postgraduate qualification. He is currently the non-executive director and secretary to the Committee of CPC of the Company. He graduated from the Northeastern University majoring in engineering in 1988. Mr. Gao was a researcher, deputy manager and manager of the Research and Development Department of Shenyang First Machine Tool Factory. Then he was the deputy chief engineer, assistant to general manager, deputy general manager, and general manager of Shenyang First Machine Tool Factory. Starting from January 2002, he had also been as the deputy general manager of Shenyang Machine Tool Co., Ltd. He had been the chairman of the board of directors of Yunnan Machine Tool Factory (now known as Yunnan CY Group Co., Ltd. since the change of name in 2006) from August 2004. Since 2006, he had been the chairman of Shenyang Machine Tool (Group) Co., Limited. He was appointed as the director of the Company on 30th October 2006. During 23rd October 2007 to 29th April 2008, he was also the general manager of the Company. During 30th December 2006 to 28th July 2011 he was the chairman of the Company. His tenure of appointment expired on 11th February 2015 and he has resigned.

Explanation on other information

No

2. Equity incentives granted to directors, supervisors and senior management officers of the Company during the reporting period

Applicable Not applicable

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

II. POSITIONS HELD BY EACH OF EXISTING AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

1. Positions in shareholder's business unit

Applicable Not applicable

Name	Shareholder's business unit	Position	Date of appointment	End date of appointment
Liu Yan	Shenyang Machine Tool (Group) Co., Ltd.	Senior general manager and COO		
Liu Haijie	Shenyang Machine Tool (Group) Co., Ltd.	Senior general manager, CLO, legal adviser, secretary to the Board, head of legal affairs department		
Zhang Tao	Yunnan Industrial Investment Holding Group Co., Ltd.	General manager of investment department		
Cai Zhemin	Shenyang Machine Tool (Group) Co., Ltd.	Director of strategy planning		
Fan Hong	Yunnan Equity Exchange Co. Ltd.	Chairman		
Guan Xin	Shenyang Machine Tool (Group) Co., Ltd.	Vice general manager		

2. Positions in other companies

Applicable Not applicable

Name	Other Companies	Position	Date of appointment	End date of appointment
Wang Xing	Xi'an Ser Turbo Machinery Manufacturing Co., Ltd.	Director		
	Kunming Kunji General Machine Co., Ltd.	Chairman		
Chang Baoqiang	Kunming Kunji General Machine Co., Ltd.	Director		
Zhang Xiaoyi	Xi'an Ser Turbo Machinery Manufacturing Co., Ltd.	Vice chairman		
	Kunming TOS Machine Tool Manufacturing Co., Ltd.	Vice chairman		
	Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd.	Director		
Yang Xiongsheng	the accounting department of the school of business of Nanjing University	Department head		
Chen Fusheng	the Faculty of Business at the Hong Kong University of Science and Technology	Associate professor, editor		
Tang Chunsheng	ZhongHe Appraisal Co., Ltd.			
Liu Qiang	Beihang University	Professor		
Zhou Guoxing	Kunming TOS Machine Tool Manufacturing Co., Ltd.	Member of controlling committee		
Ye Nong	Kunming TOS Machine Tool Manufacturing Co., Ltd.	Director		
Zhu Xiang	Xi'an Ser Turbo Machinery Manufacturing Co., Ltd.	Director		
Luo Tao	Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd.	Director		

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

III. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The procedures for the determination of directors, supervisors and senior management's Emoluments

The emoluments of directors and supervisors of the Company will be considered and approved at the shareholders' meeting; the emoluments of senior management officers are determined based on the terms of reference of the senior management officers in accordance with the remuneration policies formulated by the Remuneration and Assessment Committee of the Company, and assessed with reference to the profit indicators, operating indicators and business development indicators accomplished by the senior management officers for the year, and the improvement in quality of the assets of the Company. The performance assessment results for the year, together with rewards and penalties proposed by the Remuneration and Assessment Committee, will be implemented with the approval from the Board.

Basis for emoluments of directors, supervisors and senior management officers

(1) general information of the emoluments of domestic directors and supervisors;
(2) general information of the emoluments of Hong Kong directors and supervisors;
(3) emoluments of senior management officers are based on the domestic industry practice and emoluments of the comparable listed companies in the region;

Information of emoluments payable to directors, supervisors and senior management officers

During the reporting period, the received amount of emoluments payable to directors, supervisors and senior management officers was consist with the disclosed amount

Total actual emoluments received by directors, supervisors and senior management officers of the Company at the end of the reporting period

During the reporting period, the received amount of emoluments payable to directors, supervisors and senior management was RMB3,843,400 in total.

IV. CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS

Name	Position	Change	Reasons for change
Zhang Zeshun	Chief Financial Officer	Resignation	Job transfer
Jin Xiaofeng	Chief Financial Officer	Appointment	Job reason
Gao Minghui	Non-executive director	Resignation	Job transfer

V. EXPLANATION ON SANCTIONS BY SECURITIES REGULATORY AUTHORITIES IN THE PAST THREE YEARS

Applicable Not applicable

Please refer to the section of significant events in this report for details.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

VI. STAFF OF THE PARENT AND MAJOR SUBSIDIARIES

1. Staff

No. of existing staff of the parent company	2,564
No. of existing staff of the main subsidiaries of the Company	59
Total existing staff	2,623
No. of retired staff whose retirement expenses undertaken by the parent and its major subsidiaries	1,601

Areas of specialization

Areas of specialization	Number of employees
Production	1,359
Sales and marketing	72
Technology	300
Finance	50
Administration	307
General services	88
Early retirement	299
Staff pending for duties	89
Total	2,564

Education level

Education level	Number of employees
Postgraduate or above	34
University graduate	450
College diploma	507
Diploma	439
High school or vocational school	657
Junior high school or below	536
Total	2,623

2. Remuneration Policy

In June 2013, the Company issued the Remuneration Management Measures of Shenji Group Kunming Machine Tool Co., Ltd., pursuant to which a sound remuneration management system has been established, with clearly defined constituents of total remuneration, post-specific and performance-based salaries, remuneration management and distribution, settings of post-specific salaries, and the principles and measures for assessment and adjustments.

In 2015 the Company further enhanced salary control and management and continued to carry out two performance appraisals. The first performance appraisal is conducted monthly by the Company according to the breakdown indexes and main duties of various units; the second performance appraisal, which is specific to every post and every employee, is made by various units based on the scheme of the first performance appraisal.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

3. Training Programme

Under the two-level training system, we organize common, major and key management training at company level, as well as post-specific skill training at department level. Annual training plans for both levels are developed at the year beginning, to govern the training activities during the year, subject to centralized management, monitoring and assessment by the human resources department of the Company.

The training in 2015 included:

(1) Training at company level

1. Quality training:
Based on the trainings in 2015, further organize trainings to improve the quality of electrochemical interdisciplinary talents and mechanical & electrical integration.
2. Focused training:
Enhanced management ability training for middle- to senior-management;

Lean management training for job foremen; market awareness training for workshop managers or officers of higher rank;

Improved quality training for salesmen and after sales service personnel;

Machining skill qualification training for technicians.

(2) Training at department level

There were approximately 145 training courses held by departments, covering 70% posts and employees.

4. Labor outsourcing

Total number of working hours of labor outsourcing	0
Total remuneration paid for outsourcing services	0

VII. OTHERS

No

CORPORATE GOVERNANCE

I. DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDER REGISTRATION MANAGEMENT

The Company strictly complies with the Company Law, the Securities Law and relevant regulations issued by the CSRC and the Shanghai Stock Exchange to establish a modern enterprise system, continuously improve its corporate governance and regulate the operations of the Company. Various systems of the Company are substantially in compliance with the requirements of the "Corporate Governance Standards of Listed Company" promulgated by the CSRC and the State Economic and Trade Commission. In the future, the Company will continue to improve and strengthen the internal control system in the ordinary course of operation so as to strive for the highest standards of corporate governance.

To further improve the corporate governance, the Company formulated the Registration and Management System of Persons with Inside Information in accordance with the requirements of the relevant documents issued by the Shanghai Stock Exchange. Through studies, the Company has a more profound understanding on the importance of inside information management and will continue to enhance the Registration and Management System of Persons with Inside Information, continuously improve the internal control system and strengthen self-discipline awareness, so as to secure confidentiality of the inside information and increase the compliance awareness of insiders, further improving the compliant operation of the Company and effectively preventing and combating inside trading and other illegal securities trading conducts, with an aim to uphold the principle of "openness, equality and fairness" in the securities market and safeguard the legal interests of all shareholders of the Company.

There was no difference between the corporate governance of the Company and requirements under "Company Law" and the relevant provisions of the China Securities Regulatory Commission.

II. SHAREHOLDERS' MEETING

Meeting session	Meeting Date	Designated websites for publishing	Disclosure date of the resolution published
The first extraordinary general meeting of 2015	31 March 2015	www.sse.com.cn \\ www.hkex.com.hk \\ kmtcl.com.cn	1 April 2015
Annual general meeting of 2014	18 May 2015	www.sse.com.cn \\ www.hkex.com.hk \\ kmtcl.com.cn	19 May 2015
The second extraordinary general meeting of 2015	10 August 2015	www.sse.com.cn \\ www.hkex.com.hk \\ kmtcl.com.cn	11 August 2015
The third extraordinary general meeting of 2015	30 September 2015	www.sse.com.cn \\ www.hkex.com.hk \\ kmtcl.com.cn	1 October 2015
The fourth extraordinary general meeting of 2015	30 December 2015	www.sse.com.cn \\ www.hkex.com.hk \\ kmtcl.com.cn	31 December 2015

Explanation on shareholders' meeting

No

CORPORATE GOVERNANCE

III. DIRECTORS AND THEIR DUTIES

1. Attendance of Directors at the board meetings and general meetings

Name of director	Whether independent non-executive director	Required attendance	Attendance at board meeting				Failed to be present at two meetings in a row	Attendance at general meeting Number of attendance at general meeting
			Attended in person	Attended via electronic communication	Attended by representative	Absence		
Wang Xing	No	18	18	16	0	0	No	3
Zhang Xiaoyi	No	18	18	16	0	0	No	4
Zhang Tao	No	18	18	16	0	0	No	1
Chang Baoqiang	No	18	18	16	0	0	No	0
Jin Xiaofeng	No	14	14	13	0	0	No	3
Zhang Zeshun	No	18	18	16	0	0	No	3
Liu Yan	No	18	18	16	0	0	No	0
Liu Haijie	No	18	18	16	0	0	No	0
Yang Xiongsheng	Yes	18	18	16	1	0	No	0
Chen Fusheng	Yes	18	18	16	1	0	No	0
Tang Chunsheng	Yes	18	18	16	0	0	No	0
Liu Qiang	Yes	18	18	16	0	0	No	0

Explanation on failed to be present at two meetings in a row

No

No. of board meetings held during 2015	18
Including: No. of meetings held on-site	2
No. of meetings held via electronic communication	16
No. of meetings held on-site with electronic communication	0

2. Objections raised by Independent Directors

Explanation on objection raised by independent director

No

3. Others

No

IV. SHOULD IMPORTANT OPINIONS AND SUGGESTIONS PROVIDED BY SPECIALIZED COMMITTEES UNDER THE BOARD IN THE PERFORMANCE OF THEIR DUTIES DURING THE REPORTING PERIOD HAVE DISAGREEMENT, THE SPECIFIC CIRCUMSTANCES SHOULD BEEN DISCLOSED

No

V. EXPLANATION ON DISCOVERY OF COMPANY RISKS BY THE SUPERVISORY COMMITTEE

No

CORPORATE GOVERNANCE

VI. EXPLANATION ON THE COMPANY EXISTING NOT ENSURING THE INDEPENDENCE AND NOT MAINTAINING THE ABILITY TO OPERATE INDEPENDENTLY WITH THE CONTROLLING SHAREHOLDER IN RESPECT OF BUSINESS, PERSONNEL, ASSETS, ORGANIZATION AND FINANCE ETC. ASPECTS

No

The Company's measures, progress and follow-up plan for horizontal competition

As Shenyang Machine Tool Group is the controlling shareholder of both Kunming Machine Tool and Shenyang Machine Tool, some of their products are similar, giving rise to intra-industry competition between Kunming Machine Tool and Shenyang Machine Tool.

Limitation on equity financing of the two listed companies brought by horizontal competition to some extent affected their development. In 2012, Shenyang Machine Tool Group announced through Shenyang Machine Tool that it would eliminate horizontal competition by appropriate means within a specified time limit according to the laws and regulations of the state and relevant regions as well as the approval by competent authority in the industry.

VII. THE ESTABLISHMENT AND IMPLEMENTATION OF APPRAISAL AND INCENTIVES SYSTEM TO THE SENIOR MANAGEMENT OFFICER DURING THE REPORTING PERIOD

No

VIII. WHETHER DISCLOSING THE REPORT OF SELF-ASSESSMENT ON INTERNAL CONTROL

Applicable Not applicable

The board of directors of the Company has conducted self-assessment for internal control system in 2015. For details, please refer to 2015 self-assessment report for internal control which published as appendix to the annual report on the company's website www.kmtcl.com.cn and the website of Shanghai Stock Exchange www.sse.com.cn on 31st March 2016.

Explanation on material weakness identified in the Company's internal controls

Applicable Not applicable

IX. RELEVANT INFORMATION ABOUT AUDIT REPORT ON INTERNAL CONTROL

Whether disclosing the internal control audit report: Yes.

The Company engaged the auditor to audit the effectiveness of internal control over financial report as at 31st December 2015, and the auditor has issued the audit report on the internal controls over financial report as at 31st December 2015 according to the requirements. (See the appendix to the annual report published on the website of the Company (www.kmtcl.com.cn) and the website of Shanghai Stock Exchange (www.sse.com.cn) on 31 March 2016 for details).

X. OTHERS

No

AUDITORS' REPORT

瑞華審字[2016]21040007號

All Shareholders of Shenji Group Kunming Machine Tool Company Limited:

We have audited the accompanying financial statements of Shenji Group Kunming Machine Tool Company Limited ("the Company"), which comprise the consolidated balance sheet and balance sheet as at 31st December 2015, the consolidated income statement and income statement, the consolidated cash flow statement and cash flow statement, the consolidated statement of changes in shareholders' equity and statement of changes in shareholders' equity for the year then ended, and notes to the financial statements.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing these financial statements in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and fairly presenting them; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

2. AUDITORS' RESPONSIBILITY

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

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

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

3. OPINION

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31st December 2015, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

Ruihua Certified Public Accountants

Beijing, China

Certified Public Accountants
Registered in the People's Republic of China
Gao Zhe
Sun Rui
30th March 2016

CONSOLIDATED BALANCE SHEET

As at 31st December 2015

Unit: RMB

Item	Note	2015	2014
Current assets:			
Cash at bank and on hand	VI.1	121,188,722.30	163,027,997.62
Bills receivable	VI.2	157,239,974.08	65,234,659.97
Accounts receivable	VI.3	502,055,775.50	573,067,324.65
Prepayments	VI.4	24,931,496.77	35,318,463.55
Other receivables	VI.5	18,526,260.26	18,029,993.23
Inventories	VI.6	914,209,060.05	896,675,761.84
Other current assets	VI.7	15,704,457.06	1,724,042.72
Total current assets		1,753,855,746.02	1,753,078,243.58
Non-current assets:			
Available-for-sale financial assets	VI.8	1,145,000.00	1,145,000.00
Long-term equity investments	VI.9	13,771,542.85	14,384,564.38
Investment properties	VI.10	15,608,952.07	–
Fixed assets	VI.11	498,845,347.32	549,614,786.49
Construction in progress	VI.12	288,677,829.89	268,623,936.12
Intangible assets	VI.13	137,013,532.94	140,625,241.11
Goodwill	VI.14	7,296,277.00	7,296,277.00
Long-term deferred expenses	VI.15	808,153.23	915,696.54
Deferred tax assets	VI.16	34,540,349.12	34,856,402.41
Other non-current assets	VI.17	44,581,366.28	44,581,366.28
Total non-current assets		1,042,288,350.70	1,062,043,270.33
Total assets		2,796,144,096.72	2,815,121,513.91
Current liabilities:			
Short-term loans	VI.18	400,600,000.00	284,500,000.00
Bills payable	VI.19	123,265,837.23	75,048,188.00
Accounts payable	VI.20	432,812,127.18	503,704,466.15
Advances from customers	VI.21	189,665,824.66	229,755,546.36
Employee benefits payable	VI.22	25,658,651.73	12,709,724.16
Taxes payable	VI.23	3,765,152.92	6,877,214.09
Dividends payable	VI.24	135,898.49	135,898.49
Other payables	VI.25	170,573,524.53	144,228,412.53
Non-current liabilities due within one year	VI.26	210,558,420.61	19,747,105.78
Total current liabilities		1,557,035,437.35	1,276,706,555.56

Notes to financial statements set out on pages 62 to 147 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31st December 2015

Unit: RMB
2014

Item	Note	2015	2014
Non-current liabilities:			
Long-term loans	VI.27	129,005,572.45	200,000,000.00
Long-term payables	VI.28	1,066,045.50	11,445,098.47
Long-term employee benefits payable	VI.29	4,953,637.05	5,110,774.06
Special payables	VI.30	20,947,539.29	20,947,539.29
Provisions	VI.31	7,312,879.51	8,811,020.12
Deferred income	VI.32	126,263,601.83	121,303,008.63
Total non-current liabilities		289,549,275.63	367,617,440.57
Total liabilities		1,846,584,712.98	1,644,323,996.13
Shareholders' equity:			
Share capital	VI.33	531,081,103.00	531,081,103.00
Capital reserve	VI.34	19,765,031.17	19,765,031.17
Surplus reserve	VI.35	117,077,019.33	117,077,019.33
Retained earnings	VI.36	221,249,204.66	417,634,420.32
Total equity attributable to shareholders of the Company		889,172,358.16	1,085,557,573.82
Non-controlling interests		60,387,025.58	85,239,943.96
Total shareholders' equity		949,559,383.74	1,170,797,517.78
Total liabilities and shareholders' equity		2,796,144,096.72	2,815,121,513.91

Notes to financial statements set out on pages 62 to 147 form part of these financial statements.

The financial statements were approved by the Board of Directors of the Company on 30th March 2016.

Financial statements in pages 50 to 61 have been signed by the persons below:

Legal representative of the Company:
Wang Xing

The person in charge of accounting affairs:
Jin Xiaofeng

The head of the accounting department:
Li Hongning

BALANCE SHEET

As at 31st December 2015

Item	Note	Unit: RMB	
		2015	2014
CURRENT ASSETS:			
Cash at bank and on hand		84,429,582.79	121,630,513.96
Bills receivable		138,857,097.41	34,238,097.87
Accounts receivable	XV.1	502,243,241.07	480,258,094.00
Prepayments		18,186,203.98	27,403,859.44
Dividends receivable		11,000,000.00	11,000,000.00
Other receivables	XV.2	25,530,489.43	24,243,433.72
Inventories		669,167,062.47	694,522,222.73
Other current assets		15,338,472.74	–
TOTAL CURRENT ASSETS		1,464,752,149.89	1,393,296,221.72
NON-CURRENT ASSETS:			
Long-term equity investments	XV.3	81,897,779.71	82,510,801.24
Investment properties		15,608,952.07	–
Fixed assets		438,794,610.67	508,007,021.93
Construction in progress		288,677,829.89	265,728,246.26
Intangible assets		124,589,155.69	126,922,443.86
Long-term deferred expenses		454,412.82	884,035.54
Deferred tax assets		23,655,654.95	23,655,654.95
Other non-current assets		44,581,366.28	44,581,366.28
TOTAL NON-CURRENT ASSETS		1,018,259,762.08	1,052,289,570.06
TOTAL ASSETS		2,483,011,911.97	2,445,585,791.78
CURRENT LIABILITIES:			
Short-term loans		354,500,000.00	263,500,000.00
Bills payable		130,443,627.23	63,000,000.00
Accounts payable		299,048,701.67	387,551,083.95
Advances from customers		111,584,301.11	124,342,908.17
Employee benefits payable		22,910,013.22	9,294,491.58
Taxes payable		1,392,241.48	3,314,136.98
Other payables		168,563,022.37	144,934,488.09
Non-current liabilities due within one year		210,558,420.61	19,747,105.78
TOTAL CURRENT LIABILITIES		1,299,000,327.69	1,015,684,214.55
NON-CURRENT LIABILITIES:			
Long-term borrowings		129,005,572.45	200,000,000.00
Long-term payables		1,066,045.50	11,445,098.47
Long-term employee benefits payables		4,953,637.05	5,110,774.06
Special payables		20,947,539.29	20,947,539.29
Provisions		5,202,376.08	5,728,400.42
Deferred income		126,023,601.83	121,063,008.63
TOTAL NON-CURRENT LIABILITIES		287,198,772.20	364,294,820.87
TOTAL LIABILITIES		1,586,199,099.89	1,379,979,035.42

Notes to financial statements set out on pages 62 to 147 form part of these financial statements.

BALANCE SHEET

As at 31st December 2015

Item	Note	Unit: RMB	
		2015	2014
Shareholders' equity:			
Share capital		531,081,103.00	531,081,103.00
Capital reserve		27,303,321.72	27,303,321.72
Surplus reserve		117,077,019.33	117,077,019.33
Retained earnings		221,351,368.03	390,145,312.31
TOTAL SHAREHOLDERS' EQUITY		<u>896,812,812.08</u>	<u>1,065,606,756.36</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>2,483,011,911.97</u>	<u>2,445,585,791.78</u>

Notes to financial statements set out on pages 62 to 147 form part of these financial statements.

The financial statements were approved by the Board of Directors of the Company on 30th March 2016.

Financial statements in pages 50 to 61 have been signed by the persons below:

Legal representative of the Company:
Wang Xing

The person in charge of accounting affairs:
Jin Xiaofeng

The head of the accounting department:
Li Hongning

CONSOLIDATED INCOME STATEMENT

For the year 2015

Item	Note	Unit: RMB	
		2015	2014
1. Operating income		776,594,761.09	867,889,305.64
Including: Operating income	VI.37	776,594,761.09	867,889,305.64
2. Operating costs		1,022,632,504.73	1,065,097,568.59
Including: Operating costs	VI.37	659,881,483.14	702,862,972.16
Business taxes and surcharges	VI.38	7,913,379.51	7,066,020.66
Selling and distribution expenses	VI.39	95,638,144.61	116,018,784.59
General and administrative expenses	VI.40	156,963,195.41	185,208,914.45
Financial expenses	VI.41	35,097,266.77	17,591,439.64
Provision of impairment losses	VI.42	67,139,035.29	36,349,437.09
Add: Investment income/(loss)	VI.43	(613,021.53)	9,465,233.51
Including: (Loss)/income from investments In associates and joint ventures		(613,021.53)	1,926,942.96
3. Operating loss		(246,650,765.17)	(187,743,029.44)
Add: Non-operating income	VI.44	32,487,347.83	15,634,552.71
Including: Gains from disposal of non-current assets		407,853.05	196,298.44
Less: Non-operating expenses	VI.45	5,206,926.39	383,925.45
Including: Losses from disposal of non-current assets		631,166.88	313,420.84
4. Loss before income tax		(219,370,343.73)	(172,492,402.18)
Less: Income tax expenses	VI.46	282,851.88	36,970,917.88
5. Net loss for the year		(219,653,195.61)	(209,463,320.06)
Attributable to:			
Shareholders of the Company		(196,385,215.66)	(204,091,306.53)
Non-controlling interests		(23,267,979.95)	(5,372,013.53)
6. Other comprehensive income, net of tax		-	-
Other comprehensive income, net of tax attributable to equity shareholders of the Company		-	-
(1) Other comprehensive income that will never be reclassified to profit or loss		-	-
(2) Other comprehensive income that may be reclassified to profit or loss		-	-
Other comprehensive income, net of tax attributable to non-controlling interests		-	-
7. Total comprehensive loss for the year		(219,653,195.61)	(209,463,320.06)
Attributable to:			
Shareholders of the Company		(196,385,215.66)	(204,091,306.53)
Non-controlling interests		(23,267,979.95)	(5,372,013.53)
8. Loss per share:			
- basic	XVI.2	(0.37)	(0.38)
- diluted	XVI.2	(0.37)	(0.38)

Notes to financial statements set out on pages 62 to 147 form part of these financial statements.

The financial statements were approved by the Board of Directors of the Company on 30th March 2016.

Financial statements in pages 50 to 61 have been signed by the persons below:

Legal representative of the Company:
Wang Xing

The person in charge of accounting affairs:
Jin Xiaofeng

The head of the accounting department:
Li Hongning

INCOME STATEMENT

For the year 2015

Unit: RMB

Item	Note	2015	2014
1. Operating income	XV.4	674,900,006.11	707,934,093.30
Less: Operating costs	XV.4	567,363,619.27	595,863,312.18
Business taxes and surcharges		6,424,763.14	5,334,962.40
Selling and distribution expenses		85,149,950.67	105,033,646.49
General and administrative expenses		131,442,144.96	146,579,120.26
Financial expenses		33,423,049.66	16,304,186.75
Provision of impairment losses		48,000,397.54	27,341,544.80
Add: Investment income	XV.5	971,916.90	1,926,942.96
Including: Income/(loss) from investments in associates and joint ventures		(613,021.53)	1,926,942.96
2. Operating loss		(195,932,002.23)	(186,595,736.62)
Add: Non-operating income		32,331,582.17	14,499,142.22
Including: Gains from disposal of non-current assets		1,957,690.80	196,298.44
Less: Non-operating expenses		5,193,524.22	209,500.75
Including: Losses from disposal of non-current assets		617,764.71	139,661.71
3. Loss before income tax		(168,793,944.28)	(172,306,095.15)
Less: Income tax expenses		-	35,625,737.57
4. Net loss for the year		(168,793,944.28)	(207,931,832.72)
5. Other comprehensive income, net of tax		-	-
(1) Other comprehensive income that will never be reclassified to profit or loss		-	-
(2) Other comprehensive income that may be reclassified to profit or loss		-	-
6. Total comprehensive loss for the year		(168,793,944.28)	(207,931,832.72)

Notes to financial statements set out on pages 62 to 147 form part of these financial statements.

The financial statements were approved by the Board of Directors of the Company on 30th March 2016.

Financial statements in pages 50 to 61 have been signed by the persons below:

Legal representative of the Company:
Wang Xing

The person in charge of accounting affairs:
Jin Xiaofeng

The head of the accounting department:
Li Hongning

CONSOLIDATED CASH FLOW STATEMENT

For the year 2015

Unit: RMB

Item	Note	2015	2014
1. Cash flows from operating activities:			
Proceeds from sale of goods and rendering of services		568,134,793.61	903,419,864.00
Proceeds relating to other operating activities	VI.47	<u>64,653,522.48</u>	<u>25,451,108.74</u>
Sub-total of cash inflows from operating activities		<u>632,788,316.09</u>	<u>928,870,972.74</u>
Payment for goods and services		403,068,228.42	643,918,892.71
Payment to and for employees		250,021,020.21	295,830,872.46
Payment for all types of taxes		79,672,362.23	74,529,565.63
Payment relating to other operating activities	VI.47	<u>63,595,668.26</u>	<u>46,847,658.47</u>
Sub-total of cash outflows from operating activities		<u>796,357,279.12</u>	<u>1,061,126,989.27</u>
Net cash flows from operating activities	VI.48	<u>(163,568,963.03)</u>	<u>(132,256,016.53)</u>
2. Cash flows from investing activities:			
Cash received from recovery of investment		191,000,000.00	–
Investment returns received		421,901.38	–
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,925,975.07	458,338.84
Net proceeds from acquisition of a subsidiary or other business unit		–	22,569,575.21
Proceeds relating to other investing activities	VI.47	<u>88,661,404.95</u>	<u>115,221,777.02</u>
Sub-total of cash inflows from investing activities		<u>282,009,281.40</u>	<u>138,249,691.07</u>
Payment for acquisition of fixed assets, intangible assets and other long-term assets		63,996,166.03	43,248,333.56
Cash paid for investment		191,000,000.00	–
Payment relating to other investing activities	VI.47	<u>99,744,171.59</u>	<u>111,625,711.18</u>
Sub-total of cash outflows from investing activities		<u>354,740,337.62</u>	<u>154,874,044.74</u>
Net cash flows from investing activities		<u>(72,731,056.22)</u>	<u>(16,624,353.67)</u>

Notes to financial statements set out on pages 62 to 147 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year 2015

Item	Note	Unit: RMB	
		2015	2014
3. Cash flows from financing activities:			
Proceeds from borrowings		618,105,572.45	554,020,000.00
Sub-total of cash inflows from financing activities		618,105,572.45	554,020,000.00
Repayments of borrowings		392,696,697.70	343,193,447.35
Payment for distribution of dividends, profit or repayment of interest		41,521,379.87	29,385,836.74
Including: dividends, profit paid to minority shareholders by subsidiaries		1,584,938.43	–
Payment relating to other financing activities	VI.47	–	47,230,000.00
Sub-total of cash outflows from financing activities		434,218,077.57	419,809,284.09
Net cash flows from financing activities		183,887,494.88	134,210,715.91
4. Effect of foreign exchange rate changes on cash and cash equivalents		(509,517.59)	(511,952.25)
5. Net decrease in cash and cash equivalents		(52,922,041.96)	(15,181,606.54)
Add: Cash and cash equivalents at the beginning of the year		124,210,047.71	139,391,654.25
6. Cash and cash equivalents at the end of the year		71,288,005.75	124,210,047.71

Notes to financial statements set out on pages 62 to 147 form part of these financial statements.

The financial statements were approved by the Board of Directors of the Company on 30th March 2016.

Financial statements in pages 50 to 61 have been signed by the persons below:

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Jin Xiaofeng

The head of the accounting department:
Li Hongning

CASH FLOW STATEMENT

For the year 2015

Unit: RMB

Item	Note	2015	2014
1. Cash flows from operating activities:			
Proceeds from sale of goods and rendering of services		426,416,905.64	722,004,008.27
Proceeds relating to other operating activities		59,399,696.16	23,611,514.19
Sub-total of cash inflows from operating activities		<u>485,816,601.80</u>	<u>745,615,522.46</u>
Payment for goods and services		298,457,208.78	518,380,272.93
Payment to and for employees		210,902,526.82	262,209,706.15
Payment for all types of taxes		62,972,671.28	68,145,613.71
Payment relating to other operating activities		53,343,050.98	32,502,111.21
Sub-total of cash outflows from operating activities		<u>625,675,457.86</u>	<u>881,237,704.00</u>
Net cash flows from operating activities		<u>(139,858,856.06)</u>	<u>(135,622,181.54)</u>
2. Cash flows from investing activities:			
Investment returns received		1,400,000.00	2,000,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,925,975.07	256,538.84
Proceeds relating to other investing activities		76,807,840.82	92,421,799.12
Sub-total of cash inflows from investing activities		<u>80,133,815.89</u>	<u>94,678,337.96</u>
Payment for acquisition of fixed assets, intangible assets and other long-term assets		62,624,902.26	42,941,159.22
Payment relating to other investing activities		93,856,616.78	87,040,674.95
Sub-total of cash outflows from investing activities		<u>156,481,519.04</u>	<u>129,981,834.17</u>
Net cash flows from investing activities		<u>(76,347,703.15)</u>	<u>(35,303,496.21)</u>

Notes to financial statements set out on pages 62 to 147 form part of these financial statements.

CASH FLOW STATEMENT

For the year 2015

Unit: RMB
2014

Item	Note	2015	2014
3. Cash flows from financing activities:			
Proceeds from borrowings		570,505,572.45	528,500,000.00
Sub-total of cash inflows from financing activities		570,505,572.45	528,500,000.00
Repayments of borrowings		370,196,697.70	323,673,447.35
Payment for distribution of dividends, profit or repayment of interest		37,842,505.08	26,221,348.74
Payment for relating to other financing activities		-	47,230,000.00
Sub-total of cash outflows from financing activities		408,039,202.78	397,124,796.09
Net cash flows from financing activities		162,466,369.67	131,375,203.91
4. Effect of foreign exchange rate changes on cash and cash equivalents		(509,517.59)	(498,120.57)
5. Net decrease in cash and cash equivalents		(54,249,707.13)	(40,048,594.41)
Add: Cash and cash equivalents at the beginning of the year		91,613,342.33	131,661,936.74
6. Cash and cash equivalents at the end of the year		37,363,635.20	91,613,342.33

Notes to financial statements set out on pages 62 to 147 form part of these financial statements.

The financial statements were approved by the Board of Directors of the Company on 30th March 2016.

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Jin Xiaofeng

The head of the accounting department:
Li Hongning

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year 2015

Unit: RMB

2015							
Attributable to shareholders of the Company							
Item	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained earnings	Non-controlling interest	Total shareholders' equity
I. Balance as at the end of the prior year	531,081,103.00	19,765,031.17	-	117,077,019.33	417,634,420.32	85,239,943.96	1,170,797,517.78
Add: Corrections of prior period errors	-	-	-	-	-	-	-
II. Balance at the beginning of the year	531,081,103.00	19,765,031.17	-	117,077,019.33	417,634,420.32	85,239,943.96	1,170,797,517.78
III. Changes in the period	-	-	-	-	(196,385,215.66)	(24,852,918.38)	(221,238,134.04)
1. Total comprehensive income	-	-	-	-	(196,385,215.66)	(23,267,979.95)	(219,653,195.61)
2. Appropriation of profits	-	-	-	-	-	(1,584,938.43)	(1,584,938.43)
Distribution to shareholders	-	-	-	-	-	(1,584,938.43)	(1,584,938.43)
3. Others	-	-	-	-	-	-	-
IV. Balance at the end of the year	531,081,103.00	19,765,031.17	-	117,077,019.33	221,249,204.66	60,387,025.58	949,559,383.74

Unit: RMB

2014							
Attributable to shareholders of the Company							
Item	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained earnings	Non-controlling interest	Total shareholders' equity
I. Balance as at the end of the prior year	531,081,103.00	27,303,321.72	-	117,077,019.33	650,275,276.12	47,178,986.49	1,372,915,706.66
Add: Corrections of prior period errors	-	-	-	-	(28,549,549.27)	-	(28,549,549.27)
II. Balance at the beginning of the year	531,081,103.00	27,303,321.72	-	117,077,019.33	621,725,726.85	47,178,986.49	1,344,366,157.39
III. Changes in the period	-	(7,538,290.55)	-	-	(204,091,306.53)	38,060,957.47	(173,568,639.61)
1. Total comprehensive income	-	-	-	-	(204,091,306.53)	(5,372,013.53)	(209,463,320.06)
2. Appropriation of profits	-	-	-	-	-	-	-
Distribution to shareholders	-	-	-	-	-	-	-
3. Others	-	(7,538,290.55)	-	-	-	43,432,971.00	35,894,680.45
Impact of getting control over a subsidiary over non-controlling interest	-	(7,538,290.55)	-	-	-	43,432,971.00	35,894,680.45
IV. Balance at the end of the year	531,081,103.00	19,765,031.17	-	117,077,019.33	417,634,420.32	85,239,943.96	1,170,797,517.78

Notes to financial statements set out on pages 62 to 147 form part of these financial statements.

The financial statements were approved by the Board of Directors of the Company on 30th March 2016.

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The head of the accounting department:
Li Hongning

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year 2015

Unit: RMB

Item	2015					Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained earnings	
I. Balance as at the end of the prior year	531,081,103.00	27,303,321.72	-	117,077,019.33	390,145,312.31	1,065,606,756.36
Add: Corrections of prior period errors	-	-	-	-	-	-
II. Balance at the beginning of the year	531,081,103.00	27,303,321.72	-	117,077,019.33	390,145,312.31	1,065,606,756.36
III. Changes in the period	-	-	-	-	(168,793,944.28)	(168,793,944.28)
1. Total comprehensive income	-	-	-	-	(168,793,944.28)	(168,793,944.28)
IV. Balance at the end of the year	531,081,103.00	27,303,321.72	-	117,077,019.33	221,351,368.03	896,812,812.08

Unit: RMB

Item	2014					Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained earnings	
I. Balance as at the end of the prior year	531,081,103.00	27,303,321.72	-	117,077,019.33	626,626,694.30	1,302,088,138.35
Add: Corrections of prior period errors	-	-	-	-	(28,549,549.27)	(28,549,549.27)
II. Balance at the beginning of the year	531,081,103.00	27,303,321.72	-	117,077,019.33	598,077,145.03	1,273,538,589.08
III. Changes in the period	-	-	-	-	(207,931,832.72)	(207,931,832.72)
1. Total comprehensive income	-	-	-	-	(207,931,832.72)	(207,931,832.72)
IV. Balance at the end of the year	531,081,103.00	27,303,321.72	-	117,077,019.33	390,145,312.31	1,065,606,756.36

Notes to financial statements set out on pages 62 to 147 form part of these financial statements.

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The head of the accounting department:
Li Hongning

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

I CORPORATE INFORMATION

Shenji Group Kunming Machine Tool Company Limited (the “Company”) was established in the People’s Republic of China (“the PRC”) with limited liability on 19th October 1993. The place of registration of the Company is 23 Ciba Road, Kunming City, Yunnan Province, the PRC.

The Company is a stock company limited by restructuring from Kunming Machine Tool Plant approved by [1993] no. 173 Ti Gai Sheng issued by the State Economic Reform Commission. The name at establishment was Kunming Machine Tool Company Limited (“Kunji”). Kunming Machine Tool Plant used its assets and liabilities at 30th June 1993 to invest in the Company. The above assets and liabilities were assessed by Shanghai Accounting Firm. The assessed net assets were RMB179,258,700. The assessment was approved by [1993] no. 420 Guo Zi Ping issued by the National State-owned assets Administration Commission. According to [1993] no. 114 Guo Zi Qi Han Fa issued by the National State-owned assets Administration Commission, the assessed state-owned land use rights included in the above net assets should be reduced by RMB34,217,100, meanwhile, 82.74% of the adjusted net assets (assessment value was RMB145,041,600) was discounted to 120,007,400 shares with par value RMB1.00 per share. The original investors of Kunming Machine Tool Plant, Yunnan Provincial People’s Government and Kunming Jinghua Company Ltd., held 102,397,700 and 17,609,700 shares respectively.

Approved by [1993] no. 50 Zheng Wei Fa issued by the Security Commission of the State Council, Kunji issued and listed 65,000,000 H shares with par value RMB1.00 per share in the Stock Exchange of Hong Kong Limited in December 1993. Then, it issued and listed 60,000,000 A shares with par value RMB1.00 per share in Shanghai Stock Exchange in January 1994.

On 25th December 2000, Xi’an Jiaotong University Industrial (Group) Incorporation (“Jiaotong Group”) entered into Shares Transfer Agreement of Jiaoda Kunji High-Tech Company Limited with the People’s Government of Yunnan Province (“Yunnan Government”) whereby Yunnan Government would transfer 71,052,146 state-owned shares of the Company to Jiaotong Group. The transaction was approved by [2001] no. 283 Cai Qi – the Approval of State-owned Shares Transfer of Jiaoda Kunji High-tech Company Limited issued by the Ministry of Finance of the PRC. Upon completion of share transfer procedure on 5th June 2001, Jiaotong Group became the largest shareholder of the Company.

With effective from 29th March 2002, the Company used the name “Jiaoda Kunji High Tech Company Limited” (“Jiaoda Kunji”) jointly approved by the State Administration for Industry and Commerce of the PRC and the Ministry of Foreign Trade and Economic Cooperation of the PRC after completing the business registration for change of company name in Yunnan Commercial and Industrial Administration Bureau. On 15th September 2005, Jiaotong Group and Shenyang Machine Tool (Group) Co., Ltd. (“Shenji Group”) entered into a Share Transfer Agreement. Shenji Group agreed to purchase 71,052,146 shares of Jiaoda Kunji held by Jiaotong Group. The share transfer was approved pursuant to the “Written Reply Regarding the Transfer of State-owned Shares of Jiaoda Kunji High-tech Co., Ltd.” (Guo Zi Chan Quan [2006] No. 628) issued by State-owned Assets Supervision and Administration Committee of the State Council and the Opinion on Information Disclosure of the Acquisition of Jiaoda Kunji High-tech Co., Ltd. by Shenyang Machine Tool (Group) Co., Ltd. (Zheng Jian Gong Si [2006] No. 255) by China Securities Regulation Committee. On 1st December 2006, the register of equity transfer was completed and Shenji Group became the largest shareholder of the Company.

On 4th April 2006, pursuant to the “Written Reply of the People’s Government of Yunnan Province Regarding the Transfer of Title of Jiaoda Kunji High-Tech Co., Ltd.” issued by the People’s Government of Yunnan Province and the “Written Reply of Yunnan State-owned Assets Supervision and Administration Committee regarding the Grant of Authorization to Yunnan State-owned Assets Operation Co., Ltd. to Exercise the Shareholders’ Right of Jiaoda Kunji High-tech Co., Ltd.” issued by Yunnan State-owned Assets Supervision and Administration Committee, 31,345,554 state-owned shares held by the People’s Government of Yunnan were transferred to Yunnan State-owned Assets Operation Co., Ltd. (“Yunnan State-owned Assets Operation Co., Ltd.”) at nil consideration on 31st December 2005. The share transfer was approved by the State-owned Assets Supervision and Administration Committee of the State Council pursuant to the “Written Reply regarding the Transfer of Part of the State-owned Shares of Jiaoda Kunji High-Tech Co., Ltd.” (Guo Zi Chan Quan [2006] No. 1412). The transfer was completed on 19th January 2007.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

I CORPORATE INFORMATION *(Continued)*

On 25th January 2007, the “Written Reply regarding the Transfer of Shares and Increase in Share of Jiaoda Kunji High-Tech Co., Ltd.” (Shang Zi Pi [2007] No. 133) was issued by the Ministry of Commerce of the PRC to approve the share reform proposal of the Company, pursuant to which a total of 38,235,855 shares (as to 28,091,955 A Shares and 10,143,900 H Shares respectively) were transferred from the capital reserve to all the shareholders whose names appeared on the Company’s register of members on 26th February 2007 on the basis of 1.5606 shares for every 10 shares held. On 5th March 2007, the holders of non-circulating shares of the Company made the payment with a total of 18,728,355 shares held as consideration to the holders of circulating A Shares on the basis of 2.7 shares for every 10 shares held. The new A Shares were listed on 7th March 2007. Of 18,728,355 shares, Shenji Group, Yunnan State-owned Assets Operation Co., Ltd. and Jinghua Company contributed as to 11,088,398 shares, 4,891,787 shares and 2,748,170 shares respectively. After implementation of the consideration arrangement, non-circulating shares held by the holders of non-circulating shares of the Company became tradable and listed.

On 23rd March 2007, approved by the shareholders’ meeting of Jiaoda Kunji, Jiaoda Kunji High-Tech Company changed its name to Shenji Group Kunming Machine Tool Company Limited.

Approved by the annual general meeting of the Company held on 29th June 2007, based on total share capital of 283,243,255 shares of the Company, increased shares on the basis of 5 shares for every 10 shares held to all the shareholders by capitalization of capital reserve, totally increased 141,621,628 shares. After share increase, total issued shares of the Company was 424,864,883 shares, and total registered capital of the Company was RMB424,864,883. The resolution was approved by the “Written Reply Regarding the Change of Name and Increase in Share Capital of Jiaoda Kunji High-Tech Co., Ltd.” (Shang Zi Pi [2007] No. 1390) issued by the Ministry of Commerce of the PRC.

Pursuant to the “Written Reply on the Change in Shareholders of the Six Listed Companies including Yunnan Salt & Chemical Industry Co., Ltd.” (Guo Zi Chan Quan [2009] No. 1182) issued by the State-owned Assets Supervision and Administration Commission of the State Council on 22nd October 2009, 47,018,331 shares of the Company held by Yunnan State Owned Assets Operation Co. Ltd. were transferred to Yunnan Industrial Investment Holding Group Co., Ltd. (“Yunnan Industrial Investment”) to perform the obligations as the contributor of state-owned assets.

Approved by the shareholders’ meetings held on 23rd June 2010, based on total share capital of 424,864,883 shares of the Company, increased shares on the basis of 2.5 shares for every 10 shares held to all the shareholders by capitalization of capital reserve, totally increased 106,216,220 shares. After share increase, total issued shares of the Company would be 531,081,103 shares, and total registered capital of the Company would be RMB531,081,103. The resolution was approved by the “Written Reply from the Department of Commerce of Yunnan Province Concerning its Consent to the Increase in Share Capital by Capitalization of the Capital Reserve by Shenji Group Kunming Machine Tool Company Limited” (Yun Shang Zi [2010] No. 130).

Subsidiaries of the Company included in the scope of consolidation in 2015 totalled 4. There are no changes in the scope of consolidation in the year as compared to the last year.

The Company and its subsidiaries (collectively the “Group”) mainly engage in development, design, production and sales of machine tool series products and accessories, sensor and turbo tables and turbo machine and sintering fans series products and accessories. The term of operation of the Company will expire on 31st October 2050. See Note VIII for related information of the subsidiaries of the Company.

The financial statements were approved by the Board of Directors of the Company on 30th March 2016.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

II BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company's financial statements are prepared on a going concern basis and based on actual transactions and events, in accordance with the Accounting Standards for Business Enterprises-Basic Standards promulgated by the Ministry of Finance (Order of Ministry of Finance No. 33, as amended by Order of Ministry of Finance No. 76) and 41 specific accounting standards as promulgated and amended on and after 15 February 2006, the application guidelines of the Accounting Standards for Business Enterprises, interpretations and other related rules of the Accounting Standards for Business Enterprises (hereinafter referred to as "ASBEs"), and the disclosure requirements of the "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" (revised in 2014) of China Securities Regulatory Commission.

The Company's financial statements have been prepared on an accrual basis in accordance with the ASBEs. The financial statements are prepared under the historical cost convention. In the event that depreciation of assets occurs, a provision for impairment is made accordingly in accordance with the relevant regulations.

III STATEMENT OF COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements have been prepared by the Company in conformity with the ASBEs, which truly and fully reflect the financial position of the Company as at 31 December 2015 and relevant information such as the operating results and cash flows of the Company for 2015. In addition, the financial statements of the Company also comply with, in all material respects, the disclosure requirements of the "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" revised by the China Securities Regulatory Commission in 2014 and the notes thereto.

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Company and its subsidiaries based on the actual production and management features and according to relevant provisions of Accounting Standards for Enterprises to make several specific accounting policies and accounting estimates on recognition and measurement of provision for bad debts in receivables, measurement of inventories, depreciation of investment properties and fixed assets, amortization of intangible assets, qualifying R&D expenses for capitalization and recognition and measurement of revenue. Details of which are set out in note IV.9 "accounts receivable", IV.10 "inventories", IV.12 "investment properties", IV.13 "fixed assets", IV.16 "intangible assets" and IV.21 "revenue". About the explanation on significant accounting judgments and estimates made by management, please refer to note IV.26 "significant accounting judgments and estimates".

1. Accounting Period

The accounting periods of the Group are divided into annual periods and interim periods. Interim periods refer to reporting periods that are shorter than a full accounting year. The accounting year of the Group is from 1 January to 31 December of each calendar year.

2. Operating Cycle

Ordinary operating cycle refers to the period from acquisition of assets used for processing by the Group until their realisation in cash or cash equivalents. The operating cycle of the Group lasts for 12 months, and acts as an indicator for classification of liquidity of assets and liabilities.

3. Reporting Currency

The Company and its subsidiaries recognise RMB as their reporting currency according to the primary economic environment in which they operate. The reporting currency of the Company and its subsidiaries is Renminbi ("RMB"). The Group prepares its financial statements in RMB.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

4. Accounting Method of Business Combination under Common Control and Not Under Common Control

Business combinations refer to the transactions or events in which two or more separate enterprises merged as a single reporting entity. Business combinations are divided into business combination under common control and not under common control.

(1) *Business combination under common control*

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties before and after the combination, and that control is not transitory. The party that, on the combination date, obtains control of another enterprise participating in the combination is the absorbing party, while that other enterprise participating in the combination is a party being absorbed. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

Assets and liabilities obtained by the absorbing party are measured at their carrying amount at the combination date as recorded by the party being merged. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate nominal value of shares issued as consideration) is charged to the capital reserve (share capital premium). If the capital reserve (share capital premium) is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Cost incurred by the absorbing party that is directly attributable to the business combination shall be charged to profit or loss in the period in which they are incurred.

(2) *Business combination not under common control*

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination. For a business combination not involving enterprises under common control, the party that, on the acquisition date, obtains control of another enterprise participating in the combination is the acquirer, while that other enterprise participating in the combination is the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

For business combination involving entities not under common control, the cost of a business combination is the aggregate of the fair values, on the date of acquisition, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer to be paid by the acquirer, in exchange for control of the acquiree plus agency fee such as audit, legal service and evaluation consultation and other management fees charged to the profit or loss for the period when incurred. Transaction cost attributable to equity or debt securities issued by the acquirer as consideration is included in the initial costs. Contingent consideration involved is charged to the combination cost at its fair value on the acquisition date, in the event that adjustment on the contingent consideration is required as a result of new or additional evidence in relation to circumstances existed on the acquisition date emerges within twelve months from the acquisition date, the combination goodwill shall also be adjusted. The combination cost incurred by the acquirer and the identifiable net assets acquired from the combination are measured at their fair values on the acquisition date. Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets on the acquisition date, the difference is recognised as goodwill. Where the cost of a business combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer shall first reassess the measurement of the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of combination. If after such reassessment the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is charged to profit or loss for the period.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

4. Accounting Method of Business Combination under Common Control and Not Under Common Control *(Continued)*

(2) *Business combination not under common control (Continued)*

In relation to the deductible temporary difference acquired from the acquiree, which was not recognised as deferred tax assets due to non-fulfilment of the recognition criteria at the date of the acquisition, if new or further information that is obtained within 12 months after the acquisition date indicates that related conditions at the acquisition date already existed, and that the implementation of the economic benefits brought by the deductible temporary difference of the acquiree can be expected, the relevant deferred tax assets shall be recognised and goodwill shall be deducted. When the amount of goodwill is less than the deferred tax assets that shall be recognised, the difference shall be recognised in the profit or loss of the period. Except for the above circumstances, deferred tax assets in relation to business combination are recognised in the profit or loss of the period.

For combination of business not under common control achieved by several transactions, these several transactions will be judged whether they belong to “transactions in a basket” in accordance with the judgement standards on “transactions in a basket” as set out in the Notice of the Ministry of Finance on Issuing Accounting Standards for Business Enterprises Interpretation No. 5 (Cai Kuai [2012] No. 19) and Rule of 51 to “Accounting Standard for Business Enterprises No. 33 – Consolidated Financial Statements”(see Note IV. 5 (2)). If they belong to “transactions in a basket”, they are accounted for with reference to the descriptions as set out in the previous paragraphs of this section and Note IV. 11 “Long-term equity investments”, and if they do not belong to “transactions in a basket”, they are accounted for in separate financial statements and consolidated financial reports.

In separate financial statements, the initial equity investment cost is the aggregate of the carrying amount of the equity investment in the acquiree held prior to the acquisition date and the investment cost newly added as at the acquisition date. In respect of any other comprehensive income attributable to the equity interest in the acquiree prior to the acquisition date, other comprehensive income is accounted for on the same accounting method as direct disposal of relevant asset or liability by the acquiree at the time of disposal (i.e. to be transferred to investment income for the period, except for the changes arising from re-measuring net assets or net liabilities of defined benefit plan using the equity method attributable to the acquiree).

In consolidated financial statements, the equity interest in the acquiree held prior to the acquisition date is remeasured at fair value as at the acquisition date, and the difference between the fair value and the carrying amount is recognised as investment income for the current period. In respect of any other comprehensive income attributable to the equity interest in the acquiree held prior to the acquisition date, other comprehensive income is accounted for on the same accounting method as direct disposal of relevant asset or liability by the acquiree (i.e. to be transferred to investment income at the acquisition date, except for the changes arising from re-measuring net assets or net liabilities of defined benefit plan using the equity method attributable to the acquiree) is transferred to investment income in the period of the acquisition date.

5. Preparation of Consolidated Financial Statements

(1) *Basis for principle of determining the scope of consolidated financial statements*

The scope of consolidation of the consolidated financial statements is determined on the basis of control. The term “control” refers to the fact that the Company has power over the investee and is entitled to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of those returns. The scope of consolidation includes the Company and all of its subsidiaries. A subsidiary is an entity controlled by the Company.

The Company will conduct reassessment in the event there are changes in actual condition and situation causing changes in relevant elements involved in the definition of control above.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

5. Preparation of Consolidated Financial Statements *(Continued)*

(2) *Basis for preparation of the consolidated financial statements*

Subsidiaries are consolidated from the date on which the Company obtains net assets and the effective control of decision making of production and operation and are deconsolidated from the date that such control ceases. For disposal of subsidiaries, the operating results and cash flows of such subsidiaries before the date of disposal are properly included into the consolidated income statement and consolidated cash flow statements; for disposal of subsidiaries during the reporting period, no adjustment shall be made to the opening balance of the consolidated balance sheet. For those subsidiaries acquired through business combination not under common control, the operating results and cash flows after the acquisition date have been properly included in the consolidated income statements and consolidated cash flow statements. No adjustments shall be made to the opening balance of the consolidated balance sheet and the comparative consolidated financial statements amount. For those subsidiaries acquired through business combination under common control, the operating results and cash flows from the beginning of the consolidation period to the consolidation date are also presented in the consolidated income statement and the consolidated cash flow statements. The comparative amounts presented in the consolidated financial statements are also adjusted accordingly.

The financial statements of the subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company in the preparation of the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and the subsidiaries. For acquisition of subsidiaries arising from merger of entities not under same control, the financial statements of the subsidiaries will be adjusted according to the fair value of the identifiable net assets at the acquisition date.

All intra-company significant balances, transactions and unrealised profit are eliminated in the consolidated financial statements.

The shareholders' equity and the portion of the profit or loss for the period of the subsidiaries that are not attributable to the Company are presented under shareholders' equity and net profit in the consolidated financial statements as minority interests and net profit of minority interest respectively. The portion of net profit or loss of subsidiaries for the period attributable to minority interest is presented in the consolidated income statement under the "profit or loss of minority interest". When the amount of loss attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount shall be allocated against minority interest.

For the loss of control over a subsidiary due to disposal of a portion of the equity investment or other reasons, the remaining equity is measured at fair value on the date when the control is lost. The difference arising from the sum of consideration received for disposal of equity interest and the fair value of remaining equity interest over the share of net assets of the former subsidiary calculated continuously since the purchase date based on the shareholding percentage before disposal are recognised as investment income in the period when the control is lost. Other comprehensive income related to equity investment in the subsidiary is accounted for on the same accounting method as direct disposal of relevant asset or liability by the acquiree at the time when the control is lost (i.e. to be transferred to investment income, except for the changes arising from re-measuring net assets or net liabilities of defined benefit plan of the subsidiary using the equity method). The remaining equity interests are measured subsequently according to "Accounting Standard for Business Enterprises No. 2 – Long-term Equity Investments" or "Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments". See Note IV. 11 "Long-term equity investments" or Note IV. 8 "Financial instruments" for details.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

5. Preparation of Consolidated Financial Statements *(Continued)*

(2) *Basis for preparation of the consolidated financial statements (Continued)*

When the Company disposes of equity investment in a subsidiary by a stage-up approach with several transactions until the control over the subsidiary is lost, it shall determine whether these several transactions related to the disposal of equity investment in a subsidiary until the control over the subsidiary is lost belong to “transactions in a basket”. Usually, these several transactions related to the disposal of equity investment in a subsidiary are accounted for as transactions in a basket when the terms, conditions and economic impacts of these several transactions meet the following one or more conditions: ① these transactions are entered into at the same time or after considering their impacts on each other; ② these transactions as a whole can reach complete business results; ③ the occurrence of a transaction depends on at least the occurrence of another transaction; ④ an individual transaction is not deemed as economic, but is deemed as economic when considered with other transactions. If they are not transactions in a basket, each of which are accounted for in accordance with applicable rules in “partial disposal of long-term equity investment of a subsidiary without losing control over a subsidiary” (see Note IV. 11 (2) ④) separately, and “the control over a subsidiary is lost due to partial disposal of equity investment or other reasons” (see the preceding paragraph). When several transactions related to the disposal of equity investment in a subsidiary until the control over the subsidiary is lost belong to transactions in a basket, each of which is accounted for as disposal of a subsidiary with a transaction until the control over a subsidiary is lost; however, the difference between the amount of disposal prior to the loss of control and the net assets of a subsidiary attributable to the disposal investment shall be recognised as other comprehensive income in consolidated financial statements and transferred to profit or loss at the time when the control is lost.

6. Standards for Recognising Cash and Cash Equivalents

Cash and cash equivalents of the Group include cash on hand, deposits readily available for payment purpose and short-term (normally fall due within three months from the date of acquisition) and highly liquid investments held by the Group which are readily convertible into known amounts of cash and which are subject to insignificant risk of value change.

7. Foreign Currency Operations and Translation of Statements Denominated In Foreign Currency

(1) *Basis for translation of foreign currency transactions*

The foreign currency transactions of the Group, when initially recognised, are translated into functional currency at the prevailing spot exchange rate on the date of exchange, i.e. the middle price of RMB exchange rate published by the People’s Bank of China on that date in general and the same hereinafter, while the foreign currency exchange operations and transactions in connection with foreign currency exchange shall be translated into functional currency at the exchange rate actually adopted.

(2) *Basis for translation of foreign currency monetary items and foreign currency non-monetary items*

On the balance sheet date, foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. All differences are included in the profit or loss in the period, except for: ① the differences arising from foreign currency borrowings related to the acquisition or construction of fixed assets that are qualified for capitalisation will be accounted for according to the principle of capitalisation; and ② exchange difference arising from change in balance of carrying amount other than amortised cost of available for sale foreign monetary items will be included in other comprehensive income.

The foreign currency non-monetary items measured at historical cost shall still be measured by the functional currency translated at the spot exchange rate on the date of the transaction. Foreign currency non-monetary items measured at fair value are translated at the spot exchange rate on the date of determination of the fair value. The difference between the amounts of reporting currency before and after the translation will be treated as changes in fair value (including changes in foreign exchange rates) and recognised in profit or loss for the period or recognised as other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

8. Financial Instruments

Financial asset or financial liability will be recognised when the Group became one of the parties under a financial instrument contract. Financial assets and financial liabilities are initially recognised at fair value, relevant transaction costs are included in the amount initially recognised.

(1) *Determination of fair values for financial assets and financial liabilities*

The fair value refers to the price that will be received when selling an asset or the price to be paid to transfer a liability in an orderly transaction between market participants on the date of measurement. Financial instruments exist in an active market. Fair value is determined based on the quoted price in such market. An active market refers to where pricing is easily and regularly obtained from exchanges, brokers, industrial organisations and price fixing service organisations, representing the actual price of a market transaction that takes place in a fair deal. While financial instruments do not exist in an active market, the fair value is determined using valuation techniques. Valuation technologies include reference to be familiar with situation and prices reached in recent market transactions entered into by both willing parties, reference to present fair values of similar other financial instruments, cash flow discounting method and option pricing models.

(2) *Classification, recognition and measurement of financial assets*

Conventionally traded financial assets shall be recognised and derecognised at the trading date. Financial assets shall be classified into loans and accounts receivable, available-for-sale financial assets and others for initial recognition.

① Loans and receivables

They are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets, including bills receivable, accounts receivable and other receivables are classified as loans and receivables by the Group.

Loans and receivables are measured subsequently at the amortised cost by using the effective interest rate method. Gains or losses incurred at the time of derecognition, impairment or amortisation are charged to profit or loss in the current period.

② Available-for-sale financial assets

Non-derivative financial assets designated as available-for-sale at initial recognition and financial assets not classified in other categories are classified as available-for-sale financial assets by the Group.

Equity instruments not quoted in an active market and the fair value of which cannot be measured reliably, their fair values are subsequently measured at cost. Closing cost of available-for-sale equity instrument is its initial acquisition cost.

Interests received from available-for-sale financial assets held and the cash dividends declared by the investee are recognised as investment income.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

8. Financial Instruments *(Continued)*

(3) *Impairment of financial assets*

The carrying amounts of financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Company assesses the asset individually for impairment or include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether the financial asset is individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Financial assets for which an impairment loss is individually recognised are not included in the collective assessment for impairment.

① Impairment of loans and receivables

The carrying amount of financial assets measured as costs or amortised costs are subsequently reduced to the present value discounted from its projected future cash flow. The reduced amount is recognised as impairment loss and recorded as profit or loss for the period. After recognition of the impairment loss from financial assets, if there is objective evidence showing recovery in value of such financial assets impaired and which is related to any event occurring after such recognition, the impairment loss originally recognised shall be reversed to the extent that the carrying value of the financial assets upon reversal will not exceed the amortised cost as at the reversal date assuming there is no provision for impairment.

② Impairment of available-for-sale financial assets

When an equity investment that is not quoted in an active market and the fair value of which cannot be measured reliably, the impairment loss will not be reversed.

(4) *Recognition and measurement of transfers of financial asset*

Financial asset that satisfied any of the following criteria shall be derecognised: ① the contract right to receive the cash flows of the financial asset has terminated; ② the financial asset, along with substantially all the risk and return arising from the ownership of the financial asset, has been transferred to the transferee; and ③ the financial asset has been transferred to the transferee, and the transferor has given up the control on such financial asset, though it does not assign maintain substantially all the risk and return arising from the ownership of the financial asset.

When the entity does not either assign or maintain substantially all the risk and return arising from the ownership of the financial asset and does not give up the control on such financial asset, to the extent of its continuous involvement in the financial asset, the entity recognises such financial asset and the relevant liability accordingly. The extent of the continuous involvement is the extent to which the entity exposes to changes in the value of such financial assets.

If all criteria of recognition of transfer of financial assets are satisfied, the difference between the carrying amounts of the financial assets transferred and the consideration received from the transfer shall be recognised in the profit or loss of the period.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

8. Financial Instruments *(Continued)*

(4) *Recognition and measurement of transfers of financial asset (Continued)*

For financial assets that are sold or transferred with recourse or endorsement, the Group need to determine whether the risk and rewards of ownership of the financial asset have been substantially transferred. If the risk and rewards of ownership of the financial asset have been substantially transferred, the financial assets shall be derecognised. If the risk and rewards of ownership of the financial asset have been retained, the financial assets shall not be derecognised. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group shall assess whether the control over the financial asset is retained, and the financial assets shall be accounting for according to the above paragraphs.

(5) *Classification and measurement of financial liabilities*

Financial liabilities are classified at initial recognition: financial liabilities recognised at fair value with changes carried through profit or loss and other financial liabilities. The Group's financial liabilities are all other financial liabilities.

For initial recognition financial liabilities measured at fair value, relevant transaction costs are included in the amount initially recognised. The Group adopted the effective interest method to carry out subsequent measurement for other financial liabilities at amortized cost, and relevant gain or loss arising from derecognition or amortization are included in current profit or loss.

9. Accounts receivable

Accounts receivable includes accounts receivable and other receivables etc.

(1) *Basis for recognition and measurement of bad debt provision*

The Group carries out an overall inspection on the carrying amount of accounts receivable on the balance sheet date. Where there arises any of the following objective evidences indicating that accounts receivable have been impaired, an impairment provision will be made: ① a serious financial difficulty occurs to the debtor; ② the debtor breaches any of the contractual stipulations (such as he fails to pay or delays the payment of interests or the principal); ③ the debtor will probably go bankrupt or carry out other financial reorganisations; ④ other objective evidences show that the accounts receivable are impaired.

(2) *Method for making bad debt provision*

- ① Recognition standard and method for making bad debt provision individually for individually significant accounts receivable

Accounts receivable is recognised as individually significant accounts receivable in accordance with the following criterias by the Group.

Type of trade receivable (trade receivables): criteria: RMB7,000,000 for single accounts receivable;

Type of other receivable (other receivables): criteria: RMB3,500,000 for single accounts receivable;

Type of personal accounts receivable (other receivables): criteria: RMB100,000 for single accounts receivable.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Accounts receivable *(Continued)*

(2) Method for making bad debt provision *(Continued)*

- ① Recognition standard and method for making bad debt provision individually for individually significant accounts receivable *(Continued)*

The bad debt provision made for individually significant accounts receivable adopted both on individual basis and on collective combination basis. First by individual impairment test, if the present value of estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate is less than its carrying value, the difference should be recognized as impairment loss and should make provision. If the impairment not being incurred after the individual test, should the credit risk characteristics are consistent with other receivables, the accounts receivable should combine with other receivables to provide bad debt provision by credit risk characteristic combination. If the impairment not being incurred after the individual test, should the credit risk characteristics are not consistent with other receivables, then no additional impairment test will be carried out.

- ② Determination and method for making bad debt provision for accounts receivable provided for bad debt by credit risk combination

A. Basis for determining the credit risk combination

The Group classifies its individually insignificant accounts receivable and individually significant but not impaired accounts receivable in accordance with their credit risk characteristics and relevance of financial assets. These credit risks usually reflect the ability of debtor in repaying all debts due based on the contracted terms of relevant assets, and are related to the forecast on future cash flows of asset under assessment.

Combinations are determined according to the following basis:

Item	Basis for determining the combination
Receivables from third parties	Based on debtors' nature, receivables from the third parties
Receivables from related parties	Based on debtors' nature, receivables from the related parties

B. Method for making bad debt provision according to credit risk characteristics

When an impairment test is performed by means of a group, bad debt provision will be assessed and ascertained according to the structure of the group of accounts receivable and similar credit risk characteristics (debtors' ability to settle outstanding amounts based on contracted terms), taking into account historical experience of losses, prevailing economic condition and losses that are expected to incur in the group of accounts receivable.

Method for making bad debt provision for different combination:

Item	Method for making provision
Receivables from third parties	Ageing analysis
Receivables from related parties	Individual assessment

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Accounts receivable *(Continued)*

(2) Method for making bad debt provision *(Continued)*

② Determination and method for making bad debt provision for accounts receivable provided for bad debt by credit risk combination *(Continued)*

B. Method for making bad debt provision according to credit risk characteristics *(Continued)*

a. Use of ageing analysis for making bad debt provision in the group

Ageing	Ratio of accounts receivable provision (%)	Ratio of other accounts receivable provision (%)
Within 1 year (including 1 year)	5	5
1-2 years	30	50
2-3 years	60	100
Over 3 years	95	100

b. Use of other methods for making bad debt provision in the group

In group of receivables from related parties, individual impairment test will be conducted to accounts receivable of related parties at the end of the year. Should objective evidence shows that it incurred impairment, according to the difference between the present value of future estimated cash flow and the book value, assets impairment should be recognized. Should no objective evidence shows that it has impairment, no bad debt provision should be made.

③ Accounts receivable individually insignificant but provided for bad debt separately

Individual impairment test will be conducted to insignificant single receivables if there is any objective evidence which shows that such receivables incur impairment or there is any change in their credit risk characteristics which makes them different from those of other receivables in the same group, and provision for bad debts will be made according to the difference between the present value of future cash flow and the book value.

(3) Reversal of provision for bad debts

If there are evidences indicating that the value of the account receivable is recovered and that recovery is connected to the event subsequent to the recognition of the loss, the impairment loss previously recognised will be reversed and recorded into profit or loss for the period. However, the carrying amount so reversed shall not exceed the amortised cost of the account receivable on the date of reversal on the assumption that no impairment loss has been made.

Should the Company transfer of receivables to financial institutions without recourse, the difference between the trade amount excluding written off the book value of accounts receivable and relevant taxes is recognized in the current profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

10. Inventories

(1) *Classification*

Inventories include raw material, work in process, semi-finished goods, finished goods and reusable materials. Reusable materials include low-value consumables, packaging materials and other materials, which can be used repeatedly but do not meet the definition of fixed assets.

(2) *Pricing of inventories received and dispatched*

Inventories are measured at their actual cost when obtained. Cost of an inventory consists of purchase costs, processing costs and other costs. When used and dispatched, inventories will be calculated with weighted average method.

(3) *Recognition of net realisable value of inventory and provision for inventory impairment*

Net realisable value refers to the amount of the estimated price of inventories less the estimated cost incurred upon completion, estimated sales expenses and taxes and levies in daily operation. The realisable value of inventories shall be determined on the basis of definite evidence, purpose of holding the inventories and effect of after-balance-sheet-date events.

At the balance sheet date, inventories are calculated at the lower of cost and net realisable value. Usually, provision for inventory impairment is made when the net realisable value is lower than the cost. Provisions for impairment of inventory shall be made according to the amount by which the cost of a single item exceeds its net realisable value.

After making the provision for inventory impairment, in case the factors causing inventory impairment no longer exists, and the net realisable value of an inventory is higher than its book-value, the original provision for inventory impairment shall be transferred back and incorporated into the profit or loss for the current period.

(4) The Group maintains a perpetual inventory system for raw material and finished goods and a periodic inventory system for semi-finished goods.

(5) *The amortisation method of low-value consumables and packaging materials*

Consumables including low-value consumables and packaging materials are amortized in full when received for use.

11. Long-term Equity Investments

Long-term equity investments under this section refer to long-term equity investments in which the Company and its subsidiaries have control, joint control or significant influence over the investee. Long-term equity investment without control or joint control or significant influence of the Company and its subsidiaries is accounted for as available-for-sale financial assets or financial assets measured at fair value with any change in fair value charged to profit or loss. Details on its accounting policy please refer to Note IV. 8. "Financial instruments".

Joint control is the contractually agreed sharing of control over an arrangement of the Company and its subsidiaries, which relevant activities of such arrangement must be decided by unanimously agreement from parties who share control. Significant influence is the power of the Company and its subsidiaries to participate in the financial and operating policy decisions of an investee, but to fail to control or joint control the formulation of such policies together with other parties.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

11. Long-term Equity Investments *(Continued)*

(1) *Determination of investment cost*

For a long-term equity investment acquired through a business combination involving enterprises under common control, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owner's equity under the consolidated financial statements of the ultimate controlling party on the date of combination. The difference between the initial cost of the long-term equity investment and the cash paid, non-cash assets transferred as well as the book value of the debts borne by the absorbing party shall offset against the capital reserve. If the capital reserve is insufficient to offset, the retained earnings shall be adjusted. If the consideration of the merger is satisfied by issue of equity securities, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owner's equity under the consolidated financial statements of the ultimate controlling party on the date of combination. With the total face value of the shares issued as share capital, the difference between the initial cost of the long-term equity investment and total face value of the shares issued shall be used to offset against the capital reserve. If the capital reserve is insufficient to offset, the retained earnings shall be adjusted.

For a long-term equity investment acquired through a business combination involving enterprises not under common control, the initial investment cost of the long-term equity investment shall be the cost of combination on the date of acquisition. Cost of combination includes the aggregate fair value of assets paid by the acquirer, liabilities incurred or borne and equity securities issued. Agent fees incurred by the absorbing party or acquirer for the acquisition such as audit, legal service, and valuation and consultation fees, and other related administration expenses are charged to profit or loss in the current period at the time such expenses incurred.

The long-term equity investment acquired through means other than a business combination shall be initially measured at its cost. Such cost is depended upon the acquired means of long-term equity investments, which is recognised based on the purchase cost actually paid by the Company in cash, the fair value of equity securities issued by the Company, the agreed value of investment contract or agreement, the fair value or original carrying amounts of the non-monetary asset exchange transaction which the asset will be transferred out of the Company, and the fair value of long-term equity investment itself. The costs, taxes and other necessary expenses that are directly attributable to the acquisition of the long-term equity investments are also included in the investment cost.

(2) *Subsequent measurement and method for profit or loss recognition*

Long-term equity investments with joint control (excluding those constitute joint ventures) or significant influence on the investee are accounted for using equity method. In addition, long-term equity investments with control on the investee are accounted for using cost method and record in the Company's financial statements.

① Long-term equity investments accounted for using the cost method

Under the cost method, a long-term equity investment is measured at its initial investment cost. The cost for long-term equity investment is adjusted in the event of additional investment or investment recovery. Except receiving the actual consideration paid for the investment or the declared but not yet distributed cash dividends or profits which is included in the consideration, investment gains for the period is recognised as the cash dividends or profits declared by the investee.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

11. Long-term Equity Investments *(Continued)*

(2) *Subsequent measurement and method for profit or loss recognition (Continued)*

② Long-term equity investments accounted for using the equity method

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, no adjustment shall be made to the initial investment cost. Where the initial investment cost is less than the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference shall be charged to profit or loss for the current period, and the cost of the long term equity investment shall be adjusted accordingly.

Under the equity method, investment gain and other comprehensive income shall be recognised based on the Company's share of the net profits or losses and other comprehensive income made by the investee, respectively. Meanwhile, the carrying amount of long-term equity investment shall be adjusted. The carrying amount of long-term equity investment shall be reduced based on the Company's share of profit or cash dividend distributed by the investee. In respect of the other movement of net profit or loss, other comprehensive income and profit distribution of investee, the carrying value of long-term equity investment shall be adjusted and included in the capital reserves. The Company shall recognise its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the time of acquisition, after making appropriate adjustments thereto. In the event of inconformity between the accounting policies and accounting periods of the investee and the Company, the financial statements of the investee shall be adjusted in conformity with the accounting policies and accounting periods of the Company. Investment gain and other comprehensive income shall be recognised accordingly. In respect of the transactions between the Company and its associates and joint ventures in which the assets disposed of or sold are not classified as operation, the share of unrealised gain or loss arising from internal transactions shall be eliminated by the portion attributable to the Company. Investment gain shall be recognised accordingly. However, any unrealised loss arising from internal transactions between the Company and an investee is not eliminated to the extent that the loss is impairment loss of the transferred assets.

The Company's share of net losses of the investee shall be recognised to the extent that the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of the investor's net investment in the investee are reduced to zero. If the Company has to assume additional obligations, the estimated obligation assumed shall be provided for and charged to the profit or loss as investment loss for the period. Where the investee is making profits in subsequent periods, the Company shall resume recognising its share of profits after setting off against the share of unrecognised losses.

③ Acquisition of minority interest

Upon the preparation of the consolidated financial statements, capital reserve is adjusted based on the difference between the additional long term equity investment from acquisition of minority interest and the share of net assets of the subsidiary attributable to the additional shareholding from the date of acquisition (or date of combination). In the case of insufficient capital surplus to offset impairment, retained earnings shall be adjusted.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

11. Long-term Equity Investments *(Continued)*

(2) *Subsequent measurement and method for profit or loss recognition (Continued)*

④ Disposal of long-term equity investments

In these consolidated financial statements, for disposal of a portion of the long-term equity investments in a subsidiary without loss of control, the difference between disposal cost and disposal of long-term equity investments relative to the net assets of the subsidiary is charged to the owners' equity. If disposal of a portion of the long-term equity investments in a subsidiary by the parent company results in a loss in control, it shall be accounted for in accordance with the relevant accounting policies as described in Note IV. 5. (2) "Preparation Method of the Consolidated Financial Statements".

On disposal of a long-term equity investment otherwise, the difference between the carrying amount of the investment and the actual consideration paid is recognised through profit or loss in the current period.

In respect of long-term equity investment accounted for using equity method with the remaining equity interest after disposal also accounted for using equity method, other comprehensive income previously under owners' equity shall be accounted for in accordance with the same accounting method for direct disposal of relevant asset or liability by investee on pro rata basis at the time of disposal. The owners' equity recognised for the movement of other owners' equity (excluding net profit or loss, other comprehensive income and profit distribution of investee) shall be transferred to profit or loss for the current period on pro rata basis.

In respect of long-term equity investment accounted for using cost method with the remaining equity interest after disposal also accounted for using cost method, other comprehensive income recognised using equity method or the recognition and measurement standard of financial instruments before obtaining control over the investee shall be accounted for in accordance with the same accounting method for direct disposal of relevant asset or liability by investee, and transferred to profit or loss for the current period on pro rata basis. Movement of other owners' equity (excluding net profit or loss, other comprehensive income and profit distribution under net asset of investee accounted for and recognised using equity method) shall be transferred to profit or loss for the current period on pro rata basis.

12. Investment Properties

Investment property refers to real estate held to earn rentals or for capital appreciation, or both. The Company's investment properties are leased buildings.

Investment property is initially measured at cost. Subsequent expenditures related to an investment property shall be included in cost of investment property only when the economic benefits associated with the asset will likely flow to the Company and its cost can be measured reliably. All other expenditures on investment property shall be included in profit or loss for the current period when incurred.

The Company adopts cost method for subsequent measurement of investment property, which is depreciated using the same policy as that for buildings. See Note IV. 13 "Fixed assets" for detailed depreciation method.

The method for impaired test of investment property and measurement of impairment provision are detailed in Note IV. 18 "Impairment of long-term assets".

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

12. Investment Properties *(Continued)*

In the event that an investment property is converted to an owner-occupied property, such property shall become fixed assets or intangible assets since the date of its conversion. In the event that an owner-occupied property is converted to real estate held to earn rentals or for capital appreciation, such fixed assets or intangible assets shall become an investment property since the date of its conversion. Upon the conversion, the property shall be stated at the carrying amount prior to the conversion.

If an investment property is disposed of or if it withdraws permanently from use and no economic benefit will be obtained from the disposal, the recognition of it as an investment property shall be terminated. When an investment property is sold, transferred, retired or damaged, the amount of proceeds on disposal of the property net of the carrying amount and related tax and surcharges is recognised in profit or loss for the current period.

13. Fixed Assets

(1) *Conditions for recognition of fixed assets*

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and have a useful life of more than one accounting year. Fixed assets are recognised only if the Company is very likely to receive economic benefits from the asset and its cost can be measured reliably. A fixed asset shall be initially measured at cost and the effect of any expected costs of abandoning the asset at the end of its use.

(2) *Method for depreciation of each category of fixed assets*

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The useful life, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	Useful life of depreciation (Year)	Estimated residual value	Annual depreciation rate
Buildings and structures	40	5	2.38
Machinery equipment	5-20	5	4.75-19.00
Electronic equipment	5-14	5	6.79-19.00
Transportation equipment	5-14	5	6.79-19.00

Estimated net residual value of a fixed asset is the estimated amount that the Company would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the stage and in the condition expected at the end of its useful life.

(3) *Methods of impairment test and provision of fixed assets*

The method for impaired test of fixed assets and measurement of impairment provision are detailed in Note IV. 18 "Impairment of long-term assets".

(4) *Recognition and accounting method of fixed assets acquired under finance leases*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of asset ownership to the lessee and titles to the assets may or may not eventually be transferred. For fixed assets acquired under finance leases, the basis for provision of leased assets depreciation is the same as that of self-owned fixed assets. When it can be reasonably determined that the ownership of a leased asset will be transferred at the end of the lease term, it is depreciated over the period of expected use; otherwise, the lease asset is depreciated over the shorter period of the lease term and the period of expected use.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. Fixed Assets *(Continued)*

(5) *Explanation on other matters*

Subsequent expenditures incurred for a fixed asset shall be included in the cost of the fixed asset, only if it is probable that economic benefits associated with the asset will flow to Chenming Paper and the relevant cost can be measured reliably; meanwhile the carrying amount of the replaced part shall be derecognised. Other subsequent expenditures shall be charged to profit or loss when incurred.

Fixed assets are derecognised when there is no economic benefit arising from disposal or expected use or disposal of fixed assets. When a fixed asset is sold, transferred, retired or damaged, the Company shall recognise the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes in profit or loss for the current period.

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each financial year-end. A change in the useful life or estimated net residual value of a fixed asset or the depreciation method used shall be accounted for as a change in accounting estimate.

14. Construction in Progress

Construction in progress is recognised based on the actual construction cost, including all expenditures incurred for construction projects, capitalised borrowing costs for the construction in progress before it has reached the working condition for its intended use, and other related expenses during the construction period. A construction in progress is reclassified to fixed assets when it has reached the working condition for its intended use.

The method for impaired test of construction in progress and measurement of impairment provision are detailed in Note IV. 18 "Impairment of long-term asset".

15. Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, when expenditures for the asset and borrowing costs are being incurred, activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced, such borrowing costs shall be capitalised as part of the cost of that asset; and capitalisation shall discontinue when the qualifying asset is ready for its intended use or sale. Other borrowing costs shall be recognised as expense in the period in which they are incurred.

Where funds are borrowed for a specific purpose, the amount of interest to be capitalised shall be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used into banks or any investment income on the temporary investment of those funds. Where funds are borrowed for general purpose, the Company shall determine the amount of interest to be capitalised on such borrowings by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. The capitalisation rate shall be the weighted average of the interest rates applicable to the general-purpose borrowings.

During the capitalisation period, exchange differences on a specific purpose borrowing denominated in foreign currency shall be capitalised. Exchange differences related to general-purpose borrowings denominated in foreign currency shall be included in profit or loss for the current period.

Qualifying assets are assets (fixed assets, investment property, inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

Capitalisation of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than three months, until the acquisition, construction or production of the qualifying asset is resumed.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

16. Intangible Assets

(1) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Company.

An intangible asset shall be initially measured at cost. The expenditures incurred on an intangible asset shall be recognised as cost of the intangible asset only if it is probable that economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. Other expenditures on an item asset shall be charged to profit or loss when incurred.

Land use right acquired shall normally be recognised as an intangible asset. Self-constructed buildings (e.g. plants), related land use right and the buildings shall be separately accounted for as an intangible asset and fixed asset. For buildings and structures purchased, the purchase consideration shall be allocated among the land use right and the buildings on a reasonable basis. In case there is difficulty in making a reasonable allocation, the consideration shall be recognised in full as fixed assets.

An intangible asset with a finite useful life shall be stated at cost less estimated net residual value and any accumulated impairment loss provision and amortised using the straight-line method over its useful life when the asset is available for use. Amortization period for various types of intangible assets:

Types	Amortization period (year)
Land use rights	50
Various software	3-10
Others	5-10

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group. As at the balance sheet date, the Group did not have any intangible assets with indefinite useful lives.

(2) Research and development expenditure

Research and development expenditure of the Company was divided into expenses incurred during the research phase and expenses incurred during the development phase.

Expenses incurred during the research phase are recognised as profit or loss in the current period.

Expenses incurred during the development phase that satisfy the following conditions are recognised as intangible assets, while those that do not satisfy the following conditions are accounted for in the profit or loss for the current period:

- ① it is technically feasible that the intangible asset can be used or sold upon completion;
- ② there is intention to complete the intangible asset for use or sale;
- ③ the intangible asset can produce economic benefits, including there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market; and if the intangible asset is for internal use, there is evidence that there exists usage for the intangible asset;
- ④ there is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;
- ⑤ the expenses attributable to the development phase of the intangible asset can be measured reliably.

If the expenses incurred during the research phase and the development phase cannot be distinguished separately, all development expenses incurred are accounted for in the profit or loss for the current period.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

16. Intangible Assets *(Continued)*

(3) *Methods of impairment test and provision of intangible assets*

The method for impaired test of intangible assets and measurement of impairment provision are detailed in Note IV. 18 "Impairment of long-term assets".

17. Long-term Prepaid Expenses

Long-term prepaid expenses are expenditures and other expenses which have incurred but that shall be amortised over the current period and subsequent periods of more than one year. Long-term prepaid expenses of the Company mainly include expenses on improvement of fixed assets and woodland rent. Long-term prepaid expenses are amortised over the estimated benefit period using the straight-line method.

18. Impairment of Long-term Asset

The Company will judge if there is any indication of impairment as at the balance sheet date in respect of noncurrent non-financial assets such as fixed assets, construction in progress, intangible assets with a finite useful life, investment properties measured at cost, and long-term equity investments in subsidiaries, joint controlled entities and associates. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for impairment test. Goodwill will be tested for impairment annually, regardless of whether there is any indication of impairment.

If the impairment test result shows that the recoverable amount of an asset is less than its carrying amount, the impairment provision will be made according to the difference and recognised as an impairment loss. The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. An asset's fair value is the price in a sale agreement in an arm's length transaction. If there is no sale agreement but the asset is traded in an active market, fair value shall be determined based on the bid price. If there is neither sale agreement nor active market for an asset, fair value shall be based on the best available information. Costs of disposal are expenses attributable to disposal of the asset, including legal fee, relevant tax and surcharges, transportation fee and direct expenses incurred to prepare the asset for its intended sale. The present value of the future cash flows expected to be derived from the asset over the course of continued use and final disposal is determined as the amount discounted using an appropriately selected discount rate. Provisions for assets impairment shall be made and recognised for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Company shall determine the recoverable amount of the asset group to which the asset belongs. The asset group is the smallest group of assets capable of generating cash flows independently.

For the purpose of impairment testing, the carrying amount of goodwill presented separately in the financial statements shall be allocated to the asset groups or group of assets benefiting from synergy of business combination. If the recoverable amount is less than the carrying amount, the Company shall recognise an impairment loss. The amount of impairment loss shall first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of other assets (other than goodwill) within the asset group or set of asset groups, pro rata on the basis of the carrying amount of each asset.

An impairment loss recognised on the aforesaid assets shall not be reversed in a subsequent period in respect of the restorable value.

19. Employee Benefits

Staff remuneration of the Group mainly includes short-term staff remuneration, post-employment benefits and termination benefits and other long-term employee benefits, in which:

Short-term remuneration mainly includes salaries, bonuses, allowance and subsidies, staff welfare, medical insurance premium, maternity insurance premium, work-related injury insurance premium, housing provident funds, union operation costs and employee education costs and non-monetary welfare etc. Short-term remuneration incurred during the accounting period in which the Company's staff provided services for the Company is recognised as liability, and included in profit or loss for the current period or related asset costs. Of which, non-monetary welfare is measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

19. Employee Benefits *(Continued)*

Post-employment benefits mainly include defined contribution plan. Defined contribution plan mainly includes pension insurance premium and unemployment insurance premium. Relevant contribution amount is included in related asset costs or profit or loss for the current period during the period in which the expenses incurred.

When the Company terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, the Company shall recognise employee compensation liabilities arising from compensation for staff dismissal and included in profit or loss for the current period, when the Company cannot revoke unilaterally compensation for dismissal due to the cancellation of labour relationship plans and employee redundant proposals; and the Company recognise cost and expenses related to payment of compensation for dismissal and restructuring, whichever is earlier. However, if the compensation for termination of employment is not expected to be fully paid within 12 months from the reporting period, it shall be accounted for other long-term staff remuneration.

The early retirement plan shall be accounted for in accordance with the accounting principles for compensation for termination of employment. The salaries or wages and the social contributions to be paid for the employees who retire before schedule from the date on which the employees stop rendering services to the scheduled retirement date, shall be recognised (as compensation for termination of employment) in the current profit or loss by the Company if the recognition principles for provisions are satisfied.

For the other long-term employee compensation meeting criteria of defined provision plan, relative defined plan accounting policies will be adopted; otherwise policies of defined benefit plan will be adopted.

20. Provisions

Obligations pertinent to the contingencies which satisfy the following conditions are recognised as provisions: (1) The obligation is a current obligation borne by the Company; (2) it is likely that an outflow of economic benefits will be resulted from the performance of the obligation; and (3) the amount of the obligation can be reliably measured.

At the balance sheet date, provisions shall be measured at the best estimate of the necessary expenses required for the performance of existing obligations, after taking into account relevant risks, uncertainties, time value of money and other factors pertinent to the contingencies.

If all or some expenses incurred for settlement of provisions are expected to be borne by the third party, the compensation amount shall, on a recoverable basis, be recognised as asset separately, and compensation amount recognised shall not be more than the carrying amount of provisions.

21. Revenue

(1) *Revenue from sales of goods*

Revenue is recognised when Chenming Paper has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, will receive the economic benefits associated with the transaction, and can reliably measure the relevant amount of revenue and costs.

(2) *Revenue from the rendering of services*

When the outcome of a transaction involving the rendering of services can be reliably estimated, it shall, on the balance sheet date, recognise the revenue from the rendering of services employing the percentage-of-completion method. The completion schedule of transaction concerning the rendering of services shall be ascertained according to the proportion of service costs incurred to the estimated total costs.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

21. Revenue *(Continued)*

(2) Revenue from the rendering of services *(Continued)*

The outcome of a transaction concerning the rendering of services can be reliably estimated, which shall concurrently satisfy: ① The relevant amount of revenue can be reliably measured; ② it is probable that the economic benefits will flow into the enterprise; ③ the completion schedule of the transaction can be reliably ascertained; and ④ transaction costs incurred and to be incurred can be reliably measured.

When the outcome of a transaction involving the rendering of services cannot be reliably estimated, it shall recognise the revenue from the rendering of services based on the cost of rendering services already incurred and expected to be compensated, and the cost of rendering services incurred shall be recognised as an expense for the current period. If the cost of rendering services is expected not to be compensated, it shall be recognised as an expense.

When a contract or agreement signed by the Company and its subsidiaries includes sales of goods and rendering of services, if sales of goods and rendering of services can be differentiated and separately measured, they will be recognised respectively. If sales of goods and rendering of services cannot be differentiated or cannot be separately measured, they will be recognised as sales of goods in full.

(3) Revenue from rendering of services

Revenue from rendering of services is recognised as income on the accrual basis in accordance with the underlying contracts or agreements.

(4) Interest income

Interest income is calculated based on the time during which the Company's monetary fund, and the effective interest rates.

22. Government Grants

Government grants are transfer of monetary assets or non-monetary assets from the government to the Company at no consideration, excluding capital considerations from the government as an owner of the Company. Government grants are classified into government grants related to assets and government grants related to income.

If a government grant is in the form of a transfer of monetary asset, the item shall be measured at the amount received or receivable. If a government grant is in the form of a transfer of non-monetary asset, the item shall be measured at fair value. If fair value is not reliably determinable, the item shall be measured at a nominal amount and recognised immediately in profit or loss for the current period.

A government grant related to an asset shall be recognised as deferred income, and evenly amortised to profit or loss over the useful life of the asset. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant shall be recognised as deferred income, and recognised in profit or loss over the periods in which the related costs are recognised; if the grant is a compensation for related expenses or losses already incurred, the grant shall be recognised immediately in profit or loss for the current period.

For the repayment of a government grant already recognised, if there is any related deferred income, the repayment shall be off set against the carrying amount of the deferred income, and any excess shall be recognised in profit or loss for the current period; if there is no related deferred income, the repayment shall be recognised immediately in profit or loss for the current period.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

23. Deferred Income Tax Assets/Deferred Income Tax Liabilities

(1) *Current income tax*

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods shall be measured at the amount expected to be paid (or recovered) according to the requirements of tax laws. Taxable profits, which are the basis for calculating the current income tax expense, are determined after adjusting the accounting profits before tax for the year in accordance with relevant requirements of tax laws.

(2) *Deferred income tax assets and deferred income tax liabilities*

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base, and the difference between the tax base and the carrying amount of those items that are not recognised as assets or liabilities but have a tax base that can be determined according to tax laws, shall be recognised as deferred income tax assets and deferred income tax liabilities using the balance sheet liability method.

Deferred income tax liabilities are not recognised for taxable temporary differences related to: the initial recognition of goodwill; and the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Company recognises the corresponding deferred income tax liability for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except when both of the following conditions are satisfied: the Company is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are not recognised for deductible temporary differences related to the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Company recognises the corresponding deferred income tax asset for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, except when both of the following conditions are satisfied: it is not probable that the temporary difference will reverse in the foreseeable future; and it is not probable that taxable profits will be available in the future, against which the temporary difference can be utilised.

The Company recognises a deferred income tax asset for the carry forward of deductible losses and tax credits to subsequent periods, to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

At the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, according to the requirements of tax laws.

At the balance sheet date, the Company shall review the carrying amount of a deferred income tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred income tax asset to be utilised, the carrying amount of the deferred income tax asset shall be reduced. Any such reduction in amount shall be reversed when it becomes probable that sufficient taxable profits will be available.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

23. Deferred Income Tax Assets/Deferred Income Tax Liabilities *(Continued)*

(3) *Income tax expense*

Income tax expense comprises current income tax expense and deferred income tax expense.

Current income tax expense (current income tax income) and deferred income tax expense (deferred income tax income) are included in profit or loss for the current period, except for: recognised as other comprehensive income or current income tax and deferred income tax related to transactions or events that are directly recognised in other comprehensive income or owners' equity, which are recognised directly in owners' equity, and deferred income tax arising from a business combination, which is adjusted against the carrying amount of goodwill.

24. Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of asset ownership to the lessee and titles to the assets may or may not eventually be transferred. All other leases are classified as operating leases.

(1) *Operating lease business with the Group recorded as lessee*

Lease payment for operating lease is recognised as related asset cost or profits and losses for the current period using the straight-line method over the lease term. The initial direct cost is directly accounted in profit or loss for the current period. Contingent rent is recognised as profit or loss for the current period upon occurrence.

(2) *Operating lease business with the Group recorded as lessor*

Rental income is recognised in profit or loss for the current period using the straight-line method over the lease term. The initial direct cost where the amount is larger is capitalised when incurred, and accounted for as profit or loss for the current period on the same basis as recognition of rental income over the entire lease period; the initial direct cost where the amount is fewer is included in the profit or loss for the period when incurred. Contingent rental is accounted for as profit or loss for the period in which it is incurred.

(3) *Financing lease business with the Group recorded as lessee*

On the beginning date of the lease, the entry value of leased asset shall be at the lower of the fair value of the leased asset and the present value of minimum lease payment at the beginning date of the lease. Minimum lease payment shall be the entry value of long-term accounts payable, with difference recognised as unrecognised financing expenses. In addition, initial direct costs attributable to leased items incurred during the process of lease negotiation and signing of lease agreement shall be included in the value of leased assets. The balance of minimum lease payment after deducting unrecognised financing expenses shall be accounted for long-term liability and long-term liability due within one year.

Unrecognised financing expenses shall be recognised as financing expenses for the current period using effective interest method during the leasing period. Contingent rent shall be included in profit or loss for the current period at the time it incurred.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

25. Changes in Significant Accounting Policies and Accounting Estimates

(1) *Changes in significant Accounting Policies*

There is no change in accounting policies in this reporting period.

(2) *Changes in significant accounting estimates*

There is no change in accounting estimates during the year.

26. Critical accounting judgments and estimates

The Group needs to make judgments, estimates and assumptions as to the carrying amount of statement items which cannot be accurately calculated during the application of the Group's accounting policies. Such judgments, estimates and assumptions are made based on the historical experiences of the Group's management and taking into account other relevant factors, which may affect the reported amount of revenue, expenses, assets and liabilities and disclosure of contingent liabilities at the balance sheet date. However, the outcome from such estimate uncertainties may differ from the current estimation of the Group's management, which may cause critical adjustment to the carrying amount of assets or liabilities which may be affected in the future.

The Group regularly reviews the aforesaid judgments, estimates and assumptions on the basis of continued operation. A revision to accounting estimates is recognised in the period in which the estimate is revised if it only affects that period. A revision is recognised in the period of the revision and future periods if it affects both current and future periods.

At the balance sheet date, the critical areas where the Group needs to make judgments, estimates and assumptions as to the items amount of financial statements are set out below:

(1) *Provision for bad debts*

The Group adopts the allowance method to account for bad debt loss under the accounting policies of accounts receivable. Impairment of accounts receivable is based on the recoverability of assessed accounts receivable. Given the management's judgment and estimate required for impairment of accounts receivable, the difference between the actual outcome and original estimate will affect the carrying amount of accounts receivable and provision and reversal of bad debts of accounts receivable during the estimate revision period.

(2) *Provision for diminution in value of inventories*

Under the accounting policies of inventories and by measuring at the lower of cost and net realisable value, the Group makes allowance for inventories which have costs higher than net realisable value or become obsolete and slow-moving. Write-down of inventories to their net realisable values is based on the sale ability of the evaluated inventory and their net realisable values. Given the management's judgments and estimates required for inventory impairment on the basis of definite evidence, purpose of holding the inventories and other factors, the difference between the actual outcome and original estimate will affect the carrying amount of inventories and provision and reversal of bad debts of inventories allowance during the estimate revision period.

(3) *Provision for impairment of non-financial non-current assets*

At the balance sheet date, the Group makes its judgment as to whether there is any evidence indicating potential impairment of non-current assets other than financial assets. Other non-current assets other than financial assets shall be tested for impairment if there is any evidence indicating that their carrying amount cannot be recovered.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

26. Critical accounting judgments and estimates *(Continued)*

(3) *Provision for impairment of non-financial non-current assets (Continued)*

When the carrying amount of an asset or asset groups is higher than the recoverable amount, being the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset, it indicates impairment.

The net amount of the fair value less costs of disposal is determined by making reference to the price in a sale agreement in an arm's length transaction or the observable market price less the incremental costs directly attributable to such assets disposal.

In projecting the present value of the future cash flows, critical judgments shall be made to the output, selling price and relevant operating costs of such assets (or asset groups) and the discount rate applied in calculating the discount. In estimating the recoverable amount, the Group may adopt all relevant materials including the projections as to the output, selling price and relevant operating costs based on reasonable and supportive assumptions.

The test shall be performed at least once a year as to whether there is any impairment. This requires an estimate for the present value of the future cash flows of the asset groups or sets of asset groups to which goodwill is allocated. In estimating the present value of the future cash flows, the Company needs to estimate the cash flows generated from the future asset groups or sets of asset groups. Meanwhile, the present value of future cash flows is determined using an appropriately selected discount rate.

(4) *Depreciation and amortisation*

The Group shall provide depreciation and amortisation for investment properties, fixed assets and intangible assets over their useful lives and after taking into account of their residual value, using straight-line method. The Group shall regularly review the useful lives to determine the amount depreciated and amortised to be accounted for in each reporting period. The useful life is determined by the Group according to its previous experience on the similar assets and estimated technical innovation. If there is any material change in the previously made estimate, the depreciation and amortisation will be adjusted over the future period.

(5) *Deferred income tax assets*

It is probable that all unused tax loss will be recognised as the deferred income tax assets to the extent there will be sufficient taxable profits against which the deductible loss is available. This requires the Group's management to apply numerous judgments to estimate the time and amount generated from the future taxable profits so as to determine the amount of deferred income tax assets with reference to the tax planning strategy.

(6) *Income tax*

There are some uncertainties in tax treatment and calculation for some transactions of the Group during its ordinary course of business. The approval from the tax authority is required for pre-tax expending of some items. Any difference between the final recognition outcome of such tax matters and the initially estimated amount will exert an effect on the current income tax and deferred income tax during their final recognition period.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

26. Critical accounting judgments and estimates *(Continued)*

(7) *Internal retirement and pension benefits and supplementary retirement benefits*

The amount of expenses on internal retirement and pension benefits and supplementary retirement benefits of the Group is determined on the basis of various assumptions, including the discount rate, the average increase of medical expenses, the increase of allowance on the internal retired staff and resigned staff, and other factors. The difference between the actual results and the assumptions is recognized immediately when incurred and accounted for expenses of that year. Although the management considers that reasonable assumptions have been adopted, the actual circumstances and changes in the assumptions would still have an impact on the expenses on internal retirement and pension benefits and supplementary retirement benefits and the balance of liabilities.

(8) *Estimated liabilities*

The Group makes estimation and provisions in respect of product quality assurance based on the contractual terms, current knowledge and past experience. When such contingent issue has become a current obligation and it is probable that an outflow of economic benefits from the Group will be required to settle such current obligation, the best estimated amount of the contingent issue will be recognised by the Group according the expense required for the settlement of the current obligation. The recognition and measurement of the estimated liabilities depends substantially on the judgement of the management. When making the judgement, the Group has to assess factors such as the relevant risks, uncertainty and the time value of money of such contingent issue.

The Group estimates liabilities for the after-sales quality and maintenance commitment provided to the customers for the sales, maintenance and modification of the commodities sold. When making the estimation, the current maintenance experience of the Group has been taken into consideration. However, the current experience may not be a reliable indicator of the future maintenance needs. Any increase or decrease in this provision may affect the profit and loss in the coming years.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

V. TAXATION

1. Major Types of Tax and Tax Rates

Types	Tax basis
Value added tax	17% for general. Value-added tax is computed on the difference after deduction of input value-added tax
Business tax	3%-5% of taxable revenue
City construction tax	1%-7% of actual payment of turnover tax
Education fee surcharges	3% of actual payment of turnover tax
Local education surcharges	2% of actual payment of turnover tax
Enterprise income tax	In accordance with income tax payable, see tax rate in the table below

Income tax rates are as follows by taxpayers:

Taxpayers	Income tax rate
Shenji Group Kunming Machine Tool Co., Ltd.	15%
Kunming TOS Machine Tool Manufacturing Co., Ltd. ("Kunming TOS")	15%
Xi'an Ser Turbo Machinery Co., Ltd ("Xi'an Ser")	15%
Changsha Ser Turbine Machinery Co., Ltd ("Changsha Ser")	15%
Kunming Kunji General Machine Co., Ltd. ("General Machine")	25%

2. Preferential Tax Policies

(1) *Preferential tax policies of the Company*

On 13 September 2012, the Company was recognized as a high and new technology enterprise ("HNTE") with a valid period of three years. In accordance with China's relevant laws and regulations in the PRC, the Company is entitled to the preferential tax rate for HNTE from 2012 to 2014. As at the date of approval of the financial statements, the Company has passed the review of HNTE, obtained the HNTE certificate no. CR201553000161 and is entitled to the preferential tax rate for HNTE from 2015 to 2017. Therefore, the Company is subject to 15% corporate income tax rate for the year 2015 (2014: 15%).

(2) *Preferential tax policies of the subsidiaries*

The Company's subsidiaries, Kunming TOS was recognized as an HNTE with the high-tech enterprise certificate no. CF201353000034 expiring on 27 August 2016. In accordance with relevant laws and regulations in the PRC, Kunming TOS is entitled to the preferential tax rate for HNTE from 2013 to 2015. Kunming TOS is subject to 15% corporate income tax rate for the year 2015 (2014:15%).

The Company's subsidiaries, Xi'an Ser was recognized as HNTE on 11 November 2014 with a valid period of three years. In accordance with China's relevant laws and regulations in the PRC, the Company is entitled to the preferential tax rate for HNTE from 2014 to 2016. Xi'an Ser is subject to 15% corporate income tax rate for the year 2015 (2014:15%).

According to the Notice of Publicity of Hunan Province the Second Batch Proposed Recognized High-Tech Enterprises List in 2014 issued by the office of Hunan Province High-tech Enterprise Management Leading Group on 15 October 2014, Changsha Ser continued to be recognized as HNTE. In accordance with China's relevant laws and regulations in the PRC, Changsha Ser is entitled to the preferential tax rate for HNTE from 2014 to 2016. Changsha Ser is subject to 15% corporate income tax rate for the year 2015 (2014:15%).

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise specified, 'beginning of period' refers to January 1, 2015, 'end of period' refers to December 31, 2015, 'last year' refers to Year 2014, 'this year' refers to Year 2015 in the following notes (including Notes to the Company's Financial Reports).

1. Cash at bank and on hand

Item	Unit: RMB	
	2015	2014
Cash on hand	178,106.10	644,101.93
Cash at bank	71,109,899.65	123,565,945.78
Other monetary funds	49,900,716.55	38,817,949.91
Total	<u>121,188,722.30</u>	<u>163,027,997.62</u>

Note: As at 31st December 2015, security deposits of RMB49,900,716.55 (at 31st December 2014: RMB38,817,949.91) were secured for the Group's bank guarantees and bank acceptance notes.

2. Bills receivable

(1) Classification of bills receivable

Item	Unit: RMB	
	2015	2014
Bank acceptance notes	34,038,762.12	49,153,485.97
Commercial acceptance notes	123,201,211.96	16,081,174.00
Total	<u>157,239,974.08</u>	<u>65,234,659.97</u>

(2) As at 31 December 2015, the Group had no pledged bills receivable.

(3) Bills receivable endorsed or discounted at the end of the year and undue at the balance sheet date

Item	Unit: RMB	
	Amount derecognized at the end of the year	Amount recognized at the end of the year
Bank acceptance notes	253,633,315.93	–
Commercial acceptance notes	–	9,197,755.00
Total	<u>253,633,315.93</u>	<u>9,197,755.00</u>

(4) As at the end of the year, the Group had no bills receivable transferred to accounts receivable due to non-compliance of any bill drawer.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable

(1) Disclosure of accounts receivable by category

Unit: RMB

Type	Carrying amount		2015 Provision for bad and doubtful debts		Book value	Carrying amount		2014 Provision for bad and doubtful debts		Book value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Individually significant										
accounts receivable with										
individual bad debt provision	225,936,386.20	28.98	17,293,178.99	7.65	208,643,207.21	255,983,203.56	31.62	12,465,295.79	4.87	243,517,907.77
Bad debt provision for										
accounts receivable by										
combination with credit										
risk characters	549,350,864.74	70.46	260,336,296.45	47.39	289,014,568.29	544,134,997.71	67.21	223,165,573.47	41.01	320,969,424.24
Include:										
receivables from										
third parties	548,861,010.42	70.40	260,336,296.45	47.43	288,524,713.97	542,738,902.76	67.04	223,165,573.47	41.12	319,573,329.29
Receivables from related										
parties	489,854.32	0.06	-	-	489,854.32	1,396,094.95	0.17	-	-	1,396,094.95
Individually not significant										
accounts receivable but with										
individual bad debt provision	4,398,000.00	0.56	-	-	4,398,000.00	9,449,342.64	1.17	869,350.00	9.20	8,579,992.64
Total	<u>779,685,250.94</u>	<u>/</u>	<u>277,629,475.44</u>	<u>/</u>	<u>502,055,775.50</u>	<u>809,567,543.91</u>	<u>/</u>	<u>236,500,219.26</u>	<u>/</u>	<u>573,067,324.65</u>

① Individually significant accounts receivable with individual bad debt provision as at the end of the year:

Unit: RMB

Type	Accounts receivable	2015		Reasons for making provision
		Provision for bad and doubtful debts	Proportion	
Single accounts receivable over RMB7,000,000 in machine tools business	193,867,999.19	9,645,851.89	4.98%	Impairment occurred under individual assessment method
Single accounts receivable over RMB7,000,000 in turbo machines business	<u>32,068,387.01</u>	<u>7,647,327.10</u>	<u>23.85%</u>	Impairment occurred under individual assessment method
Total	<u>225,936,386.20</u>	<u>17,293,178.99</u>	<u>7.65%</u>	/

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

(1) Disclosure of accounts receivable by category (Continued)

- ② In the group, making bad debt provision for accounts receivable from third parties by ageing analysis

Unit: RMB

Ageing	Accounts receivable	2015	
		Provision for bad and doubtful debts	Proportion
Within one year	166,661,835.68	8,333,091.79	5%
1-2 years	119,404,999.90	35,821,499.96	30%
2-3 years	95,636,461.15	57,381,876.69	60%
Over three years	167,157,713.69	158,799,828.01	95%
Total	<u>548,861,010.42</u>	<u>260,336,296.45</u>	

Note: The ageing of accounts receivable is calculated starting from the date of recognition.

- ③ In the group, Receivables due from the related parties

Name	Relationship with the Group	Amount	Percentage of total accounts receivable (%)
Shiess GmbH, Germany ("Shiess")	Related party	259,684.32	0.03
Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd. ("Xi'an Ruite")	Related party	167,500.00	0.02
Shenyang Machine Tool Co., Ltd. (Shenyang Machine Tool)	Related party	60,000.00	0.01
Yunnan Yun Ji Group Import and Export Co., Ltd. ("Yun Ji I & E Co.")	Related party	2,670.00	0.00
Total		<u>489,854.32</u>	<u>0.06</u>

As at 31st December 2015, the Group conducted individual assessment on accounts receivables due from related parties and considered that there was no need to make provisions for bad and doubtful debts.

(2) Presentation of accounts receivable according to ageing analysis

Ageing	2015	2014
Within one year	329,538,052.14	382,709,235.37
1-2 years	143,439,699.89	165,949,537.84
2-3 years	102,843,521.15	68,439,039.19
Over 3 years	203,863,977.76	192,469,731.51
Total	<u>779,685,250.94</u>	<u>809,567,543.91</u>

Note: The ageing of accounts receivable is calculated starting from the date of recognition.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

(3) *The provision, recovery and reversal of bad debts during the year*

The provisions for bad debts amounted to RMB49,087,123.87. The Group had no recovered or reversed provisions for bad debts of more than RMB7 million during the year.

(4) *Actually written off accounts receivable during the year*

Item	<i>Unit: RMB</i> Amount
Actually written-off accounts payable	<u>8,338,506.19</u>

(5) *Top five accounts receivable by debtor as at the end of the year*

The Company's top five balances of accounts receivable at the end of the year totaled RMB142,882,111.85, accounting for 18.33% of the Company's total balance of accounts receivable as at the end of the year, and the aggregate provision for bad debts made accordingly amounted to RMB10,263,625.04.

4. Prepayments

(1) *Presentation of prepayments according to ageing analysis*

Ageing	2015		2014	
	Amount	Proportion (%)	Amount	Proportion (%)
Within one year	21,616,842.55	86.70	14,030,835.51	39.73
1-2 years	1,464,306.66	5.87	19,143,210.60	54.20
2-3 years	367,791.53	1.48	1,402,086.27	3.97
Over 3 years	<u>1,482,556.03</u>	<u>5.95</u>	<u>742,331.17</u>	<u>2.10</u>
Total	<u>24,931,496.77</u>	<u>100.00</u>	<u>35,318,463.55</u>	<u>100.00</u>

Note 1: The ageing of prepayments is calculated starting from the date of recognition.

Note 2: Prepayments with an ageing of over one year were the prepayment for material.

(2) *Top five balances of prepayments by prepaid item as at the end of the year*

The Group's top five balances of prepayments as at the end of the year totaled RMB8,734,226.53, accounting for 35.03% of the Group's total balance of prepayments as at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Other receivables

(1) Disclosure of other receivables by category

Unit: RMB

Type	Closing balance			Opening balance			Book value	Book value		
	Other receivables Amount	Proportion (%)	Provision for bad and doubtful debts Amount	Proportion (%)	Other receivables Amount	Proportion (%)			Provision for bad and doubtful debts Amount	Proportion (%)
Individually significant other receivables with individually dab debt provision	-	-	-	-	-	-	-	-		
Bad debt provision for other receivables by combination with credit risk characters	15,285,523.32	68.56	3,575,134.78	23.39	11,710,388.54	19,259,669.40	89.06	3,595,124.83	18.67	15,664,544.57
Include:										
receivables from third parties	13,952,752.99	62.58	3,575,134.78	25.62	10,377,618.21	19,259,221.72	89.06	3,595,124.83	18.67	15,664,096.89
Receivables from related parties	1,332,770.33	5.98	-	-	1,332,770.33	447.68	0.00	-	-	447.68
Individually not significant other receivables but with individually dab debt provision	7,010,316.12	31.44	194,444.40	2.77	6,815,871.72	2,365,448.66	10.94	-	-	2,365,448.66
Total	22,295,839.44	100.00	3,769,579.18	16.91	18,526,260.26	21,625,118.06	100.00	3,595,124.83	16.62	18,029,993.23

① At the end of the year, the Group had no individual significant other receivables with individual bad debt provision.

② In the group, bad debt provision for other receivables by ageing analysis

Unit: RMB

Ageing	Other receivables	Closing balance Provision for bad and doubtful debts	Proportion (%)
Within one year	9,437,609.43	471,880.47	5%
1-2 years	2,823,778.51	1,411,889.26	50%
2-3 years	260,640.96	260,640.96	100%
Over 3 years	1,430,724.09	1,430,724.09	100%
Total	13,952,752.99	3,575,134.78	-

The ageing of other receivables is calculated starting from the date of recognition.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Other receivables (Continued)

(1) Disclosure of other receivables by category (Continued)

③ In the group, other receivables due from related parties

Name	Relationship with the Group	Amount	Percentage of total other receivables (%)
Kunji Group Co.	Related party	1,332,770.33	5.98
Total		<u>1,332,770.33</u>	<u>5.98</u>

As at 31st December 2015, the Group conducted individual assessment on other receivables due from related parties and considered that there was no need to make provisions for bad and doubtful debts.

(2) Presentation of other receivables: according to ageing analysis

Ageing	2015	2014
Within one year	11,435,675.45	15,804,143.92
1-2 years	7,680,858.46	3,286,963.13
2-3 years	1,747,821.44	135,392.40
Over 3 years	1,431,484.09	2,398,618.61
Total	<u>22,295,839.44</u>	<u>21,625,118.06</u>

The ageing of other receivables is calculated starting from the date of recognition.

(3) The provision, recovery and reversal of bad debts during the year

The provision for bad debts during the year were RMB365,436.43 and there is no recovery and reversal of bad debts during the year.

(4) Actually written-off other payables during the year

Item	Unit: RMB Amount
Actually written-off payables	<u>190,982.08</u>

(5) Other receivables by nature

Nature	2015	Unit: RMB 2014
Deposit	10,632,245.51	10,032,288.40
Current account with related parties	1,332,770.33	447.68
Petty cash	2,925,826.49	2,847,914.45
Others	7,404,997.11	8,744,467.53
Total	<u>22,295,839.44</u>	<u>21,625,118.06</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Other receivables (Continued)

(6) Top five other receivables by debtor as at the end of the year

Name of company	Nature	Closing balance	Ageing	Percentage of total balance of other receivables at the end of the year (%)	Unit: RMB Balance of provision for bad debts at the end of the year
Far Eastern International Leasing Co., Ltd.	Deposit	3,888,888.00	1-2 years	17.44	194,444.40
Zhejiang Huijin Financial Leasing Co., Ltd.	expenses on behalf of related parties	1,541,000.00	1-2 years	6.91	770,500.00
Kunji Group Co.	expenses on behalf of related parties	1,332,770.33	Within one year	5.98	-
Yunnan Teng Hao High-tech Co., Ltd.	funding transactions	1,100,000.00	Within one year	4.93	55,000.00
Beijing Ao Ya Rui Tong High-tech Co., Ltd.	funding transactions	526,500.00	Within one year	2.36	26,325.00
Total	/	<u>8,389,158.33</u>	/	<u>37.62</u>	<u>1,046,269.40</u>

6. Inventories

(1) Inventories by category

Item	2015			2014		
	Carrying amount	Provision for diminution in value of inventories	Book value	Carrying amount	Provision for diminution in value of inventories	Book value
Raw materials	135,735,227.91	4,291,530.14	131,443,697.77	131,327,077.75	3,435,619.64	127,891,458.11
Work in progress	539,349,880.49	22,952,379.16	516,397,501.33	648,085,763.42	16,848,131.97	631,237,631.45
Finished goods	273,284,673.15	10,721,803.95	262,562,869.20	140,689,133.17	8,274,992.42	132,414,140.75
Consumables	4,573,847.12	3,104,839.12	1,469,008.00	4,599,897.80	82,781.00	4,517,116.80
Commissioned processing materials	2,335,983.75	-	2,335,983.75	615,414.73	-	615,414.73
Total	<u>955,279,612.42</u>	<u>41,070,552.37</u>	<u>914,209,060.05</u>	<u>925,317,286.87</u>	<u>28,641,525.03</u>	<u>896,675,761.84</u>

(2) Provision for diminution in value of inventories

Item	Opening balance	Increase during the year		Decrease during the year		Closing balance
		Charge for the period	Others	Reversal or Write-off	Others	
Raw materials	3,435,619.64	855,910.50	-	-	-	4,291,530.14
Work in progress	16,848,131.97	8,625,525.03	-	2,521,277.84	-	22,952,379.16
Finished goods	8,274,992.42	5,182,981.34	-	2,736,169.81	-	10,721,803.95
Consumables	82,781.00	3,022,058.12	-	-	-	3,104,839.12
Total	<u>28,641,525.03</u>	<u>17,686,474.99</u>	<u>-</u>	<u>5,257,447.65</u>	<u>-</u>	<u>41,070,552.37</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Inventories (Continued)

(2) Provision for diminution in value of inventories (Continued)

The Group recognized the excess of inventory cost over its net realizable value as diminution of inventory cost. When making estimation of the net realizable value of work in progress, the Group used the market price of finished goods less the estimated costs to completion and the estimated selling expenses and related taxes. The estimated costs to completion were determined based on the previous operation costs. When making estimation of the net realizable value of finished goods, the Group used the market price of finished goods less the costs of finished goods and the estimated selling expenses and related taxes to be occurred.

(3) The Group's inventories' closing balance did not include borrowing costs capitalized amount.

7. Other Current assets

Item	2015	Unit: RMB
		2014
To be deductible VAT	8,075,263.79	1,724,042.72
Sales returns (note)	5,998,936.86	–
The output VAT to be written-off for sales returns (note)	1,630,256.41	–
Total	<u>15,704,457.06</u>	<u>1,724,042.72</u>

Note:

The Company and its distributor Beijing Hanhai Hongzheng Machinery Co., Ltd. ("Beijing Hanhai") signed a Machine Tool Sales Contract with contract amount of RMB11.22 million in August 2011, and the Company signed a Manufacturer Authorization Letter authorizing Beijing Hanhai to participate in a tender exercise conducted by Jilin Haoyu Electrical Co., Ltd. ("Jilin Haoyu") using the tool machine, and the Company undertook to assume responsibility for quality assurance of the tool machine. Subsequent to being awarded the tender, Beijing Hanhai signed a Machine Tool Sales Contract with the end-user, Jilin Haoyu. The Company delivered the goods in November 2011 and recognized main business income of RMB9.5898 million and cost of RMB6.8278 million. On 12 April 2012, the Company issued VAT invoice and recorded output VAT of RMB1.6303 million.

Jilin Haoyu instituted legal proceedings in November 2013 whereby Beijing Hanhai and the Company was named the 1st and 2nd defendants, respectively. Jilin Haoyu considered that Beijing Hanhai and the Company were unable to resolve product quality issues effectively within the product warranty period, and requested that the product be returned and the amount of RMB11.7325 million paid to Beijing Hanhai be refunded, and liquidated damages of RMB1.235 million be paid; and at the same time requested that the Company assume joint and several liabilities for payment.

The Higher People's Court of Jilin Province made the final judgment on 23 December 2015 which required the Company returning the consideration of the contract of RMB11,732,500 to Jilin Haoyu, together with a payment of RMB617,500 as liquidated damages; and may at its own cost fetch the TK6926 CNC floor-type boring and milling machine tool deposited at Jilin Haoyu; and the costs of action and authentication fee shall be borne by the Company. As at the date of the balance sheet, the Company had not fetch the above product.

As at 31 December 2015, the above matter had been treated as sales return and the Company had analyzed the state of technology of the product. Based on the estimated freight, replacement costs of defective parts and restructuring needed additional cost, it was estimated that the net realizable value of above product was 5.9989 million and recognized it as other current assets.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Available-for-Sale Financial Assets

(1) Information of available-for-sale financial assets

Unit: RMB

Item	2015			2014		
	Carrying amount	Provision for diminution in value	Book value	Carrying amount	Provision for diminution in value	Book value
Available-for-sale equity instruments measured by cost	<u>3,145,000.00</u>	<u>2,000,000.00</u>	<u>1,145,000.00</u>	<u>3,145,000.00</u>	<u>2,000,000.00</u>	<u>1,145,000.00</u>

(2) Available-for-sale financial assets measured by cost at the end of the year

Unit: RMB

Invested company	Carrying amount				Provision for diminution in value				Proportion of shares held in the invested company (%)	Cash dividend for the year
	Opening balance	Increase during the year	Decrease during the year	Closing balance	Opening balance	Increase during the year	Decrease during the year	Closing balance		
Yunnan Cheng Jiang Copper Products Plant	2,000,000.00	-	-	2,000,000.00	2,000,000.00	-	-	2,000,000.00	40.00	-
Hangzhou Ser Gas Engineering Co., Ltd ("Hangzhou Ser")	<u>1,145,000.00</u>	-	-	<u>1,145,000.00</u>	-	-	-	-	11.45	-
Total	<u>3,145,000.00</u>	-	-	<u>3,145,000.00</u>	<u>2,000,000.00</u>	-	-	<u>2,000,000.00</u>	-	-

(3) Changes of impairment loss on available-for-sale financial assets

Full provision for impairment loss on available-for-sale financial assets of Yunnan Cheng Jiang Copper Products Plant was made in 1999 because the plant has lost the ability of sustainable operation. According to the resolution passed at the 7th meeting of the 6th board of directors of the Company held in 2009, the Company began to liquidate this investment project. As at 31 December 2015, the liquidation of Yunnan Chengjiang copper plant is still in progress.

(4) As at 31 December 2015 and 2014, the Group had no available-for-sale equity instruments which recorded a significant or prolonged decline in the fair value at the end of the period but no provision was made for impairment.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Long-term equity investments

Unit: RMB

Investment company	Opening balance	Additional investment	Decrease investment	Changes in equity for the year						Closing balance	Closing balance of impairment investment provision	
				Investment income recognized under the equity method	Other comprehensive income	Movement of other equity	Declared cash dividends or profits	Impairment provision made during the year	Others			
Associate												
Xi'an Ruite	14,384,564.38	-	-	(613,021.53)	-	-	-	-	-	-	13,771,542.85	-
Total	14,384,564.38	-	-	(613,021.53)	-	-	-	-	-	-	13,771,542.85	-

10. Investment properties

(1) *Investment properties measured at cost*

Unit: RMB

Item	Building and structures
I. Cost	
1. Opening balance	-
2. Transfer from construction in progress	18,250,223.95
3. Closing balance	18,250,223.95
II. Accumulated depreciation	
1. Opening balance	-
2. Transfer from construction in progress	2,641,271.88
3. Closing balance	2,641,271.88
III. Carrying amounts	
1. At the end of the year	15,608,952.07
2. At the beginning of the year	-

(2) The Company converted owner-occupied properties to rental properties, and such properties as fixed assets converted to investment properties which measured at cost with the original value of RMB18,250,223.95 and accumulated depreciation of RMB2,641,271.88 at the conversion date.

(3) As at 31 December 2015, the Group had no investment properties with pending certificates of ownership.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Fixed assets

(1) Details of fixed assets

Item	Unit: RMB				
	Building and structures	Machinery and equipment	Transportation equipment	Electronic equipment	Total
I. Cost					
1. Opening balance	365,240,384.32	594,372,642.52	32,034,892.90	17,286,953.98	1,008,934,873.72
2. Addition during the year	7,251,696.87	2,072,679.55	3,053,773.08	1,873,547.39	14,251,696.89
(1)Acquisition	9,581,155.00	2,022,150.10	3,053,773.08	1,199,056.76	15,856,134.94
(2)Transfer from construction in progress	3,266,406.39	-	-	-	3,266,406.39
(3)Adjustment of assets' temporary valuation	(5,595,864.52)	50,529.45	-	674,490.63	(4,870,844.44)
3. Decrease during the year	18,326,240.95	5,894,398.20	1,890,397.49	2,043,970.22	28,155,006.86
(1)Disposal or scrapped	76,017.00	5,894,398.20	1,890,397.49	2,043,970.22	9,904,782.91
(2)Transfer to investment properties	18,250,223.95	-	-	-	18,250,223.95
4. Closing balance	354,165,840.24	590,550,923.87	33,198,268.49	17,116,531.15	995,031,563.75
II. Accumulated depreciation					
1. Opening balance	107,892,503.03	316,509,879.96	19,268,525.00	12,820,620.80	456,491,528.79
2. Addition during the year	11,094,326.15	32,229,872.88	2,495,574.16	1,381,492.92	47,201,266.11
3. Decrease during the year	2,687,752.21	4,452,745.13	1,247,600.40	1,947,039.17	10,335,136.91
(1)Disposal or scrapped	46,480.33	4,452,745.13	1,247,600.40	1,947,039.17	7,693,865.03
(2)Transfer to investment properties	2,641,271.88	-	-	-	2,641,271.88
4. Closing balance	116,299,076.97	344,287,007.71	20,516,498.76	12,255,074.55	493,357,657.99
III. Impairment provision					
1. Opening balance	-	2,787,192.51	-	41,365.93	2,828,558.44
2. Addition during the year	-	-	-	-	-
3. Decrease during the year	-	-	-	-	-
4. Closing balance	-	2,787,192.51	-	41,365.93	2,828,558.44
IV. Carrying amounts					
1. At the end of the year	237,866,763.27	243,476,723.65	12,681,769.73	4,820,090.67	498,845,347.32
2. At the beginning of the year	257,347,881.29	275,075,570.05	12,766,367.90	4,424,967.25	549,614,786.49

Notes:

As at 31st December 2015, building and structures of the Group with net book value of RMB10,870,033.13 were pledged to banks for short-term loans (2014: RMB11,948,052.89)(note VI. 18).

As at 31st December 2015, building and structures of the Group with net book value of RMB13,330,892.08 were pledged to banks for long-term loans (2014: nil)(note VI. 27).

As at 31st December 2015, machinery and equipment of the Group with net book value of RMB48,232,306.31 were used as collateral for long-term payables-secured loans. (2014: 52,874,987.54)(note VI. 28).

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Fixed assets (Continued)

(2) Particulars of temporarily idle fixed assets

Unit: RMB

Item	Original carrying amount	Accumulated depreciation	Provision for impairment	Book value
Building and structures	63,000.00	34,200.00	–	28,800.00
Machinery and equipment	16,844,114.40	14,543,722.95	53,321.33	2,247,070.12
Electronic equipment	14,700.00	13,965.00	–	735.00
Total	<u>16,921,814.40</u>	<u>14,591,887.95</u>	<u>53,321.33</u>	<u>2,276,605.12</u>

(3) Fixed assets acquired under financial leases

Unit: RMB

Item	Original carrying amount	Accumulated depreciation	Provision for impairment	Book value
As at 31 December 2015 and 2014				
Building and structures	<u>2,592,597.82</u>	<u>2,488,893.91</u>	<u>–</u>	<u>103,703.91</u>

(4) As at 31 December 2015 and 31 December 2014, no fixed assets were leased by way of operating lease.

(5) Fixed assets with pending certificates of ownership

As at 31 December 2015 and the date of approval of this statement, the Group was applying for property certificates for some buildings and structures. The time of obtaining property certificates is depending upon the consideration and approval procedures of the relevant government authorities. At 31 December 2015, the carrying amount of the above mentioned fixed assets was RMB38,759,598.22 (31 December 2014: RMB39,931,706.86).

12. Construction in progress

(1) Information of construction in progress

Unit: RMB

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Carrying amount	Book value	Impairment provision	Carrying amount
Heavy casting base	240,591,149.83	–	240,591,149.83	217,575,978.07	–	217,575,978.07
SCHIESS GmbH VMG6 machine tool	39,084,812.42	–	39,084,812.42	39,084,812.42	–	39,084,812.42
Other items	11,058,799.01	2,056,931.37	9,001,867.64	14,020,077.00	2,056,931.37	11,963,145.63
Total	<u>290,734,761.26</u>	<u>2,056,931.37</u>	<u>288,677,829.89</u>	<u>270,680,867.49</u>	<u>2,056,931.37</u>	<u>268,623,936.12</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Construction in progress (Continued)

(2) Movements of major construction projects in progress during the year

Unit: RMB

Item	Budget	Opening balance	Additions during the year	Transfer to fixed assets during the year	Decrease during the year	Closing balance	Investment percentage to total budget (%)	Project progress	Accumulated amount of interest capitalized	Of which, amount of interest capitalized during the year	Interest capitalization rate of the year	Source of the fund
Heavy casting base	654,000,000.00	217,575,978.07	23,015,171.76	-	-	240,591,149.83	44.87	46.00%	37,982,892.45	9,848,177.10	6.03	Self-financing and budgetary investment of central government
SCHIESS GmbH VMG6 machine tool	39,084,812.42	39,084,812.42	-	-	-	39,084,812.42	To be installed	70.00%	-	-	-	Self-financing
Total	693,084,812.42	256,660,790.49	23,015,171.76	-	-	279,675,962.25	/	/	37,982,892.45	9,848,177.10	/	/

In December 2011, the Company and Schiess entered into a contract to purchase assembly components of VMG6 prototype machine from Schiess with an amount of EUR4,481,309.00. As at 31 December 2015, the Company has received the VMG6 prototype machine, however, the installation of the machine has not been completed.

13. Intangible assets

(1) Information of intangible assets

Unit: RMB

Item	Land use rights	Various softwares	Others	Total
I. Cost				
1. Opening balance	125,147,316.50	21,039,730.79	29,245,031.92	175,432,079.21
2. Acquisition during the year	-	2,939,713.72	-	2,939,713.72
3. Decrease during the year	-	-	-	-
4. Closing balance	125,147,316.5	23,979,444.51	29,245,031.92	178,371,792.93
II. Accumulated amortization				
1. Opening balance	7,957,968.92	14,017,457.16	12,831,412.02	34,806,838.10
2. Addition during the year	2,646,491.04	1,315,983.41	2,588,947.44	6,551,421.89
3. Decrease during the year	-	-	-	-
4. Closing balance	10,604,459.96	15,333,440.57	15,420,359.46	41,358,259.99
III. Impairment provision				
1. Opening balance	-	-	-	-
2. Addition during the year	-	-	-	-
3. Decrease during the year	-	-	-	-
4. Closing balance	-	-	-	-
IV. Carrying amounts				
1. At the end of the year	114,542,856.54	8,646,003.94	13,824,672.46	137,013,532.94
2. At the beginning of the year	117,189,347.58	7,022,273.63	16,413,619.90	140,625,241.11

As at 31st December 2015, land use rights of the Group with net book value of RMB10,968,482.36 was pledged to banks for short-term loans (2014: RMB6,317,425.03)(note VI. 18).

As at 31st December 2015, land use rights of the Group with net book value of RMB94,684,797.52 was pledged to banks for long-term loans (2014: nil)(note VI. 27).

As at the end of the year, the Group had no intangible assets formed by internal research and development.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Intangible assets (Continued)

(2) Land use rights with pending certificates of ownership

As at 31 December 2015 and 31 December 2014, the Group had no land use rights without property certificates.

(3) Lands that the Group have land use rights are all located in Mainland China with useful life for 50 years.

14. Goodwill

Name of invested company or item goodwill formed	Opening balance	Increase during the year	Decrease during the year	Unit: RMB
				Closing balance
Xi'an Ser	7,296,277.00	-	-	7,296,277.00

When the Group acquired Xi'an Ser in 2001, the cost of merger was higher than the fair value of the identifiable assets and liabilities of Xi'an Ser corresponding to the interests acquired, and the difference was recognized as goodwill related to Xi'an Ser.

15. Long-term deferred expenses

Item	Opening balance	Increase during the year	Amortization during the year	Other decrease	Unit: RMB
					Closing balance
Decoration	915,696.54	265,361.40	372,904.71	-	808,153.23

16. Deferred tax assets

(1) Details of deferred income tax assets

Item	Closing balance		Opening balance	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Bad debt provision	215,654,434.62	32,348,165.19	213,944,556.41	32,091,683.48
Provision for diminution in value of inventories	11,281,283.53	1,692,192.53	11,281,283.49	1,692,192.53
Accrued liabilities	2,104,376.47	315,656.47	3,082,619.70	462,392.95
Unrealized profit arising from intra-group transactions	1,228,899.52	184,334.93	1,493,932.60	224,089.89
Deductible loss	-	-	2,573,623.77	386,043.56
Total	230,268,994.14	34,540,349.12	232,376,015.97	34,856,402.41

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Deferred tax assets/deferred tax liabilities (Continued)

(2) Breakdown of unrecognized deferred tax assets

Item	Unit: RMB	
	2015	2014
Deductible temporary difference	246,539,076.79	212,834,451.30
Deductible losses	357,028,903.76	192,413,347.51
Total	<u>603,567,980.55</u>	<u>405,247,798.81</u>

Note: As there are uncertainties about the sufficiency of taxable profit in the future, therefore deductible temporary difference and deductible loss for unrecognized deferred income tax assets existed.

(3) Expiration of deductible loss for unrecognized deferred income tax assets falls in the periods as follows

Year	Unit: RMB		Remark
	At 31 December 2015	At 31 December 2014	
2016	836,746.12	836,746.12	
2017	39,308,724.58	39,308,724.58	
2018	11,293,524.69	11,293,524.69	
2019	140,974,352.12	140,974,352.12	
2020	164,615,556.25	—	
Total	<u>357,028,903.76</u>	<u>192,413,347.51</u>	/

As the management anticipated that relevant taxpayers would not have sufficient taxable profit to deduct the aforesaid deductible tax losses before their expiration, the relevant deferred tax assets were not recognized.

17. Other non-current assets

Item	Unit: RMB	
	2015	2014
Project prepayments	808,350.00	808,350.00
Prepayments for land use rights	4,116,091.08	4,116,091.08
Prepayments for contracted technology licensing fee (note)	39,656,925.20	39,656,925.20
Total	<u>44,581,366.28</u>	<u>44,581,366.28</u>

Note:

As reviewed and approved by the first extraordinary general meeting of 2011 of the Company held on 18th July 2011, the Company and Schiess entered into the Proprietary Technology and Patent Licensing Contract to introduce the proprietary technology for the design, manufacture and installation of double column 2000mm-crossrail machine ("contract products"), and obtain the exclusive and non-transferable license for the production in PRC and sale in Asia of these contract products. According to the contract, the term of such Proprietary Technology and Patent Licensing would be 16 years from the date of final acceptance of the first prototype machine which was ordered to licensor by licensee (note VI. 12).

As at 31 December 2015 and 31 December 2014, according to the terms of the contract, the Company has accumulated paid 70% of contract technology license fee to Schiess, e.g. EUR4,620,000 (equivalent of RMB39,656,925.20). The Company has received some parts of technology documents for the first prototype machine (including design drawings, technical solutions and directory).

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Short-term loans

(1) Types of short-term loans:

Item	2015	Unit: RMB
		2014
Loans secured by mortgage (note 1)	28,000,000.00	21,000,000.00
Guaranteed loans (note 2)	179,500,000.00	82,000,000.00
Unsecured loans	193,100,000.00	181,500,000.00
Total	<u>400,600,000.00</u>	<u>284,500,000.00</u>

Note 1: As at 31st December 2015, building and structures of the Group with net book value of RMB10,870,033.13 were pledged to banks for short-term loans (2014: RMB11,948,052.89). (note VI. 11)

As at 31st December 2015, land use rights of the Group with net book value of RMB10,968,482.36 were pledged to banks for long-term loans (2014: RMB6,317,425.03). (note VI. 13)

Note 2: Shenyang Machine Tool (Group) Company Limited ("Shenyang Group") provided guarantee for the Group's financing facilities secured from the Export-Import Bank of China. As at 31 December 2015, the total financing limit was RMB300 million (2014: RMB300 million). As at 31 December 2015, the short-term loan used by the Company was RMB50 million (2014: RMB82,000,000). (note XI. 5(4))

Shenyang Group provided guarantee for the Company's financing facilities secured from Hengfeng Bank, as at 31 December 2015, the total financing limit was RMB100 million (2014: nil). The balance of short-term loan used by the Company was RMB80 million as at 31 December 2015 (2014: nil). (note XI. 5 (4))

Shenyang Group provided guarantee for the Company's financing facilities at a total amount of RMB100 million secured from China Guangfa Bank as at 31 December 2015 (2014:nil). The balance of short-term loan used by the Company was RMB41 million as at 31 December 2015 (2014:nil). (note XI. 5 (4))

Changsha Economic and Technological Development Zone Investment Guarantee Co., Ltd. provided guarantee for Changsha Ser's financing facilities at a total amount of RMB10 million secured from the Bank of Communications (Xi'an Ser provided joint liability counter-guarantee for this guarantee) as at 31 December 2015, the balance of short-term loan used by the Group was RMB8.5 million as at 31 December 2015 (2014: nil). (note XI. 5 (4))

(2) As at 31st December 2015, the Group had no short-term loans due but outstanding.

19. Bills payable

Type	2015	Unit: RMB
		2014
Bank acceptance notes	107,283,910.00	72,048,188.00
Commercial acceptance notes	15,981,927.23	3,000,000.00
Total	<u>123,265,837.23</u>	<u>75,048,188.00</u>

Note: the above amount were all bills payable due within one year. As at the end of the year, the Group had no due but outstanding bills payable.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Accounts payable

(1) *Types of accounts payable*

Item	2015	Unit: RMB
		2014
Accounts payable to related company	2,894,308.56	2,100,388.42
Accounts payable to suppliers	<u>429,917,818.62</u>	<u>501,604,077.73</u>
Total	<u>432,812,127.18</u>	<u>503,704,466.15</u>

(2) *Ageing analysis of accounts payable:*

Item	2015	2014
Within one year (including one year)	250,925,007.89	355,949,961.33
1-2 years (including 2 years)	106,428,809.79	85,184,799.92
2-3 years (including 3 years)	25,159,899.74	31,251,884.12
Over 3 years	<u>50,298,409.76</u>	<u>31,317,820.78</u>
Total	<u>432,812,127.18</u>	<u>503,704,466.15</u>

The ageing of accounts payable is calculated starting from the date of recognition.

(3) *Important accounts payable with an ageing over one year*

Item	2015	Unit: RMB
		Unpaid or not settled reason
Accounts payable for material	<u>32,362,954.69</u>	Not be collected temporarily

21. Advances from customers

(1) *Information of advances from customers*

Item	2015	Unit: RMB
		2014
Advances from related party	28,004,640.00	9,640.00
Advances from the third party	<u>161,661,184.66</u>	<u>229,745,906.36</u>
Total	<u>189,665,824.66</u>	<u>229,755,546.36</u>

(2) As at 31 December 2015, single customer advance payment more than RMB7 million with an ageing over one year of the Group is as follow:

Item	2015	Unit: RMB
		Unpaid or not settled reason
Advance sales payment	<u>64,213,640.00</u>	No delivery temporarily

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Employee benefits payable

(1) Employee benefits payable are as follows:

Item	Unit: RMB			
	Opening balance	Increase during the year	Decrease during the year	Closing balance
I. Short-term employee benefits	10,169,363.71	243,460,220.83	231,090,024.21	22,539,560.33
II. post-employment – Defined contribution plan	9,489.36	26,235,874.95	24,464,899.65	1,780,464.66
III. Termination benefits	290,324.70	5,117,448.62	5,407,773.32	–
IV. Other benefits due within one year	2,240,546.39	1,338,626.74	2,240,546.39	1,338,626.74
Total	<u>12,709,724.16</u>	<u>276,152,171.14</u>	<u>263,203,243.57</u>	<u>25,658,651.73</u>

(2) Short-term employee benefits

Item	Unit: RMB			
	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus, subsidy and grants	895,274.13	207,279,242.74	208,144,283.69	30,233.18
Staff welfare	–	5,628,775.87	5,628,775.87	–
Social insurance	2,020.80	14,462,085.82	14,464,106.62	–
Include: Medical insurance	2,020.80	12,852,060.73	12,854,081.53	–
Work injury	–	644,235.53	644,235.53	–
Maternity insurance	–	965,789.56	965,789.56	–
Housing fund	1,755,713.32	13,523,263.00	1,866,199.00	13,412,777.32
Union expenses and employees education expenses	7,516,355.46	2,566,853.40	986,659.03	9,096,549.83
Total	<u>10,169,363.71</u>	<u>243,460,220.83</u>	<u>231,090,024.21</u>	<u>22,539,560.33</u>

(3) Defined contribution plan

Item	Unit: RMB			
	Opening balance	Increase during the year	Decrease during the year	Closing balance
Basic retirement insurance premiums	9,336.96	23,770,847.16	21,999,719.46	1,780,464.66
Unemployment insurance	152.40	2,465,027.79	2,465,180.19	–
Total	<u>9,489.36</u>	<u>26,235,874.95</u>	<u>24,464,899.65</u>	<u>1,780,464.66</u>

Note: The Group participates in the pension insurance scheme and unemployment insurance scheme set up by the government institutions as required. Accordingly, the Group contributed 20% and 1.4% of the averages salary of the employees to those schemes respectively on a monthly basis during last year. The Group would not undertake further payment obligation in addition to the above monthly contribution. The relevant expenses would be recognised in the profit and loss of the current period or the cost of relevant assets when incurred.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Taxes payable

Item	Unit: RMB	
	2015	2014
Value added tax	1,901,543.94	5,222,899.91
Business tax	108,391.83	29,205.00
Corporate income tax	33,813.42	153,959.15
Others	1,721,403.73	1,471,150.03
Total	<u>3,765,152.92</u>	<u>6,877,214.09</u>

24. Dividends payable

Item	Unit: RMB	
	2015	2014
Common share dividend	<u>135,898.49</u>	<u>135,898.49</u>

25. Other payables

(1) Other payables by nature of payments are as follows:

Item	Unit: RMB	
	2015	2014
Payable for projects	61,473,078.53	100,127,398.62
Secured deposits for projects	1,395,366.00	1,292,600.00
Leasing expenses	10,834,740.30	5,516,413.56
Auditor's fee	2,924,245.29	2,940,283.02
Commissions and business promotion fees	19,796,095.37	9,994,000.00
Housing fund (individual part)	10,422,855.40	–
Funding transaction with Shenyang Group	30,000,000.00	–
Others	33,727,143.64	24,357,717.33
Total	<u>170,573,524.53</u>	<u>144,228,412.53</u>

(2) Important other payables with an ageing over one year

Item	Unit: RMB	
	2015	Unpaid or not settled reason
Land arrears	23,694,300.00	Not be collected temporarily
Leasing expenses	5,250,000.00	Not be collected temporarily
Payable for projects	<u>36,722,899.02</u>	Not be collected temporarily
Total	<u>65,667,199.02</u>	/

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Non-current liabilities due within one year

Item	2015	Unit: RMB	
		2015	2014
Guaranteed loans due within one year (Note VI. 27)	200,000,000.00		–
Obligation under finance lease due within one year (Note VI. 28)	213,209.00		213,209.00
Sale and leaseback due within one year (Note VI. 32)	205,300.00		205,300.00
Secured loans due within one years	10,139,911.61		19,328,596.78
Total	210,558,420.61		19,747,105.78

27. Long-term borrowings

(1) Classification of Long-term borrowings

Item	2015	Unit: RMB	
		2015	2014
Secured loans (note 1)	79,005,572.45		–
Guaranteed loans (note 2)	250,000,000.00		200,000,000.00
Sub-total	329,005,572.45		200,000,000.00
Less: guaranteed loans due within one year (note VI. 26)	200,000,000.00		–
Total	129,005,572.45		200,000,000.00

Note 1: As at 31st December 2015, building and structures of the Group with net book value of fixed assets of RMB13,330,892.08 were pledged to banks for long-term loans (2014: nil). (Note VI. 11)

As at 31st December 2015, land use rights of the Group with net book value of RMB94,684,797.52 were pledged to banks for long-term loans (2014: nil). (Note VI. 13)

Note 2: Shenyang Machine Tool provided guarantee for the Group's financing facilities at a total amount of RMB300 million secured from the Export-Import Bank of China (2014: RMB300 million). As at 31 December 2015, the Company obtained long-term loans amounted to RMB250 million (2014: RMB200 million). (Note XI. 5 (4))

(2) Long-term borrowings by expiry date are as follows:

Item	2015	2014	
		2015	2014
Due within 1 year or on demand (Note VI. 26)	200,000,000.00		–
1-2 years (including 2 years)	50,000,000.00		200,000,000.00
2-3 years (including 3 years)	79,005,572.45		–
Total	329,005,572.45		200,000,000.00

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Long-term borrowings (Continued)

(3) As at 31 December 2015, details of the long-term loans are as follows:

Bank name	Start date	Settlement date	Currency	Interest Rate (%)	2015
Export-import Bank of China	28/04/2014	28/04/2016	Renminbi	5.23%	39,000,000.00
Export-import Bank of China	26/05/2014	28/04/2016	Renminbi	5.23%	21,000,000.00
Export-import Bank of China	30/05/2014	30/05/2016	Renminbi	5.23%	50,000,000.00
Export-import Bank of China	26/06/2014	26/06/2016	Renminbi	5.50%	90,000,000.00
Export-import Bank of China	26/03/2015	25/03/2017	Renminbi	5.25%	50,000,000.00
Export-import Bank of China	15/02/2015	15/08/2018	Renminbi	4.75%	57,515,230.78
Export-import Bank of China	18/06/2015	15/08/2018	Renminbi	5.00%	17,208,905.37
Export-import Bank of China	09/10/2015	15/08/2018	Renminbi	5.00%	4,281,436.30
Total					<u>329,005,572.45</u>

(4) As at 31 December 2015, no long-term loan of the Group was past due.

28. Long-term payables

Item	2015	Unit: RMB 2014
Obligation under finance lease	1,279,254.50	1,492,463.90
Secured loan payables	10,139,911.61	29,494,440.35
Sub-total	11,419,166.11	30,986,904.25
Less: long-term payables due within one year		
Of which, obligation under finance lease due within one year (VI. 26)	213,209.00	213,209.00
secured loan payables due within one year (Note VI. 26)	10,139,911.61	19,328,596.78
Sub-total	<u>10,353,120.61</u>	<u>19,541,805.78</u>
Total	<u>1,066,045.50</u>	<u>11,445,098.47</u>

(1) The minimum finance lease payment of Obligation under finance lease under long-term payables

Minimum lease payments	2015	2014
Within one year (including one year)	342,168.88	342,168.88
1-2 years (including 2 years)	342,168.88	342,168.88
2-3 years (including 3 years)	342,168.88	342,168.88
Over 3 years	1,026,507.66	1,368,676.62
Sub-total	2,053,014.30	2,395,183.26
Less: unrecognised finance charges	<u>773,759.80</u>	<u>902,719.36</u>
Total	<u>1,279,254.50</u>	<u>1,492,463.90</u>

Note 1: Obligation under finance lease reflected the present value of minimum lease payments caused by the Company's lease of some workshops and factory buildings after sale in 2001. The lease constituted finance lease and the term of lease was 20 years.

Note 2: As at 31 December 2015, the balance of unrecognised finance expenses of the Group was RMB773,759.80 (31 December 2014: RMB902,719.36).

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. Long-term payables

(2) Breakdown of secured loans repayable included in long-term payables

Minimum lease payments	2015	2014
Within one year (including one year)	10,139,911.61	19,328,596.78
1-2 years (including 2 years)	–	10,165,843.57
Sub-total	10,139,911.61	29,494,440.35
Less: secured loans due within one year	10,139,911.61	19,328,596.78
Total	–	10,165,843.57

Note: In 2014, the Company disposed certain machinery and equipment to a leasing company and leased back the same. The transaction was treated as a pledged loan as its economic essence was to secure a borrowing with pledged assets. As at 31 December 2015, the Group's net value of fixed assets for collateral was RMB48,232,306.31 (2014: RMB52,874,987.54). (VI. 11)

29. Long-term employee benefits payable

Item	2015	Unit: RMB 2014
Termination benefits	6,292,263.79	7,351,320.45
Less: benefits due within one year (Note VI.22)	(1,338,626.74)	(2,240,546.39)
Total	4,953,637.05	5,110,774.06

Note: Some employees of the Company retired from employment prior to their statutory retirement age. According to the requirements of the early retirement plan of the Company, from the date of ceasing service provision up to their respective statutory retirement dates, such employee salary as proposed salary and social insurance for early retirement employees were recognised at their discounted present value as provisions and were included in current administrative expenses ("early retirement expenses"). The discount rate selected by the Company represented the interest rate of national bonds having the same credit term with early retirement plan of the Company.

30. Special payables

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance	Unit: RMB Causes
Tax refund for import tariff and import VAT for key parts of machine tools	20,947,539.29	–	–	20,947,539.29	note

Note: Pursuant to the stipulations of the "Notice from the Ministry of Finance, National Development Reform Commission, China Customs, State Administration of Taxation on Import Duties Policy Related to Several Opinions on the Acceleration of Revitalising the Equipment Manufacturing Industry" (Cai Guan Shui [2007] No. 11), the tax refund will be treated as state investment, and should convert into state capital within the specified time. If an enterprise cannot convert the tax refund into state capital within the specified time, it should return the refund to state treasury on time. The Company committed that it would directly issue shares to its state-owned substantial shareholders Shenji Group and Yunnan Industrial Investment within two years after receiving the tax refund and complete the procedure of converting tax refund into state capital. Before that time, the Company will treat it as special payables according to accounting standards. As at 31 December 2015, the procedure of converting tax refund into state capital was not completed and the commitment period was exceeded.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31. Provisions

Item			Unit: RMB
	2015	2014	Causes
Warranty	7,312,879.51	8,811,020.12	note
Total	<u>7,312,879.51</u>	<u>8,811,020.12</u>	/

Note: Generally, the Group provides after-sale quality service guarantee to its customers who buy machine tool products from the Group. If the products have malfunction caused by non-accident or quality problems within one year after sale, the Group will provide free maintenance. The above product quality warranty was made based on the Group forecasted product quality warranty expenditures needed to be undertaken for products sold during the period and prior periods.

32. Deferred income

Item					Unit: RMB
	Opening balance	Increase during the period	Decrease during the period	Closing balance	Causes
Sale and leaseback causing operating lease	1,231,802.91	-	205,300.80	1,026,502.11	Note 1
Government grants	120,071,205.72	18,545,434.00	13,379,540.00	125,237,099.72	Note 2
Total	<u>121,303,008.63</u>	<u>18,545,434.00</u>	<u>13,584,840.80</u>	<u>126,263,601.83</u>	/

Note 1: Deferred income-sale and leaseback were caused by the Company's lease of some buildings and structures and land use rights after sale in 2001 and the lease constituted operating lease. Therefore, the difference between the income of selling premises and land use rights and the original book value formed deferred income and would be amortised by straight-line method within 20 years of leasing period. As at 31 December, the Company treated the deferred income of RMB205,300.00 which was forecasted to be transferred to income statement within one year as non-current liabilities due within one year. (Note VI. 26)

Note 2:

Government grants:

Item					Unit: RMB
	Opening balance	Additional grant during the year	Amount recognized as non-operating income	Closing balance	Related to assets/income
R&D grants for high precision TGK46100 horizontal jig boring machine tools	7,835,000.00	-	7,570,100.00	264,900.00	Related to income
Phase one of the CNC heavy and precision machine tool manufacturing project	16,000,000.00	-	-	16,000,000.00	Related to income
Land use rights of Yanglin Base	13,323,334.00	-	280,000.00	13,043,334.00	Related to asset
Project of plant and supporting facilities construction of heavy casting workshop	-	2,750,000.00	-	2,750,000.00	Related to asset
R & D grant for XK2850 CNC gantry boring and milling machine	2,000,000.00	-	2,000,000.00	-	Related to income
Key technology for design and manufacture of high precision jig boring machines	6,343,100.00	2,036,900.00	-	8,380,000.00	Related to income
Project of innovation and High-tech industry capacity - building	-	5,000,000.00	-	5,000,000.00	Related to income
Others	74,569,771.72	8,758,534.00	3,529,440.00	79,798,865.72	Related to income
Total	<u>120,071,205.72</u>	<u>18,545,434.00</u>	<u>13,379,540.00</u>	<u>125,237,099.72</u>	/

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Share capital

Unit: RMB

	Opening balance	Issuance of new shares	Increase/decrease for the year			Sub-total	Closing balance
			Bonus shares	Capital reserve converted to shares	Others		
Ordinary shares							
A shares	390,186,228.20	-	-	-	-	-	390,186,228.20
H shares	140,894,874.80	-	-	-	-	-	140,894,874.80
Total	<u>531,081,103.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>531,081,103.00</u>

34. Capital reserve

Unit: RMB

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Capital premium (share premium)	19,206,777.12	-	-	19,206,777.12
Other capital reserves	558,254.05	-	-	558,254.05
Total	<u>19,765,031.17</u>	<u>-</u>	<u>-</u>	<u>19,765,031.17</u>

35. Surplus reserve

Unit: RMB

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserve	117,077,019.33	-	-	117,077,019.33
Total	<u>117,077,019.33</u>	<u>-</u>	<u>-</u>	<u>117,077,019.33</u>

36. Retained earnings

Unit: RMB

Item	2015	2014
Retained earnings as at the end of the prior year before adjustment	417,634,420.32	650,275,276.12
Total of adjusted opening retained earnings	-	(28,549,549.27)
Retained earnings as at the beginning of the year after adjustment	417,634,420.32	621,725,726.85
Add: comprehensive income attributable to shareholders of the Company	(196,385,215.66)	(204,091,306.53)
Retained earnings at the end of the year	<u>221,249,204.66</u>	<u>417,634,420.32</u>

Note: As at December 2015, the Company's distributable profit was RMB221,351,368.03 (2014: RMB390,145,312.31).

The board of directors of the Company passed the resolution of profit distribution proposal for 2015 on 30 March 2016. The board of directors did not propose to distribute a final dividend for 2015. The above resolution is subject to be approved by the shareholders' meeting of the Company.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37. Operating income and operating costs

Item	2015		2014	
	Income	Cost	Income	Cost
Operating income from principal activities	769,292,803.20	656,758,425.99	865,169,570.13	701,444,792.15
Other operating income	<u>7,301,957.89</u>	<u>3,123,057.15</u>	<u>2,719,735.51</u>	<u>1,418,180.01</u>
Total operating income	<u>776,594,761.09</u>	<u>659,881,483.14</u>	<u>867,889,305.64</u>	<u>702,862,972.16</u>

Unit: RMB

38. Business taxes and surcharges

Item	2015	2014
	Business tax	397.67
Urban maintenance and construction tax	4,551,091.03	3,849,233.56
Education surcharges	2,017,134.47	1,928,402.95
Local education surcharges	<u>1,344,756.34</u>	<u>1,285,601.97</u>
Total	<u>7,913,379.51</u>	<u>7,066,020.66</u>

Unit: RMB

Note: For details of payment standards for business taxes and surcharges, please see Note V. Taxation.

39. Selling and distribution expenses

Item	2015	2014
	Staff cost	33,032,387.78
Commission	12,907,240.77	10,174,170.39
Shipping cost	15,209,575.41	17,631,998.44
Warranty	12,659,725.58	19,802,330.16
Travel expenses	4,458,390.68	11,985,037.80
Others	<u>17,370,824.39</u>	<u>20,419,344.00</u>
Total	<u>95,638,144.61</u>	<u>116,018,784.59</u>

Unit: RMB

40. General and administrative expenses

Item	2015	2014
	Staff cost	56,526,174.81
Depreciation of fixed assets	11,560,694.40	8,151,449.74
Amortization of intangible assets	5,157,963.84	4,669,349.37
Taxes	5,565,869.83	5,812,228.92
R & D expenses	44,583,792.77	54,553,457.55
Rent	4,907,831.10	5,445,050.70
Auditor's fee	2,662,075.48	3,867,464.59
Others	<u>25,998,793.18</u>	<u>26,414,382.29</u>
Total	<u>156,963,195.41</u>	<u>185,208,914.45</u>

Unit: RMB

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41. Finance expenses

Item	2015	Unit: RMB
		2014
Interest expenses on loans and accounts payable	44,222,151.66	28,988,788.22
Less: interest expenses capitalized	(9,848,177.10)	(12,279,543.91)
Interest income	(1,341,901.11)	(841,927.69)
Net exchange loss	(139,827.50)	259,741.24
Other financial expenses	2,205,020.82	1,464,381.78
Total	<u>35,097,266.77</u>	<u>17,591,439.64</u>

The interest rate per annum, at which the borrowing cost were capitalized for the current year by the Group was 6.03% (2014: 7.00%).

42. Asset impairment losses

Item	2015	Unit: RMB
		2014
Bad debt loss on accounts receivable	49,087,123.87	27,335,942.11
Bad debt loss on other receivables	365,436.43	595,360.91
Loss on diminution in value of inventories	17,686,474.99	8,418,134.07
Total	<u>67,139,035.29</u>	<u>36,349,437.09</u>

43. Investment income

Item	2015	Unit: RMB
		2014
Income from long-term equity investments accounted for using the equity method	(613,021.53)	1,926,942.96
Income from disposal of long-term equity investments	—	7,538,290.55
Total	<u>(613,021.53)</u>	<u>9,465,233.51</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44. Non-operating income

(1) Information of non-operating income

Item	2015	2014	Unit: RMB
			Amount included in extraordinary gains or losses for the year 2015
Gain on disposal of non-current assets	407,853.05	196,298.44	407,853.05
Of which: gain on fixed assets disposal	407,853.05	196,298.44	407,853.05
Gain on debt adjustments of accounts payable	11,567,813.06	7,657,445.80	11,567,813.06
Government grants	19,299,669.51	7,315,597.49	19,299,669.51
Others	1,212,012.21	465,210.98	1,212,012.21
Total	<u>32,487,347.83</u>	<u>15,634,552.71</u>	<u>32,487,347.83</u>

(2) Government grants recognized through profit and loss

Item	2015	2014	Unit: RMB
			Related to assets/income
Grants for high precision TGK46100 horizontal jig boring machine tools project	7,570,100.00	-	Related to income
Kunming city unemployment insurance fund stable post subsidies	3,635,858.51	-	Related to income
Kunming City Panlong District Finance Bureau working capital for supporting production	2,014,400.00	2,997,800.00	Related to income
R & D granted for XK2850 CNC gantry boring and milling machine	2,000,000.00	-	Related to income
Others	4,079,311.00	4,317,797.49	Related to assets/income
Total	<u>19,299,669.51</u>	<u>7,315,597.49</u>	/

(3) Debt adjustment of accounts payable

In the year ended 31 December 2015, the Group entered into debt restructuring agreements and debt forgiveness agreements with 54 suppliers. According to the provisions of these agreements, the supplier agrees to adjust the Company's outstanding payment for goods as per a certain discount percentage. The discounted amount generally accounts for 3%-20% of the original outstanding payment for goods. Pursuant to the provisions of these agreements, the suppliers committed to giving up ownership of the reduced amounts and will no longer claim the rights to the reduced amounts. None of these suppliers was a related party of the Group, or holding more than 5% (inclusive) of the Company's voting shares. As a result, the Company reduced the recorded accounts payable by RMB11,567,813.06 and recognized the amount in the non-operating income accordingly.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45. Non-operating expenses

Item	2015	2014	Unit: RMB
			Amount included in extraordinary gains or losses for the year 2015
Losses on disposal of non-current assets	631,166.88	313,420.84	631,166.88
Of which: losses on disposal of fixed assets	631,166.88	313,420.84	631,166.88
Others	4,575,759.51	70,504.61	4,575,759.51
Total	<u>5,206,926.39</u>	<u>383,925.45</u>	<u>5,206,926.39</u>

46. Income tax expenses

(1) Table of income tax expenses

Item	2015	Unit: RMB
		2014
Current tax expenses for the year	(33,201.37)	117,211.01
Changes in deferred tax assets	316,053.25	36,853,706.87
Total	<u>282,851.88</u>	<u>36,970,917.88</u>

(2) The reconciliation between accounting profit and income tax expenses

Item	2015	Unit: RMB
		2014
Total profit	(219,370,343.73)	(172,492,402.18)
Income tax expenses calculated at statutory/applicable tax rates	(54,842,585.93)	(43,123,100.54)
Effect of non-taxable income	(242,979.23)	(1,812,022.19)
Effect of costs, expenses and loss not deductible for tax purposes	2,477,631.24	1,292,221.32
Effect of utilisation of previously unrecognised deductible loss on deferred income tax assets	–	(19,114.43)
Effect of deductible temporary difference or deductible losses of unrecognized deferred tax assets in the year	57,248,932.63	51,039,846.60
Effects of reversal of deductible losses or deductible temporary differences of deferred tax assets recognised in prior years	643,405.94	36,303,557.12
Effects of different tax rates	(210,702.17)	(954,523.09)
Effects of items eligible for additional deduction	(4,757,649.23)	(5,677,615.89)
Effects on preferential income tax	–	(78,216.81)
Difference adjustment for making final settlement	(33,201.37)	(114.21)
Income tax expenses	<u>282,851.88</u>	<u>36,970,917.88</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47. Items of cash flow statement

(1) Cash received relating to other operating activities

Item	2015	Unit: RMB
		2014
Received government grants	24,485,356.12	24,121,464.33
Transactions inside the Group	30,000,000.00	–
Others	10,168,166.36	1,329,644.41
Total	<u>64,653,522.48</u>	<u>25,451,108.74</u>

(2) Cash paid relating to other operating activities

Item	2015	Unit: RMB
		2014
R & D expenses	6,282,737.39	11,561,307.43
After sales service fee	12,200,710.53	11,287,828.39
Office expenses	11,195,206.25	7,813,389.12
Maintenance	7,957,413.78	6,298,405.11
Others	25,959,600.31	9,886,728.42
Total	<u>63,595,668.26</u>	<u>46,847,658.47</u>

(3) Cash received relating to other investing activities

Item	2015	Unit: RMB
		2014
Cash received for warranty	88,661,404.95	115,221,777.02
Total	<u>88,661,404.95</u>	<u>115,221,777.02</u>

(4) Cash paid relating to other investing activities

Item	2015	Unit: RMB
		2014
Cash paid for warranty	99,744,171.59	111,625,711.18
Total	<u>99,744,171.59</u>	<u>111,625,711.18</u>

(5) Cash paid relating to other financing activities

Item	2015	Unit: RMB
		2014
Cash paid for notes payable financing	–	47,230,000.00
Total	<u>–</u>	<u>47,230,000.00</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48. Related information of cash flow statement

(1) Supplementary information on cash flow statement

Supplementary information	2015	Unit: RMB 2014
1.Reconciliation of net profit to cash flows from operating activities		
Net profit	(219,653,195.61)	(209,463,320.06)
Add: Provision for impairment of assets	67,139,035.29	36,349,437.09
Depreciation of fixed assets	47,201,266.11	44,414,724.99
Amortization of intangible assets	6,551,421.89	5,687,851.92
Amortization of long-term deferred expenses	372,904.71	466,491.19
Loss on disposal of fixed assets	223,313.83	117,122.40
Finance expense	34,373,974.54	17,480,937.80
Investment loss	613,021.53	(9,465,233.51)
Decrease in deferred tax assets	316,053.29	36,853,706.87
Decrease in inventories	(29,962,325.55)	(33,762,492.01)
Decrease in operating receivable	(65,422,286.14)	(35,412,058.64)
Increase in operating payable	(5,322,146.92)	14,476,815.43
Net cash flows from operating activities	(163,568,963.03)	(132,256,016.53)
2.Major investing and financing activities not involving cash settlements:		
Conversion of debt into capital	-	-
Convertible corporate bonds due within one year	-	-
Finance leased fixed assets	-	-
3.Net change in cash and cash equivalents:		
Closing balance of cash	71,288,005.75	124,210,047.71
Less: Opening balance of cash	124,210,047.71	139,391,654.25
Add: cash equivalents closing balance	-	-
Less: cash equivalents opening balance	-	-
Net increase in cash and cash equivalents	<u>(52,922,041.96)</u>	<u>(15,181,606.54)</u>

(2) Composition of cash and cash equivalents

Item	2015	Unit: RMB 2014
I. Cash		
Of which: Treasury cash	178,106.10	644,101.93
Bank Deposits available on demand	71,109,899.65	123,565,945.78
II. Balance of cash and cash equivalent as at end of period	71,288,005.75	124,210,047.71
Of which: use restricted cash and cash equivalent of the Company or subsidiaries	<u>-</u>	<u>-</u>

Note: Use restricted cash and cash equivalents of the Group is not included in cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49. Assets with ownership or use right restrictions

Item	2015	2014	Unit: RMB
			Reasons for restriction
Cash at bank or on hand	49,900,716.55	38,817,949.91	Pledged
Bills receivable	9,197,755.00	10,526,233.00	
Of which, pledged bank acceptance note	–	2,000,000.00	Pledged
Endorsed or discounted commercial notes	9,197,755.00	8,526,233.00	Endorsed or discounted
Fixed assets	72,433,231.52	64,823,040.43	Pledged
Intangible assets	105,653,279.88	6,317,425.03	Pledged
Total	<u>237,184,982.95</u>	<u>120,484,648.37</u>	

50. Foreign currency items

Item	Closing foreign currency balance	Exchange rate	Unit: dollar
			Closing balance in RMB
Cash at bank and on hand			
Of which: USD	34,703.07	6.4936	225,347.86
EUR	19,550.73	7.0952	138,716.34
HKD	7,693,915.80	0.8378	6,445,962.66
Accounts receivable			
Of which: USD	439.00	6.4936	2,850.69
EUR	36,718.27	7.0952	260,523.47
Accounts payable			
Of which: USD	23,942.14	6.4936	155,470.68
EUR	1,512,048.73	7.0952	10,728,288.15
JPY	129,092,000.00	0.0539	6,958,058.80
Other payables			
Of which: EUR	<u>104,151.84</u>	<u>7.0952</u>	<u>738,978.14</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51. Director's remuneration

(1) Details of director's remuneration for the year ended 31st December 2015:

Unit: RMB'000

	Director's fee	Salaries, allowance and benefits in kind	Retirement scheme contribution	Discretionary bonus	Total
Executive directors:					
Wang Xing	96	303	83	–	482
Zhang Xiaoyi	80	287	67	–	434
Chang Baoqiang	64	302	83	–	449
Zhang Zeshun	55	100	27	–	182
Jin Xiaofeng	48	239	82	–	369
Non-executive directors:					
Zhang Tao (i)	–	–	–	–	–
Gao Minghui (ii)	4	1	–	–	5
Liu Yan (i)	–	–	–	–	–
Liu Haijie (i)	–	–	–	–	–
Independent directors:					
Chen Fusheng	200	–	–	–	200
Yang Xiongsheng	143	–	–	–	143
Tang Chunsheng	143	–	–	–	143
Liu Qiang	143	–	–	–	143
Supervisors:					
Shao Li	64	284	67	–	415
Zhou Guoxing	48	239	67	–	354
Jiang Jingying (i)	–	–	–	–	–
Cai zhemin (i)	–	–	–	–	–
Fan Hong (i)	–	–	–	–	–
Total	<u>1,088</u>	<u>1,755</u>	<u>476</u>	<u>–</u>	<u>3,319</u>

(i) The director had not received any remuneration to him from the Group.

(ii) On 11 February 2015, Mr. Gao Minghui resigned his directorship of the Company.

(iii) The Company held a 1st EMG on 31 March 2015 to consider and approve Mr. Jin Xiaofeng as director of the Company with effective from 31 March 2015.

(iv) Discretionary bonuses represent the bonuses paid in 2015 and related to the performance of 2014. The Board confirmed that no discretionary bonuses would be paid for the year 2015.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51. Director's remuneration (Continued)

(2) Details of director's remuneration for the year ended 31st December 2014:

Unit: RMB'000

	Director's fee	Salaries, allowance and benefits in kind	Retirement scheme contribution	Discretionary bonus	Total
Executive directors:					
Wang Xing (Chairman)	96	304	79	–	479
Zhang Xiaoyi	80	289	56	–	425
Zhang Zeshun (iii)	51	220	47	–	318
Chang Baoqiang (iv)	11	313	79	–	403
Ye Nong (v)	53	255	79	–	387
Li Shunzhen (ii)	5	20	5	–	30
Non-executive directors:					
Guan Xin	48	–	–	–	48
Gao Minghui	64	303	79	–	446
Liu Haijie (iv)	10	–	–	–	10
Zhou Donghong (iii) and (v)	17	–	–	–	17
Zhang Tao (i)	–	–	–	–	–
Liu Yan (i) and (iv)	–	–	–	–	–
Li Zhenxiong (i)	–	–	–	–	–
Independent directors:					
Chen Fusheng	200	–	–	–	200
Liu Qiang (iv)	97	–	–	–	97
Yang Xiongsheng	143	–	–	–	143
Tang Chunsheng (iii)	113	–	–	–	113
Xiao Jianming (vi)	12	–	–	–	12
Supervisors:					
Shao Li	64	285	56	–	405
Zhou Guoxing	8	241	56	–	305
Jiang Jingying (i)	–	–	–	–	–
Cai zhemin (i)	36	–	–	–	36
Fan Hong	–	–	–	–	–
Qin Jianzhong	40	161	56	–	257
Total	<u>1,148</u>	<u>2,391</u>	<u>592</u>	<u>–</u>	<u>4,131</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51. Director's remuneration (Continued)

- (2) Details of director's remuneration for the year ended 31st December 2014: (Continued)
- (i) The director had not received any remuneration to him from the Group.
 - (ii) On 27 January 2014, Ms. Li Shunzhen resigned her directorship of the Company.
 - (iii) The Company held a 1st EMG on 18 March 2014 to consider and approve Mr. Zhang Zeshun and Mr. Zhou Donghong as director of the Company with effective from 18 March 2014, and to consider and approve Mr. Tang Chunsheng as independent non-executive director of the Company with effective from 18 March 2014.
 - (iv) On 31 October 2014, the 3rd EGM was held to consider and approve Mr. Chang Baoqiang as director of the Company with effective from 31 October 2014; to consider and approve Mr. Liu Yan and Ms. Liu Haijie as non-executive directors of the Company with effective from 31 October 2014; to consider and approve Mr. Liu Qiang as independent non-executive director of the Company with effective from 31 October 2014.
 - (v) On 31 October 2014, Mr. Ye Nong and Mr. Zhou Donghong resigned their directorship of the Company due to the tenure of appointment expired.
 - (vi) On 29 January 2014, Mr. Xiao Jianming resigned his independent non-executive director position of the Company.
 - (vii) On 31 October 2014, supervisor Mr. Qin Jianzhong resigned due to the tenure of appointment expired.
 - (viii) After voting by the staff delegation leader expanded meeting held by the union of the Company, Mr. Zhou Guoxing was appointed as the employee supervisor with effective from 31 October 2014.
 - (ix) Discretionary bonuses represent the bonuses paid in 2014 and related to the performance of 2013. The Board confirmed that no discretionary bonuses would be paid for the year 2014.

52. Individuals with Highest Emoluments

- (1) Of the five individuals with the highest emoluments, three (2014: four) are directors whose emolument are disclosed in note VI. 51. The aggregate of the emoluments in respect of the remaining individuals are as follows:

Item	Unit: RMB'000	
	2015	2014
Salaries and other emoluments	688	349
Retirement scheme contributions	146	56
Total	<u>834</u>	<u>405</u>

- (2) Except for directors, the emoluments of two individual (2014: one) with the highest emoluments is within the following band:

Item	2015	2014
HKD Nil – HKD1,000,000	<u>2</u>	<u>1</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VII. CHANGE IN THE SCOPE OF CONSOLIDATION

1. Business combination not under common control occurred in last year

Kunming TOS Machine Tool Co., Ltd. ("Kunming TOS") was founded in Kunming, Yunnan province, on 27 January 2005. It is headquartered in Kunming and mainly engaged in the production and sale of machine tool products. The Company and another investor, TOS Varnsdorf, a.s. (Czech TOS) from Czech Republic, each holds 50% of equity interests in Kunming TOS. In accordance with the Sino-foreign Joint Venture Agreement entered into by the two parties on 27 January 2005, the board of Kunming TOS is comprised of 6 directors, the Company and Czech TOS each appointed three directors. Accordingly, TOS Kunming was jointly controlled by the Company and Czech TOS, and was a joint venture of the Company. The difference of RMB7,538,290.55 between the carrying amount of the fixed assets invested as capital contribution and the amount of investments recognized was originally stated as capital reserve – equity investment reserve by the Company. The Company has adopted the new Accounting Standards for Business Enterprises since 1 January 2007, and the equity investment reserve was transferred into capital reserve arising from long-term equity investments (other capital reserve) under the new standards, which was accounted for using the equity method.

In accordance with the Amendment to the Joint Venture Agreement (2013) signed on 25 December 2013 ("Amendment (2013)"), the number of directors on the board of directors of Kunming TOS was increased from six to seven, with four directors to be appointed by the Company. Accordingly, the Company will have a majority of the board of directors of Kunming TOS. Amendment (2013) was considered and approved by the Annual General Meeting of the Company on 15 May 2014. As the Company had obtained more than half of the voting rights since then, Kunming TOS was incorporated into the scope of the consolidated financial statements of the Group by the Company with effect from 15 May 2014. The operating results of Kunming TOS for the period from the date of acquisition to 31 December 2014 have been incorporated into the consolidated income statement of the Group for the current period.

The acquisition cost incurred by the Group for the business combination was the carrying amount of the equity investment in Kunming TOS held by the Group at the acquisition date (RMB43,432,971.01). The Group acquired 50% equity interest of Kunming TOS in the business combination. The fair value of the identifiable net assets of Kunming TOS (net of non-controlling interests) at the acquisition date was RMB43,432,971.01. Meanwhile, other comprehensive income (i.e. the above equity investment reserve originally included in other capital reserve) of RMB7,538,290.55 related to the investment in Kunming TOS held by the Group prior to the acquisition date was carried over as investment income during the period (Note VI. 43).

2. Business combination not under common control during the year

There is no change in the scope of consolidation during the year.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VIII. DISCLOSURE OF EQUITY IN OTHER ENTITIES

1. Interests in subsidiary

(1) Composition of the Group

Name of subsidiary	Principal place of business	Place of registration	Registered Capital	Nature of business	Percentage of shareholding (%)		Method of acquisition
					Directly	Indirectly	
Xi'an Ser (note)	Xi'an	Xi'an	RMB50 million	Development, design, production and sales of compressor series products and accessories	45%	-	Business combination not under common control
Changsha Ser	Changsha	Changsha	RMB10 million	Development, design, production and sales of compressor series products and accessories	-	100%	Business combination not under common control
Kunming TOS (note)	Kunming	Kunming	EURO 5 million	Development, design, production and sales of machine tool series products and accessories	50%	-	Business combination not under common control
General Machine	Kunming	Kunming	RMB3 million	Development, design, production and sales of machine tool series products and accessories	100%	-	Established through investments

Note: Both the percentage of voting rights of the Company in Xi'an Ser and Kunming TOS are 57.14% which determined based on the percentage of voting rights of the Company in the board of directors of the investee companies. The Company has control over the financial and operational decision-making of the investee companies, and is able to exercise its power over Xi'an Ser and Kunming TOS to influence the amount of its attributable variable returns. Therefore, the Company has treated the investee companies as its subsidiaries and adopted the cost method for accounting.

(2) Major non wholly-owned subsidiaries

Unit: RMB

Name of subsidiary	Percentage of shareholding of non-controlling shareholders	Profit attributable to non-controlling shareholders for the year ("()" for losses)	Dividend declared to non-controlling shareholders during the year	Balance of non-controlling interests at the end of the year
Xi'an Ser	55.00	(12,043,628.32)		(7,961,491.38)
Changsha Ser	55.00	(7,603,653.51)		32,991,128.84
Kunming TOS	<u>50.00</u>	<u>(2,653,843.29)</u>	<u>1,584,938.43</u>	<u>41,947,028.78</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VIII. DISCLOSURE OF EQUITY IN OTHER ENTITIES (Continued)

1. Interests in subsidiary (Continued)

(3) Principal financial information on major non wholly-owned subsidiaries

Unit: RMB

Name of subsidiary	Current assets		Closing balance		Non-current liabilities		Total liabilities		Opening balance		Non-current liabilities		Total liabilities
			Total assets	Current liabilities					Total assets	Current liabilities			
Xi'an Ser	115,511,223.66	19,686,493.89	135,197,717.55	149,433,156.42	240,000.00	149,673,156.42	152,508,054.82	20,505,863.56	173,013,918.38	165,351,851.21	240,000.00	165,591,851.21	
Changsha Ser	177,863,255.16	40,251,780.99	218,115,036.15	158,131,165.53	-	158,131,165.53	202,596,884.75	43,678,086.17	246,274,970.92	172,466,275.74	-	172,466,275.74	
Kunming TOS	97,729,121.04	13,580,521.24	111,309,642.28	25,311,208.26	2,104,376.47	27,415,584.73	116,581,899.44	16,328,531.66	132,910,431.10	37,456,190.43	3,082,619.70	40,538,810.13	

Name of subsidiary	2015		2014		2015		2014	
	Operating income	Net profit	Total comprehensive income	Cash flow from operating activities	Operating income	Net profit	Total comprehensive income	Cash flow from operating activities
Xi'an Ser	74,328,680.50	(21,897,506.04)	(21,897,506.04)	(4,769,523.54)	93,335,777.70	(16,301,807.69)	(16,301,807.69)	195,281.62
Changsha Ser	86,478,434.64	(13,824,824.56)	(13,824,824.56)	(14,666,862.32)	121,601,413.11	(1,295,603.38)	(1,295,603.38)	(1,258,260.68)
Kunming TOS	22,986,661.74	(5,307,686.57)	(5,307,686.57)	4,026,923.62	86,969,967.23	5,283,128.09	5,283,128.09	7,488,137.71

2. Interests in joint ventures and associated companies

(1) Major associated company:

Name of enterprise	Principal place of business	Place of registration	Nature of business	Percentage of shareholdings		Accounting method for investments in joint ventures or associated company
				Directly	Indirectly	
Xi'an Ruite	Xi'an	Xi'an	Production and sales of laser prototyping machine	23.33	-	Equity method

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

VIII. DISCLOSURE OF EQUITY IN OTHER ENTITIES (Continued)

2. Interests in joint ventures and associated companies (Continued)

(2) Principal financial information on the major associated company

Xi'an Ruite	2015	Unit: RMB 2014
Current assets	71,454,938.52	70,064,764.43
Non-current assets	66,436,750.57	66,334,649.95
Total assets	137,891,689.09	136,399,414.38
Current liabilities	30,177,414.69	28,351,412.97
Non-current liabilities	41,667,800.00	40,231,000.00
Total liabilities	71,845,214.69	68,582,412.97
Non-controlling interests	9,292,426.85	8,435,718.74
Equity attributable to shareholders of the Company	56,754,047.55	59,381,282.67
Share of net assets calculated based on percentage of shareholding	13,242,611.10	13,855,632.62
Adjustment items		
- goodwill	-	-
- Unrealised profits and losses resulting from internal transaction	-	-
- Others	-	-
Carrying amount of investment in associates	13,771,542.85	14,384,564.38
Operating income	71,193,355.33	53,599,327.14
Net profit	(1,770,527.01)	4,045,248.59
Total comprehensive income	(1,770,527.01)	4,045,248.59

IX. RISK RELATED TO FINANCIAL INSTRUMENTS

The Group is exposed to the following risks from financial instruments during its ordinary activities: credit risk, liquidity risk, interest rate risk and foreign exchange risk.

This information below presents about the Group's exposure to each of the above risks and their causes and the changes during the year, the Group's risk management objectives, policies and processes, risk measurement methods and the changes during the year etc.

(1) Objective and policies of risk management

The objective of the Group's involvement in risk management is to balance the risk and revenue and minimize the adverse effects on financial results of the Group brought by the financial risks. The Group's risk management policies are established to identify and analyze the risks confronted by the Group, to set appropriate risk limits and control program, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The internal audit department of the Group also examines whether the exercise of internal control system meets the requirements of risk management policies on periodical and random basis.

1. Credit Risk

Credit risk refers to the risk of financial loss incurred to one party of the financial instrument due to the other party's failure of performing its duty. The Group's credit risk is primarily attributable to monetary capital and accounts receivables, etc.. Exposure to these credit risks are monitored by management on an ongoing basis.

As the Group principally puts monetary funds excluding cash to the financial institutions with good credit standing, the management considers that there is no significant credit risk and the Group will not incur loss from the counterparty's default.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS *(Continued)*

(1) Objective and policies of risk management *(Continued)*

1. *Credit Risk (Continued)*

In respect of receivables, the sales department of the Group has established a credit policy under which individual credit evaluations are performed on all customers to determine the amount and term of credit. Credit grading is depending on the financial condition, external grading and bank credit record (if any). Generally, except for deposit for warranty, all payments have to be paid by the end of the negotiated credit term. The group authorized credit term to customers according to their payment records and transaction performance, generally, the credit term will be one to three months. Normally, the Group does not require collateral from customers.

In monitoring customer credit risk, customers are grouped according to some factors, such as ageing and maturity date.

The accounts receivable of the Group and the Company as at 31st December 2015 and 31st December 2014 that are overdue but not impaired assessed via individual and collective basis are not significant.

The credit risk of the Group is principally impacted by self-characteristics of each customer other than their industries or countries and areas where their businesses operate. Therefore, significant concentration of credit risk is principally attributable to individual customers' significant accounts receivable. As at the date of balance sheet, 71.82% (2014: 14.94%) of the total accounts receivable and other receivables was due from the Group's top five buyers. Moreover, The Group's neither overdue nor impaired accounts receivable mainly related to those customers without default records recently.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any other guarantees resulted in credit risk exposure.

2. *Liquidity risk*

Liquidity refers to the risk of short of funds when an enterprise performs its duty related to financial liabilities. The Group and its subsidiaries are responsible for their own cash management, including short-term investment for surplus cash and the raising of loans to satisfy expected cash demands (if the amount of borrowings exceeds the preset limits, the approval from the board of directors is required). On the other hand, the Company also considers to negotiate with the suppliers by requiring them to adjust some amount of the debts, or using the measure of sale long ageing accounts receivable to obtain money in advance to reduce the pressure of cash flow of the Company. The Group's policy is to regularly monitor its short-term and long-term liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realizable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

(1) Objective and policies of risk management (Continued)

2. Liquidity risk (Continued)

As at the balance sheet date, the residual contractual term of the financial assets and liabilities of the Group calculated at the undiscounted contractual cash flow (including at contractual interest (in the case of floating rate, at the prevailing interest as at the balance sheet date) and their earliest date required to be repaid are as follows:

Item	As at 31 December 2015 undiscounted contractual cash flow					Carrying amount on balance sheet
	Within one year or on demand	1-2 years	2-5 years	Over 5 years	Total	
Short term loans	411,749,812.85	-	-	-	411,749,812.85	400,600,000.00
Bills payable	123,265,837.23	-	-	-	123,265,837.23	123,265,837.23
Accounts payable and other payables	603,385,651.71	-	-	-	603,385,651.71	603,385,651.71
Long-term borrowings	211,052,063.30	54,424,691.77	81,507,415.58	-	346,984,170.65	329,005,572.45
Long-term payable	10,646,259.94	342,168.88	1,026,507.66	342,168.88	12,357,105.36	11,419,166.11
Total	1,360,099,625.03	54,766,860.65	82,533,923.24	342,168.88	1,497,742,577.80	1,467,676,227.50

Item	As at 31 December 2014 undiscounted contractual cash flow					Carrying amount on balance sheet
	Within one year or on demand	1-2 years	2-5 years	Over 5 years	Total	
Short term loans	292,986,496.39	-	-	-	292,986,496.39	284,500,000.00
Bills payable	75,048,188.00	-	-	-	75,048,188.00	75,048,188.00
Accounts payable and other payables	647,932,878.68	-	-	-	647,932,878.68	647,932,878.68
Long-term borrowings	14,186,333.33	205,613,666.67	-	-	219,800,000.00	200,000,000.00
Long-term payable	21,078,052.72	10,710,110.80	1,026,506.64	684,337.76	33,499,007.92	30,986,904.25
Total	1,051,231,949.12	216,323,777.47	1,026,506.64	684,337.76	1,269,266,570.99	1,238,467,970.93

3. Interest Rate Risk

The Group's exposure to fair value interest rate risk and cash flow interest rate risk mainly arise from interest-bearing financial instruments with fixed rate and floating rate. The Group determined the proportion of fixed interest rate and floating interest rate risk based on the market conditions and maintained an appropriate mix of fixed interest rate and floating interest rate through regular review and supervision. The Group did not hedge interest rate risk with derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

(1) Objective and policies of risk management (Continued)

3. Interest Rate Risk (Continued)

(a) The interest-bearing financial instruments held by the Group as at 31st December are as follows:

① Fixed interest rate financial instruments:

Item	2015		2014	
	Real Interest rate	Amount	Real Interest rate	Amount
Financial liabilities				
– short-term borrowings	4.145%-6.72%	(400,600,000.00)	5.51%-7.5%	(284,500,000.00)
Total	/	(400,600,000.00)	/	(284,500,000.00)

② Floating interest rate financial instruments:

Item	2015		2014	
	Real Interest rate	Amount	Real Interest rate	Amount
Financial assets				
– Cash at bank and on hand	0.35%	121,188,722.30	0.35%	162,383,895.69
Financial liabilities				
– long-term borrowings	4.75%-5.225%	(329,005,572.45)	6.77%	(200,000,000.00)
– long-term payables				
– secured loans payables	5.69%	(10,139,911.61)	6.93%	(29,494,440.35)
Total	/	(217,956,761.76)	/	(67,110,544.66)

(b) Sensitivity Analysis

As at 31st December 2015, if the interest rates had been 25 basis point higher/lower and all other variables held constant, the net profit and shareholder equity of the Group would decrease/increase RMB463,158.12.

As at 31st December 2014, if the interest rates had been 25 basis point higher/lower and all other variables held constant, the net profit and shareholder equity of the Group would increase/decrease RMB142,609.91.

The sensitivity analysis above indicates the instantaneous change in the net profit and shareholder equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the net profit and shareholder equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for the prior year.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

(1) Objective and policies of risk management (Continued)

4. Foreign Exchange Risk

In respect of accounts receivables and payables denominated in foreign currencies other than the functional currency, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

- (a) The Group's exposure as at the balance sheet date to currency risk arising from recognised major assets or liabilities denominated in foreign currencies is as follows. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the balance sheet date.

Item	2015		2014	
	Foreign currency balance	The conversion of RMB balance	Foreign currency balance	The conversion of RMB balance
Cash at bank and on hand				
– EUR	19,550.73	138,716.34	20,853.92	155,478.48
– USD	34,703.07	225,347.86	48,887.85	299,144.75
– HKD	7,693,915.80	6,445,962.66	8,979,524.54	7,083,677.52
Accounts receivable				
– EUR	36,718.27	260,523.47	–	–
– USD	439.00	2,850.69	102,236.70	625,586.37
Other receivables				
– HKD	–	–	2,000.00	1,592.74
Accounts payable				
– EUR	(1,512,048.73)	(10,728,288.15)	(852,872.38)	(6,358,675.33)
– USD	(23,942.14)	(155,470.68)	(646,515.58)	(3,956,028.81)
– JPY	(129,092,000.00)	(6,958,058.80)	(85,380,933.47)	(4,386,113.42)
Other payables				
– EUR	(104,151.84)	(738,978.14)	–	–
Total balance sheet exposure				
– EUR	(1,559,931.57)	(11,068,026.48)	(832,018.46)	(6,203,196.85)
– USD	11,199.93	72,727.87	(95,391.03)	(3,031,297.69)
– JPY	(129,092,000.00)	(6,958,058.80)	(85,380,933.47)	(4,386,113.42)
– HKD	7,693,915.80	6,445,962.66	8,981,524.54	7,085,270.26

- (b) The exchange rates of RMB to foreign currency applicable by the Group are as follows:

Item	Average rate		Reporting date mid-spot rate	
	2015	2014	2015	2014
USD	6.3063	6.1080	6.4936	6.1190
JPY	0.0527	0.0546	0.0539	0.0514
HKD	0.8134	0.7875	0.8378	0.7889
EUR	7.2754	7.9373	7.0952	7.4556

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS *(Continued)*

(1) Objective and policies of risk management *(Continued)*

4. Foreign Exchange Risk *(Continued)*

(c) Sensitivity analysis

Assuming all other risk variables other than exchange rate remained constant, a 1% appreciation of the RMB against the USD, Japanese yen, Euro and HKD at balance sheet date would have increased (decreased) shareholder equity and net profit by the amount shown below, whose effect is in RMB and translated using the spot rate at the balance sheet date.

Item	Equity	Net profit
As at 31st December 2015		
USD	(618.19)	(618.19)
JPY	59,143.50	59,143.50
HKD	(54,790.68)	(54,790.68)
EUR	94,078.23	94,078.23
Total	<u>97,812.86</u>	<u>97,812.86</u>
As at 31st December 2014		
USD	25,766.03	25,766.03
JPY	37,281.96	37,281.96
HKD	(60,224.80)	(60,224.80)
EUR	52,727.17	52,727.17
Total	<u>55,550.36</u>	<u>55,550.36</u>

A 1% depreciation of the RMB against the USD, Japanese yen, Euro and HKD at balance sheet date would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remain constant.

The above sensitivity analysis has been ascertained assuming that the change in foreign exchange rates had occurred at the balance sheet date and had re-measured the exposure to foreign exchange risk for financial instruments held by the Group at that date. The analysis was performed on the same assumption and method of the previous year.

X. DISCLOSURE OF FAIR VALUE

The Group had no financial assets or financial liabilities measured at fair value.

The Group's financial assets and financial liabilities mainly include: cash at bank and on hand, receivables, payables and available-for-sale financial assets. Given the above financial assets and liabilities (other than equity investments which are classified as available-for-sale financial assets) are expected to be realized in a short term, the differences between their carrying amounts and their fair values are insignificant. As the fair value of equity investments which are classified as available-for-sale financial assets cannot be obtained, the Group and the Company measure such financial assets at costs.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

XI. RELATED PARTIES AND TRANSACTIONS

1. The first largest shareholder of the Company

Name of parent company	Place of incorporation	Business nature	Registered capital	Unit: RMB	
				Shareholding of the parent company in the Company (%)	Voting right of the parent company in the Company (%)
Shenyang Group	China	Production and sales of machine tools	1,556,480,000	25.08	25.08

The ultimate controller of the Company is Shenyang State-owned Assets Supervision and Administration Commission.

2. Subsidiaries of the Company

Please see Note VIII. 1 for information of equity in subsidiaries of the Company.

3. Associated companies of the Company

Please see Note VIII. 2 for information of equity in associated companies of the Company

4. Information on other related parties

Name of other related parties	Related relationship
Yunnan Industrial Investment Holding Group Co Ltd.	The second largest shareholder of the Company
Yunnan Yun Ji Group Import and Export Co., Ltd. ("Yun Ji I & E Co.")	Subsidiary of the largest shareholder of the Company
Yunnan CY Group Co., Ltd. ("CY Group")	Subsidiary of the largest shareholder of the Company
Kunming Kunji Group Co., Ltd. ("Kunji Group Co.")	Subsidiary of the second largest shareholder of the Company
Yunnan State-owned Assets Property Management Co., Ltd. ("Yunnan State-owned Assets Property")	Subsidiary of the second largest shareholder of the Company
Yunnan CY (Group) Company Jinhui Spraying Factory ("Jinhui Spraying Factory")	Subsidiary of the largest shareholder of the Company
Yunnan CY Group Co., Ltd., Mechanical and Electrical Products Trading Centre ("Trading Centre")	Subsidiary of the largest shareholder of the Company
Shenyang Zhongjie Machine Tool Co., Ltd. ("Zhongjie machine tool")	Subsidiary of the largest shareholder of the Company
Shenyang Machine Tool Company Limited ("Shenyang Machine Tool")	Subsidiary of the largest shareholder of the Company
Shiess GmbH, Germany ("Shiess")	Subsidiary of the largest shareholder of the Company
Shenyang Machine Tool Complete Sets Equipment Co., Ltd. ("Complete Sets Equipment")	Subsidiary of the largest shareholder of the Company

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

XI. RELATED PARTIES AND TRANSACTIONS *(Continued)*

5. Related party transactions

(1) Purchase of goods, providing and receiving services

① Table of purchase of goods/receiving services

Unit: RMB

Related party	Nature of connected transaction	2015	2014
Shiess	Purchase of goods	357,633.17	–
Jinhui Spraying Factory	Purchase of goods	1,392,333.71	4,015,164.00
Shenyang Machine Tool	Purchase of goods	516,816.66	364,735.04
Yunnan State-owned Assets Property	Receiving services	–	450,975.64

② Table of sales of goods/providing services

Unit: RMB

Related party	Nature of connected transaction	2015	2014
Kunming TOS	Sales of goods	–	1,285,002.14
Yunji I & E Co.	Sales of goods	2,282.06	8,213.68
Yunnan CY Group	Sales of goods	85,470.09	1,273,504.27
Schiess	Sales of goods	–	1,119,761.60
Kunming TOS	Providing services	–	794,339.62
Yunnan CY Group	Providing services	187,179.48	146,290.59
Complete Sets Equipment	Providing services	346,153.84	–
Shenyang Machine Tool	Providing services	–	1,760,017.10

(2) Payment for technology training expenses

Related party	Nature of connected transaction	2015	2014
Shiess	staff technology training expenses	–	1,571,860.00

(3) Lease

Unit: RMB

Name of lessor	Type of lease assets	Lease fee recognised in 2015	Lease fee recognised in 2014
Yunnan State-owned Assets Property	Land and premises	–	537,219.60
Kunji Group	Land and Plant building	5,250,000.00	5,250,000.00

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

XI. RELATED PARTIES AND TRANSACTIONS (Continued)

5. Related party transactions (Continued)

(4) Guarantee to related parties

Guarantor	Amount	Commencement	Expiration	Unit: RMB
				Whether the guarantee completed
Shenyang Machine Tool (Group)	32,000,000.00	30/11/2015	27/05/2016	No
Shenyang Machine Tool (Group)	18,000,000.00	14/09/2015	11/03/2016	No
Shenyang Machine Tool (Group)	20,000,000.00	21/04/2015	22/04/2016	No
Shenyang Machine Tool (Group)	60,000,000.00	06/05/2015	03/05/2016	No
Shenyang Machine Tool (Group)	20,000,000.00	19/10/2015	18/10/2016	No
Shenyang Machine Tool (Group)	15,000,000.00	23/10/2015	22/10/2016	No
Shenyang Machine Tool (Group)	6,000,000.00	10/11/2015	09/11/2016	No
Shenyang Machine Tool (Group)	39,000,000.00	28/04/2014	28/04/2016	No
Shenyang Machine Tool (Group)	21,000,000.00	26/05/2014	28/04/2016	No
Shenyang Machine Tool (Group)	50,000,000.00	30/05/2014	30/05/2016	No
Shenyang Machine Tool (Group)	90,000,000.00	26/06/2014	26/06/2016	No
Shenyang Machine Tool (Group)	50,000,000.00	26/03/2015	25/03/2017	No

Note: Shenyang Machine Tool (Group) Company Limited ("Shenyang Group") provided guarantee for the Group's financing facilities secured from the Export-Import Bank of China. As at 31 December 2015, the total financing limit was RMB300 million (2014: RMB300 million). As at 31 December 2015, the short-term loan used by the Company was RMB50 million (2014:RMB82,000,000) and long-term loan used by the Company was RMB250 million (2014:RMB200 million) (Note VI. 27)

Shenyang Group provided guarantee for the Company's financing facilities secured from Hengfeng Bank, as at 31 December 2015, the total financing limit was RMB100 million (2014: nil). The balance of short-term loan used by the Company was RMB80 million as at 31 December 2015 (2014: nil). (Note VI. 18)

Shenyang Group provided guarantee for the Company's financing facilities at a total amount of RMB100 million secured from China Guangfa Bank as at 31 December 2015 (2014:nil). The balance of short-term loan used by the Company was RMB41 million as at 31 December 2015 (2014:nil). (Note VI. 18)

(5) Related party providing/receiving fund

Related party	Nature of connected transaction	2015	2014
Zhongjie machine tool	Receipt of funds – other expenses on behalf of related parties	–	79,687.01
Kunming TOS	Receipt of funds-funding transactions	–	300,000.00
Kunming TOS	Provision of funds – other expenses on behalf of related parties	–	1,791,954.22
Kunji Group	Provision of funds – other expenses on behalf of related parties	1,332,322.65	2,456,425.55

(6) Emoluments of key management staff

Item	Unit: RMB	
	2015	2014
Emoluments of key management staff	4,444,814.77	5,345,395.40

This amount has included the emoluments to the Company's directors (Note VI. 51) and several staff with the highest emoluments (Note VI. 52).

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

XI. RELATED PARTIES AND TRANSACTIONS (Continued)

6. Receivables and payables from/to related parties

(1) Receivables from related parties

Item	Related parties	Closing balance		Opening balance	
		Carrying amount	Provision	Carrying amount	Provision
Accounts receivable:	Shenyang Machine Tool	60,000.00	-	1,123,219.99	-
	Schiess	259,684.32	-	272,874.96	-
	Yunji I & E Co.	2,670.00	-	-	-
	Xi'an Ruite	167500	-	-	-
Total		<u>489854.32</u>	<u>-</u>	<u>1,396,094.95</u>	<u>-</u>
Other receivables:	Kunji Group	1,332,770.33	-	447.68	-
Total		<u>1,332,770.33</u>	<u>-</u>	<u>447.68</u>	<u>-</u>
Other non-current assets:	Schiess	39,656,925.20	-	39,656,925.20	-
Total		<u>39,656,925.20</u>	<u>-</u>	<u>39,656,925.20</u>	<u>-</u>

Unit: RMB

(2) Payables to related parties

Item	Related party	2015		2014	
Accounts payable:	Jinhui Spraying Factory	2,721,218.56		1,678,617.65	
	Shenyang Machine Tool	173,090.00		421,770.77	
Total		<u>2,894,308.56</u>		<u>2,100,388.42</u>	
Bills payables:	Jinhui Spraying Factory	-		1,530,000.00	
Total		<u>-</u>		<u>1,530,000.00</u>	
Advances from customers:	Yunnan CY Group	28,004,640.00		4,640.00	
	Trading Centre	-		5,000.00	
Total		<u>28,004,640.00</u>		<u>9,640.00</u>	
Other payables	Kunji Group	10,500,976.80		5,253,903.52	
	Yunnan State-owned Assets Property	1,890.20		13,195.96	
	Shenyang Group	30,000,000.00		-	
Total		<u>40,502,867.00</u>		<u>5,267,099.48</u>	

Unit: RMB

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

XII. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

(1) Capital commitment

Item	2015	2014
Construction contract signed but not implemented or not fully implemented	80,594,131.53	84,215,440.80
Construction contract authorized but not signed or not implemented or not fully implemented	225,169,049.44	250,337,149.62
Proprietary technology and patent licensing contract signed and implementing or proposed to implement	42,241,312.67	42,241,312.67
Total	<u>348,004,493.64</u>	<u>376,793,903.09</u>

(2) Operating Lease commitments

As at the balance sheet date, the Company entered into irrevocable operating lease contracts with external companies as follows:

Item	2015	2014
Minimum lease payments under irrevocable operating leases:		
The first year after balance sheet date	5,250,000.00	5,976,069.60
The second year after balance sheet date	5,250,000.00	5,271,750.00
The third year after balance sheet date	5,250,000.00	5,250,000.00
In the years thereafter	14,875,000.00	20,125,000.00
Total	<u>30,625,000.00</u>	<u>36,622,819.60</u>

2. Contingencies

As at 31 December 2015, the Group had no contingencies should be disclosed.

XIII. SUBSEQUENT EVENT TO THE BALANCE SHEET DATE

1 Profit distribution

Pursuant to the 25th meeting held by the Eighth Board of Directors of the Company on 30 March 2016, the directors proposed nil final profit distribution.

2 Other significant event subsequent to the balance sheet date

The Company had no other events should be disclosed subsequent to the balance date.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

XIV. OTHER SIGNIFICANT EVENTS

1. Segment information

(1) *Basis for determination and accounting policies*

The Group has two reportable segments, which are boring machines segment and turbo machines segment, determined based on the structure of its internal organisation, management requirements and internal reporting system. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they require different technology and marketing strategies. The financial information of the different segments is regularly reviewed by the Group's management to make decisions about resources to be allocated to each segment and assess its performance.

(2) *Financial information of reporting segments*

For the purposes of assessing segment performance and allocating resources between segments, the Group's management regularly reviews the assets, liabilities, revenue, expenses and results of operations, attributable to each reportable segment on the following bases:

Segment assets include all tangible and intangible assets, receivables, advance payments, inventories and other current assets belonging to segments but exclude deferred tax assets resulting from unrealized gains and losses of the Group's internal transactions, long-term equity investment and other undistributed corporate assets. Segment liabilities include payables, advance receipts, bank loans and estimated liabilities belonging to segments.

Financial performance is operating income (including operating income from external customers and inter-segment operating income) after deducting expenses, depreciation, amortisation and impairment losses attributable to the individual segments, and interest income and expense from cash balances and borrowings managed directly by the segments. Inter-segment sales are determined with reference to prices charged to external parties for similar orders. Investment income and directors' remunerations are not allocated to individual segments.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

XIV. OTHER SIGNIFICANT EVENTS (Continued)

1. Segment information (Continued)

(2) Financial information of reporting segments (Continued)

Information regarding the Group's reportable segments set out below is the measure of segment profit or loss and segment assets and liabilities reviewed by the chief operating decision maker or is otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment profit or loss and segment assets and liabilities:

Item	Boring machines		Turbo machines		Elimination between segments		Unallocated items		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Operating income from external customers	684,610,249.23	760,037,380.01	91,984,511.86	107,851,925.63	-	-	-	-	776,594,761.09	867,889,305.64
Inter segment operating income	584,100.00	584,100.00	-	-	(584,100.00)	(584,100.00)	-	-	-	-
Income from investment in associates and jointly controlled enterprises	-	-	-	-	-	-	(613,021.53)	1,926,942.96	(613,021.53)	1,926,942.96
Depreciation and amortization	49,090,325.72	43,672,325.03	5,035,266.99	6,430,251.88	-	-	-	-	54,125,592.71	50,102,576.91
Interest expense	32,105,376.48	14,813,117.26	2,268,598.06	1,896,127.05	-	-	-	-	34,373,974.54	16,709,244.31
Income/(losses) before income tax	(183,794,974.43)	(158,547,116.91)	(37,513,449.85)	(13,754,077.61)	-	-	1,938,080.55	(191,207.66)	(219,370,343.73)	(172,492,402.18)
Income tax expense/(benefit)	65,096.13	35,449,999.18	(33,201.37)	1,018,382.43	-	-	250,957.12	502,536.27	282,851.88	36,970,917.88
Net income/(losses)	(183,860,070.56)	(193,997,116.09)	(37,480,248.48)	(14,772,460.04)	-	-	1,687,123.43	(693,743.93)	(219,653,195.61)	(209,463,320.06)
Total asset	2,518,052,956.72	2,475,134,188.20	283,314,386.25	346,917,565.67	(20,324,124.03)	(22,683,894.23)	15,100,877.78	15,753,654.27	2,796,144,096.72	2,815,121,513.91
Total liabilities	1,617,121,717.66	1,391,097,840.08	249,787,119.35	275,910,050.28	(20,324,124.03)	(22,683,894.23)	-	-	1,846,584,712.98	1,644,323,996.13
Other items:	-	-	-	-	-	-	-	-	-	-
- Operating income	677,308,291.34	757,317,644.50	91,984,511.86	107,851,925.63	-	-	-	-	769,292,803.20	865,169,570.13
- Operating cost	572,093,956.80	623,252,536.17	84,929,502.07	78,410,233.46	-265,032.88	-217,977.48	-	-	656,758,425.99	701,444,792.15
- Long-term equity investment in associates and financial assets available for sale	-	-	-	-	-	-	14,916,542.85	15,529,564.38	14,916,542.85	15,529,564.38
- The amounts of additions/(decrease) to non-current assets other than long-term equity investments	(14,623,039.48)	83,763,891.81	(4,253,825.74)	2,682,817.18	(265,032.88)	(217,977.48)	-	-	(19,141,898.10)	86,228,731.51

(3) Geographic information

The Group according to different regions presented information which related to the revenue from external customers and non-current assets (not including financial assets, separate account, deferred tax assets, the same below) in the table below. Revenue from external customers is divided according to the customer's location of accepting service or purchase products. Whereas non-current assets is divided according to physical location of assets (for fixed assets) or location of assigned relevant business (for intangible assets and goodwill) or location of joint control enterprises and associate companies.

Country or region	Revenue from external customers	
	2015	2014
Mainland China	771,720,468.54	836,894,252.79
Overseas	4,874,292.55	30,995,052.85
Total	<u>776,594,761.09</u>	<u>867,889,305.64</u>

The Group's non-current assets are all located in Mainland China.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

XIV. OTHER SIGNIFICANT EVENTS (Continued)

1. Segment information (Continued)

(4). Major customers

In the year of 2015, the Group had one (2014: nil) single customer who contributed more than 10% of the total revenue of the Group and all such revenue was attributable to the business segment of machine tools. The revenue from such customer amounted to RMB134,293,762.40, accounting for 17.29% of the operating revenue of the Group in 2015.

2. Other important transactions or events impact on investors' decision-making

No

XV. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY

1. Accounts receivable

(1) Accounts receivable by category

Unit: RMB

Type	Carrying amount		Closing balance Provision for bad and doubtful debts		Book value	Carrying amount		Opening balance Provision for bad and doubtful debts		Book value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Individually significant accounts receivable with individual bad debt provision	193,867,999.19	27.31	9,645,851.89	4.98	184,222,147.30	211,755,446.55	32.21	4,036,468.69	1.91	207,718,977.86
Bad debt provision for accounts receivable by combination with credit risk characters	515,889,249.03	72.69	197,868,155.26	38.35	318,021,093.77	442,595,014.41	67.33	173,069,053.27	39.10	269,525,961.14
Of which: receivables from third parties	433,469,025.61	61.08	197,868,155.26	45.65	235,600,870.35	437,381,253.09	66.54	173,069,053.27	39.57	264,312,199.82
Receivables from related parties	82,420,223.42	11.61	-	-	82,420,223.42	5,213,761.32	0.79	-	-	5,213,761.32
Individually not significant accounts receivable but with individual bad debt provision	-	-	-	-	-	3,013,155.00	0.46	-	-	3,013,155.00
Total	<u>709,757,248.22</u>	<u>/</u>	<u>207,514,007.15</u>	<u>/</u>	<u>502,243,241.07</u>	<u>657,363,615.96</u>	<u>/</u>	<u>177,105,521.96</u>	<u>/</u>	<u>480,258,094.00</u>

① Individually significant accounts receivable with individual bad debt provision as at the end of the year:

Unit: RMB

Type	Closing balance		Reasons for making provision
	Carrying amount	Provision for bad and doubtful debts	
Single accounts receivable over RMB7,000,000 in machine tools business	<u>193,867,999.19</u>	<u>9,645,851.89</u>	4.98% Impairment occurred under individual assessment method

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

XV. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY

(Continued)

1. Accounts receivable (Continued)

(1) Accounts receivable by category (Continued)

② In the group, making bad debt provision for accounts receivable by ageing analysis

Unit: RMB

Ageing	Accounts receivable	Closing balance Provision for bad debt	Proportion (%)
Within one year	142,332,423.96	7,116,621.20	5%
1-2 years	94,111,509.31	28,233,452.79	30%
2-3 years	70,445,018.45	42,267,011.07	60%
Over three years	126,580,073.89	120,251,070.20	95%
Total	<u>433,469,025.61</u>	<u>197,868,155.26</u>	<u>—</u>

③ In the group, receivables due from related parties

Name	Relationship with the Group	Amount	Percentage of total accounts receivable (%)
General machine	subsidiary	80,861,949.70	11.39
Kunming TOS	subsidiary	833,540.52	0.12
Shiess	Related party	259,684.32	0.04
Changsha Ser	subsidiary	234,878.88	0.03
Xi'an Ruite	Related party	167,500.00	0.02
Shenyang Machine Tool	Related party	60,000.00	0.01
Yunji I & E Co.	Related party	2,670.00	0.00
Total		<u>82,420,223.42</u>	<u>11.61</u>

(2) Presentation of accounts receivable according to ageing

Ageing	2015	2014
Within one year	386,240,454.66	352,535,610.85
1-2 years	118,759,885.28	134,364,955.50
2-3 years	77,652,078.45	45,050,171.61
Over 3 years	127,104,829.83	125,412,878.00
Total	<u>709,757,248.22</u>	<u>657,363,615.96</u>

Note: The ageing of accounts receivables is calculated starting from the date of recognition.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

XV. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY

(Continued)

1. Accounts receivable (Continued)

(3) The provision, recovery and reversal of bad debts during the year

The provisions for bad debts amounted to RMB38,366,352.88 during the year. The Group had no significant recovered or reversed provisions for bad debts.

(4) Written-off accounts payable during the year

Item	Unit: RMB Amount
Actually written-off accounts payable	8,338,506.19

(5) Top five accounts receivable by debtor as at the end of the year

The Company's top five balances of accounts receivable at the end of the year totaled RMB200,516,304.54, accounting for 28.25% of the Company's total balance of accounts receivable as at the end of the year, and the aggregate provision for bad debts made accordingly amounted to RMB3,295,297.94.

2. Other receivables

(1) Analysis of other receivables by category

Type	Closing balance					Opening balance				
	Carrying amount		Provision for bad debts		Book value	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Individually significant other receivables with individually dab debt provision	-	-	-	-	-	-	-	-	-	-
Bad debt provision for other receivables by combination with credit risk characters	24,134,690.62	84.51	2,832,249.95	11.74	21,302,440.67	27,277,355.79	100.00	3,033,922.07	11.12	24,243,433.72
Of which: receivables due from third parties	11,703,973.19	40.98	2,832,249.95	24.20	8,871,723.24	17,586,601.35	64.47	3,033,922.07	17.25	14,552,679.28
Receivables due from related parties	12,430,717.43	43.53	-	-	12,430,717.43	9,690,754.44	35.53	-	-	9,690,754.44
Individually not significant other receivables but with individually dab debt provision	4,422,493.16	15.49	194,444.40	4.39	4,228,048.76	-	-	-	-	-
Total	28,557,183.78	/	3,026,694.35	/	25,530,489.43	27,277,355.79	100.00	3,033,922.07	11.12	24,243,433.72

① At the end of the year, the Group had no individual significant other receivables with individual bad debt provision.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

XV. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY

(Continued)

2. Other receivables (Continued)

(1) Analysis of other receivables by category (Continued)

② In the group, making bad debt provision for other receivables by ageing analysis:

Unit: RMB

Ageing	Other receivables	Closing balance Provision for bad and doubtful debts	Proportion (%)
Within one year	7,904,112.29	395,205.61	5.00
1-2 years	2,725,633.13	1,362,816.57	50.00
2-3 years	111,557.48	111,557.48	100.00
Over 3 years	962,670.29	962,670.29	100.00
Total	<u>11,703,973.19</u>	<u>2,832,249.95</u>	

Note: The ageing of other receivables is calculated starting from the date of recognition.

③ In the combination, other receivables due from related party

Name	Relationship with the Group	Amount	Percentage of total other receivables (%)
Xi'an Ser	Subsidiary	9,069,245.13	31.76
Kunming TOS	Subsidiary	1,299,514.83	4.55
Kunji Group	Related party	1,332,770.33	4.67
General Machine	Subsidiary	729,187.14	2.55
Total		<u>12,430,717.43</u>	<u>43.53</u>

(2) Presentation of other receivables according to ageing

Ageing	2015	2014
Within one year	12,212,655.99	16,804,475.44
1-2 years	7,704,832.03	1,484,311.85
2-3 years	800,869.65	786,641.97
Over 3 years	7,838,826.11	8,201,926.53
Total	<u>28,557,183.78</u>	<u>27,277,355.79</u>

Note: The ageing of other receivables is calculated starting from the date of recognition.

(3) The provision, recovery and reversal of bad debts during the year

The provision for bad debts during the year were RMB183,754.36 and there is no recovery and reversal of bad debts during the year.

(4) Written-off other payables during the year

Unit: RMB

Item	Amount
Actually written-off payables	<u>190,982.08</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

XV. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY

(Continued)

2. Other receivables (Continued)

(5) Other receivables by nature

Nature	2015	Unit: RMB	
		2015	2014
Deposit	4,222,888.00	4,082,063.40	
Current account with related parties	3,415,843.87	1,259,980.88	
Other expenses on behalf of related parties	1,274,180.90	894,985.84	
Petty cash	1,634,566.71	2,214,413.75	
Deposit for bidding	5,109,385.00	5,458,885.00	
Royalties receivable	4,595,371.74	4,595,371.74	
Interest of dividend receivable	4,419,501.82	3,835,401.82	
Others	3,885,445.74	4,936,253.36	
Total	<u>28,557,183.78</u>	<u>27,277,355.79</u>	

(6) Top five other receivables by debtor as at the end of the year

Name of company	Nature	Closing balance	Ageing	Unit: RMB	
				Percentage of total balance of other receivables at the end of the year (%)	Balance of provision for bad debts at the end of the year
Xi'an Ser	Current account with related parties	9,069,245.13	Over 3 years	31.76	-
Far Eastern International Leasing Co., Ltd.	Deposit	3,888,888.00	1-2 years	13.62	194,444.40
Zhejiang Huijin Financial Leasing Co., Ltd.	Deposit for bidding	1,541,000.00	1-2 years	5.40	770,500.00
Kunming TOS	Current account with related parties	1,299,514.83	Within 1 year	4.55	-
Kunji Group	Other expenses on behalf of related parties	<u>1,332,770.33</u>	Within 1 year	<u>4.67</u>	<u>-</u>
Total	/	<u>17,131,418.29</u>	/	<u>60.00</u>	<u>964,944.40</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

XV. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY

(Continued)

3. Long-term equity investments

(1) Long-term equity investments by category

Unit: RMB

Item	Carrying amount	Closing balance Impairment provision made during the year	Book value	Unit: RMB		
				Carrying amount	Opening balance Impairment provision made during the year	Book value
Investments in subsidiaries	68,126,236.86	-	68,126,236.86	68,126,236.86	-	68,126,236.86
Investments in joint ventures and associates	13,771,542.85	-	13,771,542.85	14,384,564.38	-	14,384,564.38
Total	81,897,779.71	-	81,897,779.71	82,510,801.24	-	82,510,801.24

(2) Investments in subsidiaries

Unit: RMB

Subsidiary	Opening balance	Increase during the year	Decrease during the year	Closing balance	Unit: RMB	
					Impairment provision made during the year	Closing balance of impairment provision
Kunming TOS	43,432,971.01	-	-	43,432,971.01	-	-
Xi'an Ser	21,693,265.85	-	-	21,693,265.85	-	-
General Machin	3,000,000.00	-	-	3,000,000.00	-	-
Total	68,126,236.86	-	-	68,126,236.86	-	-

(3) Investments in associates

Unit: RMB

Investment company	Changes in equity for the year										Closing balance of impairment investment company provision	
	Opening balance	Additional investment	Decrease investment	Investment income Recognized under the equity method	Other comprehensive income	Movement of other equity	Declared cash dividends or profits	Impairment provision made during the year	others	Closing balance		
Xi'an Ruite	14,384,564.38	-	-	(613,021.53)	-	-	-	-	-	-	13,771,542.85	-

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

XV. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY

(Continued)

4. Operating income and operating costs

Item	2015		2014	
	Income	Cost	Income	Cost
Operating income from principal activities	661,700,819.01	558,917,340.61	703,835,918.17	594,445,132.17
Other operating income	13,199,187.10	8,446,278.66	4,098,175.13	1,418,180.01
Total of operating income	<u>674,900,006.11</u>	<u>567,363,619.27</u>	<u>707,934,093.30</u>	<u>595,863,312.18</u>

Unit: RMB

5. Investment income

Item	2015		2014	
Income from long-term equity investments accounted for using the equity method		(613,021.53)		1,926,942.96
Income from long-term equity investments accounted for using the cost method		1,584,938.43		—
Total		<u>971,916.90</u>		<u>1,926,942.96</u>

Unit: RMB

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

XVI. SUPPLEMENTARY INFORMATION

1. Details of extraordinary profit & loss

Item	Unit: RMB Amount
Profit & loss on disposal of non-current asset	(223,313.83)
Tax return/exemption with ultra vires approval/or no official approval	-
Government grant taken into profit & loss of the period (except for those closely related to business of the company and those granted by the government in fixed amount or quantity according national standards)	19,299,669.51
Fund appropriation fees charged on non-financial enterprise taken into profit & loss of the period	-
Revenue generated when cost of investment is less than fair value of identifiable net assets acquired when acquiring subsidiary, associates, or joint venture	-
Profit & loss of non-monetary asset swap	-
Profit & loss entrusting third party to invest or manage asset	-
Force majeure, for example, provision for impairment on assets due to natural disaster	-
Profit & loss on debt restructuring	11,567,813.06
Expenses on reorganization of enterprise	-
Profit & loss over difference between fair value and inappropriate transaction price	-
Net Profit & Loss arising from business combination under common control in relation to the period from the beginning of the year to the date of combination	-
Profit & loss by contingent events non-related to normal business of the company	-
Except for effective hedging related to the operation of the company, profit & loss arising from fair value change on financial assets or liabilities held for trading, disposal of financial assets or liabilities held for trading or available-for-sale securities	-
Reverse of account receivable provision under separate impairment test	-
Profit & loss on entrusted loans	-
Profit & loss on subsequent measurement at fair value for investment properties	-
Impact on profit & loss by non-recurring adjustment according to Law of tax, of accounting, and legal regulations	-
Trustee fee by entrusted operations	-
Other Incomes and Expenses except for the above-mentioned	(3,363,747.30)
Other items complied with definitions of extraordinary profit & loss	-
Sub-total	27,280,421.44
Amount of impact on Income Tax	(4,336,782.39)
Impact on Minority Interests	(746,161.12)
Total	<u>22,197,477.93</u>

Note: In the above table, positive number means profit or income, negative means loss or expenses.

The Company defined the items of extraordinary gains or losses under the requirement of Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 - Extraordinary Gains or Losses (CSRC Announcement [2008] 43).

2. Return on net assets and earnings per share

Profit for the period	Weighted average return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	(19.89)	(0.37)	(0.37)
Net profit attributable to ordinary shareholders of the Company after deduction of extraordinary profit and loss	(22.39)	(0.41)	(0.41)

DOCUMENTS AVAILABLE FOR INSPECTION

1. Financial statements signed and stamped by legal representative and financial officer of the Company
2. Original copy of Auditors' Report bearing the signatures and seals of the Accounting Firm and Certified Public Accountants
3. 2015 Annual Report
4. Written confirmation for the 2015 Annual Report by directors and senior management officers
5. Written approval by supervisory committee for 2015 Annual Report prepared by the Board

Shenji Group Kunming Machine Tool Company Limited

Wang Xing

Chairman

30th March 2016