重慶機電股份有限公司
CHONGQING MACHINERY & ELECTRIC CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code: 02722

ANNUAL REPORT
2017

* For identification purposes only

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

Mr. Wang Yuxiang *(Chairman)*
Ms. Chen Ping
Mr. Yang Quan

Non-executive Directors

Mr. Huang Yong
Mr. Deng Yong
Mr. Dou Bo
Ms. He Xiaoyan

Independent Non-executive Directors

Mr. Lo Wah Wai
Mr. Ren Xiaochang
Mr. Jin Jingyu
Mr. Liu Wei

SUPERVISORS

Mr. Xiang Hu *(Chairman)*
Ms. Wu Yi
Mr. Huang Hui
Mr. Zhang Mingzhi
Mr. Xia Hua

COMMITTEES UNDER BOARD OF DIRECTORS

Members of the Audit and Risk Management Committee

Mr. Lo Wah Wai *(Chairman)*
Mr. Jin Jingyu
Mr. Liu Wei
Mr. Deng Yong

Members of the Remuneration Committee

Mr. Ren Xiaochang *(Chairman)*
Mr. Lo Wah Wai
Mr. Jin Jingyu
Mr. Huang Yong

Members of the Nomination Committee

Mr. Wang Yuxiang *(Chairman)*
Mr. Ren Xiaochang
Mr. Jin Jingyu
Mr. Liu Wei

Members of the Strategic Committee

Mr. Wang Yuxiang *(Chairman)*
Ms. Chen Ping
Mr. Yang Quan
Mr. Huang Yong
Mr. Ren Xiaochang
Mr. Jin Jingyu
Mr. Liu Wei

LEGAL REPRESENTATIVE

Mr. Wang Yuxiang

COMPANY SECRETARY

Ms. Chiu Hoi Shan *(Practicing Solicitor)*

QUALIFIED ACCOUNTANT

Mr. Kam Chun Ying, Francis *(Certified Public Accountant)*

AUTHORIZED REPRESENTATIVES AND CONTACT INFORMATION

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Room 1204-06, 12th Floor, the Chinese Bank Building,
61 Des Voeux Road Central, Central,
Hong Kong
Tel.: 852-2155 4820

ALTERNATE AUTHORIZED REPRESENTATIVE AND CONTACT INFORMATION

Mr. Lo Wah Wai
33rd Floor, Shui On Centre,
No. 6-8 Harbour Road, Wanchai,
Hong Kong
Tel.: 852-2802 2191

REGISTERED ADDRESS

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Chongqing City, the PRC

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

INTERNATIONAL AUDITOR

PricewaterhouseCoopers

LEGAL ADVISOR

Chiu & Co. (趙凱珊律師行)
(As to Hong Kong Laws)
Beijing Zhong Lun (Chongqing) Law Firm
(As to Chinese Law)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1204-06, 12th Floor,
the Chinese Bank Building,
61 Des Voeux Road Central, Central,
Hong Kong

WEBSITE OF THE COMPANY

WWW.CHINACQME.COM

PRINCIPAL BANKER

China Merchants Bank
Chongqing Shangqingsi Sub-branch
1st Floor, Zhong-an International Building
No.162 Zhongshan Third Road
Yuzhong District
Chongqing City, the PRC

SHARE INFORMATION

Listing Place

The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

Stock Code

02722

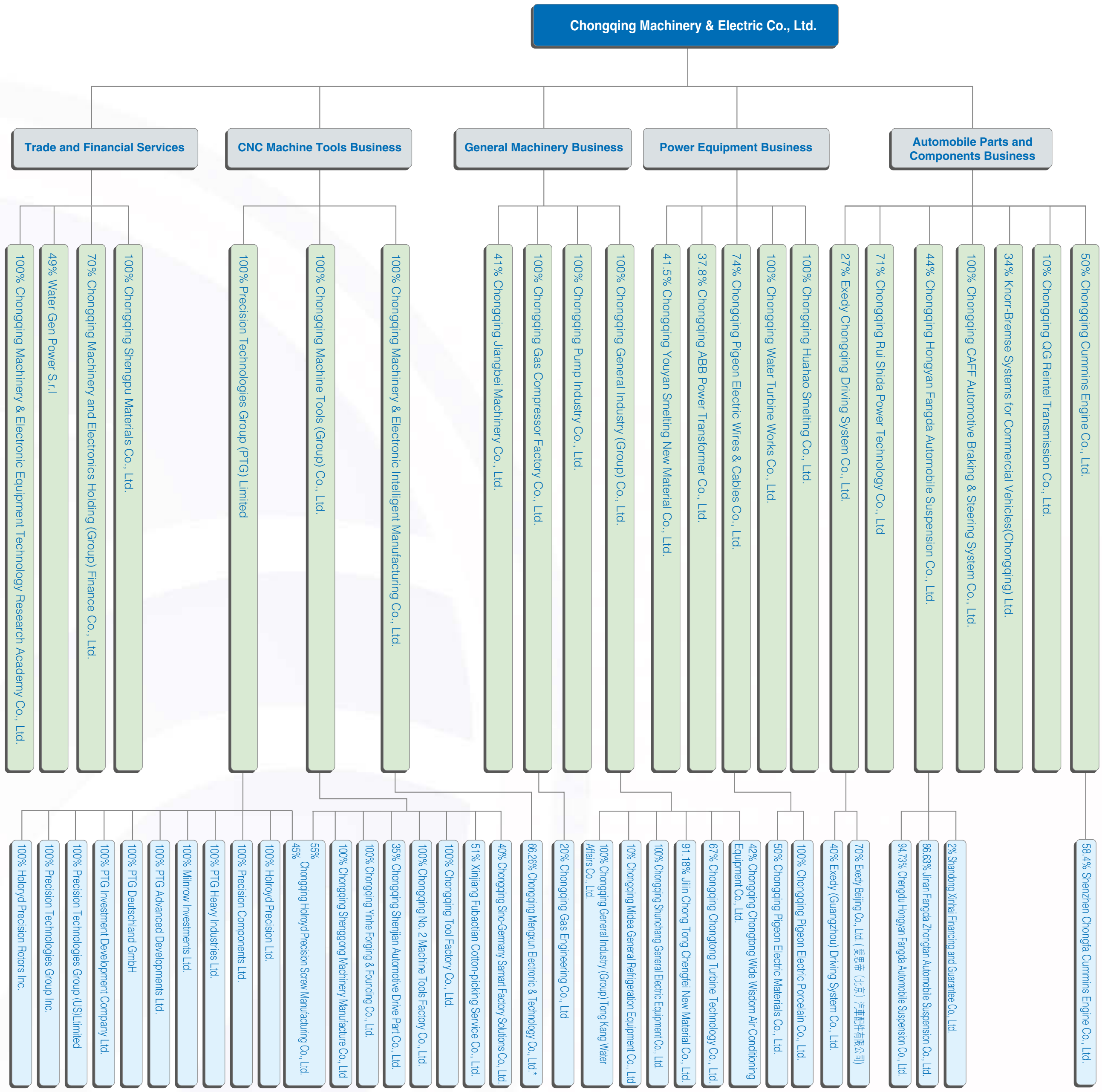
FINANCIAL YEAR END

31 December

Financial Highlights

(RMB'000)	2013	2014	2015	2016 (Restated)	**2017**
Revenue and profit					
Revenue	9,701,044	9,485,570	9,010,422	9,255,032	**9,292,600**
Profit before income tax	585,223	630,679	523,896	529,854	**476,873**
Income tax expense	(44,785)	(66,906)	(57,311)	(27,182)	**(102,454)**
Profit for the year	540,438	563,773	466,585	502,672	**374,419**
Attributable to					
Owners of the Company	506,829	511,943	417,634	440,834	**325,047**
Non-controlling interests	33,609	51,830	48,951	61,838	**49,372**
Dividends – Proposed final dividends	184,232	169,493	92,116	128,963	**110,539**
Earnings per share attributable to owners of the Company – Basic *(RMB)*	0.14	0.14	0.11	0.12	**0.09**
Assets and liabilities					
Non-current assets	4,441,363	4,852,425	5,627,580	6,137,920	**5,652,043**
Current assets	8,408,940	8,782,188	9,139,491	9,429,046	**10,544,621**
Current liabilities	4,940,234	5,420,311	6,869,058	6,135,937	**7,093,823**
Net current assets	3,468,706	3,361,877	2,270,433	3,293,109	**3,450,798**
Total assets less current liabilities	7,910,069	8,214,302	7,898,013	9,431,029	**9,102,841**
Non-current liabilities	2,023,804	1,963,333	1,343,211	2,272,819	**2,077,313**
Net assets	5,886,265	6,250,969	6,554,802	7,158,210	**7,025,528**
Equity attributable to owners of the Company	5,518,845	5,844,478	6,106,407	6,577,614	**6,625,265**
Non-controlling interests	367,420	406,491	448,395	580,596	**400,263**

Group Structure



Results Highlights

Results highlights of Chongqing Machinery & Electric Co., Ltd. (the "Company" or "Chongqing Machinery & Electric") and its subsidiaries (collectively the "Group").

The revenue of the Group for the year ended 31 December 2017 amounted to approximately RMB9,292.6 million, representing an increase of approximately RMB37.6 million or approximately 0.4% as compared with approximately RMB9,255.0 million for the same period of 2016.

Profit attributable to the shareholders of the Company for the year ended 31 December 2017 was approximately RMB325.0 million, representing a decrease of approximately RMB115.8 million or approximately 26.3% as compared with approximately RMB440.8 million for the same period of 2016.

Basic earnings per share for the year ended 31 December 2017 amounted to approximately RMB0.09 (2016: approximately RMB0.12).

The board of directors (the "Board") of the Company proposed to declare a final dividend of RMB0.030 per share (tax inclusive) for the year ended 31 December 2017 (2016: RMB0.035).

Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am pleased to announce the annual results of the Group for the year ended 31 December 2017 (the "Period" or the "Year"). The Group's annual results have been audited by the Company's auditor, PricewaterhouseCoopers. It is my pleasure to present the annual results of the Group as well as its sustainable development strategy and outlook to shareholders.

BUSINESS COMBINATION UNDER COMMON CONTROL

The Company has adopted the arrangement under HKFRS 5 "Merger Accounting for Common Control Combinations" during the Period, the equities and interests of Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd. ("CMEIM") and Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd. ("CMETRC") for the current period and for the year of 2016 have been restated and included in the consolidated financial statements in order to reflect the accounting of the transaction under common control accordingly. Details of common control combinations of the financial position of the Group as at 31 December 2017 and 2016 are set out in Note 39 to the consolidated financial statements.

RESULTS REVIEW

Looking back into 2017, the global economy continued recovery with continuous economic expansion and overall mild inflation. With strong recovery of the U.S. economy, continuous economic reform in Eurozone and overall stable economy in the U.K., the inflationary pressure increased and the Japanese economy was in modest recovery. The emerging marketing economy saw rapid growth but was still exposed to adjustment and transformation pressure. The policy of supply side reform of Chinese economy gradually released benefits, and the mixed-ownership reform of state-owned enterprises and international cooperation in respect of production capacity were continuously enhanced. The rise of middle class and consumption upgrade supported new economy to become a new growth engine. Economic growth achieved new progress in respect of change from quantity increase to quality improvement and the GDP of the year maintained a growth of 6.9%. By implementing the new "321" development strategy and closely centering on the general working idea of "reform in difficult areas, innovation and quality improvement, efficiency in respect of management and control, and comprehensive enhancement of corporate economic benefits and core competitiveness", the Group vigorously developed the domestic and overseas markets with the focus placed on continuous innovation, refined internal management and intensified risk control. While normalizing corporate governance, the Group implemented the measure of "one policy for one enterprise" with a view to refinement of indicators and classification of management and control. On the basis of overcoming the effects posed by continuous price rise of raw materials and logistics transportation, uneven development of the industry, obvious differentiation and other unfavorable factors, the economic operation maintained improvement amidst stabilization, along with boosted confidence in the market and structural improvement. The objectives and tasks for the whole year were accomplished.

Total revenue of the Group as at 31 December 2017 was approximately RMB9,292.6 million (2016: RMB9,255.0 million), representing an increase of approximately RMB37.6 million or approximately 0.4% over last year. Gross profit was approximately RMB1,007.7 million (2016: approximately RMB1,033.5 million), representing a slight decrease of approximately RMB25.8 million or approximately 2.5% over last year. Profit attributable to the shareholders of the Company amounted to approximately RMB325.0 million (2016: approximately RMB440.8 million), representing a decrease of approximately RMB115.8 million or approximately 26.3% over last year.

During the Period, the Group's administrative expenses accounted for approximately 10.4% of the revenue while distribution and selling expenses accounted for approximately 2.7%. The administrative expenses and distribution and selling expenses was higher than last year for approximately 14.3% in general. The Group maintained a stable financial position during the Period. As at 31 December 2017, total cash and bank deposits of the Group amounted to approximately RMB1,658.7 million, representing a decrease of approximately 7.9% as compared to the same period of last year.

Earnings per share for the Period were approximately RMB0.09 (2016: approximately RMB0.12). Total assets as at 31 December 2017 amounted to approximately RMB16,196.7 million (31 December 2016: RMB15,567.0 million), while total liabilities amounted to approximately RMB9,171.1 million (31 December 2016: RMB8,408.8 million); and net asset per share was approximately RMB1.91 (31 December 2016: RMB1.94).

BUSINESS REVIEW AND OUTLOOK

Automobile parts and components (transmission systems, steering systems)

In 2017, according to the data published by the China Association of Automobile Manufacturers, the production and sales volume of automobiles reached approximately 29.02 million and 28.88 million units, representing an increase of approximately 3.2% and 3.0% respectively over last year, continuously maintaining an overall stable growth. Sales volume of heavy trucks and large and medium passenger vehicles, which are closely related to the Group, reached approximately 1,120,000 and 168,000 units respectively, representing an increase of approximately 52.4% and 13.8% as compared with last year. Driven by the implementation of China V emission standard, new regulations on control of overrun vehicles and other policies, the heavy truck market saw explosive growth throughout the year. The production and sales volume of steering systems recorded new highs. The Group continued to stabilise the cooperation with large domestic finished automobile enterprises including Chang'an Automobile and Jiangling Motors and achieved stable growth in the year. On the contrary, affected by the drop in sales volume of large and medium passenger vehicles, hysteresis of product development and market exploration, and rapid popularization of high-speed train and new energy vehicles, etc., the operating conditions of transmission system business of the Group were not improved and the automobile parts and components business of the Group recorded a turnover of approximately RMB601.6 million for the whole year, representing a decrease of approximately 16.5% from the same period of last year.

Looking into 2018, with the gradual decrease in the introduction of preferential emission and overrun control policies, the production and sales volume of heavy trucks of the PRC is expected to decline slightly. The Group will exert more efforts on product marketing and structural adjustment and strengthen cooperation with finished automobile enterprises. The segment is expected to achieve stable growth in 2018.

In addition, Chongqing Cummins Engine Company Limited ("Chongqing Cummins"), a joint venture of the Company, is principally engaged in the production of high-horsepower diesel engine. In respect of the diesel engine business, Chongqing Cummins proactively accelerated the marketing of high-horsepower products and implemented internal fine management, contributing to stable improvement of operating results. At present, the market share of engines of over 500 horsepower was approximately 21% in the domestic market, maintaining a leading position and stable market share. The construction project of high-horsepower engine technology "R&D center" is expected to be completed in 2018 and meanwhile the high-horsepower engine new factory project was launched. The business is expected to achieve good growth in 2018. The annual results of Chongqing Cummins are set out in note 12 to the consolidated financial statement.

Power equipment (hydroelectric generation equipment, electrical wires and cables)

In 2017, benefiting from the promotion of clean energy by the government of China, smart grid projects and construction opportunities brought by "One Belt, One Road", the Group continued to accelerate development efforts for hydropower equipment business in Southeast Asia, South Asia, Africa and Middle East markets, and successfully won 2 orders of equipment for EPC hydropower stations and achieved an increase in orders of 53% throughout the year. The electrical wires and cables business was rapidly expanded to domestic and overseas new markets, and the Group completed the construction of a distributor management information system and achieved stable growth of orders. The operating results of this segment maintained stable as a whole. The power equipment business of the Group recorded a turnover of approximately RMB1,899.0 million for the whole year, representing a year-on-year increase of approximately 16.5%.

The EPC project of Macklon Hydropower Station (EGAT7), a key hydropower construction project of Thailand, jointly undertaken by Chongqing Water Turbine Works Co., Ltd. ("Chongqing Water Turbine"), a subsidiary of the Group, and the SG Company and STPE Company of Thailand passed inspection and acceptance, marking a great achievement in technological innovation in respect of bulb tubular unit.

In 2018, with the advancement of "One Belt, One Road" initiated by the Government of China, there are increasing demands for the development of overseas market. In particular, the investment in power in the Southeast Asia and South Asia markets is active with great demand; driven by the national power grid construction, urban rail transit construction, high-speed train construction and real estate construction, which are closely related to electrical wire and cables business, the segment is expected to see relatively good growth.

General machinery (industrial pumps, refrigeration machines, industry blower, gas compressors, wind power blades)

In 2017, the mean PMI index of the manufacturing industry of China topped 52.4%. The stabilization of orders and gradual recovery of investment enthusiasm in the generally machinery related industries promoted the overall stabilization and recovery of general machinery. Stimulated by the increase in orders, the results of industrial pump business continued to have stable growth; the orders of refrigeration machine business recorded a historical new high; underpinned by the new efficient and energy-saving blowers, the results of industry blower business kept rapid growth; affected by the rapid increase in demand of LNG market, the results of gas compressors business maintained stable. Under the effects of the decrease in national subsidy, wind power curtailment, grid connection of wind power, and other factors, the newly installed capacity of the industry declined significantly, resulting in failure of meeting target expectations of wind power blades business. The general machinery business of the Group recorded revenue of approximately RMB2,350.9 million for the whole year, representing an increase of approximately 1.0% from the same period of 2016.

The industrial pump business passed the assessment and examination by the expert group of national "integration of information technology and industrialization" management system; the HSD150-80 charging pump independently developed by the Group was successfully applied in the 1,000MW pressurized water reactor power plant with two stages of units. The 5D reciprocating pump and reactor cavity cooling injection pump were widely used in oilfield exploitation, etc. The over-ground air supply system of gas compressor independently developed by the Group successfully guaranteed the launch of "Long March 5" and "Long March 7". The energy-efficient blower products and system application technologies independently developed in respect of the industry blower business broke a number of technological bottlenecks in terms of energy conservation and emission reduction for industry blowers in the fields of cement, iron & steel, etc. and reached international advanced level among similar products. The product transformation and upgrade have generated obvious breakthroughs.

In 2018, the State will further increase policy support and investment for environmental protection and clean energy industries. The industry will continue to recover, the new and old kinetic energy will further shift and the industry will present a situation of overall stable operation. Stimulated by the increment products and increment market of wind power and nuclear power, the segment of the Group is expected to maintain relatively rapid growth.

CNC machine tools (gear-producing machines, intelligent manufacturing, precision screw machines, agricultural machinery, complex precision metal-cutting tools, CNC lathes and machine centres and cotton picker, etc.)

In 2017, thanks to the stable growth of the production and sales volume of the automobile industry, the gear-producing machine business saw a rapid recovery in respect of order. In particular, there was a good situation of great demand for new gear grinding machine and dry-cutting gear hobbing machine and the business realized rapid restorative growth; the precision screw factory in the U.S. was successfully put into production and recorded sales revenue; as to agricultural machinery business, the Group was engaged in new fields and made breakthroughs therein. The CNC machine tools business of the Group recorded revenue of approximately RMB866.0 million for the whole year, representing an increase of approximately 27.5% from the same period of 2016.

In 2018, the State will continue to drive manufacturing upgrade, product upgrade and industrial transformation and promote market expansion and demand growth. The segment is expected to present the characteristics of progress amidst stabilisation. The Group will vigorously "perfect one business and develop three emerging fields" and highlight market development, new products research and development, and fine management. The segment of the Group is expected to experience rapid growth in 2018.

Intelligent manufacturing

In 2017, thanks to the accelerated intelligent manufacturing of the State, the Group actively developed the intelligent manufacturing business with orders growing rapidly. During the year, the parent company transferred its 100% equity interests in CMEIM to the Company to strengthen the upgrade of intelligent manufacturing products. The Group has firstly entered into the strategic cooperation agreement with EATON, the leader of electrical industry of the U.S.A., to exert the advantages of mega data platform, and together with its own advantages, to collaboratively promote the extension and development of the products and services of both parties, enhancing the competitiveness in the brand market. The intelligent manufacturing business will achieve relatively rapid growth, which will boost the equipment manufacturing industry to develop boomingly and create a new situation of technology-driven manufacturing. The revenue from the intelligent manufacturing business of the Group during the year amounted to approximately RMB190.8 million. It is expected that this segment business in 2018 will grow relatively faster.

Trade Business

In 2017, the bulk commodity procurement platform of the Group increased the types of procurement, directly reducing procurement cost of the Group by approximately RMB12.2 million. The total revenue of this segment amounted to approximately RMB3,317.0 million for the year, representing a year-on-year decrease of approximately 10.8%.

In 2018, the Group will continue to expand the types and scope of the bulk commodity procurement, promote procurement through e-commerce platforms, further reduce the costs for bulk commodity procurement, streamline the supply chain and logistics management, close foreign trade business of a low gross profit and strengthen risk control.

Financial Business

In 2017, benefited from the expansions of capital accumulation scale and the increase of interest income, and the operating income amounted to approximately RMB67.3 million for the year, representing an increase of approximately 20.4% as compared to the same period of last year.

In 2018, new business and capital accumulation will be actively expanded to maintain steady development.

DEVELOPMENT FOUNDATION AND ADVANTAGES

As the largest integrative equipment manufacturing company in western China, the Group has ranked among top 500 enterprises in the machinery industry of the PRC for years and will stick to the following foundation and advantages in the future development:

Regional advantages of "One Belt and One Road", "Yangtze River Economic Belt" and Chongqing Free Trade Area will be taken advantage of to bring favorable development opportunities for the Group to tap potential markets. Meanwhile, the Group benefits from preferential policies such as western development and enjoys special tax advantages.

Four core businesses of the Group accord with national industrial policies. A number of products of the Group have obvious competitive advantages in market segments and overseas markets. In addition, the Group proactively develops the fields of high-end, intelligent, green and honest manufacturing and other fields and provides diverse product mix and services to enhance its ability to guard against market risk.

The Group has many state-level enterprise technical centers, Chinese brands, Chinese well-known trademarks, Chongqing technical centers, Chongqing famous brands and many patented technologies and keeps continuous investment in research and development.

The Group has highly efficient and standardized corporate governance structure and institutional system and develops good management and control mechanism efficiently run and managed.

The Group has perfect human resource management system, incentive mechanism and overseas talent cultivation mechanism and possesses excellent and leading technical elites, a high quality staff team and a management team with international horizon.

DEVELOPMENT STRATEGIES

Development strategies and work priorities of the Group in 2018 are as follows:

I. Development strategies

2018 is the first year for implementation of the spirit of the 19th National Congress of the Communist Party of China and a critical year playing a role of connection in the "Thirteenth Five-year" plan of the State. The Group will further implement the "321" development strategy with the stress laid on quality and efficiency enhancement and progress amidst stabilization. Following the general requirements of "one focus, three guarantees, three reductions and one enhancement", i.e. "focus on market, quality guarantee, delivery guarantee and service guarantee, reduction of costs, reduction of 'accounts receivable and inventory' and reduction of liabilities, and enhancement of core competitiveness (一抓三保三降一增強)", the Group will engage in high-level innovation, high-efficiency reform and high-quality development, lead adjustment to industrial structure and drive corporate transformation and upgrade to enhance operating benefits and quality and comprehensively heighten the Group's core competitiveness.

II. Work priorities

Highlight "one focus, three guarantees and three reductions (一抓三保三降)", focus on operation quality and benefits

The Group will spare no effort to develop the market and proactively promote network marketing, group marketing and integration marketing. By leveraging on the development opportunity of "military and civilian integration", the Group strives to achieve breakthroughs in respect of orders of new air source truck, high pressure nitrogen generating equipment, secondary nuclear pump, refrigeration compressor for ships, low pressure safety injection pump, etc.; through seizing the strategic opportunity of "One Belt, One Road", the Group will rely on the mature hydroelectric generation equipment business and marketing channels of overseas companies to drive more businesses and develop the Southeast Asia, South Asia and new international markets.

With an online monitoring and operation maintenance platform, the Group will strengthen the process control of whole life cycle quality management of products and further enhance all staff's quality awareness to ensure obvious improvement in respect of quality control to achieve a year-on-year decrease in the quality loss of annual RMB100 sales income by 6%. The product design, production organization and production process control will be integrated. More efforts will be exerted to dynamic follow-up of sales personnel and order customers to reasonably balance and arrange internal production organization plan. The Group will urge and supervise the enterprises with a long production cycle to ensure the delivery time. In addition, while solving critical and difficult problems in terms of finance, operation, management, etc. and thinning and decomposing responsibility goals, the Group will prepare the operable assignment book and roadmap to improve operation quality, set up the idea of "all-round and whole-process services (全方位全過程服務)", and perfect the pre-sales and after-sales service system and management system to ensure notable improvement of after-sales service level and quality.

The focus of cost reduction is to improve the electronic trading platform and promote full coverage of centralized procurement, striving to reduce the procurement cost by RMB15 million throughout the year; the gross profit margin will be improved through intensified quota management for production process and reduction of manufacturing costs by intelligent and automated means and energy performance contracting; strict budget management will be implemented to ensure reasonable control of expenses incurred in the Period. The focus of reduction of "accounts receivable and inventory" is to control contract quality and implement strict internal assessment to reduce bad and doubtful debts; the inventory management system will be optimised to reduce the inventory of raw materials and supporting materials and the Group will intensify the connection between sales and production to dispose sluggish materials in a timely manner and control the inventory in a reasonable range. The focus of reduction of liabilities will be laid on promoting optimization of product structure, increase of market share and improvement of profitability; the Group will beef up efforts for credit and debt settlement to quicken turnover of capital and enhance the ability to pay; moreover, the Group will integrate resources and carry out equity financing; the liability ratio will be under reasonable control, striving to control the overall liabilities in a reasonable range with the decrease in the size of both loans and financing.

Strengthen innovation driving capacity, stimulate endogenous power for qualitative change

The Group will proactively give play to the leading role of CMEIM and CMETRC to enhance the digital design, intelligent production and information based management capacity and level; industrial big data, internet and other technologies will be capitalized to gradually achieve full life cycle management for product design, production, sales, service and other processes. The Group will perfect and implement the action plan on big data intelligent industrial development and form a batch of products or plans with proprietary intellectual property rights through research & development and application of remote operation and maintenance, intelligent warehousing, industrial robots, software integration, artificial intelligence and other technologies. Automated and intelligentized technical transformation will be adopted to build intelligent factories and digital workshops to boost transformation and upgrade.

Reinforce research and development production technology. The focus will be placed on patent for invention and investment proportion of R&D. The Group will go all out to boost the development, improvement and industrialization of a batch of new products including low-vibration and low-noise centrifugal fan, offshore 5MW wind power blades, high voltage slurry diaphragm pump, large diameter mixed-flow hydroelectric generating sets, industrial feed gas compressor, robotic motion controller of multiple degrees of freedom, intelligent warehousing, and detection robot.

Continue to exert great efforts for capital operation, integrate and vitalize stock resources

To highlight principal businesses and key development directions, promote coordinated development of industries and enhance the Group's value, the Group will adjust the original five business segments into three, i.e. green energy equipment, high-end intelligent equipment and modern manufacturing services; a number of industry leading enterprises will be reinforced and optimized through expansion, merger and acquisition, etc.; mixed reform a batch of businesses will be impelled through investment attraction and reorganization to stimulate operation vitality; a batch of non-principal businesses will be eliminated in order through adjustment to the principal business and key development direction.

Constantly optimise management, consolidate the foundation through efforts in many aspects

The Group will continue to implement "one policy for one enterprise" and intensify compliant operation, financial management, human resources management, information construction, etc.; great efforts will be exerted on safety production and the Group will proceed with periodic review of safety standardization, and screening and governance of hidden dangers to prevent major accidents in terms of safety, environmental protection and occupational health.

Intensify internal risk control, adhere to corporate governance according to laws and regulations

The Group will promote the inclusion of risk control early warning indicators in the information-based system to achieve real-time early warning of operational risks and financial risks. The construction of comprehensive risk management system, internal control evaluation and risk analysis will be carried out to promote the implementation of risk control. Furthermore, the Group will conduct legal analysis and argumentation on major decisions and major projects.

AWARDS

During this Period, the Group was granted the following awards:

- Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear"), a subsidiary of the Company, was awarded the "Gold Award of Marketing (市場推廣金獎)" and "Cooperation and Win-win Award (合作共贏獎)";

- The "critical technology and equipment for green precision CNC gear production (精密綠色數控制齒關鍵技術及裝備)" project of Chongqing Machine Tools (Group) Co., Ltd. ("Chongqing Machine Tools"), Qijiang Gear and Chongqing Tool Factory Co., Ltd., being subsidiaries of the Company, won the first prize of 2016 scientific and technological progress of Chongqing(重慶市2016年度科技進步一等獎);

- The "charging pump for 1,000MW pressurized water reactor power plant (百萬千瓦級壓水堆核電站上充泵)" project of Chongqing Pump Industry Co., Ltd. ("Chongqing Pump"), a subsidiary of the Company, and the "high efficiency and energy saving three-element flow fan system (高效節能三元流風機系統)" project of Chongqing General Industry (Group) Limited Liability Company ("Chongqing General"), an affiliate of the Company, won the second prize of the 2017 Science & Technology Award for Chinese Mechanical Industry of Chongqing (重慶市2017年度中國機械工業科學技術二等獎);

- The "MW-level wind power blades for weak wind areas (弱風區兆瓦級風電葉片)" of Chongqing General, a subsidiary of the Company, won the third prize of 2016 scientific and technological progress of Chongqing(重慶市2016年度科技進步三等獎);

- The "ultra-high pressure large-scale multi-stage centrifugal pump (超高壓大型多級離心泵)" project of Chongqing Pump, a subsidiary of the Company, won the third prize of the 2017 Science & Technology Award for Chinese Mechanical Industry (2017年度中國機械工業科學技術二等獎);

- The patent for invention of "A large wind turbine blade for wind turbine unit and its formation method (一種大型風力機組風輪葉片及其成型方法)" of Chongqing General, a subsidiary of the Company, won the 2017 China Patent Outstanding Award (2017年中國專利優秀獎);

- Chongqing Pigeon Electric Wires & Cables Co., Ltd. ("Chongqing Pigeon"), a subsidiary of the Company, ranked "the Top 100 Enterprises of 2017 in Chinese Cable industry (2017年中國線纜行業100強企業)".

SUMMARY

Looking forward to 2018, the global economy is expected to continue the situation of improvement amidst stabilization and quality and efficiency enhancement will be more prominent. Internationally, the U.S. economy achieved a growth rate of over 3% for two consecutive quarters for the first time since 2014; the economy in Eurozone continued recovery and the quantity of employment and consumer confidence reached the highest level since 2001; the Japanese economy maintained positive growth for 8 consecutive quarters and the continuously slow recovery status is more evident; the economic operation in Russian, Brazil, South Africa, India and other emerging market economies are getting better. Domestically, the continuously deepened reform made the supply-demand relationship more coordinated and the endogenous power for industrial development became stronger. 2018 is the first year for implementation of the spirit of the 19th National Congress of the Communist Party of China and also the 40th anniversary of reform and opening up of China. At the 19th National Congress of the Communist Party of China, Xi Jinping proposed the idea of socialism with Chinese characteristics in the new era and put forward the important judgments and strategic deployment including "the Chinese economy has shifted from high-speed growth to high quality development", "construction of a modern economic system", etc. In 2018, the industrial economy of the PRC is expected to continue improvement amidst stabilization and economic growth maintained in a reasonable range of stable operation; with the voidance of old kinetic energy, the market-oriented adjustment will be more proactive; the new kinetic energy will accelerate growth, standardized development will be more prominent and the old and new kinetic energy will shift in a faster pace; benefiting from export turnaround and profit improvement, the growth of added value and investment of manufacturing industry will get powerful support. In the service industry, the market-oriented reform and opening up will be further enlarged and growth will basically maintain stable. More attention will be paid to technology investment and talent construction. The industrial innovation capability will be gradually enhanced and quality and efficiency will be more distinct. It is expected that the GDP growth will be about 6.5% in 2018. From the perspective of industry, the Chinese economy will experience qualitative change in the new era and the mechanical industry will maintain stable growth. The industrial structure upgrade of the industries closely related to the Group is expected to accelerate and continuously release new kinetic energy. However, we will still be confronted with huge overcapacity in the mechanical industry and there will be excessive competition in the market. The investment in fixed assets will remain at a low level and the traditional fields of mechanical industry will see industrial adjustment. There will still be the problem of imbalanced and insufficient internal development.

Opportunities come along with challenges and difficulties coexist with hope. Centering on the work theme of "implementation of new idea, cultivation of new kinetic energy, quality and efficiency enhancement, and transformation and development", the Group will highlight the main work task of "one focus, three guarantees, three reductions and one enhancement (一抓三保三降一增強)" and concentrate on operation quality, innovation capacity, merger and reorganization, fine management, risk management and control, to promote industrial upgrade, foster core competitiveness and develop new kinetic energy so as to achieve continuous improvement of the Group's growth.

On behalf of the Board of Directors, I would like to express my heartfelt thanks to our customers, suppliers, business partners and shareholders for their strong support. In particular, I would also like to give my gratitude to all staff members for their hard work and great contributions over the past year. The Group will work with all staff members to create value for shareholders, create wealth for the community, create welfare for our employees, and make efforts to realize the corporate vision of "equipping China to go to the World".

Executive Director and Chairman
Wang Yuxiang

Chongqing, the PRC
29 March 2018

Management's Discussion and Analysis

OUTLOOK AND PROSPECT

Looking forward to 2018, the global economy is expected to continue the situation of improvement amidst stabilization and quality and efficiency enhancement will be more prominent. Internationally, the U.S. economy achieved a growth rate of over 3% for two consecutive quarters for the first time since 2014; the economy in Eurozone continued recovery and the quantity of employment and consumer confidence reached the highest level since 2001; the Japanese economy maintained positive growth for 8 consecutive quarters and the continuously slow recovery status is more evident; the economic operation in Russian, Brazil, South Africa, India and other emerging market economies are getting better. Domestically, the continuously deepened reform made the supply-demand relationship more coordinated and the endogenous power for industrial development became stronger. 2018 is the first year for implementation of the spirit of the 19th National Congress of the Communist Party of China and also the 40th anniversary of reform and opening up. At the 19th National Congress of the Communist Party of China, Xi Jinping proposed the idea of socialism with Chinese characteristics in the new era and put forward the important judgments and strategic deployment including "the Chinese economy has shifted from high-speed growth to high quality development", "construction of a modern economic system", etc. In 2018, the industrial economy of the PRC is expected to continue improvement amidst stabilization and economic growth maintained in a reasonable range of stable operation; with the voidance of old kinetic energy, the market-oriented adjustment will be more proactive; the new kinetic energy will accelerate growth, standardized development will be more prominent and the old and new kinetic energy will shift in a faster pace; benefiting from export turnaround and profit improvement, the growth of added value and investment of manufacturing industry will get powerful support. In the service industry, the market-oriented reform and opening up will be further enlarged and growth will basically maintain stable. More attention will be paid to technology investment and talent construction. The industrial innovation capability will be gradually enhanced and quality and efficiency will be more distinct. It is expected that the GDP growth will be about 6.5% in 2018. From the perspective of industry, the Chinese economy will experience qualitative change in the new era and the mechanical industry will maintain stable growth. The industrial structure upgrade of the industries closely related to the Group is expected to accelerate and continuously release new kinetic energy. However, we will still be confronted with huge overcapacity in the mechanical industry and there will be excessive competition in the market. The investment in fixed assets will remain at a low level and the traditional fields of mechanical industry will see industrial adjustment. There will still be the problem of imbalanced and insufficient internal development.

Opportunities come along with challenges and difficulties coexist with hope. Centering on the work theme of "implementation of new idea, cultivation of new kinetic energy, quality and efficiency enhancement, and transformation and development", the Group will highlight the main work task of "one focus, three guarantees, three reductions and one enhancement (一抓三保三降一增強)" and concentrate on operation quality, innovation capacity, merger and reorganization, fine management, risk management and control, to promote industrial upgrade, foster core competitiveness and develop new kinetic energy so as to achieve continuous improvement of the Group's growth.

The Group expects that the business will continue to maintain a stable development in 2018.

BUSINESS REVIEW

Improve quality and increase efficiency with smooth operation

During the year, we put efforts into key and prioritized areas, and our major economic indicators have been strongly backed up. Our subsidiaries were required to take market demand as a guide and seize their opportunities. The total number new orders in this year recorded an increase as compared to that of last year. The performances of wholly-owned subsidiaries and holding enterprises were prominent. The guideline of "One Company, One Policy" was refined and analysed, to cover wholly-owned subsidiaries and holding enterprises. It included 280 assessment items with management coverage extended to overseas enterprises, and content related to business objectives, markets, increments, technology innovation, reform and restructuring, joint ventures and cooperation. Through rigorous tracking assessments, the Group basically completed full control.

Driven by innovation and accumulation of motive force

The Group continued to promote industrial planning, and reviewed the implementation of our 2015-2020 plan according to the work requirements of "Review once a year and adjust every two years". The Group formulated the 2017-2020 innovation-driven implementation plan and 2018-2022 Guidance for the development of the industry. We increased the investment in technology research and development, our annual R&D expense ratio reached 2.14%, an increase of 0.27 percentage point over the same period of last year. We have 225 newly granted patents, 27 invention patents and 121 key new products, among which, 42 new products were appraised at the municipal level or above, the sales rate of new products above the municipal level was 22%, and the total amount of national policy funds we obtained was approximately RMB104 million. We focused on the transformation of achievements from key projects, completed the design of the third-generation nuclear-powered pump test bench and the basic research on the vertical charge pump. We upgraded the complete sets of equipment and technology, upgraded the industrialization project, completed the transformation of old machine and the development of the new machine of the cotton harvesters. Through technical research, a number of honors have been obtained. Among them, the "critical technology and equipment for green precision CNC gear production (精密綠色數控制齒關鍵技術及裝備)" won the first prize of 2016 scientific and technological progress of Chongqing, the "charging pump for 1,000MW pressurized water reactor nuclear power plant (百萬千瓦級壓水堆核電站上充泵)" project, and the "high efficiency and energy saving three-element flow fan system (高效節能三元流風機系統)" won the second prize of the 2017 Science & Technology Award for Chinese Mechanical Industry of Chongqing (重慶市2017年度中國機械工業科學技術二等獎) and CMETRC was successfully approved as a municipal postdoctoral workstation.

Project construction has been orderly advanced

The Group standardized the investment management of engineering construction projects and revised the Measures for the Administration of Investment in Construction Projects (工程建設項目投資管理辦法). By strengthening the assessments from entrusted agencies, the approval of project investment estimates and the post-project evaluation, the Group further strengthened supervision before, during and after the construction process of projects. The Group promoted the implementation of key construction projects. The construction of the high horse power diesel engines of Chongqing Cummins proceeded smoothly. The construction of the main body of offshore wind power blade industrialization project Phase II of Chongqing General entered the finishing stage. The relocation project of the gas compressor business is officially launched.

More flexible through capital operation

The Group resolutely implemented the "remove invalidity", and properly promoted the enterprise to shut down invalid works. We actively promoted the reform and restructuring, the capital efficiency of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. ("Finance Company"), the equity acquisition of Water Gen Power S.r.l ("WGP"), and the joint venture and cooperation of Chongqing Shenjian Automotive Drive Part Co., Ltd. ("Chongqing Shenjian"), the acquisition of Chongqing ABB Power Transformer Co., Ltd. and other projects have been completed by the Company. Agricultural machinery and equipment manufacturing platform of Chongqing Shengong Machinery Manufacture Co., Ltd. has been set up.

Comprehensive promotion through sophisticated management

According to the characteristics of different businesses, we selected different enterprises to pilot the "five major management" programs of marketing, quality, operation, human resources and finance. Through the unified management and overall use of bills, the Group adjusted the financing structure and used information technology to strengthen the supervision of overseas affiliates and promote cost reduction and efficiency enhancement. Through the continuous implementation of our HR management standard of "four designations, three mechanisms and one channel" (namely designated organization, designated position, designated personnel and designated salary; free promotion/demotion of management, reasonable join-in and withdrawal of employees and unrestricted income adjustment; and the establishment of career development path), the Group has basically formed a good posture with streamlined institutions and capable personnel. Through carrying out full coverage special training for employees, we improved the quality of the personnel reform team.

Through the combination of supervision and review, we ensure the good performance of duties. We completed the special audit and economic responsibility audit as planned. Besides, we promoted the settlement audit for construction projects. We conducted interviews with executives of overseas enterprises for the first time and continuously strengthen the standard operation of overseas enterprises.

The Group operated in compliance with the requirements of the Listing Rules, and strictly performed the information disclosure obligations. The Group actively organized roadshows of corporate performance and reception of investors. By hiring an independent intermediary agency to evaluate the effectiveness of the Group's internal control, we completed the construction of a risk management system and enhanced the risk prevention and control standard. The Group comprehensively promoted the corporate governance by law and focused on review of legal risks. In addition, the Group attached great importance to establishing enterprise culture and improving its brand image.

RESULTS OVERVIEW

Operation Analysis

Automobile parts and components business

In 2017, according to the data published by the China Association of Automobile Manufacturers, the production and sales volume of automobiles reached approximately 29.02 million and 28.88 million units, respectively, representing an increase of approximately 3.2% and 3.0% respectively over the corresponding period of last year, continuously maintaining an overall stable growth. Sales volume of heavy trucks and large and medium passenger vehicles, which are closely related to the Group, reached 1,120,000 and 168,000 units respectively, representing an increase of approximately 52.4% and 13.8% as compared with last year. Driven by the implementation of China V emission standard, new regulations on control of overrun vehicles and other policies, the heavy truck market saw explosive growth throughout the year. The production and sales volume of steering systems recorded new highs. The Group continued to stabilise the cooperation with large domestic finished automobile enterprises including Chang'an Automobile and Jiangling Motors and achieved stable growth in the year. On the contrary, affected by the drop in sales volume of large and medium passenger vehicles, hysteresis of product development and market exploration, and rapid popularization of high-speed train and new energy vehicles, etc., the operating conditions of transmission system business of the Group were not improved and the automobile parts and components business of the Group recorded a turnover of approximately RMB601.6 million for the whole year, representing a decrease of approximately 16.5% from the same period of last year.

Power equipment business

In 2017, benefiting from the promotion of clean energy by the government of China, smart grid projects and "One Belt, One Road" construction opportunity, the Group increased development efforts for hydropower equipment business in Southeast Asia, South Asia, Africa and Middle East markets, and successfully won 2 orders of equipment for EPC hydropower stations and achieved an increase of 53% in orders throughout the year. The wire and cable business was rapidly expanded to domestic and overseas new markets, and the Group completed the construction of a distributor management information system and achieved stable growth of orders. The power equipment business of the Group recorded turnover of approximately RMB1,899.0 million for the whole year, representing a year-on-year increase of approximately 16.5%.

General machinery business

In 2017, the mean PMI index of the manufacturing industry of China topped 52.4%. The stabilization of orders and gradual recovery of investment enthusiasm in the generally machinery related industries promoted the overall stabilization and recovery of general machinery. Stimulated by the increase in orders, the results of industrial pump business continued stable growth; the orders of refrigeration machine business recorded a historical new high; underpinned by the new efficient and energy-saving blowers, the results of industry blower business kept rapid growth; affected by the rapid increase in demand of LNG market, the results of gas compressors business maintained stable. Under the effects of the decrease in national subsidy, wind power curtailment, grid connection of wind power, and other factors, the newly installed capacity of the industry declined significantly, resulting in failure of meeting target expectations of wind power blades business. The general machinery business of the Group recorded revenue of approximately RMB2,350.9 million for the whole year, representing an increase of approximately 1.0% from the same period of 2016.

CNC machine tools business

In 2017, thanks to the accelerated intelligent manufacturing of the State and stable growth of the production and sales volume of the automobile industry, the Group proactively developed intelligent and automation equipment manufacturing business and gear-producing machine business saw rapid recovery in respect of orders. In particular, there was a good situation of great demand for new gear grinding machine and dry-cutting gear hobbing machine and the business realized rapid restorative growth; intelligent manufacturing business achieved rapid growth; the precision screw factory in the U.S. was successfully put into production and recorded sales revenue; as to agricultural machinery, the Group was engaged in new fields and made breakthroughs therein. The CNC machine tools business of the Group recorded revenue of approximately RMB866.0 million for the whole year, representing an increase of approximately 27.5% from the same period of 2016.

Intelligent manufacturing business

In 2017, thanks to the accelerated intelligent manufacturing of the State, the Group actively developed the intelligent manufacturing business with orders growing rapidly. During the year, the parent company transferred its 100% equity interests in CMEIM to the Company to strengthen the upgrade of intelligent manufacturing products. The Group has firstly entered into the strategic cooperation agreement with EATON, the leader of electrical industry of the U.S.A., to exert the advantages of mega data platform, together with its own advantages, to collaboratively promote the extension and development of the products and services of both parties, enhance the competitiveness in the brand market. The intelligent manufacturing business will achieve relatively rapid growth, which will boost the equipment manufacturing industry to develop boomingly and create a new situation of technology-driven manufacturing. The revenue from the intelligent manufacturing business of the Group during the year amounted to approximately RMB190.8 million.

Trade business

In 2017, the bulk commodity procurement platform of the Group increased the types of procurement, directly reducing procurement cost of the Group by approximately RMB12.2 million. The total revenue of this segment amounted to approximately RMB3,317.0 million, representing a decrease of approximately 10.8% as compared to the same period of last year.

Financial business

In 2017, benefited from the expansion of capital accumulation scale and the increase of interest income, the annual turnover amounted to approximately RMB67.3 million, representing an increase of approximately 20.4% as compared to the same period of last year.

Business combinations under common control

The Company has adopted the arrangement under HKFRS 5 "Merger Accounting for Common Control Combinations" during the Period, the equities and interests of CMEIM and CMETRC for the current period and for the year of 2016 have been included in the consolidated financial statements and restated to reflect the accounting of the transaction under common control accordingly. Details of common control combinations of the financial position of the Group as at 31 December 2017 and 2016 and the results of the Group in this year are set out in Note 39 to the consolidated financial statements.

SALES

For the year ended 31 December 2017, the Group's total revenue amounted to approximately RMB9,292.6 million, an increase of approximately RMB37.6 million or approximately 0.4% as compared with approximately RMB9,255.0 million for the same period of 2016. As compared with 2016, the revenue of automobile parts and components was approximately RMB601.6 million (accounting for approximately 6.5% of total revenue), a decrease of approximately 16.5%; revenue of power equipment was approximately RMB1,899.0 million (accounting for approximately 20.4% of total revenue), an increase of approximately 16.5%; revenue of general machinery was approximately RMB2,350.9 million (accounting for approximately 25.3% of total revenue), an increase of approximately 1.0%; revenue of CNC machine tools was approximately RMB866.0 million (accounting for approximately 9.3% of total revenue), an increase of approximately 27.5%; revenue of intelligent manufacturing business was approximately RMB190.8 million (accounting for approximately 2.1% of total revenue), an increase of approximately 51.8%; revenue of trade business was approximately RMB3,317.0 million (accounting for approximately 35.7% of total revenue), a decrease of approximately 10.8%; and revenue of financial services was approximately RMB67.3 million (accounting for approximately 0.7% of total revenue), an increase of approximately 20.4%. In view of the above, revenue of other business segments were recorded a growth as a whole, except that the revenue of the automobile parts and components segment was decreased by the decline of demand in the market and the revenue of trade business was affected by the adjustment of the foreign trade business with lower gross margin.

The Group has ceased the foreign trade business of Chongqing Shengpu Materials Co., Ltd. (重慶盛普物資有限公司) ("Shengpu Company") with lower gross profit since 2018, the revenue of substantial businesses of the Group maintained stable growth in 2018. It is expected that the revenue of substantial businesses of the Group will achieve better growth in 2018.

GROSS PROFIT

The gross profit for 2017 was approximately RMB1,007.7 million, decreased by approximately RMB25.8 million or approximately 2.5%, as compared with approximately RMB1,033.5 million for the same period of 2016. Gross profit margin was approximately 10.8%, slightly decreased by 0.4 percentage points as compared with 11.2% of the same period last year, mainly due to the further increase in proportion of the trade business with lower gross profit and the negative gross profit of transmission system business.

OTHER INCOME AND GAINS

The other income and gains for 2017 were approximately RMB417.4 million, an increase of approximately RMB111.8 million or approximately 36.6%, as compared with approximately RMB305.6 million for the same period of 2016, mainly attributable to the income from land disposal by Chongqing Water Turbine Factory Company Limited and the gains from disposal of equity interest in Chongqing Shenjian by Chongqing Machine Tools during the Period.

DISTRIBUTION AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for 2017 were approximately RMB1,212.4 million, an increase of approximately RMB151.5 million or approximately 14.3%, as compared with approximately RMB1,060.9 million for the same period of 2016. The proportion of the selling and administrative expenses in total sales increased to approximately 13% from approximately 11.5% of the same period last year. The distribution expenses increased by approximately RMB4.1 million as compared with the same period last year, mainly due to the increase in marketing expenses; the administrative expenses significantly increased by approximately RMB147.4 million as compared with the same period last year, mainly due to the increase in depreciation of fixed assets of approximately RMB31.1 million and labour costs of approximately RMB83.2 million, including the one-off provision of long-term employee benefit obligations of the transmission system business.

OPERATING PROFIT

The operating profit for 2017 was approximately RMB212.7 million, a decrease of approximately RMB65.5 million or approximately 23.5%, as compared with approximately RMB278.2 million for the same period of 2016.

NET FINANCE COSTS

Net interest expense for 2017 amounted to approximately RMB102.3 million, an increase of approximately RMB2.3 million or approximately 2.3%, as compared with approximately RMB100.0 million for the same period of 2016, mainly due to the increase in the interest expense resulting from the increase in bank interest rate as a result of addition of short-term bank loans in the Period.

SHARE OF POST-TAX PROFITS OF ASSOCIATES

The Group's share of post-tax profits of associates for the year ended 31 December 2017 was approximately RMB102.2 million, an increase of approximately RMB1.6 million or approximately 1.6%, as compared with approximately RMB100.6 million for the same period of 2016. During the Period, the results of Chongqing ABB Power Transformer Co., Ltd., Chongqing Hongyan Fangda Automotive Suspension Co., Ltd. (重慶紅岩方大汽車懸架有限公司) and KnorrBremse Systems for Commercial Vehicles (Chongqing) Ltd. (克諾爾商用車系統(重慶)有限公司) increased by approximately RMB42.4 million, RMB5.8 million and RMB5.9 million, respectively. In contrast, Chongqing Liangjiang New Area Machinery and Electronic Microcredit Co., Ltd. (重慶市兩江新區機電小額貸款有限公司) recorded an increase in loss of approximately RMB6.5 million, and Chongqing Jiangbei Machinery Co., Ltd. (重慶江北機械有限責任公司) recorded a loss of approximately RMB0.4 million turning from gain, representing by a decrease of approximately RMB4.9 million, and WPG Company in Italy recorded a loss of approximately RMB3.6 million.

SHARE OF POST-TAX PROFIT OF A JOINT VENTURE

The Group's share of post-tax profit of a joint venture for the year ended 31 December 2017 was approximately RMB264.3 million, an increase of approximately RMB13.3 million or approximately 5.3%, as compared with approximately RMB251.0 million for the same period last year. Such increase was due to the steady rise of sales of high-horsepower products of Chongqing Cummins Engine Co., Ltd.

INCOME TAX EXPENSES

The income tax expenses for the year ended 31 December 2017 were approximately RMB102.5 million, an increase of approximately RMB75.3 million, or approximately 277%, as compared with approximately RMB27.2 million for the same period of 2016, mainly because there was an increase of approximately RMB38.5 million resulted from increase of tax losses of deferred income tax asset not yet recognised and an increase of approximately RMB42.8 million resulted from change of applicable tax rate.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year ended 31 December 2017 was approximately RMB325.0 million, a decrease of approximately RMB115.8 million or approximately 26.3% as compared with approximately RMB440.8 million for the same period of 2016. Earnings per share amounted to approximately RMB0.09, decreased by approximately 25% as compared with approximately RMB0.12 of the same period of 2016.

DISTRIBUTABLE RESERVES

According to the Articles of Association of the Company, the Company's reserves available for distribution based on the Company's retained earnings are the lower of that determined under HKFRSs and China Accounting Standards for Business Enterprises ("CAS").

The Company's reserves available for distribution as at 31 December 2017 under HKFRSs and CAS were RMB1,462,998,000 and RMB1,649,152,000 respectively. Thus, as at 31 December 2017, the Company's distributable reserve attributable to shareholders of the Company amounted to RMB1,462,998,000.

BUSINESS PERFORMANCE

The table below sets forth the revenue, gross profit and segment results attributable to our major business segments for the periods indicated:

	Revenue		Gross profit		Segment Results	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2017	2016 (Restated)	**2017**	2016 (Restated)	**2017**	2016 (Restated)
	(RMB in millions, except for percentage)					
Automobile parts and components						
Domestic						
Transmission systems	**235.6**	386.3	**(55.3)**	16.1	**(129.2)**	(72.9)
Steering systems	**366.0**	333.8	**64.1**	48.8	**10.8**	2.7
Total	**601.6**	720.1	**8.8**	64.9	**(118.4)**	(70.2)
% of total	**6.5%**	7.8%	**0.9%**	6.3%	**(55.7%)**	(25.2%)
Power equipment						
Domestic						
Hydroelectric generation equipment	**446.5**	405.9	**55.2**	75.2	**119.9**	3.0
Electrical wires and cables	**1,450.4**	1,223.1	**203.9**	212.1	**96.7**	211.1
Other products	**2.1**	1.3	**1.6**	(0.4)	**(1.7)**	(3.6)
Total	**1,899.0**	1,630.3	**260.7**	286.9	**214.9**	210.5
% of total	**20.4%**	17.6%	**25.9%**	27.8%	**101.0%**	75.6%
General machinery						
Domestic						
Total	**2,350.9**	2,327.3	**459.2**	471.3	**108.7**	169.0
% of total	**25.3%**	25.1%	**45.6%**	45.6%	**51.1%**	60.7%

	Revenue		Gross profit		Segment Results	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2017	2016 (Restated)	**2017**	2016 (Restated)	**2017**	2016 (Restated)
	(RMB in millions, except for percentage)					
CNC machine tools						
Domestic	**692.4**	529.9	**134.3**	80.5	**10.1**	(48.6)
Foreign	**173.6**	149.2	**43.2**	61.0	**(22.7)**	(12.3)
Total	**866.0**	679.1	**177.5**	141.5	**(12.6)**	(60.9)
% of total	**9.3%**	7.3%	**17.6%**	13.7%	**(5.9%)**	(21.9%)
Intelligent manufacturing						
Domestic						
Total	**190.8**	125.7	**38.7**	23.0	**6.3**	(5.4)
% of total	**2.1%**	1.4%	**3.8%**	2.2%	**3.0%**	(1.9%)
Trade business						
Domestic						
Total	**3,317.0**	3,716.6	**7.1**	3.3	**0.8**	0.2
% of total	**35.7%**	40.2%	**0.7%**	0.3%	**0.4%**	0.1%
Financial services						
Domestic						
Total	**67.3**	55.9	**55.9**	42.7	**33.4**	21.6
% of total	**0.7%**	0.6%	**5.5%**	4.1%	**15.7%**	7.8%
Headquarters						
Total	**–**	–	**(0.4)**	0	**(20.4)**	13.5
% of total	**–%**	–%	**–%**	–%	**(9.6%)**	4.9%
Total	**9,292.6**	9,255.0	**1,007.5**	1,033.5	**212.7**	278.2

AUTOMOBILE PARTS AND COMPONENTS

Revenue from the automobile parts and components segment for the year ended 31 December 2017 was approximately RMB601.6 million, representing a decrease of approximately RMB118.5 million or approximately 16.5%, as compared with approximately RMB720.1 million for the same period of 2016.

As compared with the same period of 2016, revenue from the business of transmission systems for vehicles decreased by approximately RMB150.7 million or approximately 39.0%, which was primarily due to the failure of the transmission system business to realise the synchronised growth due to the influence of product development and the lagged market development. Revenue from the business of steering systems for vehicles increased by approximately RMB32.2 million or approximately 9.6%, which was primarily due to the increase in sales volume driven by the growth of demand in passenger vehicles market.

During the Period, gross profit for the automobile parts and components segment was approximately RMB8.8 million, representing a decrease of approximately RMB56.1 million or approximately 86.4%, as compared with approximately RMB64.9 million for the same period of 2016. Gross profit margin decreased significantly to approximately 1.5% for 2017 from approximately 9.0% for 2016. Although the gross profit of Chongqing CAFF Company increased to 17.5% from 14.6% last year, the comprehensive gross profit margin recorded negative growth due to the significant increase in unit cost resulting from the decreased sales volume of transmission system business, which in turn led to a relative higher decrease in gross profit of this operating segment as a whole.

Overall, the operating loss for the automobile parts and components segment for the year ended 31 December 2017 amounted to approximately RMB118.4 million, representing an increase in loss of approximately RMB48.2 million, as compared with the loss of approximately RMB70.2 million for the same period of 2016, mainly due to the decrease in operating profit of this operating segment due to the decline of transmission system business, the increase of depreciation of new plant and the one-off provision of employee retiring benefits even though the operating profit of transmission system business has been improved.

POWER EQUIPMENT

Revenue from the power equipment segment for the year ended 31 December 2017 was approximately RMB1,899.0 million, a significant increase of approximately RMB268.7 million or approximately 16.5%, as compared with approximately RMB1,630.3 million for the same period of 2016, primarily due to that the rising prices of raw materials and the moderate increase of sales volume electrical wires and cables business, leading to an increase of approximately RMB227.3 million or approximately 18.6% in the sales revenue, which has in turn driven the growth of revenue of this operating segment.

During the Period, the gross profit for the power equipment segment was approximately RMB260.7 million, a decrease of approximately RMB26.2 million or approximately 9.1%, as compared with approximately RMB286.9 million for the same period of 2016. The overall gross profit margin decreased to approximately 13.7% for 2017 from approximately 17.6% for 2016, primarily affected by the structure of hydro power products and the rising prices of raw materials of electrical wires and cables business, leading to the decline of gross profit of this operating segment in general.

Overall, the results for the power equipment segment for the year ended 31 December 2017 amounted to approximately RMB214.9 million, an increase of approximately RMB4.4 million or approximately 2.1%, as compared with approximately RMB210.5 million for the same period of 2016, primarily due to the stable results of electrical wires and cables business and the increase in gain from land transfer of hydroelectric generation equipment business, leading to the increase in revenue of this operating segment as a whole.

GENERAL MACHINERY

Revenue from the general machinery segment for the year ended 31 December 2017 was approximately RMB2,350.9 million, an increase of approximately RMB23.6 million or approximately 1.0% as compared with approximately RMB2,327.3 million for the same period of 2016, primarily due to the improvement of revenue from industry blower and industrial pumps, leading to the growth of revenue from this operating segment.

During the Period, gross profit for the general machinery segment was approximately RMB459.2 million, a decrease of approximately RMB12.1 million or approximately 2.6% as compared with approximately RMB471.3 million for the same period of 2016. Gross profit margin slightly dropped to approximately 19.5% for 2017 from approximately 20.3% for 2016, mainly due to the fall of selling price in wind power blades, leading to the decrease in gross profit of this operating segment.

Overall, the results for the general machinery segment for the year ended 31 December 2017 amounted to approximately RMB108.7 million, a decrease of approximately RMB60.3 million or approximately 35.7%, as compared with approximately RMB169.0 million for the same period of 2016, mainly due to the increase in gains from disposal of equity interests last year, leading to the decrease in revenue from this operating segment.

CNC MACHINE TOOLS

The revenue from the CNC machine tools segment for the year ended 31 December 2017 was approximately RMB866.0 million, an increase of approximately RMB186.9 million or approximately 27.5% as compared with approximately RM679.1 million for the same period of 2016, mainly due to the effect of steady improvement of market demand of domestic CNC machine tools, the optimization of product structure, the speed up of proportion of sales of new products, leading to the rapid growth of revenue of this operating segment.

During the Period, the gross profit for the CNC machine tools segment was approximately RMB177.5 million, an increase of approximately RMB36.0 million or approximately 25.4%, as compared with approximately RMB141.5 million for the same period of 2016, mainly due to the increase in domestic business volume, and the gross profit being basically stable, resulting in the growth of the gross profit of this operating segment.

Overall, the total loss for the CNC machine tools segment for the year ended 31 December 2017 amounted to approximately RMB12.6 million, a significant decrease of approximately RMB48.3 million or approximately 79.3%, as compared with RMB60.9 million for the same period of 2016, mainly due to the impact of decrease of orders on PTG UK in 2017, resulting in the decrease of revenue of this operating segment.

INTELLIGENT MANUFACTURING BUSINESS

For the year ended 31 December 2017, the revenue of intelligent manufacturing business segment amounted to approximately RMB190.8 million, an increase of approximately RMB65.1 million or approximately 51.8%, as compared with approximately RMB125.7 million for the same period of 2016, mainly due to the rapid growth of domestic intelligent manufacturing business, leading to the growth of revenue of this operating segment.

During the period, the gross profit of intelligent manufacturing business segment amounted to approximately RMB38.7 million, an increase of approximately RMB15.7 million or approximately 68.3%, as compared with approximately RMB23.0 million for the same period of 2016. The gross profit margin increased to approximately 20.3% in 2017 from approximately 18.3% in 2016.

In general, for the year ended 31 December 2017, the results of intelligent manufacturing business segment turned from loss to gain of approximately RMB6.3 million, an increase of approximately RMB11.7 million or approximately 216.7%, as compared with the loss of approximately RMB5.4 million for the same period of 2016.

TRADE BUSINESS

For the year ended 31 December 2017, the trade business segment recorded a revenue of approximately RMB3,317.0 million, representing a decrease of approximately RMB399.6 million or approximately 10.8%, as compared with approximately RMB3,716.6 million for the same period of 2016, mainly because the Company waived the trade revenue with lower gross profit.

During the Period, the gross profit for the trade business segment amounted to approximately RMB7.0 million, representing an increase of approximately RMB3.7 million or approximately 112.1%, as compared with RMB3.3 million for the same period of 2016. The gross profit margin increased to approximately 0.2% for 2017 from approximately 0.1% for 2016, mainly due to the adjustment of revenue of trade business with low gross profit by the Company.

Overall, for the year ended 31 December 2017, the result of the trade business segment amounted to approximately RMB0.8 million, representing an increase of approximately RMB0.6 million or approximately 3.0 times as compared with approximately RMB0.2 million for the same period of 2016.

FINANCIAL BUSINESS

For the year ended 31 December 2017, the financial business segment recorded a revenue of approximately RMB67.3 million, representing an increase of approximately RMB11.4 million or approximately 20.4%, as compared to approximately RMB55.9 million for the same period of 2016.

During the Period, the gross profit for the financial business segment amounted to approximately RMB55.9 million, representing an increase of approximately RMB13.2 million or approximately 30.9%, as compared to approximately RMB42.7 million for the same period of 2016. The gross profit margin increased to approximately 83.1% in 2017 from approximately 76.4% in 2016.

Overall, for the year ended 31 December 2017, the results of the financial business segment amounted to approximately RMB33.4 million, representing an increase of approximately RMB11.8 million or approximately 54.6%, as compared to approximately RMB21.6 million for the same period of 2016.

CASH FLOW

As at 31 December 2017, the cash and bank deposits (including restricted cash) of the Group amounted to approximately RMB1,658.7 million (31 December 2016: approximately RMB1,800.6 million), representing a decrease of approximately RMB141.9 million or approximately 7.9%, mainly due to the increase of investment in plant and equipment, the slowing down of collection of receivables, and the significant loss arising from Qijiang Gear which results in the enlargement of operating cash flow in results.

During the Period, the Group had a net cash outflow from operating activities of approximately RMB944.7 million (for the year ended 31 December 2016: net cash outflow of approximately RMB262.3 million), a net cash inflow from investing activities of approximately RMB458.9 million (for the year ended 31 December 2016: a net cash inflow of approximately RMB25.0 million), and a net cash inflow from financing activities of approximately RMB266.0 million (for the year ended 31 December 2016: a net cash inflow of approximately RMB84.8 million). Directors believe that the Group is financially sound and has sufficient resources to meet its operating capital needs and fund any predictable capital expenditure.

TRADE AND OTHER RECEIVABLES

As at 31 December 2017, the trade receivables and other receivables assets of the Group totaled approximately RMB6,561.2 million, representing an increase of approximately RMB1,277.3 million, as compared with approximately RMB5,283.9 million as at 31 December 2016, mainly due to an increase of approximately RMB480.0 million in revenue of the wind power blades business, an increase of approximately RMB300 million in trade business, the short-term borrowing of Qijiang Gear of approximately RMB270.0 million and receivables of approximately RMB200.0 million of land disposals of Chongqing Water Turbine. Please refer to note 19 to the consolidated financial statements for detailed ageing analysis of the trade and bills receivables.

TRADE AND OTHER PAYABLES

As at 31 December 2017, the trade payables and other payables of the Group totaled approximately RMB4,928.4 million, representing an increase of approximately RMB264.7 million, as compared with approximately RMB4,663.7 million as at 31 December 2016, primarily due to an increase in payables of the general machinery business. Please refer to note 27 to the consolidated financial statements for detailed ageing analysis of the trade and bills payables.

ASSETS AND LIABILITIES

As at 31 December 2017, the total assets of the Group amounted to approximately RMB16,196.7million, representing an increase of approximately RMB629.7 million as compared with approximately RMB15,567.0 million as at 31 December 2016. Total current assets amounted to approximately RMB10,544.6 million, representing an increase of approximately RMB1,115.6 million as compared with approximately RMB9,429.0 million as at 31 December 2016, accounting for approximately 65.1% of total assets. However, total non-current assets amounted to approximately RMB5,652.0 million, representing a decrease of approximately RMB485.9 million as compared with approximately RMB6,137.9 million as at 31 December 2016, accounting for approximately 34.9% of total assets.

As at 31 December 2017, total liabilities of the Group amounted to approximately RMB9,171.1 million, representing an increase of approximately RMB762.3 million as compared with approximately RMB8,408.8 million as at 31 December 2016. Total current liabilities were approximately RMB7,093.8 million, representing an increase of approximately RMB957.9 million as compared with approximately RMB6,135.9 million as at 31 December 2016, accounting for approximately 77.3% of total liabilities. However, the total non-current liabilities were approximately RMB2,077.3 million, representing a decrease of approximately RMB195.6 million as compared with approximately RMB2,272.9 million as at 31 December 2016, and accounting for approximately 22.7% of total liabilities.

As at 31 December 2017, the net current assets of the Group were approximately RMB3,450.8 million, representing an increase of approximately RMB157.7 million as compared with approximately RMB3,293.1 million as at 31 December 2016.

CURRENT RATIO

As at 31 December 2017, the current ratio (the ratio of current assets to current liabilities) of the Group was 1.49:1 (31 December 2016: 1.54:1).

GEARING RATIO

As at 31 December 2017, by dividing the borrowing by the total capital, the gearing ratio of the Group was 32.9% (31 December 2016: 28.6%).

INDEBTEDNESS

As at 31 December 2017, the Group had an aggregate bank and other borrowings of approximately RMB3,437.4 million, representing an increase of approximately RMB576.1 million as compared with approximately RMB2,861.3 million as at 31 December 2016.

Borrowings repayable by the Group within one year were approximately RMB1,925.2 million, representing an increase of approximately RMB617.6 million as compared with approximately RMB1,307.6 million as at 31 December 2016. Borrowings repayable after one year were approximately RMB1,512.2 million, representing a decrease of approximately RMB41.5 million as compared with approximately RMB1,553.7 million as at 31 December 2016.

SECURED ASSETS

As at 31 December 2017, approximately RMB484.2 million of the Group was deposited with the banks with pledge or restriction for use (31 December 2016: approximately RMB407.6 million). In addition, certain bank borrowings of the Group were secured by certain land use rights, properties, plant and equipment and investment properties of the Group, and other assets of the Group, which had a net book value of approximately RMB686.9 million as at 31 December 2017 (31 December 2016: approximately RMB746.1 million).

CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no significant contingent liabilities.

SIGNIFICANT EVENTS

Events in the Period

(1) On 27 April 2017, the Company entered into the Equity Transfer Agreement with Industrial Trust, pursuant to which, Industrial Trust agreed to transfer 19% equity interest in Finance Company held by it to the Company at the consideration of RMB142,067,000. Upon completion of the Equity Transfer, the Company will hold 70% equity interest in Finance Company and Industrial Trust shall no longer hold any equity interest in Finance Company. For details, please refer to the announcement of the Board of the Company dated 27 April 2017 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

(2) On 28 December 2017, the Company's wholly-owned subsidiary Chongqing Machine Tools entered into a Finance Lease Agreement with Kunlun Leasing in relation to the leasing target with a total purchase price amount of RMB210,000,000.00 and the aggregate pre-leasing interest and rental payment amounting to approximately RMB244,379,114.6. For details, please refer to the announcement of the Board of the Company dated 28 December 2017 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

(3) On 27 November 2017, the Company held the Annual General Meeting to consider and approve the following matters:

(I) The equity transfer agreements entered into between the Company and Chongqing Machinery and Electronics Holding (Group) Co., Ltd. were as followings:

1) The Company transferred the entire equity interest in Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear") to the Parent Company with a consideration of approximately RMB255,465,400;

2) A total of 35% equity interests in Chongqing Liangjiang New Area Machinery and Electronic Microcredit Co., Ltd.(重慶兩江新區機電小額貸款有限公司) ("Microcredit Company") held by the Company and its subsidiaries were transferred to the Parent Company with a consideration of approximately RMB61,015,700;

3) The Parent Company transferred 100% equity interest held by it in CMEIM to the Company with a consideration of approximately RMB132,719,700;

4) The parent company transferred 100% equity interest held by it in CMETRC to the Company with a consideration of approximately RMB14,388,800.

(II) Mr. Wei Fusheng ("Mr. Wei") resigned as a non-executive Director of the Company due to work adjustment, which was effective since Mr. Dou Bo ("Mr. Dou") was appointed as the new non-executive director. The tenure of Mr. Dou took effect from the date of the EGM until the expiration of the tenure of the Board. The Board was authorized to determine the service agreement on and subject to appropriate terms and conditions pursuant to the remuneration standard for non-executive Directors passed at the 2015 annual general meeting, and to do all such acts and things to give effect to such matters.

For details, please refer to the circular of the Board of the Company dated 7 November 2017 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

Save as disclosed above, the Company had no other significant discloseable events during the Period.

MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed above and in Note 12, 39 and 40 to the consolidated financial statements, there was no material acquisitions and disposals of subsidiaries and affiliates during the Period. The Directors are of the view that, the disposal of Qijiang Gear and Microcredit Company was part of the strategies of enhancing the operating performance in general, improving the cash position and operating capital of the Group. The acquisition of CMEIM and CMETRC will allow the Group to restructure its strategic business positioning and focus on the development of core business.

SUBSEQUENT EVENTS

(1) On 15 December 2017, the Company issued the announcement of continuing connected transactions regarding the provision of Loans and Guarantees to Qijiang Gear. Upon the approval of the first 2017 extraordinary general meeting of the Company, the Company transferred the entire equity interest in Qijiang Gear to the Parent Company. Before the completion of the above equity transfer, the Company has offered a loan amounting to RMB394,416,000 and a guarantee amounting to RMB180,000,000 to Qijiang Gear, respectively. After the completion of the equity transfer, the aforesaid financial assistance will constitute a continuing connected transaction under the Listing Rules. Upon the negotiation between the Parent Company and Qijiang Gear, Qijiang Gear commits that they would repay the loans totalling RMB75,416,000 to the Company before 31 December 2017, and repay the loans totalling RMB319,000,000 before 31 January 2018, and the Parent Company agreed to supervise and assist Qijiang Gear to make early repayment to the Company. In addition, the Parent Company agreed to replace the Company as the guarantor of the Guarantee Agreements before 31 December 2017. For details, please refer to the announcement of the Board of the Company dated 15 December 2017 as set out on the website of the Hong Kong Stock Exchange and the Company's website. Qijiang Gear repaid the loans totaling RMB75,416,000 to the Company on 27 December 2017, and repaid the loans totaling RMB319,000,000 on 17 January 2018. Besides, the beneficiary of the loan guarantees totaling RMB180,000,000 provided by the Company to Qijiang Gear had been changed into the Parent Company on 26 December 2017.

(2) On 18 January 2018, the Company decided to terminate the external trading business with a low gross profit in Shengpu Company, a wholly-owned subsidiary of the Company since 2018. For details, please refer to the announcement of the Board of the Company dated 18 January 2018 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

(3) On 26 January 2018, the Company transferred 51% equity interest held by it in Chongqing RSDA Power Science & Technology Co., Ltd. ("RSDA") and 20% equity interest held by CMETRC (a wholly-owned subsidiary of the Company) in RSDA to the Parent Company at the consideration of RMB1, respectively. Upon the completion of transaction, the Company and CMETRC no longer hold any equity interest in RSDA. Meanwhile, the Parent Company holds 71% equity interest in RSDA. For details, please refer to the announcement of the Board of the Company dated 26 January 2018 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

(4) On 14 March 2018, Chongqing Water Turbine, a wholly-owned subsidiary of the Company, and Nepal Peoples Energy entered into the EPC General Contracting Agreement in relation to the KHIMTI-2 hydropower station project in Nepal with an agreement amount of USD88,004,220. For details, please refer to the announcement of the Board of the Company dated 14 March 2018 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

Save as disclosed above, the Company had no other significant discloseable subsequent events.

CAPITAL EXPENDITURE

In 2017, the total capital expenditure of the Group was approximately RMB655.1 million, which was principally used for environmental relocation, plant expansion, improvement of production technology and equipment upgrade (2016: approximately RMB638.3 million).

CAPITAL COMMITMENTS

As at 31 December 2017, the Group had capital commitments of approximately RMB143.3 million (31 December 2016: approximately RMB472.9 million) in respect of fixed assets and intangible assets.

RISK OF FOREIGN EXCHANGE

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to GBP and US dollars. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group's functioning currency. Management has set up a management system of foreign exchange hedges, requiring all subsidiaries of the Group to manage the foreign exchange risk against their functional currency and adopt foreign exchange tools recognized by the Group.

As at 31 December 2017, the bank deposits of the Group included HK dollars valued at approximately RMB0.08 million, US dollars valued at approximately RMB3.1 million, GBP valued at approximately RMB38.19 million and EUR valued at approximately RMB3.16 million (31 December 2016: HK dollars valued at approximately RMB0.09 million, US dollars valued at approximately RMB4.99 million, GBP valued at approximately RMB2.39 million, and EUR valued at approximately RMB8.25 million). Save as the aforesaid, the Group was not exposed to any significant risk of foreign exchange.

EMPLOYEES

As at 31 December 2017, the Group had a total of 10,691 employees (31 December 2016: 11,217 employees). The Group will continue the upgrade of its technical talent base, foster and recruit technical and management personnel possessed with extensive professional experiences, optimise the distribution system that links with the remunerations and performance reviews of our management and employees, improve training on safety so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

Directors, Supervisors and Senior Management

The following table sets out information regarding our directors:

Name	Age	Position
Wang Yuxiang	56	Executive Director, Chairman
Chen Ping	55	Executive Director, General manager
Yang Quan	53	Executive Director, Vice General manager
Huang Yong	55	Non-executive Director
Deng Yong	58	Non-executive Director
Dou Bo	48	Non-executive Director
He Xiaoyan	55	Non-executive Director
Lo Wah Wai	54	Independent Non-executive Director
Ren Xiaochang	61	Independent Non-executive Director
Jin Jingyu	52	Independent Non-executive Director
Liu Wei	53	Independent Non-executive Director

EXECUTIVE DIRECTORS

Mr. Wang Yuxiang (王玉祥), aged 56, has served as the Chairman, executive Director, chairman of the nomination committee and strategic committee of the Company since 18 June 2013. Mr. Wang was elected as the representative of The Fifth People's Congress of Chongqing Municipality and a Member of the Standing Committee of the Fifth People's Congress of Chongqing Municipality in January 2018. Mr. Wang was elected the representative of the Fifth Congress of the Chongqing Municipality of the Communist Party of China in May 2017. He joined the Parent Group and served as the chairman and Party Committee secretary since April 2013, and has also served as a director and chairman of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. since August 2013. Mr. Wang has over 30 years of experience in business and regional economic management. Mr. Wang served as the deputy director and a member of the Party Committee of Chongqing State-owned Assets Supervision and Administration Commission from June 2009 to April 2013 (and concurrently served as the Party Committee secretary of Chongqing Consultation Research Institute (重慶市諮詢研究院) from November 2011 to April 2013), the deputy director and a member of the Party group of Chongqing Economic and Information Technology Commission (重慶市經濟和資訊化委員會) from March 2009 to

June 2009, the deputy director and a member of the Party Group of Chongqing Economic Commission (重慶市經濟委員會) from April 2004 to March 2009 (during which he was delegated by three ministries and commissions including the Organization Department of the CPC Central Committee to take a temporary post as the deputy director of the Marketing Department of China Southern Power Grid from March to October 2006), the secretary of the Disciplinary Inspection Committee of China National Erzhong Group Co. from July 2000 to April 2004 (and concurrently served as the Party Committee secretary of Deyang Heavy Industry Park (德陽重工園區) from November 2000 to April 2004 and took a temporary post as the deputy secretary of Enterprise Work Committee of Chongqing Municipal Party Committee and the deputy secretary of the Communist Party Committee of SASAC of Chongqing City successively), the secretary of the Communist Youth League, vice-section level inspector and section level inspector of the Disciplinary Inspection Committee, Party branch secretary of heavy machinery workshop, office director, deputy plant manager, general Party branch secretary and plant manager of the Heavy Machinery Branch Factory (重機分廠) of China National Erzhong Group Co. from November 1984 to July 2000, and a worker of No. 3 metal workshop and an officer of the Communist Youth League of China National Erzhong Factory (中國第二重型機械廠) from December 1979 to November 1984. Mr. Wang is a senior economist, a senior political scientist, and the Executive Vice President of the Second Council of Chongqing Enterprises Confederation (重慶市企業聯合會), Chongqing Entrepreneurs Association (重慶市企業家協會) and Chongqing Federation of Industrial Economics (重慶市工業經濟聯合會). He is also a member of the Leading Group Office for the Development of Creative Industries in Chongqing (重慶市創意產業發展領導小組辦公室), and a Director of the Fourth Council of China Machinery Industry Federation (中國機械工業聯合會). He graduated from Sichuan Cadre Correspondence School (四川幹部函授學院) with an associate degree in Party policy in September 1988, the correspondence course of economic management of the Party School of Sichuan Provincial Committee in December 1995, the program of Master of Business Administration (MBA) of Chongqing University in December 1999 and the program of EMBA in Xiamen University in December 2011. He graduated from the Class of Chongqing Enterprise Leaders of Tsinghua University (one-year term) in December 2013.

Ms. Chen Ping（陳萍）, aged 55, is the general manager of the Company. Ms. Chen engages in merger and reorganization of enterprises, equity investment, capital operations and other works, gaining extended experience in corporate management. She was elected as a deputy in the 5th Chongqing Municipality People's Congress of the Communist Party of China in May 2017. She also served as a vice chairman and director of Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd from October 2016 up to now. She also served as vice chairman and director of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd from August 2016 up to now. She served as a chairman of Chongqing Cummins Engine Co., Ltd. from June 2016 up to now, the chairman of Chongqing Hi-tech Red Horse Capital Management Limited (重慶高新創投紅馬資本管理有限公司) from May 2015 until now. She was the vice president and a member of the Party Committee of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. from February 2004 to May 2016. She has been the chairman of Chongqing Machinery and Electronic Holding Group Xinbo Investment Management Co., Ltd. (重慶機電控股集團信博投資管理有限公司) from January 2016 to July 2016, the executive director (legal representative) of Chongqing Machinery and Electronic Holding Group Assets Management Co., Ltd. (重慶機電控股集團資產管理有限公司) from July 2009 to October 2014. She served as the assistant to the president of Chongqing Light Textile Holding (Group) Co., Ltd. and the manager of Chongqing Super Excellence Co., Ltd. from December 2002 to February 2004, a manager of assets operation department in Chongqing Light Textile Holding (Group) Co., Ltd. from March 2001 to December 2002, the deputy manager of assets operation department of Chongqing Light Textile Holding (Group) Co., Ltd. and president of Chongqing Longhua Printing Co., Ltd. (重慶龍華印務有限公司) from August 2000 to March 2001, the deputy section officer, section officer and assistant researcher of the enterprise management department of Chongqing Light Industry Bureau from October 1983 to August 2000. Ms. Chen is a senior economist with a Bachelor of Science after graduating with a major in biology from Yuzhou University in August 1983 and obtained a postgraduate degree in business administration from Chongqing Master College of Business Administration (重慶工商管理碩士學院) in July 2001 and a master degree in EMBA (Executive Master of Business Administration) from the school of business and economics of Chongqing University in December 2013.

Mr. Yang Quan（楊泉）, aged 53, the executive Director and vice general manager of the Company, has served as a vice general manager of the Company since May 2012, and an executive director of the Company since December 2012. He has been a director of Chongqing Youyan Smelting New Material Co., Ltd. (重慶有研重冶新材料有限公司) since July 2014. He concurrently serves as a director of Chongqing Hongyan Fangda Automotive Suspension Co., Ltd. (重慶紅巖方大汽車懸架有限公司) from June 2013 up to now and a director of Precision Technology Investment and Development Co., Ltd. (精密技術投資發展有限公司) from April 2012 up to now, a director of Chongqing Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司) from December 2011 up to now, and an executive director and general manager of Chongqing Shengpu Materials Co., Ltd. (重慶盛普物資有限公司) from December 2011 up to now. Mr. Yang has over 20 years of experience in enterprise management, once served as the manager of the business management department and assistant to general manager of the Company from August 2007 to May 2012, the head of the economic operation department and head of the business management department of the securities work steering team of Chongqing Machinery and Electronics Holding (Group) Co., Ltd. (重慶機電控股(集團)公司) from March 2004 to August 2007, the party branch secretary of the foundry workshop, deputy director of the "five-initiative" reform office, secretary and deputy director of the hot plate workshop, chief of the equipment division, managing factory director, and chief economist of Chongqing No. 2 Machine Tools Factory (重慶第二機床廠) from July 1987 to March 2004. Mr. Yang is an engineer, graduated from the College of Mechanical Engineering of Sichuan University with a bachelor's degree in foundry in July 1987, and studied for EMBA in Xiamen University from November 2011 to June 2013.

NON-EXECUTIVE DIRECTORS

Mr. Huang Yong (黃勇), aged 55, joined the Parent Group in July 1984. Since July 2007, he has been a non-executive Director of the Company. Mr. Huang has been a director and the general manager of the Parent Company since 2004 to now. Since January 2011 to now, Mr. Huang has concurrently served as the chairman of Chongqing General Aviation Industry Group Co., Ltd. (重慶通用航空產業集團有限公司). He has also served as a Director of Chongqing Jin Tong Scrap Car Recycling (Group) Co., Ltd. (重慶市金通報廢汽車回收處理(集團)有限公司) since March 2014 to now. Mr. Huang has over 20 years of experience in the automobile industry. Since January 2013 to June 2016, he has concurrently served as the chairman of Enstrom Helicopter Corporation (美國恩斯特龍直升機公司). He was the general manager of Chongqing General Aviation Industry Group Co., Ltd. (重慶通用航空產業集團有限公司) from January 2011 to May 2013 and the vice chairman and general manager of Chongqing Hongyan Motor Co., Ltd from 2003 to 2004. From 2000 to 2004, Mr. Huang was the general manager and thereafter the chairman of Chongqing Heavy Vehicle Group Co., Ltd. From 1984 to 2000, he worked in Sichuan Automobile Manufacturing Plant, and from 1996 to 2000, he served as the deputy plant manager in Sichuan Automobile Manufacturing Plant. Mr. Huang is a senior engineer and a tutor of postgraduate students of Chongqing University of Technology, He graduated from Hunan University with a bachelor's degree in automobile manufacturing in 1984 and obtained his master's degree in engineering from Chongqing University in 2000.

Mr. Deng Yong (鄧勇), aged 58, is the chief financial officer of Chongqing Yufu Assets Management Co., Ltd. He joined the Company with the position of non-executive Director since April 2013. He has served as a non-executive director of Bank of Chongqing Co., Ltd. (stock code:1963.HK) since February 2013, a director of Chongqing Chuanyi Automation Co., Ltd. (stock code: 603100.SH) since April 2013. Mr. Deng Yong has over 20 years of experience in the financial industry. He served as a director of Chongqing Yukang Assets Management and Administration Company since June 2016. He served as a president assistant and the general manager of the planning and financial department of the Southwest Securities Co., Ltd (stock code: 600369.SH) from August 2008 to April 2012, a general manager assistant and the manager of the financial department of Chongqing Yufu Assets Management Co., Ltd. from March 2004 to August 2008, deputy general manager of the Linjiang Road and Jiulongpo Divisions of China Galaxy Securities Co., Ltd. from September 2000 to March 2004, deputy general manager of the Chongqing Securities Division of China Cinda Trust & Investment Company (中國信達信託投資公司重慶證券營業部) from June 1997 to September 2000 (he was seconded to work for the workgroup of red chips of Chongqing Municipal Government (重慶市政府紅籌股工作小組) from September 1997 to June 1998), the manager of the securities investment department of Chongqing Trust & Investment Company (重慶市信託投資公司) from September 1992 to June 1997 and an employee at the Chongqing branch of the China Construction Bank from July 1988 to September 1992. Mr. Deng Yong is an engineer graduated from Chongqing University with a bachelor's degree in Applied Mathematics in July 1982. He studied and obtained a Master of Science degree majoring in econometrics from the Applied Mathematics Faculty of Chongqing University from September 1986 to July 1988.

Mr. Dou Bo (竇波), aged 48, is a senior accountant with more than 20 years of financial management experience. Mr. Dou has served as secretary of the board and securities general manager of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) (stock code: 600939.SH) from July 2016 to now. He has been the securities general manager of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) from February 2011 to July 2017, and has been the general manager of financial assets department of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) from March 2008 to February 2011 during which he received his Master's degree in Business Administration in Chongqing University from March 2005 to December 2009. He was the chief financial officer of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from March 2007 to March 2008, was appointed as the chief accountant of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from March 2003 to

March 2007, was appointed as deputy chief accountant of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from July 2002 to March 2003 and was appointed as deputy director of finance department of Chongqing Second Construction Engineering Company (重慶第二建築工程公司) from July 1996 to July 2002. In April 2000, he was the chief financial officer of Chongqing Tianyou Property Development Co., Ltd. (重慶天友物業發展有限公司) during which he graduated from accounting profession of Chongqing University in December 2001 through self-learning. From October 1988 to July 1996, he was appointed as cashier, accountant and financial officer of finance section in the fourth branch of Chongqing Construction Engineering Company(重慶第二建築工程公司四分公司). He graduated with the major in infrastructure finance in Chongqing Radio and Television University(重慶廣播電視大學) in September 1986 to July 1988.

Ms. He Xiaoyan (何小燕), aged 55, is now the Commissioner of the audit department of Chongqing branch of China Huarong Assets Management Co., Ltd. (中國華融資產管理股份有限公司) (stock code: 02799.HK). Ms. He has extensive experience in the financial industry. From July 2015 to November 2016, she was appointed as the chief risk officer, assistant to general manager, and a member of the Party Committee of Chongqing office of China Huarong Assets Management Co., Ltd.. From January to June 2015, she was the Chairman and party secretary of Chongqing Bishan ICBC Rural Bank Co., Ltd; from August 2007 to January 2015, she was appointed as the deputy general manager of the corporate department, general manager of the investment bank department and general manager of the department of assets and liabilities management in ICBC Chongqing Branch (中國工商銀行重慶市分行); from March 1989 to August 2007, she was the deputy head, head and deputy president in the Branch of ICBC in the south bank district of Chongqing; from August 1980 to March 1989, she worked on statistical analysis and credits in the office of PBC in south bank district of Chongqing. Ms. He is a senior economist. She graduated from Sichuan Bank School (四川銀行學校) in July 1980; graduated from statistics major of the higher education self-learning exam in December 1988 and graduated with a financial major from the Correspondence School of Chongqing Party School(重慶市委黨校函授學院) in December 1998.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Wah Wai (盧華威), aged 54, joined our Company in January 2008 and has been an independent non-executive Director of the Company and the chairman of the Company's Audit and Risk Management Committee since January 2008. He had more than eight years of experience in auditing and business consulting services in an international accounting firm, two years of which were spent in the United States. Mr. Lo was an independent non-executive director of Far East Pharmaceutical Technology Limited (stock code: 399.HK) in September 2004. A petition was filed on 15 September 2004 to wind up Far East Pharmaceutical Technology Limited in respect of the default of a syndicated bank loan and since then, liquidators have been appointed. Mr. Lo was not involved in the arrangement of the syndicated bank loan and his appointment was made after the said default had occurred. Mr. Lo is currently the chairman of the board of directors of BMI group, Mr. Lo is also an independent non-executive director of Tenfu (Cayman) Holdings Company Limited (stock code: 6868.HK). He is a practising member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lo graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration in 1986 and New Jersey Institute of Technology, the U.S., with a master's degree in science in 1992.

Mr. Ren Xiaochang (任曉常), aged 61, joined the Company in July 2007 and has been an independent non-executive Director of the Company and the chairman of our remuneration committee since then. Mr. Ren has over 30 years of experience in the automobile industry. Mr. Ren has been with Chongqing Research Institute of Automobile (renamed as China Automotive Engineering Research Institute Co., Ltd.(stock code: 601965.SH)) since January 1982 to December 2016 and had served as the deputy director of Car Design Department, vice chief, chief, the vice chairman, general manager (superintendent), deputy secretary to the Party Committee of it, chairman and so on in charge of operational management, strategic planning, human resources and assets management, etc. Mr. Ren is also currently an independent director of China Chang'an Automobile Group Co., Ltd. (stock code: 000625.SZ) in charge of matters relating to the board of directors. Mr. Ren graduated from Hunan University with a bachelor's degree in engineering in 1982 and the Management School of Wuhan University of Technology with a master's degree in business administration in 2004. Mr. Ren is a senior engineer of researcher's grade, an expert of Machinery Industrial Scientific Technology Specialist of the PRC and an expert with special allowance from the State Council.

Mr. Jin Jingyu（靳景玉）, aged 52, joined the Company in June 2012 and has served as an independent non-executive Director of the Company since June 2012. He has been serving at Chongqing Technology and Business University as the Chairman of the Academic Council of the School of Finance, and professor of finance and tutor of postgraduate students since March 2009. He has served as an independent non-executive director of Bank of Chongqing Co., Ltd.* (stock code:1963.HK) since March 2014. Mr. Jin joined the Chongqing Technology and Business University (known as Chongqing Business School before 2003) since May 1997 and served as the deputy director of the Finance and Investment Department from March 2000 to March 2001 and an associate professor and professor of finance from November 2000 to November 2005. He studied in the Mathematics Department of Henan University from September 1988 to July 1992 as an undergraduate student; studied in the University of Science and Technology of China majoring in management science from September 1992 to July 1995 and received a master's degree in engineering; studied in the Southwest Jiaotong University majoring in management science and engineering from March 2003 to January 2007 and received a doctorate degree in management. Mr. Jin held several concurrent posts as follows: from September 1997 to September 2002, a business director of the Financing Service Company (融資服務公司) and general manager of the 1st Business Department of Dapeng Securities Company Limited (大鵬證券有限責任公司); from July 2002 to June 2003, a director and secretary to the board of directors of Southwest Synthetic Pharmaceutical Co., Ltd. (西南合成製藥股份公司) (Stock code: 000788.SZ); from January 2006 to March 2010, a director and secretary to the board of directors of Chongqing Wanli New Energy Co., Ltd. (stock code 600847.SH, formerly known as Chongqing Wanli Storage Batteries Co., Ltd. (重慶萬里蓄電池股份有限公司)); from June 2005 to February 2010, the chairman of Chongqing Tiandi Pharmaceutical Co., Ltd. (重慶天地藥業有限公司). Mr. Jin served an independent director of Chongqing Financial Products Exchange Co. Ltd from June 2015 to July 2017. Mr. Jin is now a member of Guiding Committee on Education of Financial Majors in Universities and Colleges of Ministry of Education (教育部高等學校金融學類專業教學指導委員會), a member of the China Investment Professional Construction Committee (中國投資專業建設委員會), a member of the Enterprises Operations Branch of the Operations Research Society of China, adjunct researcher of the Research Center of the Economy of the Upper Reaches of Yangtze River (a major research center of humanities and social science of the Ministry of Education), a member of the Evaluation Committee of Professional Titles, the Teaching Steering Committee and the School of Economics of Chongqing Technology and Business University.

Mr. Liu Wei (劉偉), aged 53, has served as an independent non-executive director of the Company since September 2014. He is currently the head, professor and PhD candidate supervisor of the Business Management Department of the School of Economics and Business Administration of Chongqing University, the vice head of Business Administration and Economics Development Research Centre of Chongqing University. He has concurrently served as an independent director of Chongqing ZhengChuan Medicine Packaging Materials Co., Ltd. (重慶正川醫藥包裝材料股份有限公司 (stock code: 603976.SH), Chongqing Fuling Electric Power Industrial Co., Ltd. (重慶涪陵電力實業股份有限公司) (stock code: 600452.SH), and Chongqing Sanxia Paints Company Limited (重慶三峽油漆股份有限公司) (stock code: 000565.SZ), an external director of Chongqing Iron & Steel (Group) Company Limited and Chongqing Landscaping Construction Investment (Group) Company Limited (重慶園林綠化建設投資(集團)有限公司), and a member of Investment Decision-making Committee of Shanghai Zhongwei Venture Capital Fund (上海中衛創業風險投資基金). Mr. Liu served in Chongqing University since July 1990. He once served as the lecturer, associate professor and assistant to the head of department for Department of Mechanical Engineering, professor of College of Mechanical Engineering, and vice chief of the Industrial Engineering Research Institute. Mr. Liu graduated from Chongqing University with a bachelor's degree in Mining Machinery in July 1984, graduated from Chongqing University with a master's degree in Mechanics in July 1987, and graduated from Chongqing University with a doctorate degree in Mechanical Design and Theory in July 1990. He also conducted post-doctoral research in the University of Manchester Institute of Science and Technology from September 1996 to October 1997. He completed the training for independent directors of listed company by the Securities Association of China in December 2002.

SUPERVISORS

The following table sets out information regarding our Supervisory Committee:

Name	Age	Position
Xiang Hu	53	Chairman of the Supervisory Committee
Wu Yi	44	Independent Supervisor
Huang Hui	47	Independent Supervisor
Zhang Mingzhi	54	Employee Supervisor
Xia Hua	54	Employee Supervisor

Mr. Xiang Hu(向虎), aged 53, the Chairman of the Supervisory Committee of the Company, joined the Company in September 2012, and has served as a Supervisor of Chongqing General Industry (Group) Co., Ltd. since July 2016. Mr. Xiang has over 20 years of experience in government service and news media. From June 2014 to June 2016, he served as an Executive Director of the Company, and also Secretary of the board of the Company since January 2014 to June 2016. From September 2012 to January 2014, he served as a Vice General Manager of the Company. He served as the deputy director of the Chongqing Intellectual Property Rights Bureau from November 2004 to September 2012, the president of the Modern Workers Newspaper (現代工人報報社) (now known as Chongqing Times) from January 2003 to November 2004, the deputy party secretary of Nanchuan, Chongqing from May 1998 to January 2003, the general manager of Chongqing News Development Company (重慶新聞發展公司) under Xinhua News Agency from July 1993 to May 1998, and a journalist of the Sichuan branch office of Xinhua News Agency from July 1986 to July 1993. Mr. Xiang graduated from the Department of Law of Southwest University of Political Science and Law in July 1986, from the Graduate School of Southwest and Law majoring in law of economy in June 1997, and from Nanyang Technological University, Singapore, majoring in managerial economics and acquire a master degree of economics in July 2002.

Ms. Wu Yi(吳怡), aged 44, has been an independent supervisor of the Company since September 2014. She is currently the director of Chongqing Bestone Law Firm (重慶百事得律師事務所), a member of Chongqing Lawyers Association and the Specially-invited Member of the fourth Committee of Chinese People's Political Consultative Conference of Chongqing. Ms. Wu once served as the lawyer of Chongqing Dongfanglianhe Law Firm (重慶東方聯合律師事務所), Chongqing Zhongzhu Law Firm (重慶中柱律師事務所) and Chongqing Branch of Beijing Kaiwen Law Firm (北京凱文律師事務所重慶分所) from August 1997 to April 2008. Ms. Wu studied at the School of Economic Law of Southwest University of Political Science and Law from September 1993 to July 1997 and graduated with a bachelor's degree and at the Graduate School of Southwest University of Political Science and Law from September 2003 to July 2006 and graduated with a master's degree in Laws. She studied at Peking University HSBC School of Business from September 2008 to July 2009 and graduated with a master's degree in Finance.

Mr. Huang Hui (黃輝), aged 47, has been an independent supervisor of the Company since September 2014. He is currently a professor, a tutor of postgraduate students in the School of Accountancy, and a director of the Department of Financial Management of Chongqing Technology and Business University. Mr. Huang was once a teacher in No.2 Senior High School in Xinxian County of Henan Province (河南省新縣第二高級中學) from September 1991 to July 1998. Since July 2002, he worked in School of Accountancy of Chongqing Technology and Business University. Mr. Huang graduated from the Department of Physics of Luoyang Normal College with a junior degree in 1991. He graduated from the Department of Politics and Laws of Henan College of Education (河南教育學院) with a bachelor's degree in 1996. He graduated from School of Economics and Management of Wuhan University of Technology with a master's degree in 2002. He graduated from the Management College of Huazhong University of Science and Technology with a doctorate degree in 2009. He was a visiting scholar in University of Missouri in US from April to May in 2010 and in the School of Economics and Management of Tsinghua University from September 2011 to July 2012. He completed his post-doctoral research in the Research Institute for Fiscal Science of the Ministry of Finance in 2013.

Mr. Zhang Mingzhi (張明智), aged 54, has been an Employee supervisor of the Company since September 2015. He currently serves as the chairman and secretary of the party committee of Chongqing Machine Tools (Group) Co., Ltd. (重慶機床(集團)有限責任公司), a wholly owned subsidiary of the Company. Mr. Zhang is a senior engineer with over 30 years of experience in the machinery manufacturing industry. From August 1983 to December 2005, he successively served positions such as the designer, deputy director of the sales division, marketing assistant to plant manager, director of the marketing division and deputy plant manager of marketing of Chongqing Machine Tools Plant Co., Ltd. (重慶機床廠). He has successively served positions such as the deputy general manager, marketing director, general manager, chairman, secretary of the party committee of Chongqing Machine Tools (Group) Co., Ltd. since December 2005, and also concurrently served positions such as the plant manager, executive director and general manager of Chongqing No.2 Machine Tools Factory (重慶第二機床廠) from August 2006 to February 2010. Mr. Zhang graduated from Chongqing Machinery Manufacturing School (重慶機器製造學校) in July 1983, majoring in machinery manufacturing. He continued his studies in the Correspondence School of the Chongqing Municipal Party School (重慶市委黨校函授學院) from September 1998 to June 2001, majoring in economics and management, and in the Training Class of Enterprise Leaders in Business and Administration of Tsinghua University from September to December 2003. He studied EMBA education at Xiamen University from 2011 to 2013.

Mr. Xia Hua（夏華）, aged 54, has been an employee supervisor of the Company since September 2015. He currently serves as the chairman and party secretary of Chongqing Pigeon Electric Wires & Cables Co., Ltd. (重慶鴿牌電線電纜有限公司), a subsidiary of the Company. Mr. Xia is a senior economist with over 30 years of experience in the power industry. From August 1981 to August 2000, he successively served positions such as the workshop technician, deputy workshop director, deputy head of the branch factory, office director, head of production scheduling division and deputy plant manager of Chongqing Electric Machine Factory (重慶電機廠). From August 2000 to January 2011, he successively served as the office director and department party secretary of Chongqing Machinery and Electronics Holding (Group) Co., Ltd. (重慶機電控股(集團)公司). He has been serving as the chairman and party secretary of Chongqing Pigeon Electric Wires & Cables Co., Ltd. since January 2011. Mr. Xia graduated from Chongqing Second Machinery Manufacturing School (重慶第二機械製造學校) in August 1981, majoring in machine manufacturing. In September 2006, he graduated from the MBA Institute of Chongqing University (重慶工商管理碩士學院) with an MBA degree.

SENIOR MANAGEMENT

The following table sets out information regarding our Senior Management officers:

Name	Age	Position
Chen Ping	55	General Manager
Yang Quan	53	Vice General Manager
Sun Wenguang	51	Vice General Manager
Zhang Shu	49	Vice General Manager
Deng Rui	43	Secretary to the Board
Kam ChunYing, Francis	51	Qualified Accountant

Ms. Chen Ping（陳萍）, aged 55, is an executive Director and General Manager of the Company. For details regarding Ms. Chen's experience, please refer to "Executive Directors" set out above.

Mr. Yang Quan（楊泉）, aged 53, is an executive Director and Vice General Manager of the Company. For details regarding Mr. Yang's experience, please refer to "Executive Directors" set out above.

Mr. Sun Wenguang（孫文廣）, aged 51, is a Vice General Manager of the Company. Mr. Sun has concurrently served as a director of Chongqing Machine Tool (Group) Co., Ltd. (重慶機床(集團)有限責任公司) since July 2016, the financial controller of Chongqing Power Transformer Co., Ltd. (重慶變壓器有限責任公司) since July 2016, and a director of Precision Technologies Group (PTG) Limited, Chongqing ABB Power Transformer Co., Ltd. since February 2017. He served as the chief of the Reform and Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (Chongqing Enterprise Merge and Bankruptcy Office (重慶市企業兼併破產工作辦公室)) from July 2010 to June 2016. He served as the deputy chief of the Reform and Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (No. 2 corporate supervision department (企業監管二處)) from August 2005 to July 2010, and worked as chairman and director of Chongqing Luzuofu Equity Fund Management Co., Ltd. (重慶盧作孚股權基金管理有限公司) from March 2010 to June 2016. He served as an assistant researcher of the Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (No. 2 corporate supervision department) from March 2004 to August 2005 and as a senior staff member of the Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (No. 2 corporate supervision department) from November 2003 to March 2004. He served as a senior staff member of the No. 2 corporate department of Chongqing Municipal Finance Bureau from January 1998 to March 2003. He worked as a office clerk, clerk and senior staff member of the No. 1 corporate department of Chongqing Municipal Finance Bureau from August 1987 to January 1998. Mr. Sun is an assistant accountant. He graduated from Sichuan Provincial Fiscal School majoring in Corporate and Finance in July 1987 with a technical secondary school education degree and graduated with a bachelor's degree in economic management from the Correspondence School of Party School of the CPC Central Committee in December 1999, and from the MBA Institute of Chongqing University (重慶工商管理碩士學院) with a master's degree in 2009.

Mr. Zhang Shu（張舒）, aged 49, is a Vice General Manager of the Company. Mr Zhang is a senior engineer, has served as directors of many companies including Chongqing Water Turbine Works Co., Ltd., Chongqing General Industrial (Group) Co., Ltd., Chongqing Cummins Engine Co., Ltd., Chongqing Jiangbei Machinery Co., Ltd. and Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd. since July 2016; Mr. Zhang had held various positions including the manager of the planning and development department of Chongqing Machinery & Electronic Holding (Group) Co., Ltd., the manager of the foreign business department and the manager of the planning and development department of the Company from March 2014 to June 2016; he served as the deputy chief of the Department of Foreign Economic and Business, the deputy chief of Planning and Investment Department and the deputy chief (in charge) of the Industrial Department of Chemical Medicine (化工醫藥工業處) in Chongqing Economic and Information Technology Commission from May 2006 to March 2014, and worked as the head of the Coordination Department of Chongqing MDI Headquarters Office (重慶市MDI指揮部辦公室綜合協調部) in charge of daily work of the MDI Office from April 2012 to March 2014; he served as a senior staff member of the food industry department (the food industry office of the municipal government (市政府食品工業辦公室), a senior staff member of the foreign business department, an assistant researcher of the foreign business department and the deputy chief of the foreign business department in Chongqing Economic and Information Commission from July 1999 to April 2006. He worked in Chongqing Liling Food Factory (重慶立林食品廠) from December 1992 to September 1996, and worked as a technical staff in the drink and food factory and head of Bailibao workshop of Chongqing Jinyunshan Garden Spot (重慶縉雲山園藝場) from July 1988 to December 1992. Mr. Zhang graduated from the Southwest Agricultural University with a diploma in Food Analysis and Inspection in July 1988, and from College of Economics and Trade of Southwest Agricultural University with a master's degree of management majoring in agricultural economics management in July 1999.

Mr. Deng Rui (鄧瑞), aged 43, is the secretary to the Board. Mr. Deng has served as a director of Chongqing Pigeon Electric Wires & Cables Co. Ltd., a director of Exedy Chongqing Driving System Co., Ltd. and a director of Chongqing Pump Industry Co., Ltd.. since July 2016. Mr. Deng has been working in corporate leaders and office management for a long career with extensive experience in corporate management. He served as vice minister and minister of the Organization Department of the Party Committee (the Leader Management Department) of Chongqing Machinery and Electric Holding (Group) Co., Ltd. from June 2012 to June 2016, the secretary and vice director of Chongqing Machinery and Electric Holding (Group) Co., Ltd. from June 2009 to May 2012. He served as the secretary and head of office of the Company from July 2007 to August 2009, and worked as the secretary and head of the comprehensive management department of securities leading group (證券領導小組綜合管理部) of Chongqing Machinery & Electronic Holding (Group) Co., Ltd. from February 2006 to July 2007, and secretary of the Communist Youth League, the director of promotion division, and workshop supervisor of Chongqing Bearing Industrial Co., Ltd. (重慶軸承工業公司) from May 1998 to February 2006. Mr. Deng is a senior political scientist and graduated from Chongqing Machinery & Electric College (重慶機電工程技術學校) in bearing processing with a technical secondary school education degree in May 1998, and graduated from the Correspondence School of the Chongqing Municipal Party School (重慶市委黨校函授學院) in December 2008, majoring in economics and management with a bachelor's degree, and graduated from Xiamen University, majoring in international economy and trade with a bachelor's degree in January 2013. He graduated from the EMBA Professional Graduate Program in the School of Management of Xiamen University in December 2014.

Mr. Kam Chun Ying, Francis (甘俊英), aged 51, has been appointed as the qualified accountant of our Company since February 2008. He has served as the chief risk officer of Precision Technologies Group (PTG) Limited of UK since July 2013. Mr. Kam was the secretary of Xinming China Holdings Limited (a company listed on the Main Board of the Stock Exchange, Stock Code: 02699.HK) in July 2016 and served as the chief investment officer in January 2017. Prior to joining the Company, Mr. Kam was the financial controller of TFH Management Limited, and was responsible for finance operations and corporate compliance in both the private and listed companies within that group. Between August 1986 and April 1989, Mr. Kam worked for Deloitte Touche Tohmatsu, previously known as Deloitte Haskins Sells, as a senior account assistant. He has over 20 years of experience in corporate and finance management. He has been a member of the Hong Kong Institute of Certified Public Accountants since June 1996 and a fellow of the Chartered Association of Certified Accountants since June 2001. Mr. Kam graduated from Heriot-Watt University in the United Kingdom in November 2004 with a master's degree in business administration.

Report of the Board of Directors

The Board is pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL BUSINESSES

The Group is principally engaged in designing, manufacturing and sales of automobile parts and components, power equipment, general machinery, CNC machine tools, intelligent manufacturing, trade and finance business. The principal businesses of its major subsidiaries are set out in Note 5 to the consolidated financial statements.

RESULTS REVIEW

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of comprehensive income in this annual report on pages 145 to 147. The business performance regarding the Group required by Schedule 5 to the Hong Kong Companies Ordinance, can be found in the "Chairman's Statement" set out on pages 7 to 20 and "Management Discussion and Analysis" set out on pages 21 to 45. An indication of likely future developments in the Group's business is set out on pages 14 to 17. The part of contents on "Chairman's Statement" and "Management Discussion and Analysis" forms part of this "Report of the Directors".

COMPLIANCE WITH LAWS AND REGULATIONS

Due to the nature of the business of the Group, the Directors are of the opinion that no specific laws and regulations related to environmental protection has significant impact on the operations of the Group. Environmental policies and performance of the Group are set out in "Environmental, Social and Governance Report" on pages 113 to 135.

RELATION WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

Remuneration packages are generally structured with reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Apart from salary payments, there are other staff benefits including pension, social insurance and performance related bonus. The Group strived to maintain fair and co-operating relationship with the suppliers, and did not have any major supplier that has significant influence on the operations. Details of the above are set out in "Environmental, Social and Governance Report".

Relationship with customers is the foundation of business. The Group fully understands this principle and thus maintains close relationship with customers to fulfil their immediate and long-term needs.

PRINCIPAL RISKS AND UNCERTAINTIES

(1) The Group faces significant competition and recession in each of the markets in which it operates, which could adversely affect its businesses

The Group faces significant competition with homogeneous products from both state-owned enterprises and privately-owned players in each of the markets in which it operates. Due to intensified competition and that the research and development of related products of new energy automobile lagged behind, the Group's transmission systems business did not experience simultaneous growth. As the number of competitors in each of the main markets in which the Group operates is large, the Group faces intense competition as a result. In some cases, such fierce competition has already caused downward pricing pressure on certain products in the Group's portfolio. The Group's market position depends on its ability to anticipate and respond to various competitive factors, including its competitors' introduction of new or improved products and services, pricing strategies adopted by competitors and changes in customers' preferences. The Group cannot assure that its current or potential competitors will not offer products comparable or superior to those it offers, at the same or lower prices, or adapt more quickly than it does to evolving industry trends or changing market requirements. Increased competition may result in price reductions, decreased gross profit margins and decrease in the Group's market share.

(2) Risk of Foreign Exchange

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars and GBP. Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's functional currency. Management has set up a management system of foreign exchange hedges, requiring all subsidiaries of the Group to manage the relevant foreign exchange risk of their functional currency and adopt foreign exchange tools recognised by the Group.

(3) Risk of Interest Rate

The loans of the Group mainly derive from bank loans and corporate bonds. Therefore the benchmark interest rate for loans as announced by the People's Bank of China, the London Interbank Offered Rate and the Singapore Interbank Offered Rate will directly affect the cost of debts of the Group, and the change in interest rate in the future will have impact on the cost of debts to a certain extent. The management will actively monitor the change of credit policies, to give early response to the risk, strengthen the capital management, enrich the financing channels, so as to minimize the financial costs.

(4) Uncertainties in Financial Market

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Details are set out in Note 3 to the consolidated financial statements.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.030 per share (tax inclusive) for the year ended 31 December 2017 (for the year ended 31 December 2016: RMB0.035 per share), which is calculated based on the total share capital of 3,684,640,154 shares for the year ended 31 December 2017, totaling RMB110,539,204.62 (totaling RMB128,962,405.39 for the year ended 31 December 2016). Subject to approval by shareholders at the forthcoming Annual General Meeting to be convened on 28 June 2018, the proposed final dividend will be paid on 31 July 2018 to shareholders whose names appear on the Register of Members of the Company on 10 July 2018 ("Record Date").

In order to ascertain the entitlements of the shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Thursday, 5 July 2018 to Tuesday, 10 July 2018 (both days inclusive), during which no transfer of shares will be registered. All transfer documents accompanied by share certificates of the shareholders of the Company must be lodged with our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 4 July 2018.

WITHHOLDING OF ENTERPRISE INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS

Pursuant to the Enterprise Income Tax Law of the People's Republic of China ("EIT Law") and the implementation rules thereof and the Circular on Issues Concerning the Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Payable to H Share Non-resident Corporate Shareholders (Guo Shui Han [2008] No.897), the Company is liable to withhold and pay the enterprise income tax on dividends payable to non-resident corporate holders of H shares whose names appear on the register of holders of H shares of the Company ("H Share Register of Members") on the Record Date at a rate of 10% prior to the payment of such final dividends.

Any H shares registered in the name of non-individual shareholders will be treated as being held by non-resident corporate shareholders and hence the dividends payable to them will be subject to the withholding of enterprise income tax. Non-resident corporate shareholders may apply to the relevant taxation authorities for tax refunds in accordance with the applicable tax treaty (if any). The final dividends payable to natural person shareholders whose names appear on H Share Register of Members on the Record Date is not subject to the withholding of income tax by the Company. For final dividends payable to resident corporate shareholders of H shares whose names appear on H Share Register of Members on the Record Date, the Company will not withhold enterprise income tax on such dividends, provided that a legal opinion is provided by a resident corporate shareholder within the prescribed period and confirmed by the Company.

If any resident enterprise (as defined in the EIT Law) whose name appears on the H Share Register of Members which is duly incorporated in the PRC or under the laws of a foreign country (or a territory) but with a PRC-based de facto management body does not wish to have the 10% enterprise income tax to be withheld by the Company, it should lodge all transfers with and submit a legal opinion issued by a PRC certified lawyer (with affixation of common seal of the law firm thereto) that establishes its resident enterprise status to the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 4 July 2018. Any natural person investor whose H shares are registered in the name of any such non-individual shareholders and who does not wish to have any enterprise income tax to be withheld by the Company may consider transferring the legal title of the relevant H shares into his or her own name and lodging all relevant transfer instruments accompanied by the H share certificates with the Company's H Share Registrars for registration no later than 4:30 p.m. on 4 July 2018. Shareholders are recommended to consult their tax advisors regarding tax issues in respect of the ownership and disposal of H shares in the PRC and Hong Kong and other tax effects.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements of the shareholders to attend and vote in the Annual General Meeting, the register of members of the Company will be closed from Tuesday, 29 May 2018 to Thursday, 28 June 2018 (both days inclusive), during which no transfer of shares will be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 28 May 2018.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2017, equity attributable to the shareholders of the Company amounted to approximately RMB6,625.3 million (31 December 2016: approximately RMB6,577.6 million), representing an increase of approximately RMB47.7 million or approximately 0.7%. During this Period, the Group's working capital was mainly internal working capital flow. As at 31 December 2017, the Group's gearing ratio (calculated as borrowings divided by total capital, total capital comprises equity and borrowings as shown in the consolidated balance sheets) was approximately 32.9% (31 December 2016: approximately 28.6%). The Group's current ratio (being the current assets as a percentage of current liabilities) was approximately 1.49:1 (31 December 2016: approximately 1.54:1).

As at 31 December 2017, cash, bank balances and time deposits (including restricted cash) were approximately RMB1,658.7 million, indicating a stable financial position (31 December 2016: approximately RMB1,800.6 million).

FINANCIAL HIGHLIGHTS

Summary of the Group's results, assets, liabilities and minority interests for the latest five financial years is set out on page 4 in this annual report, which is not included in the audited financial statements.

INVESTMENT PROPERTIES, REAL PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group invested approximately RMB655.1 million in acquisition of non-current assets, such as real property, plant and equipment, etc. for business expansion (for the year ended 31 December 2016: approximately RMB638.3 million). Details of the changes in investment properties, property, plant and equipment of the Group during this year are set out in Note 16 and Note 17 to the consolidated financial statements respectively.

SHARE CAPITAL

Share capital structure	Number of Share	Approximate percentage in total issued shares *(%)*
Domestic shares	2,584,452,684	70.14
H shares	1,100,187,470	29.86
Total	3,684,640,154	100

There was no change in the share capital of the Company as at 31 December 2017, details of which are set out in Note 25 to the consolidated financial statements.

BONDS

Details of the changes in bonds of the Group during the year under review are set out in Note 29 to the consolidated financial statements.

RESERVES

Details of changes in reserves of the Group during the year under review are set out in Note 26 to the consolidated financial statements.

CHARITY DONATIONS

During the Period, the Group's charity donation amounted to approximately RMB nil (for the year ended 31 December 2016: approximately RMB0.01 million).

MAJOR CUSTOMERS AND SUPPLIERS

Set out below are revenues derived from product sales and service provision to major customers as a percentage of the Group's revenue during the reporting period:

Shanghai Zangxiang Trade Co., Ltd. (上海藏祥貿易有限公司)	5.4%
Shanghai Zhongshan Lida Industrial Co., Ltd. (上海中山立大實業有限公司)	5.1%
Sichuan Shangtou Tiancheng Industrial Co., Ltd.(四川商投天成實業有限公司)	3.2%
Jiangyin Yuanjing Investment Co., Ltd.(江陰遠景投資有限公司)	2.7%
Chongqing Xinnanjie Aluminum Co., Ltd. (重慶新南傑鋁業有限公司)	2.5%
Total amount of the top five customers	18.9%

None of the top five customers is a connected person of the Group.

Set out below are expenses derived from procured products and services from major suppliers as a percentage of the Group's sale cost during the reporting period:

Chongqing Xinnanjie Aluminum Co., Ltd. (重慶新南傑鋁業有限公司)	8.8%
Shanghai Zangxiang Trade Co., Ltd. (上海藏祥貿易有限公司)	6.2%
Shanghai Zhongshan Lida Industrial Co., Ltd. (上海中山立大實業有限公司)	5.8%
Sichuan Shangtou Tiancheng Industrial Co., Ltd. (四川商投天成實業有限公司)	3.6%
Jinchuan Group Wire and Cable Co., Ltd. (金川集團電線電纜有限公司)	1.8%
Total amount of the top five suppliers	26.2%

None of the top five suppliers are connected persons of the Group.

None of our Directors or their respective associates, or our substantial shareholders who, to the knowledge of the Board, own 5% or more of our share capital, has any beneficial interest in any of our top five customers and suppliers.

COMPETITION AND CONFLICTS OF INTEREST

For the year ended 31 December 2017, the non-competition agreement entered into between Chongqing Machinery and Electronics Holding (Group) Co., Ltd., the Parent Company, and the Company remained effective. Please refer to the Prospectus for details of such undertakings.

DIRECTORS AND SUPERVISORS

During the year and as at the date hereof, the Directors and Supervisors are as follows:

Executive Directors	**Date of appointment**
Wang Yuxiang	On 18 June 2013
Chen Ping	On 28 June 2016
Yang Quan	On 8 December 2015
Non-executive Directors	
Huang Yong	On 27 July 2007
Deng Yong	On 10 April 2013
Dou Bo	On 27 November 2017
He Xiaoyan	On 28 June 2016
Independent Non-executive Directors	
Lo Wah Wai	On 10 January 2008
Ren Changxiao	On 27 July 2007
Jin Jingyu	On 18 June 2012
Liu Wei	On 29 September 2014
Supervisors	
Xiang Hu	On 28 June 2016
Wu Yi	On 29 September 2014
Huang Hui	On 29 September 2014
Zhang Mingzhi	On 18 September 2015
Xia Hua	On 18 September 2015

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent non-executive Directors have submitted to the Company the annual written confirmation of their own independence as required by Rule 3.13 of the Listing Rules. The Company is of the opinion that all four independent non-executive Directors are independent.

DIRECTOR'S SERVICE CONTRACTS

Pursuant to such service contracts and the Articles of Association, the Chairman of the Board and other executive Directors of the Company will hold office for a term of three years starting from their respective appointment date. Upon expiry, such contracts can be renewed under the relevant provisions of the Articles of Association and the Listing Rules, and Directors may offer themselves for re-election at Annual General Meetings. The contracts may be terminated by giving not less than three months' notice in writing by either party on the other, or according to terms thereof.

Save as mentioned above, none of the Directors has entered into a service contract with the Company which could not be terminated without compensation (other than statutory compensation) within one year.

OFFICE TERM OF NON-EXECUTIVE DIRECTORS AND INDEPENDENT NON-EXECUTIVE DIRECTORS

The office term of Non-executive Directors and Independent Non-executive Directors of the Company is three years. Upon expiry of the office term, each Director (including Directors appointed with specific terms) may offer himself for re-election at Annual General Meetings.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of Directors, Supervisors and senior management of the Company are set out on pages 46 to 60 of this annual report.

DIRECTOR'S REMUNERATION

The remuneration of the Directors of the Company are proposed by the Remuneration Committee, considered by the Board and approved by the Annual General Meeting. Other remunerations are determined by the Remuneration Committee based on the position and responsibilities of each Director and the operating results of the Group. Please refer to note 45 to the Consolidated Financial Statements set out on pages 332 to 336 of this annual report.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, none of Directors or Supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the year ended 31 December 2017, none of the Group and its subsidiaries purchased, sold or redeemed any listed securities of the Company.

INTERESTS OF THE DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES AND UNDERLYING SHARES

As of 31 December 2017, none of the Directors, chief executive or Supervisors of the Company had any interests or short positions in the shares, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or chief executive are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND BONDS

During the Year, none of Directors of the Company or their spouse or juvenile children was granted the right to make profit by acquiring the shares or bonds of the Group; none of the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party to any arrangement which enables the Directors to acquire such rights in any other corporations.

SIGNIFICANT LITIGATION

During the Year, the Group was not involved in material litigation and arbitration.

SIGNIFICANT EVENTS

Please refer to pages 41 to 42 of this annual report.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PARTIES IN SHARES AND UNDERLYING SHARES

For the year ended 31 December 2017, so far as the Directors of the Company are aware, the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Long position in domestic shares and H shares of RMB1.00 each of the Company

Name of shareholders	Number of shares	Stock category	Status	*Note*	Percentage of total issued domestic shares *(%)*	Percentage of total issued H shares *(%)*	Percentage of total Issued shares *(%)*
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	1,924,225,189	Domestic shares	Beneficial owner	(1)	74.46 *(L)*	–	52.22
	11,652,000	H shares	Beneficial owner	(1)	–	1.06 *(L)*	0.32
Chongqing Yufu Assets Management (Group) Co., Ltd	232,132,514	Domestic shares	Beneficial owner	(1)	8.98 *(L)*	–	6.30
Chongqing Construction Engineering Group Co., Ltd.	232,132,514	Domestic shares	Beneficial owner	(2)	8.98 *(L)*	–	6.30
China Huarong Asset Management Co., Ltd.	195,962,467	Domestic shares	Beneficial owner	(3)	7.58 *(L)*	–	5.32
Chongqing State-owned Assets Supervision and Administration Commission	2,388,490,217	Domestic shares	Controlled corporation interest	(1)	92.42 *(L)*	–	64.82
	11,652,000	H shares	Beneficial owner	(1)	–	1.06 *(L)*	0.32
Ministry of Finance of the PRC	195,962,467	Domestic shares	Controlled corporation interest	(3)	7.58 *(L)*	–	5.32

(L) means long position

H shares of RMB1.00 each of the Company

Names of shareholders	Number of shares	Status	Note	Percentage of total issued H shares (%)	Percentage of total issued shares (%)
JPMorgan Chase & Co.	109,831,600 *(L)*	Investment manager		9.98 *(L)*	2.98 *(L)*
	882,000 *(S)*			0.08 *(S)*	0.00 *(S)*
	108,949,600 *(P)*			9.90 *(P)*	2.96 *(P)*
Templeton Asset Management Ltd.	109,659,300 *(L)*	Investment manager		9.97 *(L)*	2.98 *(L)*
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000 *(L)*	Storekeeper		7.93 *(L)*	2.37 *(L)*
	0 *(P)*			0 *(P)*	0 *(P)*
The Bank of New York Mellon Corporation	87,276,000 *(L)*	Corporate interest under the control of major shareholders	(4)	7.93 *(L)*	2.37 *(L)*
	87,276,000 *(P)*			7.93 *(P)*	2.37 *(P)*
GE Asset Management Incorporated	75,973,334 *(L)*	Investment manager		6.91 *(L)*	2.06 *(L)*

(L) *means long position*
(S) *means short position*
(P) *means lending pool*

Notes:

(1) As Chongqing Machinery and Electronics Holding (Group) Co., Ltd. and Chongqing Yufu Assets Management (Group) Co., Ltd. were wholly owned by Chongqing State-Owned Assets Supervision and Administration Commission (重慶市國有資產監督管理委員會), Chongqing State-Owned Assets Supervision and Administration Commission is deemed to be interested in 1,924,225,189 domestic shares and 11,652,000 H shares and 232,132,514 domestic shares of the Company held by the two companies.

(2) Chongqing Construction Engineering Group Co., Ltd. is held as to 76.53% by Chongqing State-Owned Assets Supervision and Administration Commission (重慶市國有資產監督管理委員會) through its wholly owned Chongqing Construction Engineering Group Co., Ltd. (重慶建工投資控股有限責任公司). Therefore, Chongqing State-Owned Assets Supervision and Administration Commission is deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Engineering Group Co., Ltd.

(3) China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司) is held as to 63.36% directly by the Ministry of Finance of the PRC and as to 4.22% indirectly by the Ministry of Finance of the PRC through China Life Insurance (Group) Company, a wholly-owned subsidiary of it. Therefore, the Ministry of Finance of the PRC is deemed to be interested in 195,962,467 domestic shares of the Company held by China Huarong Asset Management Co., Ltd.

(4) The Bank Of New York Mellon Corporation holds 100% interests in The Bank Of New York Mellon (formerly known as "The Bank of New York"), which holds 87,276,000 of H shares of the Company. The interest in 87,276,000 H shares relates to the same block of shares in the Company and includes a lending pool of 87,276,000 of H shares of the Company.

Save as disclosed above, the Directors of the Company are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2017.

CONNECTED TRANSACTIONS

During the Period and thereafter, the Board of the Company has decided to approve the following connected transactions:

1. On 27 April 2017, the Company entered into the Equity Transfer Agreement with Industrial Trust, pursuant to which, Industrial Trust agreed to transfer 19% equity interest in Finance Company held by it to the Company at the consideration of RMB142,067,000. Upon completion of the Equity Transfer, the Company will hold 70% equity interest in Finance Company and Industrial Trust shall no longer hold any equity interest in Finance Company. For details, please refer to the announcement of the Board of the Company dated 27 April 2017 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

2. Equity Transfer Agreement entered into between the Company and the Parent Company:

    1) The Company transferred the entire 100% equity interest in Qijiang Gear to the Parent Company with a consideration of approximately RMB255,465,400;

2) A total of 35% equity interests in Microcredit Company held by the Company and its subsidiary Qijiang Gear were transferred to the Parent Company with a consideration of approximately RMB61,015,700;

3) The Parent Company transferred 100% equity interest held by it in CMEIM to the Company with a consideration of approximately RMB132,719,700;

4) The Parent Company transferred 100% equity interest held by it in CMETRC to the Company with a consideration of approximately RMB14,388,800.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2017, the summary of the connected party transactions is set out in notes to the consolidated financial statements, where a majority of the transactions constituted continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules.

Pursuant to the disclosure requirements of Chapter 14A of the Hong Kong Listing Rules, the following transactions between certain connected persons (as defined in the Listing Rules) and the Company have been entered into/or carried out on an ongoing basis, for which the Company has made the relevant disclosure as below in accordance with the Listing Rules:

Master Sales Agreement

On 7 April 2016, a master sales agreement (the "Master Sales Agreement") was renewed by and between the Company and Chongqing Machinery and Electronics Holding (Group) Co., Ltd. (hereinafter refer to as the "Parent Company"). Pursuant to the Master Sales Agreement, the Company has agreed to sell certain products such as control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables (the "Products") to the Parent Company and its associates.

Additionally, in case where there are material fluctuations in the prices of any or all of the products, the parties shall re-negotiate the terms of the Master Sales Agreement in good faith by way of entering into a supplemental agreement or a new master sales agreement. The Master Sales Agreement is valid for a period of three years from the date of the agreement and can be renewed by the Company for successive term of three years by giving notice at least three months prior to the expiry of the initial term. The approved annual caps of sales for each of the years ended 31 December 2017, 2018 and 2019 (the annual general meeting was held on 28 June 2016) were set at RMB180 million, RMB180 million and RMB190 million respectively.

The Master Sales Agreement was entered into in the ordinary course of business of the Group on normal commercial terms. The basis of pricing is as follows:

(i) The quoted prices in the market through the industry website or enquiry (including the website of Alibaba (www.1688.com)) with at least two independent third parties in the market (i.e. supplier (except the Company and its subsidiaries) in the same or similar products in the same area in daily operations on normal commercial terms to the independent third party for the price);

(ii) If there is no market price determined by an independent third party, the transaction price between the Group with the independent third party.

(iii) If the aforesaid prices are not applicable, according to the cost plus method to determine price (tax price), i.e.: the tax price = cost * (1+ cost profit rate), which the cost profit rate is not lower than 10%, while the cost profit rate of 10% is determined based on the average gross margin per cent of the group of similar products in the past three years. Except that the cost profit rate of the raw materials procured by Shengpu Company and resold to the Parent Group was 1%, as the Company's handling fees.

For the year ended 31 December 2017, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB117.9 million (for the year ended 31 December 2016: approximately RMB68.6 million).

Master Supplies Agreement

On 7 April 2016, a master supplies agreement (the "Master Supplies Agreement") was renewed by and between the Company and the Parent Company. Pursuant to the Master Supplies Agreement, the Parent Company and its associates have agreed to supply the Company with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper (the "Supplies").

Additionally, in case where there are material fluctuations in the prices of any or all of the products, the parties shall re-negotiate the terms of the Master Supplies Agreement in good faith by way of entering into a supplemental agreement or a new master supplies agreement. The Master Supplies Agreement is valid for a period of three years from the date of the agreement and can be renewed by the Company for a successive term of three years by giving notice at least three months prior to the expiry of the initial term. The approved annual caps of supplies for each of the years ended 31 December 2017, 2018 and 2019 (the Directors' Meeting was held on 29 March 2016) were set at RMB80 million, respectively.

The Master Supplies Agreement was entered into in the ordinary course of business of the Group on normal commercial terms. The basis of pricing is as follows:

(i) The quoted prices through the industry website or enquiry with at least two independent third party market (i.e. the supplier (except the Parent Company and its contacts) in the price of the same or similar products in the same area in daily operations on normal commercial terms to provide to the independent third party);

(ii) If there is no market price determined by an independent third party, the transaction price between the Company and its subsidiaries with the independent third party;

(iii) If the above price is not applicable, according to the cost plus method to determine the price (tax price), namely: the tax price = cost * (1+ profit), which cost profit rate is less than 10%.

For the year ended 31 December 2017, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB40.3 million (for the year ended 31 December 2016: approximately RMB53.7 million).

Master Leasing Agreement

On 7 April 2016, a master leasing agreement (the "Master Leasing Agreement") was entered into between the Company and the Parent Company for the lease of land and buildings by the Parent Company and its associates to the Company for use as offices, production facilities, workshops and staff quarters.

The Parent Group leases land and buildings to the Group as the Group's offices, production facilities, workshops and staff quarters. Accordingly, for the years ended 31 December 2017, 2018 and 2019 (the Directors' Meeting on 29 March 2016), it was approved that the annual cap of the lease for three years was set to be RMB45 million, respectively.

For the year ended 31 December 2017, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB24.4 million (for the year ended 31 December 2016: approximately RMB30.8 million).

FINANCIAL SERVICES FRAMEWORK AGREEMENT

(I) Parent Group Financial Services Framework Agreement

The Company's subsidiary Chongqing Electrical Holdings Group Finance Company Limited (the "Finance Company") and the Parent Company entered into the Framework of Financial Service Framework Agreement on 7 April 2016 (the "Parent Group Financial Services Framework Agreement"), under which, (i) as approved at the Annual General Meeting held on 28 June 2016, the approved proposed annual cap for loan services for the years ended 31 December 2017, 2018 and 2019 were RMB2,500 million, RMB2,800 million and RMB3,000 million respectively; (ii) as approved at the Directors' Meeting held on 29 March 2016, the approved proposed annual caps for guarantee services for each of the years ended 31 December 2017, 2018 and 2019 were RMB100 million (including corresponding handling fees); (iii) as approved at the Directors' Meeting held on 29 March 2016, the approved proposed annual caps for financial services for the years ended 31 December 2017, 2018 and 2019 were RMB27.5 million, RMB33 million and RMB38.5 million respectively.

The Parent Group Financial Services Framework Agreement was entered into in the ordinary course of business of the Finance Company on normal commercial terms. Basis of pricing is as follows:

Loan services

The interest rates for loans to the Parent Group from the Finance Company will be not lower than the interest rates for loans to those of the same type and under similar terms to the Parent Group from other independent commercial banks in the PRC.

The Company will choose at least two banks from the national commercial banks in the PRC and the local commercial banks in Chongqing that have business relations with the Company and make inquiries as to the loan services of the same type and under similar terms to the Parent Group (the companies under the Parent Group carry the same credit ratings assessed by the banks as a result of the implementation of a unified credit policy throughout the Parent Group), and submit the results to the Finance Company. The Finance Company will then make the final assessments and determine the final interest rates for the services to the Parent Group by reference to the Parent Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indictors and others factors, so as to ensure that the interests for loans provided by the Finance Company to the Parent Group are in line with the above pricing standards for loan services.

Guarantee services

Pursuant to the regulations in "the Interim Measures for the Assessment of Risk Supervision Indicators of Finance Company of Enterprise Group" set by CBRC, the ratio of guarantee risk exposure to total capital in the Finance Company cannot exceed 100%. The registered capital of the Finance Company is RMB600,000,000. Thus the maximum limit amount in respect of annual caps of the guarantee services of the Finance Company is RMB600,000,000.

Other financial services (including bill discounting services, consultancy services, agency services and underwriting services, etc.)

The fees charged by the Finance Company on the Parent Group for the provision of other financial services will be not higher than the fees charged by any independent third party on the Parent Group for the same types of services.

For the year ended 31 December 2017, pursuant to the Parent Group Financial Services Framework Agreement, the daily maximum limit amount in respect of the loan services provided by the Finance Company to the Parent Group was approximately RMB1,351.9 million, the transaction amount in respect of guarantee services was approximately RMB0 million and the transaction amount of other financial services was approximately RMB1.5 million (for the year ended 31 December 2016: the daily maximum limit amount in respect of loan services was approximately RMB1,502.8 million, the transaction amount in respect of guarantee services was approximately RMB0 million and the transaction amount of other financial services was approximately RMB2.2 million).

(II) Group Financial Services Framework Agreement

The Finance Company entered into a financial services framework agreement (the "Group Financial Services Framework Agreement") with the Company on 7 April 2016, under which, (i) as approved at the Annual General Meeting held on 28 June 2016, the approved proposed annual caps for the transactions in respect of the deposit services for each of the years ended 31 December 2017, 2018 and 2019 were RMB2,600 million, RMB3,000 million and RMB3,500 million respectively; (ii) as approved at the Directors' Meeting held on 29 March 2016, the approved proposed annual caps for the transactions in respect of other financial services for each of the years ended 31 December 2017, 2018 and 2019 were RMB29 million, RMB34 million and RMB39 million respectively.

The Group's Financial Services Framework Agreement was entered into in the ordinary course of business of the Finance Company on normal commercial terms. The basis of pricing is as follows:

Deposit services

The interest rates for deposits offered by the Finance Company to the Group will be not lower than interest rates for deposits of the same type and under similar terms offered to the Group by other independent commercial banks in the PRC.

The Company will choose at least two banks from the national commercial banks in the PRC as well as the local commercial banks in Chongqing that have business relations with the Company and obtain the interest rates for deposits of the same type and under similar terms, and compare those with the interest rates offered by the Finance Company to the Group for deposits of the same type and under similar terms, so as to ensure that the interests received by the Group for its deposits are in line with the above pricing standards for deposit services.

Other financial services (including bill discounting services, consultancy services, agency services and underwriting services, etc.)

The fees charged by the Finance Company on the Group for the provision of other financial services will be not higher than the fees charged by any independent third party on the Group for the same types of services.

For the year ended 31 December 2017, pursuant to the Financial Services Framework Agreement, the daily maximum limit amount in respect of deposit services provided by the Finance Company to the Group was approximately RMB1,504.8 million and the other financial services was approximately RMB4.7 million (For the year ended 31 December 2016: the daily maximum limit amount in respect of deposit services was approximately RMB1,491.5 million and other financial services was approximately RMB6.9 million).

The independent non-executive Directors, namely Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei, have reviewed the abovementioned continuing connected transactions and confirmed that such transactions are:

(1) fair and reasonable in respect of the aforementioned proposed annual caps;

(2) entered into in the ordinary and usual course of business of the Group;

(3) on normal commercial terms or on terms no less favourable than terms available to or from (as the case may be) independent third parties; and

(4) in accordance with the relevant agreements governing them and on terms that are fair and reasonable and in the interests of the shareholders as a whole.

The Auditor of the Company was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' and with reference to Practice Note 740 'Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules' issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the annual report in accordance with Rule 14A.56 of the Listing Rules. They conclude that:

(a) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

(b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

(c) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

(d) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong Limited.

Save as disclosed above, none of the related party transactions or continuing connected party transactions as set out in note 37 to the financial statements constitutes connected transactions or continuing connected transactions that should be disclosed under the Hong Kong Listing Rules. For connected transactions and continuing connected transactions, the Company has complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

For the purpose of Continuing Connected Transactions, the Company has complied with the disclosure requirements of the Hong Kong Listing Rules from time to time, and the value and the transaction terms of the transactions for the year ended 31 December 2017 have been determined in accordance with the pricing policies and guidelines set out in the Hong Kong Stock Exchange's Guidance Letter HKEx-GL73-14.

LOAN AGREEMENTS

On 27 November 2017, the Company transferred the 100% equity interest in Qijiang Gear to the Parent Company. Upon completion of the transaction, the Company continued to provide six Loan Agreements of approximately RMB394.4 million and eight Financial Guarantee Agreements of approximately RMB180 million to Qijiang Gear. Qijiang Gear shall pay the interest as stipulated in the respective Loan Agreement and repay the principal due. The Parent Company agreed to replace the Company as the guarantor of the Guarantee Agreements before 31 December 2017. For details, please refer to the announcement of the Board of the Company dated 15 December 2017 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

Qijiang Gear repaid the loans totaling RMB75,416,000 to the Company on 26 December 2017, and early repaid the two loans with maturity in 2018 and 2019 respectively totaling RMB319,000,000 on 17 January 2018. Besides, the guarantor of the loan guarantees totaling RMB180 million provided by the Company to Qijiang Gear had been changed to the Parent Company on 26 December 2017.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the PRC laws which require the Company to offer new shares on a pro rata basis to existing shareholders.

BOARD COMMITTEES

The Board of the Company has established Audit and Risk Management Committee, Remuneration Committee, Nomination Committee and Strategic Committee ("Board Committees"). Details of the Board Committees are set out in the section of Corporate Governance Report on pages 94 to 97 of this annual report.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2017, the Group had a total of 10,691 employees (31 December 2016: 11,217 employees). Their salaries were determined based on market trends and their performance. Welfare benefits included insurance, pension schemes, etc., which were strictly executed in accordance with national regulations.

Remunerations of the Directors of the Company were determined by the Remuneration Committee, taking into consideration the operating results of the Company and comparable market statistics. Please refer to the Report of the Board of Directors set out on page 71 in this annual report.

The Company's policies relating to remunerations of non-executive Directors are to ensure that they can be fully compensated for their efforts made and time spent on the Company, and policies relating to remunerations of employees (including executive Directors and senior management) are to ensure that remunerations are offered in line with their duties and market practice. Remuneration policies are designed to ensure the competitiveness of remuneration levels, and to effectively attract, retain and motivate employees. Directors or any of their associates and the executives are not allowed to participate in the determination of their own remuneration.

POST BALANCE SHEET DATE EVENTS

Please refer to the Subsequent Events as set out on page 43 of this annual report.

PUBLIC FLOAT

For the year ended 31 December 2017, the Company had 1,100,187,470 H shares of which Chongqing Machinery and Electronics Holding (Group) Co., Ltd. held 11,652,000 H shares in its total share capital of 3,684,640,154 shares. Therefore, public shareholding was 29.54%, indicating a sufficient public float throughout the year.

DISTRIBUTABLE RESERVES

According to the Articles of Association of the Company, the Company's reserves available for distribution based on the Company's retained earnings are determined by the lower figure after comparing HKFRSs and China Accounting Standards for Business Enterprises ("CAS").

The Company's reserves available for distribution as at 31 December 2017 under HKFRSs and CAS were RMB1,462,998,000 and RMB1,649,152,000 respectively. Thus, as at 31 December 2017, the Company's distributable reserve attributable to owners of the Company amounted to RMB1,462,998,000.

AUDITORS

As approved by the Company at the 2016 Annual General Meeting, the Company has appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the international and PRC auditors respectively for the year ended 31 December 2017. PricewaterhouseCoopers has performed audit on the Group's consolidated financial statements prepared in accordance with HKFRSs.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The annual results announcement has been published on the Company's website (http://www.chinacqme.com) and the Stock Exchange's website. The annual report will also be available on the Company's and the Stock Exchange's websites on or around 26 April 2018 and will be dispatched to the shareholders of the Company thereafter according to the means they choose to receive communications.

By Order of the Board
Chongqing Machinery & Electric Co., Ltd.
Executive Director and Chairman
Mr. Wang Yuxiang

Chongqing, the PRC
29 March 2018

Report of the Supervisory Committee

Dear Shareholders:

During the reporting period, the Supervisory Committee of Chongqing Machinery & Electric Co., Ltd. ("Supervisory Committee") diligently performed its duties in the interests of shareholders and the Company in accordance with relevant provisions of the Company Law of the PRC, Securities Law of the PRC, Articles of Association and the Listing Rules, and has supervised all operating and management activities of the Company in a legal, timely and effective manner, which practically protected the interests of shareholders and the Company.

During the reporting period, the Supervisory Committee conducted supervision closely focusing on the annual business objectives and development strategies of the Company in accordance with the Rules of Procedures of the Supervisory Committee of the Company. In order to improve the effectiveness of supervision, the supervision conducted by the Supervisory Committee was based on the practical conditions of the Company, and the comprehensive and concrete supervision was effectively implemented through strengthening the collaboration with the internal audit department and interacting with the supervisory committees of subsidiaries. During the Year, the Supervisory Committee concentrated on conducting annual intensive inspections, specialized inspections on overseas investment, funding enterprises control, "Three Importance and One Greatness" special inspections and investment on cooperative projects, audit supervision on joint venture, supervision and evaluation of effectiveness of internal control and the audit supervision of the economic liabilities of subsidiaries, "dynamic and timely service + project tracking auditing supervision" for major projects. In respect of daily supervision, it reviewed the interim results and annual financial accounts, financial budget and profit distribution plans of the Company as well as participated in the review of the auditor's report and provided constructive advice through convening three special meetings of Supervisory Committee, attending two General Meeting, sitting in nine Board meetings, carrying out audit supervision and conducting on-site inspections for relevant matters. The supervision procedures of the Supervisory Committee were effective and standardized, and the supervision and inspection results were effectively utilized.

With respect to the work of the Company in 2017, the Supervisory Committee has the following views:

- The Supervisory Committee has supervised the operating activities of the Company and with a view that the Company has already established a more thorough internal control system and a corresponding internal control management structure and spent much efforts to implement and improve such system and structure. The rules and regulations have been thoroughly cleaned up. The original 111 systems have been merged and revised into 73 systems in the end. These systems have been effectively implemented, which prevented operational risks for the Company.

- The Supervisory Committee has examined details of the implementation of financial management system and the financial reports of the Company. It confirms that the financial budget report, annual report and interim report are true and reliable and the auditing opinions presented by the auditors engaged by the Company are objective and fair.

- The Supervisory Committee has inspected the connected transactions of the Company and is of a view that the significant connected transactions arising from the Company's operation during the reporting period are fair and impartial without damaging the interests of other shareholders and the Company.

- The Supervisory Committee has supervised duty fulfillment of the Directors and management of the Company and is of a view that the Directors, General Manager and other senior management members have exercised rights granted by shareholders and discharged their duties in strict compliance with the principle of diligence and good faith. The Committee is not aware of any abuse of authority which impairs the interests of the Company's shareholders and the legitimate rights of the Company's employees as of the date of this report.

Based on supervision and inspection, the Supervisory Committee is of the opinion that the members of the Board, General Manager and other senior management members strictly complied with the principle of good faith, acted truthfully in the best interests of the Company and performed their duties according to the Company's Articles of Association. The Company is operated rationally and the internal control is improving gradually. Transactions between the Company and its connected parties were conducted in the interests of shareholders of the Company as a whole and on a fair and reasonable basis. To date, none of the Directors, General Manager and other senior management members was found abusing authority to impair the interests of Company and the rights of the Company's shareholders and employees, or acting in contradiction with the laws, regulations and the Articles of Association of the Company.

The Supervisory Committee is satisfied with the business activities conducted by the Company and the economic efficiency achieved in 2017, and is confident in the development prospect of the Company.

The Supervisory Committee has duly reviewed and approved the report of the Board, audited financial report and other proposals to be proposed by the Board at the 2017 Annual General Meeting.

By Order of the Supervisory Committee
Mr. Xiang Hu
Chairman of the Supervisory Committee

Chongqing, the PRC
29 March 2018

Corporate Governance Report

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company believes that the continuous improvement of its standard of corporate governance is the underlying cornerstone for safeguarding the interests of shareholders and investors as well as enhancing the corporate value of the Company. In compliance with the Company Law of the People's Republic of China, the Listing Rules, the Articles of Association and other relevant laws and regulations, and taking into consideration its own characteristics and needs, the Company has been making continuous efforts in enhancing its standard of corporate governance.

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2017 in compliance with the code provisions under the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Individual confirmation has been obtained from all Directors to confirm compliance with the requirements under the Model Code during the year ended 31 December 2017.

THE BOARD

The Board of the Company is responsible for formulating the Company's governance rules, overseeing the Company's business, making financial decisions and reporting to the General Meetings. The management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board of the Company has also specified the respective responsibilities of the Audit and Risk Management Committee, Nomination Committee, Remuneration Committee and the Strategic Committee. Details of the abovementioned committees are set out in this annual report.

According to Provision A2.1 of the Corporate Governance Code, the Chairman and General Manager should be assumed by different members of the Board with distinct roles and responsibilities. The Chairman of the Company is responsible for the Group's overall strategic planning, investment and audit, and provides leadership to the Board so that the Board can operate effectively and discuss and approve all significant matters in a timely manner, including project investment, annual budgeting and business planning. In accordance with the working rules of the Board of the Company, the Board is responsible for executing the resolutions of General Meetings, deciding on strategic planning for medium- and long-term development, annual operation and investment plans and schemes of the Company; preparing annual financial budget plans, profit distribution plans, financing, acquisition and merger plans and significant events of the Company. The General Manager is responsible for the Group's daily operations and business management.

Notice of Board meetings shall be delivered to each Director at least 14 days prior to the date of regular Board meetings. The Company has made proper arrangements to ensure matters proposed by Directors to be included into the agenda of a Board meeting. Upon the conclusion of a meeting, the finalised minutes will be delivered to all Directors in a timely manner for their review and record.

The minutes of Board meetings shall be prepared by the Secretary to the Board of the Company and shall be signed by Directors present at the meeting for archiving. Minutes for each meeting are also available to Directors for their inspection.

All Directors have full and timely access to all relevant information, including updated datas from the management, monthly, regular reports from the Board committees and briefs on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice, which will be paid for by the Company.

The Company has arranged appropriate Director and Senior Officer liability insurance for Directors and senior officers.

The Board of the Company consists of 11 Directors, including 3 executive Directors, 4 non-executive Directors and 4 independent non-executive Directors.

The Board of the Company has received from each independent non-executive Director a written confirmation of their independence and has been satisfied of their independence as at the approval date of this report in accordance with the Listing Rules.

ATTENDANCE OF DIRECTORS TO GENERAL MEETING

From 1 January 2017 to 31 December 2017, the Company held two general meetings.

Attendance of Directors in the general meeting of the Company is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Wang Yuxiang	Executive Director, Chairman of the Board	2/2
Chen Ping	Executive Director	2/2
Yang Quan	Executive Director	2/2
Huang Yong	Non-executive Director	2/2
Deng Yong	Non-executive Director	2/2
Wei Fusheng	Non-executive Director *(resigned on 27 November 2017)*	1/1
Dou Bo	Non-executive Director *(appointed on 27 November 2017)*	1/1
He Xiaoyan	Non-executive Director	2/2
Lo Wah Wai	Independent Non-executive Director	2/2
Ren Xiaochang	Independent Non-executive Director	2/2
Jin Jingyu	Independent Non-executive Director	2/2
Liu Wei	Independent Non-executive Director	2/2

ATTENDANCE OF DIRECTORS TO BOARD MEETING

From 1 January 2017 to 31 December 2017, the Company held nine board meetings.

Attendance of Directors to the Board meetings of the Company is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Wang Yuxiang	Executive Director, Chairman of the Board	9/9
Chen Ping	Executive Director	9/9
Yang Quan	Executive Director	9/9
Huang Yong	Non-executive Director	9/9
Deng Yong	Non-executive Director	9/9
Wei Fusheng	Non-executive Director *(resigned on 27 November 2017)*	8/8
Dou Bo	Non-executive Director *(appointed on 27 November 2017)*	1/1
He Xiaoyan	Non-executive Director	9/9
Lo Wah Wai	Independent Non-executive Director	9/9
Ren Xiaochang	Independent Non-executive Director	9/9
Jin Jingyu	Independent Non-executive Director	9/9
Liu Wei	Independent Non-executive Director	9/9

Biographical details of Directors are set out on pages 46 to 54 of this annual report.

OFFICE TERM OF INDEPENDENT NON-EXECUTIVE DIRECTORS

All the current Independent Non-executive Directors of the Company are appointed at the General Meeting with an office term of three years. Upon expiry of the term, each Independent Non-executive Director may offer himself for re-election at Annual General Meetings. The term of the fourth session of the Board of the Company will expire in June 2019.

REMUNERATION COMMITTEE

In accordance with the Corporate Governance Code, the Remuneration Committee under the Board of the Company assumes the role of the consultant of the Board and its articles of association has written terms of reference which are available on the websites of the Stock Exchange and the Company. The Remuneration Committee of the Company currently consists of 3 independent non-executive Directors (namly Mr. Ren Xiaochang, Mr. Lo Wah Wai and Mr.Jin Jingyu) and 1 non-executive Director (namly Mr. Huang Yong), with the chairman being an independent non-executive Director. The primary duties of the Remuneration Committee are to formulate the Company's policies for remuneration of the Directors, Supervisors and senior management, and evaluate the performance of executive Directors and the terms of their service contracts. Executive Directors shall not participate in the preparation of resolutions related to their own remuneration. In accordance with the Articles of Association of the Company, remuneration packages of Directors and Supervisors are subject to the approval at the General Meeting.

During the year, the Remuneration Committee was responsible for reviewing the performance of the senior management and determining their remuneration packages which were approved by the Board.

The Remuneration Committee convened 2 meetings during the year and the attendance record is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Ren Xiaochang *(Chairman)*	Independent Non-executive Director	2/2
Lo Wah Wai	Independent Non-executive Director	2/2
Jin Jingyu	Independent Non-executive Director	2/2
Huang Yong	Non-executive Director	2/2

NOMINATION COMMITTEE

In accordance with the Corporate Governance Code, the Nomination Committee under the Board of the Company assumes the role of the consultant of the Board and its articles of association has written terms of reference which are available on the websites of the Stock Exchange and the Company. The Nomination Committee of the Company currently consists of 1 executive Director (Chairman), 3 independent non-executive Directors (namely Mr. Wang Yuxiang, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei), and was chaired by the Chairman. The Nomination Committee is responsible for the identification and evaluation of appropriate candidates for appointment or re-appointment as Directors and senior management, as well as the development and maintenance of the Company's overall corporate governance policies and practices.

The Nomination Committee follows a formal, fair and transparent procedure for the appointment of new Directors to the Board. The committee will first consider necessary changes in respect of the structure, size and composition of the Board, identify appropriate and qualified candidates by considering their professional knowledge and industry experience, personal and professional ethics, integrity and personal skills and time commitments, and make recommendations to the Board. In accordance with the Articles of Association of the Company, each newly appointed Director is subject to election at the General Meeting. The independence of independent non-executive Directors shall be examined.

As of 31 December 2017, the Company did not convene any Remuneration Committee's meeting.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Board of the Company has established the Audit and Risk Management Committee in accordance with the requirements and its latest revision of the Corporate Governance Code. The committee has written terms of reference which are available on the websites of the Stock Exchange and the Company. The Audit and Risk Management Committee of the Company currently consists of 3 independent non-executive Directors and 1 non-executive Director (namly, Mr. Lo Wah Wai, Mr. Jin Jingyu, Mr. Liu Wei and Mr. Deng Yong), Mr. Lo Wah Wai serves as the chairman of the Audit and Risk Management Committee. The major responsibilities of the Audit and Risk Management Committee are to review and monitor the Company's financial reporting process and internal controls system and provide advice and suggestions to the Directors of the Company.

The Audit and Risk Management Committee convened 4 meetings during the year and the attendance record is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Lo Wah Wai *(Chairman)*	Independent Non-executive Director	4/4
Jin Jingyu	Independent Non-executive Director	4/4
Liu Wei	Independent Non-executive Director	4/4
Deng Yong	Non-executive Director	4/4

During the year, the Audit and Risk Management Committee approved the 2016 Consolidated Financial Report and the 2017 Condensed Consolidated Interim Financial Report of the Company audited by PricewaterhouseCoopers, considered and discussed the accounting policies as set out in the financial reports and the Company's financial position and internal control with external auditors, qualified accountants and the management of the Company.

STRATEGIC COMMITTEE

In response to the Company's needs of strategic development, the Board has established the Strategic Committee. The committee has written terms of reference which are available on the websites of the Stock Exchange and the Company. The Strategic Committee of the Company currently consists of 3 executive Directors (namly Mr. Wang Yuxiang, Ms. Chen Ping and Mr. Yang Quan), 1 non-executive Director (namly Mr. Huang Yong) and 3 independent non-executive Directors (namly Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei). Mr. Wang Yuxiang is the chairman of Strategy Committee. The major responsibilities of the Strategic Committee are to carry out research and propose suggestions on the Company's long-term development strategies and material investment decisions for the Board's reference in decision-making.

The Strategic Committee convened 1 meeting during the year and the attendance record is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Wang Yuxiang *(Chairman)*	Executive Director, Chairman of the Board	1/1
Chen Ping	Executive Director	1/1
Yang Quan	Executive Director	1/1
Huang Yong	Non-executive Director	1/1
Ren Xiaochang	Independent Non-executive Director	1/1
Jin Jingyu	Independent Non-executive Director	1/1
Liu Wei	Independent Non-executive Director	1/1

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises five supervisors, namely Mr. Xiang Hu, Ms. Wu Yi, Mr. Huang Hui, Mr. Zhang Mingzhi and Mr. Xia Hua. During the Period, Mr. Xiang Hu is appointed as the Chairman of the supervisors. To safeguard the interests of the shareholders, the Company's Supervisory Committee is responsible for the supervision of the Company's financial activities and duty fulfillment of the board of Directors, its members and senior management. In 2017, the Supervisory Committee has reviewed the legality of the Company's financial situation and business, and through convening the meetings of the Supervisory Committee and attending the Board meetings, general meetings and other important meetings, establishing archives, etc., conducted the due diligence on senior management personnel. The Supervisory Committee carefully and thoroughly performs their duties according to the principle of prudence.

The Supervisory Committee held 3 meetings in the year, the attendance to which is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Xiang Hu	Chairman of the Supervisory Committee	3/3
Wu Yi	Independent Supervisor	3/3
Huang Hui	Independent Supervisor	3/3
Zhang Mingzhi	Employee Supervisor	3/3
Xia Hua	Employee Supervisor	3/3

REVIEW OF THE AUDIT AND RISK MANAGEMENT COMMITTEE AND THE BOARD OF DIRECTORS

The Audit and Risk Management Committee has reviewed the financial control, internal control and risk management systems of the Company for the year. The Board ensured the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting function. It considered the internal control systems effective and adequate as they allowed the Board to monitor the Group's overall financial position and to provide reasonable assurance that assets are safeguarded against unauthorized use or material financial misstatement; transactions were executed in accordance with management's authorization; and the accounting records were reliable for preparing financial information used within the business or for publication and reflecting accountability for assets and liabilities. The Board was satisfied that the systems are effective and adequate for the purpose of effective internal control.

ACCOUNTABILITY AND AUDIT

The Board of the Company is responsible for overseeing the management's preparation of accounts for each financial period and making appropriate announcement in accordance with the Listing Rules to disclose to shareholders all information necessary for their evaluation of the Company's financial position and other matters. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Company has appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the international and PRC auditors of the Company respectively. The fees for the services provided by the above auditors to the Group for the year ended 31 December 2017 amounted to approximately RMB3.5 million (2016: approximately RMB3.5 million).

GENERAL MEETINGS

The General Meeting holds the highest authority of the Company. The Company highly values the functions of the General Meetings, and therefore encourages all shareholders to attend the General Meetings which serve as a direct and effective communication channel between the Board and the investors of the Company. The Articles of Association of the Company expressly provides for the rights of the shareholders, including the rights to attend, to receive notices of, and to vote at General Meetings.

RIGHTS OF SHAREHOLDERS

The Company treats all shareholders equally with an aim to ensure that their rights can be fully exercised and their legitimate interests can be safeguarded and that the shareholders' general meetings can be convened and held in strict compliance with the relevant laws and regulations. The Company's corporate governance structure is to ensure that all shareholders, especially the minority shareholders, can enjoy equal benefits and undertake corresponding responsibilities.

Calling an Extraordinary General Meeting

Pursuant to the Articles of Association, the Board may convene an extraordinary general meeting as it thinks fit. Shareholders requisitioning extraordinary general meetings or class meetings shall abide by the following procedures:

(1) Two or more shareholders jointly holding 10% or more of the voting shares relating to a proposed extraordinary general meeting or class meeting may request the Board to convene such meeting by signing and submitting one or more written requests with the same format and contents in which the matters for consideration at the meeting shall be set out clearly. The Board shall proceed to convene the extraordinary general meeting or the class meeting as soon as possible after receiving the aforesaid written request. For the purpose of the preceding requirement relating to the number of voting shares held, such number shall be calculated on the basis of the number of relevant voting shares held on the date of submission of such written request.

(2) If the Board fails to issue a notice of such meeting within 30 days from the date of the receipt of the written request, the shareholders submitting such request may require the Supervisory Committee to convene an extraordinary general meeting or a class meeting pursuant to the requirement in the above subparagraph (1). If the Supervisory Committee fails to convene and preside over an extraordinary general meeting or a class meeting according to law within 5 days from the date of the receipt of the written request, the shareholders submitting such request and more than 90 consecutive days individually or shareholders together holding over 10% of the Company's shares may convene such a meeting by themselves within 4 months from the date of receipt of the request by the Board, following the procedure for convening such meeting by the Board as much as possible.

Any reasonable expenses incurred by the shareholders in convening and holding such meeting due to the failure of the Board to convene such meeting in response to the aforesaid request shall be borne by the Company. Such expenses shall be deducted from the amounts owed by the Company to the Directors in default.

Procedures to Put Forward Enquiries

Shareholders shall have the right to receive information as provided in the Articles of Association, including:

1. copy of the Articles of Association upon payment of the costs thereof;

2. the right to inspect and copy, subject to payment of reasonable charge:

   (1) all parts of the register of shareholders;

   (2) personal particulars of the Directors, supervisors, general managers and other senior management members of the Company, including:

      a) present and former forename and surnames and any aliases;

      b) principal address (domicile);

      c) nationality;

      d) occupation and all other part-time occupation and positions;

      e) identification documents and their number.

   (3) status of the share capital of the Company;

   (4) reports showing the total nominal value and number of shares repurchased by the Company since the end of the last financial year, the highest and the lowest prices paid and the aggregate amount paid by the Company in respect of each class of its shares repurchased;

(5) minutes of the general meetings as well as resolutions passed at the meetings of the Board and the Supervisory Committee;

(6) receipts of debentures of the Company;

(7) financial statements.

Where a shareholder requests to refer to the above-mentioned relevant information or demands information, the written documents stating the class and number of the held shares of the Company shall be submitted to the Company. Upon the verification of the identity of the shareholder, the Company will provide to the shareholder as requested. A shareholder may submit and serve the enquiries directly through ob@chinacqme.com.

Procedures to Put Forward Motions at General Meeting

If the Company decides to hold a general meeting, shareholders individually or jointly holding 3% or more of the total shares carrying voting right shall be entitled to propose motions in writing to the convener 10 days before the convening of the general meeting. The convener shall dispatch a supplemental notice of the general meeting within 2 days from receipt of the proposal to notify other shareholders and include such proposed motions into the agenda for such general meeting if they are matters falling within the functions and powers of general meeting.

Motions raised at a general meeting shall satisfy the following requirements:

(1) Free of conflicts with the provisions of laws and administrative regulations, and fall into the business scope of the Company and the terms of reference of the general meeting;

(2) With definite topics to discuss and specific matters to resolve;

(3) Submitted in writing or served to the Board.

A shareholder may submit and serve the motions through ob@chinacqme.com.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

In respect of any discloseable and significant event, the Company makes accurate and complete disclosure in a timely manner on the websites as specified by the relevant supervisory authorities for information disclosure pursuant to the disclosure requirements under the Listing Rules. This is to ensure the rights to information and participation of the shareholders.

The Company has established a specific department responsible for handling investor relations, and maintaining an on-going and open communication with investors. The Company strictly controls the procedures of information disclosure and insider trading. The Company held a total of 23 meetings with 69 investment and financial institutions or investors in various ways including road shows in Hong Kong and interim results of Shenzhen Roadshow, investor presentations, on-site meetings and telephone interviews. The effective communication with investors strengthened the Group's relationship with investors and allowed them to have a better understanding and enhanced confidence in operations and developments of the Group. In 2017, the Company strengthened the communications and promotions with a number of media including China Industry News, Hong Kong Wen Wei Po, Chongqing Daily, etc. To strengthen the relationship between the Company and investors, and improve the transparency of corporate operations, the Company promoted its development strategy and promising outlook by means of website, publicity pamphlet, image building videos, etc., to draw continuous attention from the public and investors on the growth of the Company.

TRAINING OF DIRECTOR

In accordance with the code provisions, the Company arranged trainings on relevant laws and regulations including the Listing Rules for Directors, supervisors and members of senior management of the Company. During the year, the Company has received the written training records of all Directors.

Training of Directors is recorded as follows:

Name of Director	Training content	Attendance
Wang Yuxiang	Function training for new directors	√
Chen Ping	Function training for new directors	√
Yang Quan	Function training for new directors	√
Huang Yong	Function training for new directors	√
Deng Yong	Function training for new directors	√
Wei Fusheng	Function training for new directors *(resigned on 27 November 2017)*	√
Dou Bo	Function training for new directors *(appointed on 27 November 2017)*	√
He Xiaoyan	Function training for new directors	√
Lo Wah Wai	Function training for new directors	√
Ren Xiaochang	Function training for new directors & Risk management training organised by the Hong Kong Institute of Chartered Secretaries	√
Jin Jingyu	Function training for new directors	√
Liu Wei	Function training for new directors	√

Risk and Internal Control and Governance Report

POLICIES AND GOALS

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Risk management policies have been formulated for the risk management of the Group, standardized and effective risk management system is established to enhance the risk prevention capacity, thus ensuring that the Group operates in a safe and stable environment, improving the operation management level and achieving the operation strategies and objectives of the Group. The existing practices will be reviewed and updated on a regular basis in accordance with the latest corporate governance practices.

The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit and Risk Management Committee. During the year ended 31 December 2017, the Audit and Risk Management Committee (on behalf of the Board) oversee management in the design, implementation and monitoring of the risk management and internal control systems.

MAIN FEATURES OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Group's risk governance structure and the main responsibilities of each level of the structure are summarised below:

Board

- Maintains and reviews the effectiveness of internal control and risks management systems under the assistance of the Audit and Risk Management Committee, and measures the nature and extent of risks it is likely to take in achieving the strategic objectives;

- Ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems; and

- Oversees management in the design, implementation and monitoring of the risk management and internal control systems.

Audit and Risk Management Committee

- Assists the Board to perform its responsibilities of risk management and internal control systems;

- Oversees the Group's risk management and internal control systems on an ongoing basis;

- Reviews the effectiveness of the Group's risk management and internal control systems at least annually, and such review should cover all material controls including financial, operational and compliance control;

- Evaluates the effectiveness of the internal control system of the Company, including the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations, and adequacy of resources, staff qualifications and experience, training programmes and adequacy of budget of the Company's internal audit, risk management and financial reporting functions; and

- Considers major findings on risk management and internal control matters, and reports and makes recommendations to the Board.

Management

- Designs, implements and maintains appropriate and effective risk management and internal control systems;

- Identifies, evaluates and manages the risks that may potentially impact the major processes of the operations and such new risks arising from the business development from time to time;

- Monitors risks and takes measures to mitigate risks in day-to-day operations;

- Gives prompt responses to, and follow up the findings on risk management and internal control matters raised by the internal audit team or the external risk management and internal control review adviser; and

- Provides confirmation to the Board and Risk Management Committee on the effectiveness of the risk management and internal control systems.

Internal Audit Team and Risk Management Team

- Reviews the adequacy and effectiveness of the Group's risk management and internal control systems;

- Evaluates the efficiency of economic operation, continuously inspects business activities and management behaviours, identifies business risks and defects in internal control, formulates regular audit plans to determine the focus and frequency of audit;

- Reports to the Risk Management Committee the findings of the review and makes recommendations to the Board and management to improve the material systems deficiencies or control weaknesses identified;

- Investigates the risks of significant decision-making projects, continuously refines the policies and standards for the environment control based on the COSO internal control framework and comprehensive risk management framework to ensure the effective prevention and control of risks; and

- Assesses the Group's internal control system against the five elements of environment control, risk assessment, activities control, information and communication, and monitoring. The approach, findings, analysis and results of these annual reviews have been reported to the Audit and Risk Management Committee and the Board.

PROCESS USED TO IDENTIFY, EVALUATE AND MANAGE SIGNIFICANT RISKS

As a part of routines and certain risk management and internal control systems, executive Directors and senior management shall meet at least once a quarter to review the financial and operation results of each department. The senior management of our major subsidiaries shall also inform the executive Directors of strategies and policies formulated by the Board on a regular basis with respect to the material development and implementation of its business.

The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

Risk Identification

- Identifies risks that may potentially affect the Group's business and operations.

Risk Assessment

- Assesses the risks identified by using the assessment criteria developed by the management; and

- Considers the impact on the business and the likelihood of their occurrence.

Risk Response

- Prioritises the risks by comparing the results of the risk assessment; and

- Determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk Monitoring and Reporting

- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control processes are in place;

- Revises the risk management strategies and internal control processes in case of any significant change of situation; and

- Reports the results of risk monitoring to the management and the Board regularly.

PricewaterhouseCoopers Consulting (Shanghai) Co., Ltd. conducted assessment on the effectiveness of the risk management and internal control of the Company in 2017 with no serious defect being found, and made rectification recommendations for the risk management and internal control of the Company. The management values all recommendations to ensure that they are implemented and followed up effectively. The management also regularly reported to the Audit Committee and Risk Management Committee the results of risk monitoring and improvement. The Board is of the opinion that risk management and internal control procedures of the Group are effective and sufficient to satisfy the current demands on business environment of the Company, and there is no finding that causes the Board to believe risk management and internal control systems of the Group are insufficient.

RISK MANAGEMENT, INTERNAL CONTROL AND AUDIT FUNCTIONS

The risk management and internal audit departments of the Company review the business activities and management behaviours for the Group on a regular basis, to identify the business risks, internal control defects, and offer improvement opinions and suggestions. During the year under Review, the Company conducted a series of specific risk management, internal control and audit works, among other things, including:

Risk Management

In compliance with the requirements of the Hong Kong Stock Exchange in relation to improving the risk management of listed companies, the Company has engaged PricewaterhouseCoopers Consulting (Shanghai) Co., Ltd. to conduct the construction of the risk management system of the Company and Pump Company, a subsidiary of the Company, systematically analyze the risks existed during the Company's operations and management, and propose countermeasures and solutions. The risk control early warning indicators were gradually placed into the information system, formulating the "Assessment Report on the Effectiveness of Internal Control and Risk Management", the "Risk Management Manual", the "Risk Management Information Solutions" and the "Risk Management Measures", etc..

Risks on major projects of the Group were assessed through adopting assessment via various hierarchies such as the business department, risk control and legal affairs department, external legal advisors and the management, so as to ensure effective prevention and control of risks. The risk and legal audit works were reinforced for three key aspects such as rules and policies, economic contracts and major decisions. During the year, a total of 251 copies of contracts were reviewed.

For the supervision on overseas subsidiaries, the Chief Risk Officer (CRO) of the Company was appointed to the PTG UK, who is responsible for the establishment of risk management and internal control system and execution of assessment, establishment and supervision of the internal control process and system, monitoring operational activities deficiencies and business risks. The Chief Risk Officer will, based on different management key point, identify and assess potential risks from perspective of finance, operation, legal and human resources, specifically assess the effectiveness of internal control and risk management, and issue an annual Risk Management Report with respect to the risk management practices of PTG UK reported to the Board semiyearly and annually. For Italy WGP which the Company subscribed equity interests in 2017, requirement of regulating internal control management has also raised through its board of directors and strictly reviewed the relevant proposals in accordance with the rules of procedure of the board of directors.

Internal Control

During the Period, in strict compliance with the requirements of the Listing Rules of the Hong Kong Stock Exchange and the five ministries or commissions of the PRC including the Ministry of Finance, the Group strengthened the risk control and management of its domestic and overseas subsidiaries. Based on the foundation laid which centred upon operation and rectification, the focus of internal control of the Group for the year has been shifted to a new phase featuring in-depth enhancement and continuous improvement. A norm of self-inspection, professional evaluation and continuous improvement has been established within the internal control system, In addition, a professional evaluation team organized evaluation to the effectiveness of internal control of subsidiaries of the Group, namely the Company, Chongqing Machine Tools and Chongqing General (including its third-tier company, namely Jilin Chong Tong Chengfei New Material Co., Ltd.). At the same time, an internal control inspection was conducted on three subsidiaries of the Group, namely, Chongqing Gas Compressor, Chongqing Pump and Chongqing Water Turbine. While carrying out the assessment on the internal control of subsidiaries, the Company will also conduct assessment and analysis on the strategic risk, operation risk, financial risk, market risk, legal risk and human resources risk of those companies. In general, the internal control system of the Group is effective and the risks have been monitored in time.

The Company requires the subsidiaries to enhance risk control works, their self-inspection reports must be submitted to the general manager office and the Board for approval, and report to the Company for filing, accordingly, the quality of internal control self-inspection of entities has improved significantly compared to previous years. The Company has organized professional personnel to do research on bidding and tendering regulations as well as theirs cases, review the tender documents of large-scale infrastructure projects, equipment procurement and technological innovations of the subsidiaries, establishing the authority for the review work of tender.

Internal Audit

The internal audit department of the Company has reviewed, in an independent, objective, scientific and effective manner, the Company's systems of internal control under the direct leadership of the Board and the Audit and Risk Management Committee. The internal audit department carries out inspection and monitoring of the Company's financial information disclosures, operations and internal control procedures on a regular or an ad hoc basis, with a view to ensuring transparency in information disclosures, operational efficiencies and the overall effectiveness of the corporate control system.

During the Period, the internal audit department strived to "manage assets" through asset audit and financial audit, "manage compliance" through inspection and investigation, "manage personnel" through economic responsibility audit, "manage matters" through project audit, "manage risk" through effectiveness assessment and strengthened the special and daily supervision functions of the Supervisory Committee. The Company executed 101 supervision projects in aggregate. During the year, the internal audit department implemented 10 construction projects in respect of engineering project audits, 17 financial audits and 19 economic responsibility audits.

INFORMATION DISCLOSURE POLICY

An information disclosure policy is in place to ensure potential inside information being captured and confidentiality of such information being maintained until consistent and timely disclosure are made in accordance with the Listing Rules. The policy regulates the handling and dissemination of inside information, which includes:

- Designated reporting channels from different operations informing any potential inside information to designated departments;

- Designated persons and departments to determine further escalation and disclosure as required; and

- Designated persons authorised to act as spokespersons and respond to external enquiries.

Environmental, Social and Governance Report

The report has been prepared in accordance with the Appendix 27. Environmental, Social and Governance Reporting Guide of the Rules Governing the Listing of Securities promulgated by The Stock Exchange of Hong Kong Limited. For the corporate governance, please refer to the Corporate Governance Report in this Annual Report.

GROUP PHILOSOPHY

The Group adheres to the business philosophy of "Going beyond Excellence" to practice its core values of "integrity and win-win". The Group sticks to the principle of "making good use of resources and providing services for the construction", attaches great importance to the sustainable development of enterprises, makes effective use of resources and energy, and pays full attention to the climate and ecological environment. Besides, the Group takes the initiative to assume corporate social responsibility. With a cohesive corporate culture across our subsidiaries and employees, social responsibility has been rooted into our group-wide operation and management in achieving our vision to "Equip China, Advance towards the World".

ENVIRONMENT

Against the background of deteriorating environmental issues and the transformation and upgrading of traditional manufacturing industries, the Group understands that as a part of the industry, we should take the initiative to assume more environmental responsibilities. The Group adheres to the production principle of "saving energy and reducing emissions" and is committed to building a resource-saving and environment-friendly enterprise. In strict compliance with national environmental regulations, the Group advancing technological innovations, enhancing resource utilization efficiency and promoting energy conservation and emission reduction in its production and development, to explore on an approach featuring low consumption, low emission and high output. During the year ended 31 December 2017, the Group's pass rate for major pollutant emission indicators and hazardous waste disposal rate reached 100%. All newly constructed, upgrade and expansion projects were in strict compliance with the national environmental requirements on "simultaneous design, construction and commissioning" as scheduled.

Emissions

The Group resolutely eliminated outdated production capacity, implemented upgrading and renovation on major production equipment. Besides, the Group raised the level of energy utilization, and achieved energy consumption per unit of major products exceeding the national standard and maintaining the advanced standard in the industry.

The Group is principally engaged in manufacturing machinery equipment and parts, without large quantity of direct emission of waste gas, greenhouse gas, wastewater and other hazardous wastes. The emission mainly comprises solid metal scraps from the machining process. The sewage treatment system of the Group is in place and under the on-line realtime monitoring by government, with all emissions up to the standard. The Group also takes initiatives for full recycling of waste materials to reduce the environmental impact. During the year ended 31 December 2017, the Group generated approximately 7,330 tones of metal scraps during operation, which were disposed through public auction with total disposal proceeds of approximately RMB11.72 million. The hazardous wastes produced by the Group mainly composed of waste oil and waste oil wrappages, in a total of about 247 tons, which were collected by qualified professional recycling company for the innocuous treatment.

Greenhouse Gas Emissions

Summary of Greenhouse Gas Emissions Category	**Quality of greenhouse gas** *(Unit: t)*	**CO_2 equivalent of greenhouse gas** *(Unit: tCO_2e)*
CO_2 emissions from the burning of fossil fuels	21,178.67	21,178.67
CO_2 emissions produced by the electric power under net purchase	117,238.41	117,238.41
Total greenhouse gas emissions of the enterprise (tCO_2e)	138,417.08	138,417.08

During the reporting period, the greenhouse gas emissions of the Group were 138,417.08 tCO_2e, and the annual emission intensity was 0.1384 tCO_2e for each RMB10,000 operating revenue. The Group adopted measures such as technological transformation of production equipment, reduction of energy consumption and implementation of energy conservation and emission reduction to reduce greenhouse gas emissions.

Resource Utilization

Responding to the government's call on environment protection and energy saving, the Group has accelerated the elimination and retirement of equipment with high energy consumption. Meanwhile, our new plants are constructed in full compliance with environmental standards, including the design with new energy-efficient equipment and the wide use of green offices based on paperless technology. Based on the contracting energy management with the subsidiary Chongqing Pigeon Electric Wires & Cables Co., Ltd. (重慶鴿牌電線電纜有限公司) on a trial basis, the Group has carried out comprehensive energy-saving research against other subsidiaries, to encourage the staff to effectively utilize energy and to realize energy saving and consumption reducing. Through the optimization, modification and recycling of its critical points with large energy consumption including waste heat, residual pressure and lighting, the rate of emission in terms of standard coal, CO_2, SO_2 and dust will be reduced. For the year ended 31 December 2017, the Group's comprehensive energy consumption per RMB10,000 value addition decreased by approximately 6% year-on-year. Implementation of contract energy management in the year of 2018 will be continued in the selected companies with conditions.

Resource consumption amount of the Group:

Resource categories	The measuring unit	The total consumption	Density of resource consumption amount
Electric power	Thousand KWH	123,214.3	14.03kwh/m^3
Natural gas	Cubic meters	6,902,000	0.79m^3/m^3
Gasoline	Ton	422.221	0.05kg/m^3
Diesel	Ton	1,581.64149	0.18kg/m^3
Water	Ton	2,841,822.52	0.32t/m^3
Packaging materials	Ton	9,248.276	1.05kg/m^3

Environment and Natural Resources

The Group is located in the upper reaches of the Yangtze River with superior geographical position and abundant water resources. The Group attached great importance to the utilization and conservation of water resources, and adopted water-saving production technology and equipment. The Group effectively managed and controled the living and industrial wastewater generated from the Company's operations, products and services. Through the construction of sewage treatment and recycling system, it is ensured that the industrial wastewater meets the discharge standards. Water conservation slogans were set to enhance the water-saving consciousness. The concealed pipes were checked on a regular basis to avoid leakage, and the internal water supply systems were also inspected. In addition, the damaged tanks, faucets and other water supply facilities were repaired or replaced in a timely manner.

Subsidiaries of the Group are all located in the industrial parks outside the main city with reasonable layout of production sites, and high coverage of green vegetation.

The Group also actively develops environmentally-friendly and energy-efficient products businesses to fulfill its responsibility in environmental protection. Firstly, the Group attaches importance to noise control and monitors and controls the influence of noise pollution on employees' health and the surrounding environment according to the national noise management standards. We optimize the layout of the production lines and reduce the noise hazards through measures such as physical isolation, green shelter and occupational protection. Secondly, the Group manufactured wind power rotor blades of approximately 657MW in 2017, representing annual power generation of 2,500,000 thousand KWH, increasing by approximately 31% compared with that in 2016. The Group has introduced a series of products in the field of nuclear power to participate in the construction of nuclear power, including G3 nuclear secondary charging pump and G3 nuclear power refrigeration units and actively participates in the construction of nuclear power and development of clean energy. Treatment of municipal sewage has been in the testing phase, with sewage treatment of approximately 700,000 cubic meters in 2017, to achieve continuous recycling of resources.

SOCIETY

EMPLOYMENT AND LABOUR ROUTINES

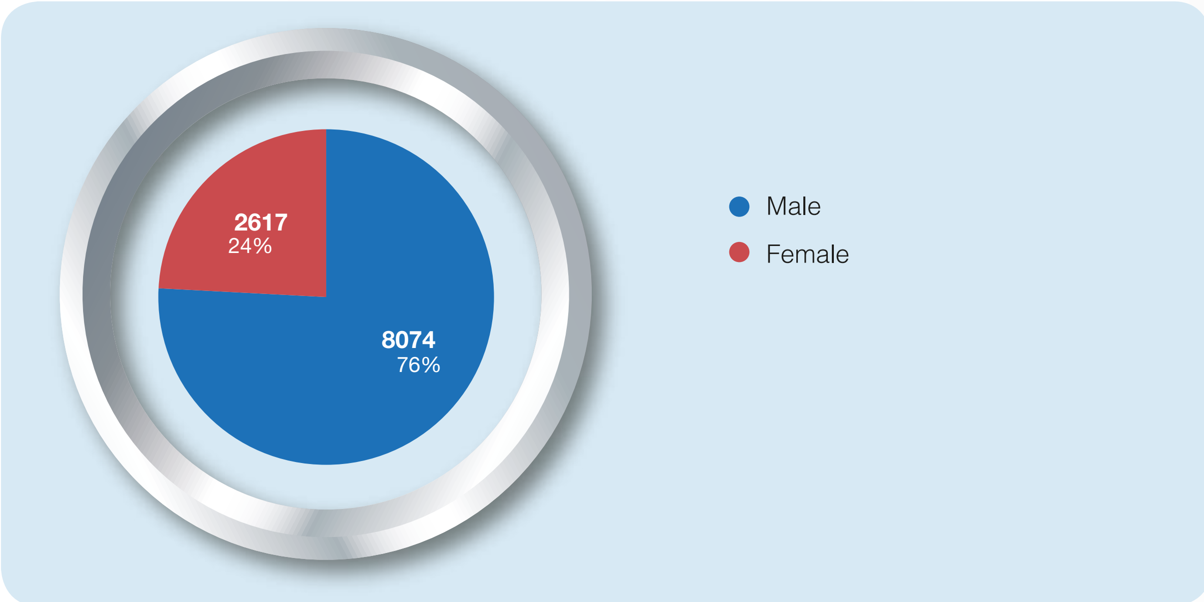
The Group embraces the concept of "paying respect to the dedicated, utilizing the competent, fostering the aspiring and incentivising the innovative" for talents, seeking to provide a safe and sound working environment for employees and cultivating talents experienced in technology and management. By improving the remuneration system and designing career paths, we expect to establish a comprehensive incentive system based on physical, mental, emotional and growth motivations to carry forward a harmonious and stable employment relationship. The Group fully safeguards the rights of its employees, respects employees' differences, provides a safe and harmonious working environment for each and every employee, and cohesively pursues the realization of employees' solidarity and sense of belonging through human resources policies, employee benefits, vocational training and related activities. Together we pursue the core values of the Group.

Employees

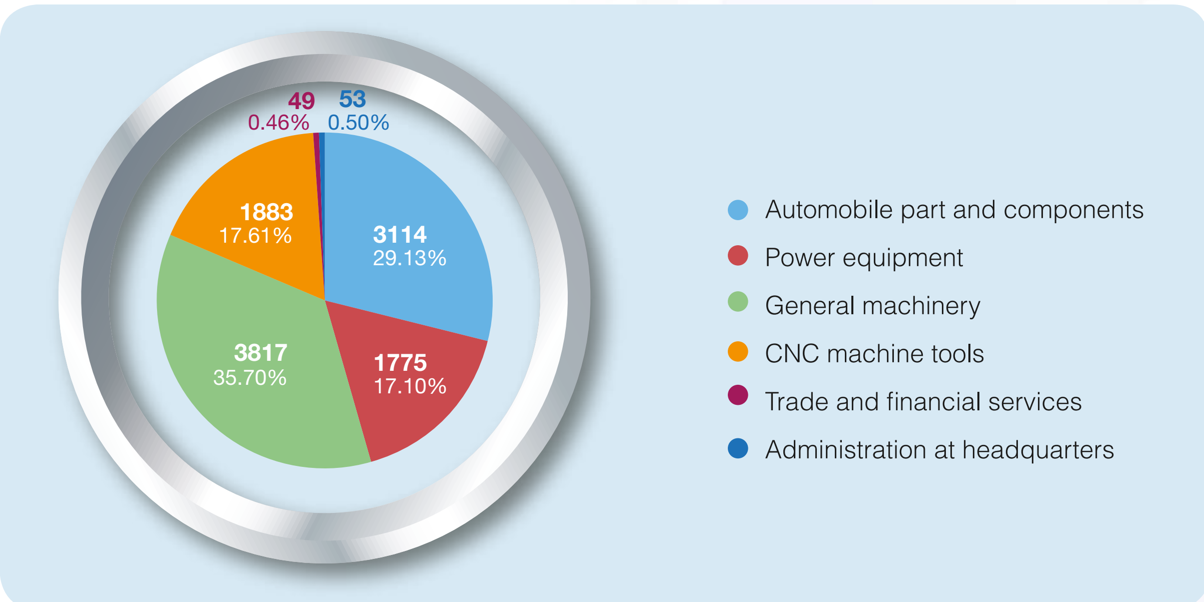
The Group places great emphasis on growth of employees in a harmonious internal atmosphere through structural adjustment, improvement of employee quality, and creation of good work environment. To effectively tap on human resources, fully motivate employees' enthusiasm and creativity and encourage them to perform fruitfully, the Group adheres to the approach of giving priority to efficiency with due consideration to fairness, focusing on both teamwork and individual performance and linking individual compensation to corporate profits. Employees are offered a competitive remuneration package, subject to annual adjustments based on individual performance, contribution and market conditions. Clinging to employment on an equal and standardized basis, the establishment of a harmonious labor relationship, and the enhancement of the sense of belonging to organization of employees, the Group publicises details of candidates to be appointed and promoted to ensure transparent information, process and results. With work hours arranged in strict compliance with national labor laws, the Group pays full respect to employees' right to rest, providing paid leave and other leaves for marriage, maternity and bereavement in addition to statutory holidays.

As of 31 December 2017, the Group had 10,691 dedicated employees with a more reasonable mixture of ages and specialties. The composition of the Group's employees by different criteria is set out as follows.

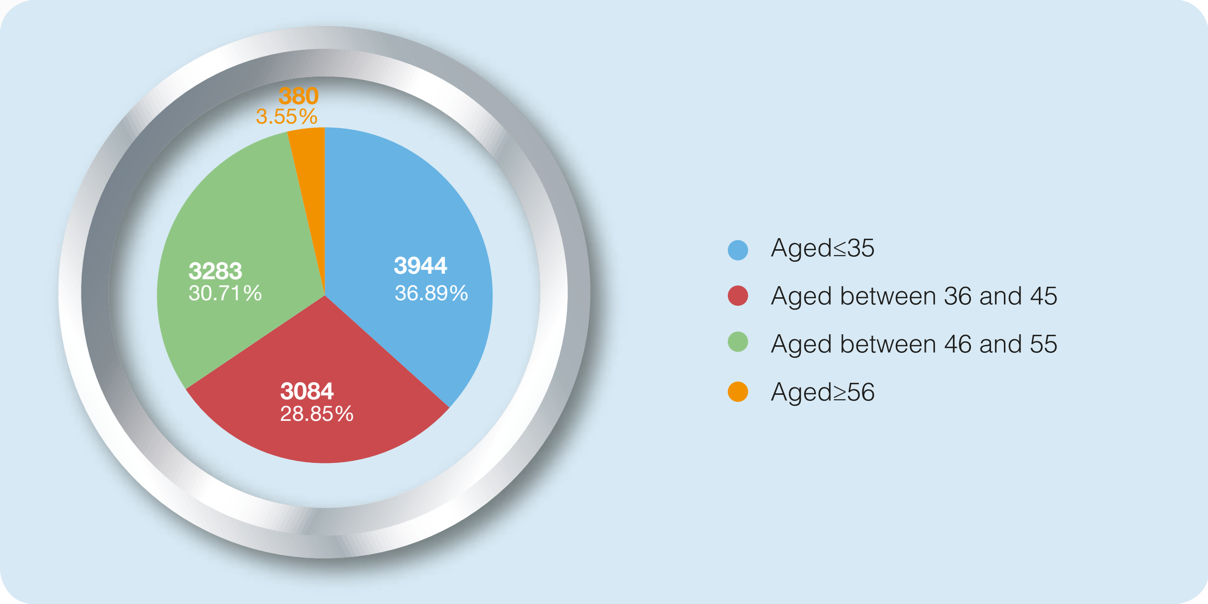
Employees by gender



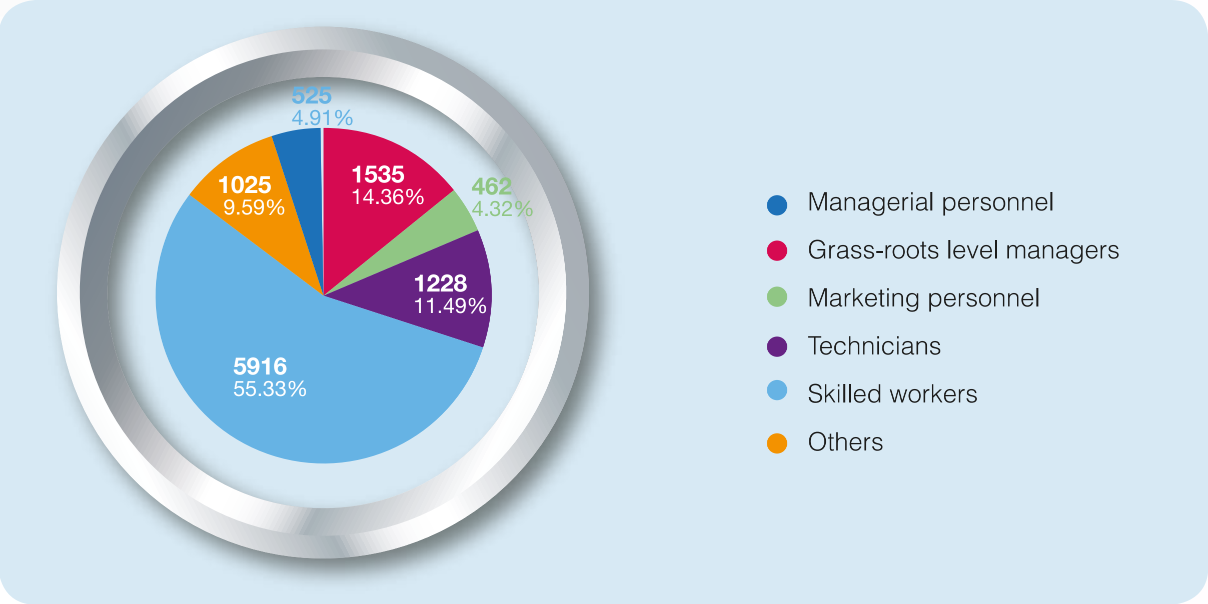
Employees by business segment



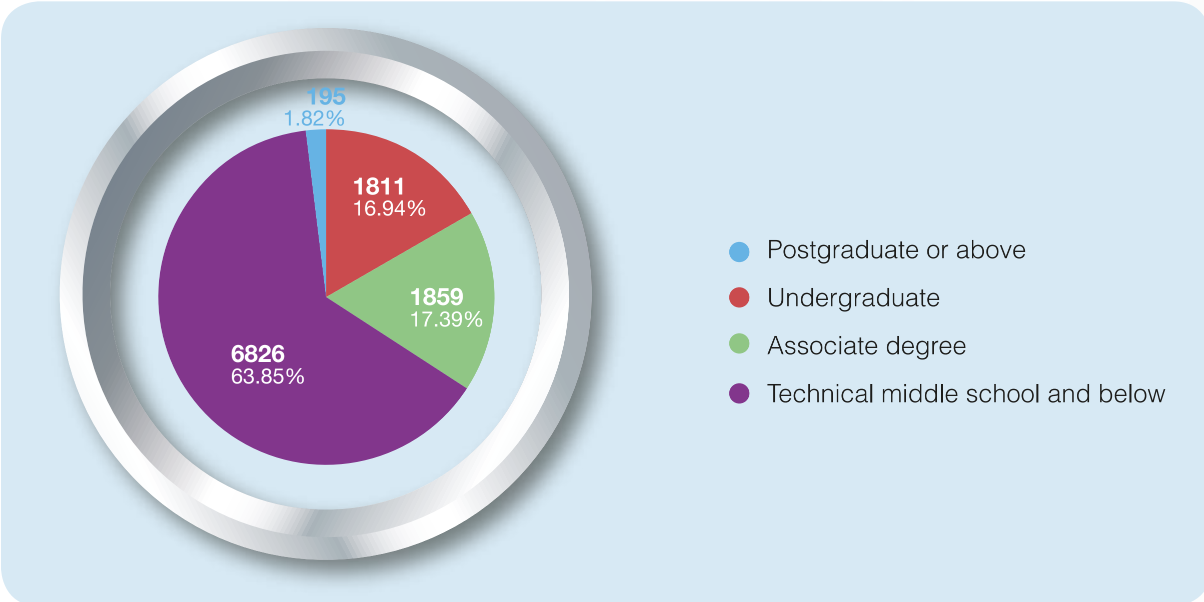
Employees by Age



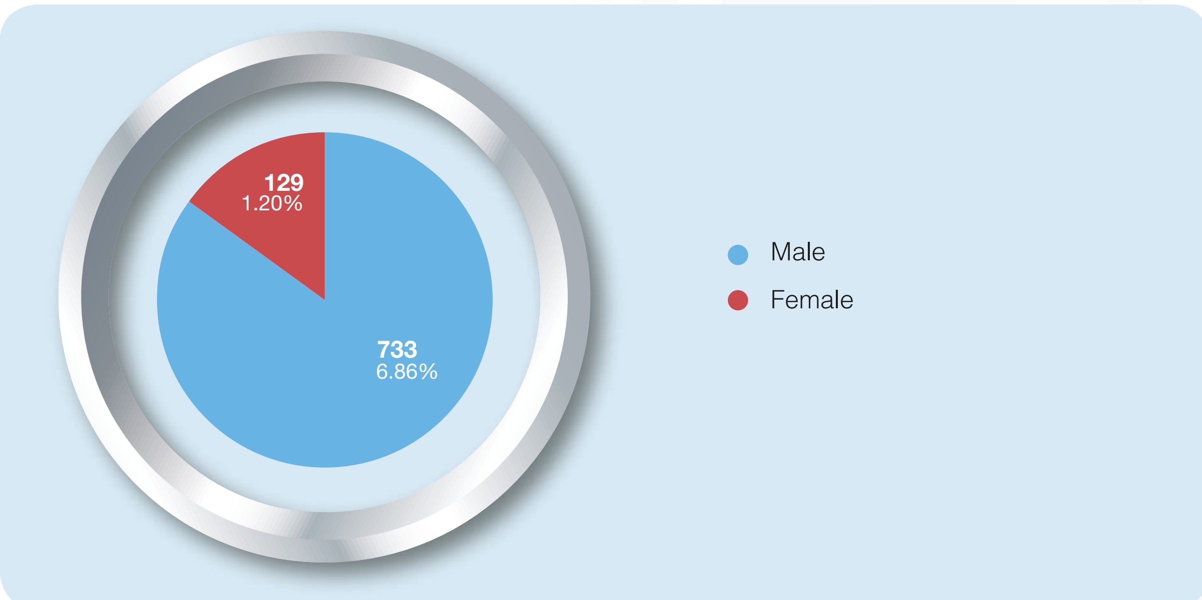
Employees by specialty



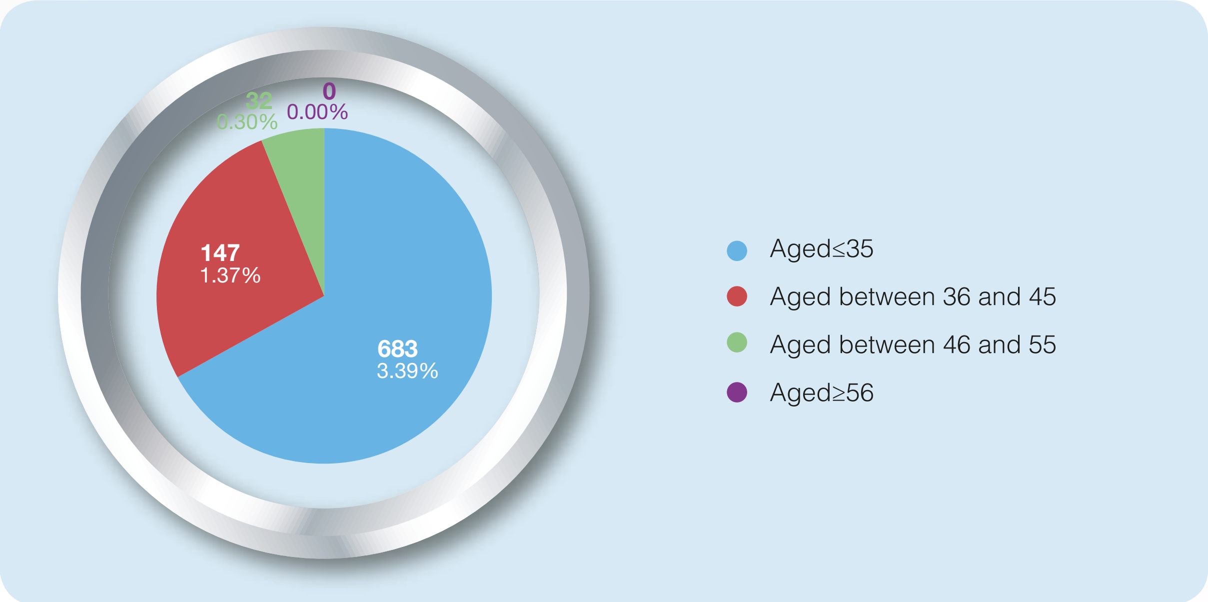
Employees by education



Turnover rate of employees by gender



Turnover rate of employees by age



Health and Safety

Occupational health and safety are a high priority within the Group. Sticking to the approach of "safety foremost, prevention-dominated and comprehensive treatment", we strictly implement the Basic Rules on Standardised Production Safety of Enterprises (AQ/T9006-2010) and relevant laws. By bringing some key works including accident prevention and control, standardization, the infrastructure of occupational health and pollution control into the evaluation system of safety goal, we have established a sound occupational safety and health management system. The Company takes initiatives to drive its subsidiaries to participate in ISO14001 and ISO18001 standard authentications. Meanwhile, non-scheduled inspections on production safety are conducted to eliminate safety hazards and ensure production safety. Periodic supervision and review was conducted for the safety standardization of six enterprises including Chongqing Machine Tools. In addition, the construction of demonstration enterprise for security technology management system was launched in six enterprises including Chongqing General Industry (Group) Co., Ltd., which perfected the safety technology management service system and standardized the operation formulas by "establishing organizations, specifying responsibilities, perfecting systems, standardizing formulas and making strict assessment".

Employees at each business segment are furnished with dust masks, safety glasses, helmets, protective clothing and other special labour supplies by the Group to effectively improve individual protection. Work-related injury insurance and regular health checks also cover each employee to relieve their concerns. For the year ended 31 December 2017, the Group had no work-related death or serious injury, and the work-related minor injury rate was 0.027%, generally below the control target of 2%. The rectification rate of identified safety hazards was 98.81%, and zero additional patient of occupational disease was recorded in the year. Since the Group adopted the rotation and serialization system, it not only met the employees' need of active treatment during the work-related injuries, but also enabled the normal production and operation of the enterprise.

Development and Training

With an aim of creating a learning-oriented organization, the Group centered on competency development to improve professional quality, to establish a platform for employees' career development, and to build a sound training management system, thus providing a wealth of learning opportunities and a positive atmosphere for knowledge sharing.

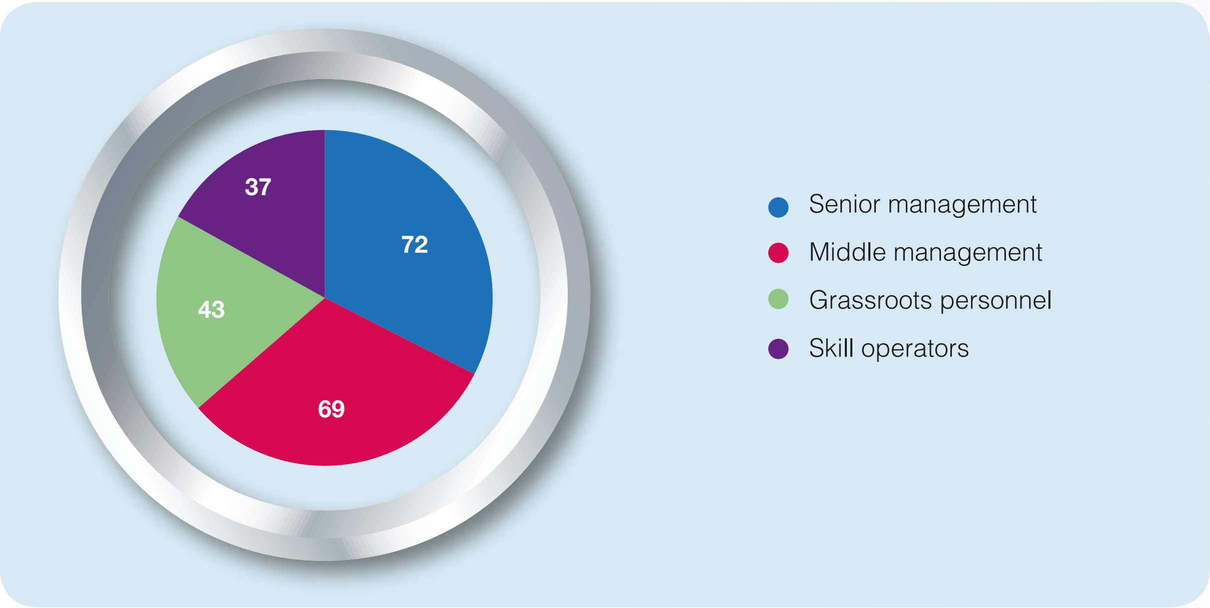
Some examples of the Group's internal training activities are as follows:

Subject	Content of the training
New employee training	New employee training includes lectures in respect of the Company's management and business, field trips to manufacturing enterprises, team quality development and other activities.
Emergency drill training	Various forms of emergency exercises were conducted to improve the feasibility, tightness and reliability of the emergency rescue system and contingency plans. At the same time, real-life experiences in response to emergencies were accumulated, and employees' safety awareness and safety skills were enhanced.
Safety knowledge training	Improve safe production standards through safety technology training, improve staffs' technical knowledge level and officers' safety management business standards, and promote the updating of technical knowledge.

Management and managers cognitive training

During the Period, the Group held a total of 960 training sessions primarily covering business skills, expertise, lean manufacturing, corporate culture, employee safety and health, with 16,080 times of participation and about 38 training hours per person at average.

Training hour of employees by specialty



Labour Standards

The Group strictly observes the Labour Law of the PRC, the Labour Contract Law of the PRC and the laws, regulations and policies against child labour or forced labour, to protect employees' rights and interests under the laws and creates an impartial and legitimate workplace with due respect to human rights. Labour protection measures are in place for female employees in menstruation, pregnancy, maternity and lactation periods, and it is prohibited to arrange females in any work of the fourth-level physical intensity as specified in national regulations or other prohibited work. With well-established procedures in key areas such as employment and recruitment, we ensure compliance throughout the employment process and eliminate use of child labour in practices. Forced labour is prevented and the implementation of labour protection system is supervised by the labour union. During the year ended 31 December 2017, the Group did not involve any violation of standards, rules and regulations on child labour and forced labour.

Effectiveness of Human Resources

As of 31 December 2017, the Group continued to offer job opportunities to the public and recruited a total of more than 280 persons. To give better play to human resources and fulfill its social responsibility, the Group has established a human resources management system and operational mechanism catering to knowledge economy, market economy, social responsibility and the Group's development strategy. The Group developed the career paths for its employees, implemented 'dual management' to introduce and cultivate talents, and provided an incentive of approximately RMB3.2 million for the project innovation team. Differentiated remuneration policies were set up to further motivate employees, and a team of management, technology and skilled talents with proven competency has been established to provide strong talent and intelligence supports to our strategic goal.

The Group has 14 employees forming a team to participate in the "Skills Competition of Welders, Lathe Workers, Fitting, Wiremen and CAD in Chongqing metallurgical industry" (重慶市機械冶金行業焊工、車工、裝配、電工、CAD機械製圖技能大賽) sponsored by Chongqing Trade Union Council, and 2 of them won the first individual prizes, 5 won the second individual prizes and 7 won the third individual prizes.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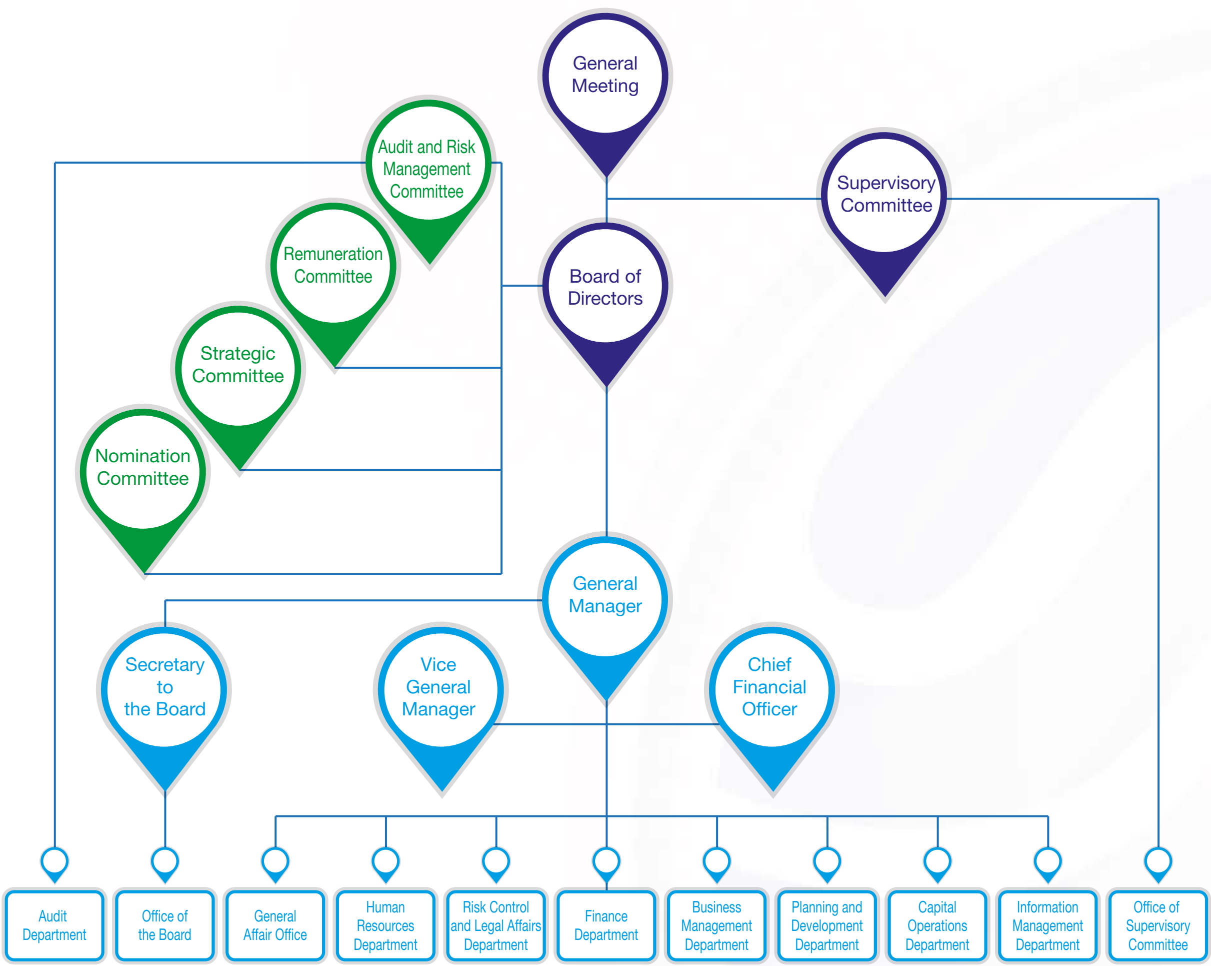
Operational Practices

The Group operates in strict compliance with laws and regulations and international practices, with an aim to maximize corporate value and shareholders' interests. In the course of development, the Group takes heed of stakeholders' interests in pursuit of harmony and mutual benefit with its shareholders, employees, customers, suppliers and other stakeholders.

Corporate Governance

With a focus on standard and efficient operation, the Group has established a clear corporate governance framework covering four levels namely "general meeting, the Board, Supervisory Committee and the management" with well-defined board composition and roles. Under the corporate governance system, supervisory functions are exercised for ongoing improvements. The four powers namely "ownership, decision-making, supervision and management" are established on a rational, independent, check-and balance, intervention-free and coordinated basis, providing an impetus for the Company's sustainable and organic growth.

Diagram of Corporate Governance Structure



Return to Shareholders

The Company holds analyst meetings, web conferences, road shows and other activities regularly or for major events, to enhance communication with investors and prospective investors; prepare statistics and analysis of the number, composition and change of investors and prospective investors and collect their opinions or suggestions; establish and maintain sound public relations with stock exchanges, industry associations, media, other listed companies and relevant institutions; and monitor online media to timely detect false reports on the Company and safeguard the Company's positive public image. A scientific dividend distribution model has been established with a view to the Company's sustainable development and return to shareholders. Since the Company's listing in June 2008 up to the end of 2017, the Company has distributed dividends totaling approximately RMB1.441 billion, providing an attractive return to its long-term shareholders through the secondary market.

Supply chain management

The Group is always open to mutual benefit through collaboration with upstream and downstream players in the industry chain. The Group adheres to open, fair and transparent criteria in selecting suppliers, evaluate suppliers every year in terms of price, quality, cost, delivery and after-sales service, and insist the dual-sourcing management to establish a supply chain platform with core competitiveness and vitality. In the procurement of raw materials, the Group deeply implemented green procurement, giving priority to the use of products with low-carbon, environmentally-friendly and low-level environmental damage. In the selection of energy sources, the Group purchased clean energy and vigorously promoted the use of low-grade energy, municipal solid waste, material energy and other non-fossil energy. For daily office supplies and other consumer goods, we try to choose the products with simple packaging and can be easily recycled. In the meantime, the Group continues to assist suppliers in upgrading management and technologies, seeking to consolidate and optimize the sustainable supply chain system for mutual growth with our suppliers. The Group has established a centralised bidding and procurement platform for bulk materials including steel products and bearings. The centralised procurements for the latest 3 years amounted to approximately RMB0.47 billion, representing a direct cost reduction of approximately RMB27.4 million.

The Group strictly pursues product quality and strictly uses high-quality raw material suppliers. We perform bidding management, conduct extensive screening and comparison, check and incorporate the process and result of bidding and tendering, and ensure bidding fairness and equity. As of 31 December 2017, the total number of suppliers of the Group is 1,569, among which there are 3 foreign suppliers and 1,566 domestic suppliers; approximately 518 suppliers are from the eastern China, approximately 785 suppliers from the middle China and approximately 263 suppliers from the western China.

Product liability

Adhering to the principle of "quality first, customer foremost", the Group is committed to providing customers with superior products and services, and has witnessed continuous improvements in brand image and customer satisfaction. All products manufactured by the Group are in compliance with national standards on the industry and laws and regulations in relation to product liability.

The Group is committed to starting from three aspects of energy conservation, safety and ecology, by researching and developing new products. The Group can reduce or eliminate the use of natural energy and save substantial energy while disposing of industrial waste residue and reducing environmental pollution. In the production process of our energy-saving products, we adopt the production mode of waste utilization to carry out clean production so that the wastes generated can once again become energy sources and be recycled. This will not only save substantial resources, but also reduce the generation of waste and reduce environmental pollution. In selection of materials, we give full consideration to the scrapping, recycling, and the second use of the materials, to avoid the subsequent issues like generation of wastes that cannot be recycled and are difficult to disposal. We avoid to use harmful substances in the design process. With the principal of clean production and clean disposal, our design process takes both production and environmental factors into consideration to accelerate the development of energy-saving and environmentally friendly products.

In order to strengthen product quality management, the Group has formulated a set of effective quality management methods with its management experience accumulated for a long time. Specific measures include the following: firstly, the "three-inspection system" will be implemented, which refers to self-inspection of operators, cross inspections among the staff and specific inspection by professionals; secondly, a dual manager system will be performed for the key procedures, which represents that there will be inspectors onsite when the operators would conduct key procedures, and other technical staff or acceptors on behalf of users will be onsite when necessary; thirdly, quality reinspection will be required. In order to ensure the quality of the products to be delivered, the products will be subject to the reinspection of personnels from the design, production, laboratory and technical departments after acceptance of storage and before delivery. Meanwhile, by adhering to the principle of being responsible to customers and to maintain and improve the satisfaction of customers and to avoid affecting the Group's reputation, the Group has also set up the product recall system, for which the sales department will proactively collect the information of quality of products, including the complaints of customers, and keep a record of defective products and relevant information and report to the quality management department. The quality management department will make comprehensive analysis for the defective products and identify the causes quickly and offer corresponding settlement measures. The after-sales service department is responsible for negotiating with customers and providing proper solutions.

In respect of services and complaints, the Group has established pre-sales consultation, sales reception and after-sales service system. When we received customer complaints or inquiries, our staff will deal with them promptly, and the results will be given to customers immediately. The Group sets up the principle of customer service first and tries its best to avoid legal proceedings. The Group requires that for whatever kind of complaints, regardless of the seriousness of the circumstances, the assignees shall apologize to customers and express their respect to customers. For the year ended 31 December 2017, the Group did not recall any products for safety and health reasons.

The Group prohibits the use of false and misleading statements in product promotion and transactions. The Group also pays attention to protecting the privacy of itself and its customers. We require our employees involved in confidential matters to sign a confidentiality agreement with the Company and strictly protect customers' personal data and information when serving them.

Intellectual Property

The Group attaches particular importance to maintenance and protection of intellectual property rights, and has entered into strategic partnership with the Intellectual Property Office of Chongqing Municipality to promote the enhancement of enterprise patent level. In 2017, the Group obtained 225 authorized patents, including 27 authorized invention patents, and expanded its patent pool to 1,975 patents, including 143 invention patents. The Intellectual Property Office of Chongqing Municipality collaborates with the public security bureau, the authorities in regard to quality and technical supervision, commerce and industry and other relevant authorities to crack down on counterfeits infringing the Group's products. These intellectual property protection initiatives greatly assist the Group in consolidating market share and maintaining a fair market competition environment.

Information Security

Following the relevant existing national standards in combination with the present situation of informationization development, the Company established the central machine room to safeguard the security operation information system, which satisfied the indicator requirements in terms of structure, area, temperature, electrical engineering, fire protection and security. The resources in the information system or information network were prevented from various threats, interference and damages through internal and external network isolation, data line, firewall and other means. Relevant management regulations were formulated to standardise the operational procedures of terminal server, network equipment, personal terminal and application system, and to prevent the data from destruction, modification or leakage. Disaster recovery backup of important systems and databases were made on time to ensure speedy data recovery after a major disaster. In accordance with the "Internet Security Law of the People's Republic of China", the Group conducted network security rating protection evaluation and training of network security personnel to ensure the simultaneous planning, simultaneous construction and simultaneous use of security technology measures and business systems.

Anti-corruption and Internal Control

The Group attaches great importance to its responsibility in anti-corruption in order to maintain a fair and positive business environment. The Group has formulated the Code of Ethics of Employees under which employees are required to abstain from accepting or offering any money, gift and hospitality that might affect their business decision or independent judgment, or exploiting their positions against the Company's interests. The Anti-Fraud Procedures and Control System are designed to prevent falsification, concealment of truth, fraudulence and other illegal behaviors by insider or outsider in the Group's activities which might infringe interests of the State, the Company or other parties. In addition to an internal audit system in place to monitor and review all employees as to their compliance with anti-corruption laws and regulations, the Group has established whistle-blowing system and procedures, including dedicated email address and hotline to accept whistle-blowing. Whistle-blowers of verified cases will be rewarded accordingly. During the year ended 31 December 2017, the Group did not identify any corruption or bribe-taking case.

Under an innovative supervision model, the internal audit department directly reports to the Board and accepts supervision and guidance by the Audit and Risk Management Committee, strives to "manage assets" through asset audit and financial audit, "manage compliance" through inspection and investigation, "manage personnel" through economic responsibility audit, "manage matters" through project audit, "manage risk" through effectiveness assessment to earnestly ensure supervision and give full play to the immunising power of audit through adequate "service, supervision and compliance".

Pursuant to the Basic Rules on Internal Control of Enterprises jointly promulgated by five ministries and commission including the Ministry of Finance and the Code on Corporate Governance Practices for listed companies on the Stock Exchange of Hong Kong, the Group has established a sound the internal control system. Through the evaluation and inspection on the operation of the internal control system of the Company and its subsidiaries, as well as the continuous tracking and monitoring of improvement on internal control system, the effectiveness of internal control system has been promoted. In 2017, evaluation or improvement has been conducted on the effectiveness of the internal control system for the Company, and its subsidiaries Chongqing General, Chongqing Machine Tools and the improvement on internal control system has been tracked and monitored for Chongqing Pump, Chongqing Gas Compressor and Chongqing Water Turbine.

The Group has established an effective legal risk prevention and treatment framework comprising the Contract Management System and the Management Measures on Legal Affairs. Legal review mechanism has been established for rules and regulations, economic contracts, and material decisions. In 2017, the Group reviewed 251 contracts; and quarterly reporting mechanism of significant legal risks has been established to resolve the legal risks in a timely manner.

Connecting with the Communities

As a municipal state-owned key enterprises in Chongqing and a listed company, the Group actively takes part in community activities to support public welfare in addition to its efforts in delivering business growth. The Group proactively contributes to local economy development and livelihood. The Group demonstrated its spirit of caring for public welfare undertakings, taking on social responsibilities and making selfless dedication to society. The Group strives to create a harmonious environment for mutual benefit.

The picture shows the participation in the tree planting activities in Tieshanping Forest Park by the employees of the Company in 2017

The picture shows the visits to 4 underprivileged families in Fengqituo community by the party members of the Company in 2017

The picture shows the teaching of water resources for primary and secondary schools by employees of the Group after their professional training in 2017

Independent Auditor's Report

pwc 羅兵咸永道

To the Shareholders of Chongqing Machinery & Electric Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Chongqing Machinery & Electric Co., Ltd. (the "Company") and its subsidiaries (together the "Group") set out on pages 145 to 336, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

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

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

- Impairment of property, plant and equipment
- Valuation of inventory
- Valuation of trade receivables

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Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of property, plant and equipment	
Refer to Note 16 to the consolidated financial statements.	We evaluated the appropriateness of the discounted cash flow model adopted by management.
As at 31 December 2017, the total net book amount of property, plant and equipment ("PP&E") is approximately RMB3,523,076,000, including certain amounts of PP&E relating to loss making subsidiaries of the Machinery tools segment.	We challenged management's key assumptions by: • comparing the revenue growth rates with historical data, assessing future customer demand with reference to our knowledge of economic and industry trend; • comparing the gross margin with the historical data and considering the future product mix and production volume; • comparing the discount rate with the cost of capital for the CGUs.
PP&E is carried at the lower of historical cost less accumulated depreciation and value in use based on discounted future cash flows of cash generating units ("CGU"). Significant judgements are required for determination of key assumptions applied in the impairment assessment, including discount rates, revenue growth rates and gross margins. As a result of management assessment, no impairment provision was made for PP&E for the year ended 31 December 2017.	We tested the mathematical accuracy of the calculations of the discounted cash flows. We independently performed sensitivity analysis about the key drivers of growth, including revenue growth and expected changes in gross margins.
We focused on this area because of the significance of PP&E balances and management judgements involved.	We found that management's judgements in determining the value in use of PP&E are supported by the evidence we gathered.

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Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of inventories	
Refer to Note 22 to the consolidated financial statements. As at 31 December 2017, the Group had gross inventory balance of approximately RMB1,500,654,000 against which a provision of approximately RMB101,063,000 was made. Inventories are carried at the lower of cost and net realisable value ("NRV"). NRV is determined based on the estimated selling price less the estimated costs to completion, if relevant, and other costs necessary to make the sale and related taxes. We focused on this area because of the significance of inventory balance and management judgements involved in identifying inventories subject to write-down and determining the NRV.	We evaluated and tested management's controls over identifying inventories subject to write-down and determination of the estimated selling prices. We evaluated and challenged the methodology adopted by management for identifying inventories subject to write-down based on our independent assessment of write-down indicators. We compared the estimated selling prices with the selling prices of the recent orders from customers. We challenged management's future sales projections for the prices and quantities by checking historical sales information and considering market trend. We independently evaluated the future market trend factors management considered in determining the estimated selling prices, including possible changes of customer demands and technology development, by corroborating with research information, checking subsequent outcomes of these factors and making reference to our industry knowledge. We assessed the reasonableness of the estimated costs to completion by comparing with the historical costs to completion of the similar inventories. We found that management's judgements in determining the NRV of inventories are supported by the evidence we gathered.

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Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of trade receivables	
Refer to Note 19 to the consolidated financial statements. The balance of trade receivables as at 31 December 2017 is approximately RMB2,719,431,000, against which a provision for impairment of approximately RMB315,747,000 was made. For individual provision, judgement is required for identifying impaired trade receivable balances and determining the future cash flows. For collective provision, judgement is required for determining the provision needed for trade receivable balances with similar credit risk characteristics, taking into consideration the historical experience, ageing analysis and credit conditions. We focused on this area because of the significance of trade receivables balance and management judgements involved in determining the collectability and impairment.	We evaluated and tested the controls over the collection of the trade receivables, including monthly review of ageing analysis, repayment and impairment assessments of trade receivables performed by management. We sent confirmations to customers on a sample basis, focusing on material balances. For individual provision, we challenged management's process for identifying impaired trade receivables and checked the documents and information relating to the estimated future cash flows on a sample basis. For collective provision, we tested the accuracy of ageing analysis. We assessed the appropriateness of the method management adopted to determine the provision by comparing with the historical bad debts incurred. We found that management's judgements relating to the recoverability of trade receivables are supported by the evidence we gathered.

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OTHER INFORMATION

The directors of the Company are responsible for the other information as set out in the Company's 2017 Annual Report. The other information comprises the information included in the Management's Discussion and Analysis (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Corporate Information, Financial Highlights, Group Structure, Results Highlights, Chairman's Statement, Directors, Supervisors and Senior Management, Report of the Board of Directors, Report of the Supervisory Committee, Corporate Governance Report, Risk and Internal Control and Governance Report and Environmental, Social and Governance Report, which are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Corporate Information, Financial Highlights, Group Structure, Results Highlights, Chairman's Statement, Directors, Supervisors and Senior Management, Report of the Board of Directors, Report of the Supervisory Committee, Corporate Governance Report, Risk and Internal Control and Governance Report and Environmental, Social and Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the audit committee and take appropriate action considering our legal rights and obligations.

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RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lam Siu Wing, Benny.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2018

Consolidated Statement of Comprehensive Income

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000 Restated Note 2.1
Revenue	5	**9,292,600**	9,255,032
Cost of sales	8	**(8,284,927)**	(8,221,557)
Gross profit		**1,007,673**	1,033,475
Distribution costs	8	**(248,724)**	(244,613)
Administrative expenses	8	**(963,696)**	(816,271)
Other gains, net	6	**346,592**	226,634
Other income	7	**70,855**	79,005
Operating profit		**212,700**	278,230
Finance income		**17,729**	19,642
Finance costs		**(120,038)**	(119,646)
Finance costs, net	10	**(102,309)**	(100,004)
Share of post-tax profits of associates	12	**102,199**	100,609
Share of post-tax profit of a joint venture	12	**264,283**	251,019
Profit before income tax		**476,873**	529,854
Income tax expense	13	**(102,454)**	(27,182)
Profit for the year		**374,419**	502,672

Consolidated Statement of Comprehensive Income *(Continued)*

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000 Restated Note 2.1
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
– Remeasurements of retirement and termination benefit obligations		**7,740**	2,016
– Income tax relating to remeasurements of retirement and termination benefit obligations		**(604)**	(243)
Items that may be reclassified to profit or loss			
– Fair value gains/(losses) on available-for-sale financial assets		**2,773**	(495)
– Income tax relating to available-for-sale financial assets		**(693)**	74
– Fair value gains on disposal of available-for-sale financial assets and included in other gains, net of tax		**(3,172)**	–
– Net investment hedge		**4,635**	(13,351)
– Currency translation differences		**1,825**	17,517
– Share of other comprehensive income of investments accounted for using the equity method		**1,295**	529
Other comprehensive income for the year, net of tax		**13,799**	6,047
Total comprehensive income for the year		**388,218**	508,719

Consolidated Statement of Comprehensive Income *(Continued)*

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000 Restated Note 2.1
Profit attributable to:			
Owners of the Company		**325,047**	440,834
Non-controlling interests		**49,372**	61,838
		374,419	502,672
Total comprehensive income attributable to:			
Owners of the Company		**338,846**	446,881
Non-controlling interests		**49,372**	61,838
		388,218	508,719
Earnings per share for profit attributable to owners of the Company			
(expressed in RMB per share)			
– Basic and diluted	14	**0.09**	0.12

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

(All amounts in RMB unless otherwise stated)

	Note	As at 31 December 2017 RMB'000	2016 RMB'000 Restated Note 2.1
ASSETS			
Non-current assets			
Property, plant and equipment	16	**3,523,076**	3,985,047
Investment properties	17	**90,137**	27,995
Lease prepayments	15	**442,338**	531,580
Intangible assets	18	**308,050**	307,926
Investments in associates	12	**698,685**	709,102
Investment in a joint venture	12	**348,023**	337,236
Trade and other receivables	19	**129,564**	86,467
Deferred income tax assets	31	**68,506**	90,709
Available-for-sale financial assets	23	**–**	7,267
Other non-current assets		**43,664**	54,591
		5,652,043	6,137,920
Current assets			
Inventories	22	**1,399,591**	1,445,756
Trade and other receivables	19	**6,431,669**	5,197,417
Dividends receivable		**260,528**	245,557
Amounts due from customers for contract work	20	**641,365**	589,744
Available-for-sale financial assets	23	**152,773**	150,000
Cash and cash equivalents	24	**1,174,540**	1,392,941
Restricted cash	21	**484,155**	407,631
		10,544,621	9,429,046
Total assets		**16,196,664**	15,566,966

Consolidated Balance Sheet *(Continued)*

(All amounts in RMB unless otherwise stated)

	Note	As at 31 December 2017 RMB'000	2016 RMB'000 Restated Note 2.1
EQUITY			
Equity attributable to owners of the Company			
Share capital	25	**3,684,640**	3,684,640
Retained earnings		**3,616,719**	3,441,480
Other reserves	26	**(676,094)**	(548,506)
		6,625,265	6,577,614
Non-controlling interests		**400,263**	580,596
Total equity		**7,025,528**	7,158,210
LIABILITIES			
Non-current liabilities			
Borrowings	29	**1,512,155**	1,553,715
Deferred income	30	**490,844**	502,356
Deferred income tax liabilities	31	**58,346**	70,761
Long-term employee benefit obligations	32	**15,968**	145,987
		2,077,313	2,272,819

Consolidated Balance Sheet *(Continued)*

(All amounts in RMB unless otherwise stated)

	Note	As at 31 December 2017 RMB'000	2016 RMB'000 Restated Note 2.1
Current liabilities			
Trade and other payables	27	**4,928,394**	4,663,711
Dividends payable		**30,077**	27,052
Amounts due to customers for contract work	20	**18,082**	13,018
Current income tax liabilities		**124,286**	35,728
Borrowings	29	**1,925,222**	1,307,604
Deferred income	30	**48,985**	42,307
Current portion of long-term employee benefit obligations	32	**2,189**	30,533
Provision for warranty	28	**16,588**	15,984
		7,093,823	6,135,937
Total liabilities		**9,171,136**	8,408,756
Total equity and liabilities		**16,196,664**	15,566,966

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 145 to 336 were approved by the Board of Directors on 29 March 2018 and were signed on its behalf by:

Wang Yuxiang
Director

Chen Ping
Director

Consolidated Statement of Changes in Equity

(All amounts in RMB unless otherwise stated)

	Attributable to owners of the Company					
	Share capital *RMB'000*	Retained earnings *RMB'000*	Other reserves *RMB'000* *Note 26*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2016 (As previously reported)	3,684,640	3,100,167	(678,400)	6,106,407	448,395	6,554,802
Business combinations under common control *(Note 39)*	–	10,565	66,228	76,793	35,737	112,530
Balance at 1 January 2016 (As restated)	3,684,640	3,110,732	(612,172)	6,183,200	484,132	6,667,332
Comprehensive income						
Profit for the year	–	440,834	–	440,834	61,838	502,672
Changes in fair value of available-for-sale financial assets, net of tax	–	–	(421)	(421)	–	(421)
Share of other comprehensive income of investments accounted for using the equity method	–	–	529	529	–	529
Remeasurements of retirement and termination benefit obligations, net of tax	–	–	1,773	1,773	–	1,773
Net investment hedge	–	–	(13,351)	(13,351)	–	(13,351)
Currency translation differences	–	–	17,517	17,517	–	17,517
Total other comprehensive income, net of tax	–	–	6,047	6,047	–	6,047
Total comprehensive income	–	440,834	6,047	446,881	61,838	508,719
Transactions with owners in their capacity as owners						
Dividends relating to 2015	–	(92,116)	–	(92,116)	–	(92,116)
Transfer to reserves	–	(17,970)	17,970	–	–	–
Dividends to non-controlling interests	–	–	–	–	(11,572)	(11,572)
Capital contribution from non-controlling interests	–	–	–	–	46,400	46,400
Contribution from parent company	–	–	40,000	40,000	–	40,000
Disposal of subsidiaries	–	–	–	–	(553)	(553)
Others	–	–	(351)	(351)	351	–
Total transactions with owners in their capacity as owners	–	(110,086)	57,619	(52,467)	34,626	(17,841)
Balance at 31 December 2016 (As restated)	3,684,640	3,441,480	(548,506)	6,577,614	580,596	7,158,210

Consolidated Statement of Changes in Equity *(Continued)*

(All amounts in RMB unless otherwise stated)

	Attributable to owners of the Company					
	Share capital RMB'000	Retained earnings RMB'000	Other reserves RMB'000 Note 26	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017 (As previously reported)	3,684,640	3,433,583	(654,383)	6,463,840	553,367	7,017,207
Business combinations under common control *(Note 39)*	–	7,897	105,877	113,774	27,229	141,003
Balance at 1 January 2017 (As restated)	3,684,640	3,441,480	(548,506)	6,577,614	580,596	7,158,210
Comprehensive income						
Profit for the year	–	325,047	–	325,047	49,372	374,419
Changes in fair value of available-for-sale financial assets, net of tax	–	–	2,080	2,080	–	2,080
Disposal of available-for-sales financial assets, net of tax	–	–	(3,172)	(3,172)	–	(3,172)
Share of other comprehensive income of investments accounted for using the equity method	–	–	1,295	1,295	–	1,295
Remeasurements of retirement and termination benefit obligations, net of tax	–	–	7,136	7,136	–	7,136
Net investment hedge	–	–	4,635	4,635	–	4,635
Currency translation differences	–	–	1,825	1,825	–	1,825
Total other comprehensive income, net of tax	–	–	13,799	13,799	–	13,799
Total comprehensive income	–	325,047	13,799	338,846	49,372	388,218
Transactions with owners in their capacity as owners						
Dividends relating to 2016	–	(128,963)	–	(128,963)	–	(128,963)
Transfer to reserves	–	(20,845)	20,845	–	–	–
Dividends to non-controlling interests	–	–	–	–	(103,958)	(103,958)
Capital contribution from non-controlling interests	–	–	–	–	5,360	5,360
Disposal of subsidiaries	–	–	(4,163)	(4,163)	–	(4,163)
Business combinations under common control *(Note 39)*	–	–	(147,109)	(147,109)	–	(147,109)
Acquisition of additional interests of subsidiaries	–	–	(10,960)	(10,960)	(131,107)	(142,067)
Total transactions with owners in their capacity as owners	–	(149,808)	(141,387)	(291,195)	(229,705)	(520,900)
Balance at 31 December 2017	3,684,640	3,616,719	(676,094)	6,625,265	400,263	7,025,528

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000 Restated Note 2.1
Cash flows from operating activities			
Cash used in operations	34	**(749,495)**	(17,401)
Interest paid		**(146,802)**	(167,460)
Income tax paid		**(48,355)**	(77,458)
Net cash used in operating activities		**(944,652)**	(262,319)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**(147,109)**	(38,496)
Purchases of available-for-sale financial assets		**(150,000)**	(150,000)
Proceeds from disposal of available-for-sale financial assets		**156,055**	–
Government grants received relating to assets		**51,911**	46,364
Purchases of property, plant and equipment, and investment properties		**(468,558)**	(555,410)
Purchases of intangible assets		**(8,034)**	(7,635)
Investments in associates		**(6,058)**	(23,512)
Net loans granted to a joint venture		**–**	(42,000)
Proceeds from disposal of property, plant and equipment, lease prepayments and intangible assets	34	**295,744**	228,908
Interest received		**15,735**	16,967
Dividends received		**337,004**	426,217
Increase in lease prepayments		**–**	(4,190)
Proceeds from disposal of associates		**63,473**	–
Net cash inflow on disposal of subsidiaries	40	**318,760**	59,740
Net loans proceeds from associates		**–**	50,068
Settlement of loans from related parties		**–**	18,000
Net cash generated from investing activities		**458,923**	25,021

Consolidated Statement of Cash Flows *(Continued)*

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000 Restated Note 2.1
Cash flows from financing activities			
Proceeds from borrowings		**2,083,527**	2,293,882
Repayments of borrowings		**(1,553,347)**	(2,162,792)
Finance lease payments		**(36,607)**	(34,020)
Proceeds from sale and leaseback transactions		**139,046**	4,249
Contribution from parent company		**–**	40,000
Contribution from minority shareholders		**5,360**	46,400
Transactions with non-controlling interests		**(142,067)**	–
Dividends paid to Company's shareholders		**(128,963)**	(92,116)
Dividends paid to non-controlling interests		**(100,933)**	(10,810)
Net cash generated from financing activities		**266,016**	84,793
Net decrease in cash and cash equivalents		**(219,713)**	(152,505)
Cash and cash equivalents at beginning of the year		**1,392,941**	1,549,160
Exchange gains/(losses) on cash and cash equivalents		**1,312**	(3,714)
Cash and cash equivalents at end of the year	24	**1,174,540**	1,392,941

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. GENERAL INFORMATION

Chongqing Machinery & Electric Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in manufacturing and sales of vehicle parts and components, power equipment, general machinery and machinery tools. The Group has operations mainly in the People's Republic of China (the "PRC" or "China").

The Company was established in the PRC on 27 July 2007 as a joint stock company with limited liability as part of the reorganisation of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. ("CQMEHG") in preparation for a listing of the Company's H shares on the Main Board of The Stock Exchange of Hong Kong Limited. CQMEHG is a state-owned enterprise established in the PRC and has been directly under the administration and control of the State-owned Assets Supervision and Administration Commission of Chongqing Municipal Government. The address of the Company's registered office is No. 60, Huangshan Road Central, Northern New District, Chongqing 401123, the PRC.

The H shares of the Company began to list on the Main Board of The Stock Exchange of Hong Kong Limited on 13 June 2008.

The consolidated financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors of the Company on 29 March 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation

Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd. ("CMEIM") and Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd. ("CMETRC") were established by CQMEHG in August 2015 and November 2011, respectively. In November 2017, the Group acquired the entire equity interests in CMEIM and CMETRC for a cash consideration of approximately RMB132,720,000 and RMB14,389,000, respectively (the "Acquisition").

CMEIM, CMETRC and the Group were ultimately controlled by CQMEHG before and after the Acquisition. Accordingly, the aforesaid transactions were regarded as business combinations under common control and Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") applied. These consolidated financial statements incorporated the results of CMEIM and CMETRC as if CMEIM, CMETRC and the Group had always been combined. The consolidated financial statements for the year ended 31 December 2016 have been restated to reflect this common control transaction accordingly. Details of the adjustments for the common control combinations on the Group's financial position as at 31 December 2017 and 2016 and the Group's results for the years then ended are set out in Note 39.

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

The consolidated financial statements have been prepared on a historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and available-for-sale financial assets, which are carried at fair value, and certain employee benefits which are valued annually by independent qualified actuaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 New amendments of HKFRSs adopted by the Group

The Group has applied the following standards and amendments of HKFRSs for the first time for their annual reporting period commencing 1 January 2017:

Amendments	Subject of amendment
Amendments to HKAS 7	Reconciliation of liabilities arising from Financial Activities
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	Disclosure of Interests in Other Entities

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.2 New standards, amendments to existing standards and interpretations of HKFRSs not yet adopted

Certain new accounting standards, amendments to existing standards and interpretations of HKFRSs have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group:

New HKFRSs	Subject	Effective for annual periods beginning on or after
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"	1 January 2018
HKFRS 9 *(Note (i))*	Financial Instruments	1 January 2018
HKFRS 15 *(Note (ii))*	Revenue from Contracts with Customers	1 January 2018
HK(IFRIC)- Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to HKAS 40	Transfers of Investment Property	1 January 2018
Amendments to HKFRS 1 and HKAS 28	Annual Improvements 2014-2016 Cycle	1 January 2018
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16 *(Note (iii))*	Lease	1 January 2019
HK(IFRIC)- Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.2 New standards, amendments to existing standards and interpretations not yet adopted *(continued)*

The Group's assessment of the impact of these new standards, amendments to existing standards and interpretations is set out below.

(i) HKFRS 9 "Financial Instruments"

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018: The financial assets held by the Group include equity instruments that are currently classified as available-for-sale financial assets for which a fair value through other comprehensive income ("FVOCI") election is available and hence there will be no change to the accounting for these assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.2 New standards, amendments to existing standards and interpretations not yet adopted *(continued)*

(i) HKFRS 9 "Financial Instruments" (continued)

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group has confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.2 New standards, amendments to existing standards and interpretations not yet adopted *(continued)*

(i) HKFRS 9 "Financial Instruments" (continued)

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect significant increase or decrease in the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.2 New standards, amendments to existing standards and interpretations not yet adopted *(continued)*

(ii) HKFRS 15 "Revenue from Contracts with Customers"

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has assessed the effects of applying the new standard on the Group's financial statements and does not expect a significant impact on the recognition of revenue.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.2 New standards, amendments to existing standards and interpretations not yet adopted *(continued)*

(iii) HKFRS 16 "Leases"

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for Group's operating leases. As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB89,007,000 (Note 36). The Group estimates those related to payments for short-term and low value lease which will be recognised on straight-line basis as an expense in profit or loss are insignificant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.2 New standards, amendments to existing standards and interpretations not yet adopted *(continued)*

(iii) HKFRS 16 "Leases" (continued)

The Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by the Group

The adoption of this standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Other than the assessment results on HKFRS 9, 15 and 16 stated above which may give rise to some impact, here are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting

(a) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Principles of consolidation and equity accounting *(continued)*

(a) Business combinations *(continued)*

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Principles of consolidation and equity accounting *(continued)*

(b) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to (a)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Principles of consolidation and equity accounting *(continued)*

(c) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (e) below), after initially being recognised at cost.

(d) Joint arrangements

Under HKFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has joint ventures.

Joint ventures

Interests in joint ventures are accounted for using the equity method (see (e) below), after initially being recognised at cost in the consolidated balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Principles of consolidation and equity accounting *(continued)*

(e) Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Principles of consolidation and equity accounting *(continued)*

(f) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Principles of consolidation and equity accounting *(continued)*

(g) Merger accounting for common control combination

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous date of balance sheet or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Principles of consolidation and equity accounting *(continued)*

(g) Merger accounting for common control combination *(continued)*

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

(h) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The operating management committee that make strategic decisions, which have been identified as being the chief operating decision maker.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.5 Foreign currency translation *(continued)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other gains, net'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.5 Foreign currency translation *(continued)*

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates; and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.5 Foreign currency translation *(continued)*

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment *(continued)*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

– Buildings and plants	20 – 50 years
– Equipment and machinery	3 – 28 years
– Motor vehicles	6 – 12 years

For the moulds included in equipment and machinery, the depreciation is calculated using the unit-of-production method to allocate their cost to their residual values over their estimated frequency of use, as follows:

	Estimated production units	Depreciation rate per unit
– Moulds	300 – 500	0.1% – 0.2%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.6 Property, plant and equipment *(continued)*

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains, net' in profit or loss.

Assets under construction represent buildings under construction and plant and equipment pending for installation, and are stated at cost. Costs include construction and acquisition costs. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.7 Investment properties

Investment properties, comprising buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful life of 45 years. The residual values and useful lives of investment properties are reviewed and adjusted as appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.8 Lease prepayments

Lease prepayments represent upfront prepayments made for the land use rights. Lease payments are stated at cost or, in case of restructuring, at valuation which represented the deemed cost to the Group, and are expensed in profit or loss on a straight-line basis over the period of the land use rights or when there is impairment, the impairment is expensed in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Technical know-how

Separately acquired technical know-how is shown at historical cost. Technical know-how acquired in a business combination is recognised at fair value at the acquisition date. Technical know-how has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technical know-how over its estimated useful life of 6 to 10 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.9 Intangible assets *(continued)*

(c) Brand and customer relationships

Brand and customer relationships acquired in a business combination are recognised at fair value at the acquisition date. Brand has an indefinite useful life and is tested annually for impairment and carried at cost less accumulated impairment losses. Customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of customer relationships over their estimated useful lives of 10 to 12 years.

(d) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 to 10 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Intangible assets *(continued)*

(e) Concession assets

The Group engages in certain service concession arrangements in which the Group carries out construction work for the granting authority and receive in exchange a right to operate the assets concerned in accordance with the pre-established conditions set by the granting authority. In accordance with HK (IFRIC) 12, "Service Concession Arrangements", the assets under the concession arrangements may be classified as intangible assets or financial assets. The assets are classified as intangible assets if the operator receives a right (a licence) to charge user of the public service, or as financial assets if paid by the granting authority. If intangible assets model is applicable, the Group classifies the non-current assets linked to the long-term investment in these concession arrangements as "concession assets" within intangible assets classification on the consolidated balance sheets. Once the underlying infrastructure of the concession arrangements has been completed, the concession assets will be amortised over the term of the concession period on the straight-line basis under the intangible assets model. If financial assets model is applicable, the Group classifies the assets in relation to these concession arrangements within financial assets classification on the consolidated balance sheet. Once the underlying infrastructure of the concession arrangements have been completed, the interest of financial assets will be calculated using effective interest rate method and related gain/(loss) will be charged to the profit or loss accordingly over the concession period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.9 Intangible assets *(continued)*

(f) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(ii) management intends to complete the intangible asset and use or sell it;

(iii) there is an ability to use or sell the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.11 Financial assets *(continued)*

2.11.1 Classification *(continued)*

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'restricted cash', and 'cash and cash equivalents' in the consolidated balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.11 Financial assets *(continued)*

2.11.1 Classification *(continued)*

(c) Available-for-sale financial assets

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.11 Financial assets *(continued)*

2.11.2 Recognition and measurement *(continued)*

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within 'other gains, net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss as 'gains on disposal of available-for-sale'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in profit or loss as part of other income, net, when the Group's right to receive payments is established.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.13 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(a) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit of loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.13 Impairment of financial assets *(continued)*

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Derivative and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

(b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or

(c) hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values and movements on the hedging reserve in shareholders' equity are shown in Note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.14 Derivative and hedging activities *(continued)*

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within 'finance costs, net'. The gain or loss relating to the ineffective portion is recognised in profit or loss within 'other gains, net'. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognised in profit or loss within 'finance costs, net'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within 'other gains, net'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.14 Derivative and hedging activities *(continued)*

(b) Cash flow hedge *(continued)*

Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs, net'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss within 'other gains, net'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.14 Derivative and hedging activities *(continued)*

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised in profit or loss within 'other gains, net'.

Gains and losses accumulated in equity are included in profit or loss when the foreign operation is partially disposed of or sold.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.16 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.11 for further information about the Group's accounting for trade receivables and Note 2.13 for a description of the Group's impairment policies.

2.17 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.18 Share capital

Share capital is classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.21 Borrowings costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.22 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.22 Current and deferred income tax *(continued)*

(b) Deferred income tax *(continued)*

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.22 Current and deferred income tax *(continued)*

(b) Deferred income tax *(continued)*

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.23 Employee benefits

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans and post-employment medical plans.

(a) Pension obligations

The Group's subsidiaries in the PRC contribute on a monthly basis to various defined contribution retirement schemes managed by the PRC government. The contributions to the schemes are charged to profit or loss as and when incurred. The Group's obligations are determined at a certain percentage of the salaries of the employees.

The Group also provided supplementary pension subsidies to certain retired employees. Such supplementary pension subsidies are considered as under defined benefit plans. The liability recognised in the balance sheet in respect of these defined benefit plans is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities which have maturity approximating to the terms of the related pension liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.23 Employee benefits *(continued)*

(a) Pension obligations *(continued)*

The current service cost of the defined benefit plan, recognised in the profit or loss in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognised immediately in profit or loss. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in profit or loss.

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The Group's subsidiaries in the United Kingdom operate a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the companies. The annual contributions payable are charged to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.23 Employee benefits *(continued)*

(b) Other post-employment obligations

Some group companies provided post-retirement medical benefits to their retired employees. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

(c) Early retirement benefits

Some companies within the Group bore certain benefits obligation to the qualified early retired staff. Early retirement benefits are for staff who have retired before the retirement age as specified by the national rules. The Group provides various benefits, including early retirement subsidies, continuous contribution of the medical and other welfare benefits to the local governmental authorities up to the retirement age as specified by the national rules. Such benefits are considered as under defined benefit plans. These obligations are valued annually by independent qualified actuaries. The liability recognised in the balance sheet is the present value of the defined obligation at the balance sheet date. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income over the expected average remaining lives of the related employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.23 Employee benefits *(continued)*

(d) Housing fund and other benefits

All full-time employees of the Group's subsidiaries in the PRC are entitled to participate in various government-sponsored housing and other benefits funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(e) Bonus entitlement

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(f) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.24 Provisions

Provisions, mainly warranty costs, are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.26 Construction contracts

Contract costs are recognised as expenses by reference to the stage of the contract of activity at the end of reporting period.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.26 Construction contracts *(continued)*

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2.27 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Revenue from the sales of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the ultimate customers or dealers, as appropriate (normally in the form of delivery of goods to ultimate customers, dealers or parties designated by the dealers), and the ultimate customers, dealers or parties designated by the dealers have accepted the products and collectability of the related receivables is reasonably assured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.27 Revenue recognition *(continued)*

(b) Revenue from construction contracts

Revenue from construction contracts is recognised in accordance with the accounting policy set out in Note 2.26.

(c) Sales of services

For sales of services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(d) Rental income

Rental income is recognised in profit or loss on a straight-line basis over the term of the lease.

(e) Interest income

Interest income from the segment of financial service is recorded within revenue, interest income from other segments is recorded within financial income.

2.28 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivable are recognised using the original effective interest rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.29 Dividend income

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

2.30 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.31 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.32 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or associates to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in profit or loss within 'other gains, net'.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Company.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge the risk exposures.

Risk management is carried out by finance department under policies approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar ("USD"). Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Management has set up a policy to require the group companies to manage their foreign exchange risk against their functional currency.

As at 31 December 2017, if RMB had weakened/strengthened by 1% (2016: 1%) against USD with all other variables held constant, the Group's net profit for the year then ended would have been approximately RMB861,000 (2016: RMB767,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of USD-denominated bank deposits and trade receivables and foreign exchange losses/gains on translation of USD-denominated bank borrowings and trade and other payables.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from interest bearing bank deposits and borrowings. Bank deposits and borrowings at variable rates expose the Group to cash flow interest rate risk. Bank deposits and borrowings at fixed rates expose the Group to fair value interest rate risk. The Group determines the related proportions of its fixed and variable rate contracts depending on the prevailing market conditions. During 2017 and 2016, the Group's bank deposits and borrowings at variable rates were denominated in RMB/USD/Euros ("EUR")/Hong Kong dollar ("HKD")/UK pound ("UKP"). The Group currently does not hedge its exposure to interest rate risk.

As at 31 December 2017, if the interest rate of the Group's cash at bank had been increased/decreased by 10% (2016: 10%) and all other variables were held constant, the Group's post-tax profit for the year then ended would have been increased/decreased by approximately RMB3,819,000 (2016: RMB2,964,000).

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(ii) Cash flow and fair value interest rate risk (continued)

As at 31 December 2017, the Group's bank borrowings at variable rates and at fixed rates are as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Borrowings at variable rates	**1,540,766**	1,299,137
Borrowings at fixed rates	**776,275**	603,293
	2,317,041	1,902,430

As at 31 December 2017, the weighted average interest rates of bank borrowings at variable rates is 4.26% (2016: 4.39%). If the interest rate of the Group's bank borrowings at variable rates had been increased/decreased by 10% (2016: 10%) and all other variables were held constant, the Group's profit before income tax for the year then ended would have been decreased/increased by approximately RMB6,565,000 (2016: RMB5,709,000).

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(b) Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables and amount due from customers for contract work shown on balance sheets.

As at 31 December 2017 and 2016, substantially all the Group's bank deposits are deposited in major banks which are state-owned entities incorporated in the PRC, which management believes are of high credit quality without significant credit risk. The Group's bank deposits as at 31 December 2017 and 2016 were as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Big four commercial banks *(i)*	**247,099**	308,572
Other listed banks	**1,139,229**	1,078,993
Other non-listed banks	**271,551**	411,653
	1,657,879	1,799,218

(i) Big four commercial banks include Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China and Bank of China.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

The Group has policies in place to ensure that sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group assesses the credit quality of each customer by taking into account its financial position, past experience and other factors. Credit limit and terms are reviewed on periodic basis, and the financial department is responsible for such monitoring procedures. In determining whether provision for impairment of receivables is required, the Group takes into consideration the future cash flows, ageing status and the likelihood of collection. In this regards, the directors of the Company are satisfied that the risks are minimal and adequate provision for impairment of receivables, if any, has been made in the financial statements after assessing the collectibility of individual debts. Further quantitative disclosures in respect of the impairment of trade and other receivables are set out in Note 19.

Maximum exposure to off-balance-sheet guarantee risk before collateral held or other credit enhancements:

	Group maximum exposure	
	2017	2016
	RMB'000	*RMB'000*
Financial guarantees	**19,000**	69,000
At 31 December	**19,000**	69,000

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

The Group has guaranteed the bank loans of related parties (Note 37). Under the terms of financial guarantee contracts, the Group will make payments to reimburse the lenders upon failure of the guaranteed entities to make payments when due.

The Group has no other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(c) Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations, borrowings from financial institutions, as well as equity financing through shareholders.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2017				
Bank borrowings	**1,895,061**	**42,306**	**422,627**	**126,555**
Other borrowings	**17,783**	**13,957**	**7,726**	**–**
Corporate bonds	**34,240**	**834,240**	**–**	**–**
Finance lease liabilities	**81,342**	**75,567**	**167,472**	**–**
Trade and other payables	**4,118,851**	**–**	**–**	**–**
Financial guarantee contracts	**19,000**	**–**	**–**	**–**
At 31 December 2016 (As Restated)				
Bank borrowings	1,307,799	197,542	163,760	432,168
Other borrowings	18,944	14,688	21,683	–
Corporate bonds	34,240	34,240	834,240	–
Finance lease liabilities	42,218	38,286	33,630	8,134
Trade and other payables	3,894,486	–	–	–
Financial guarantee contracts	69,000	–	–	–

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.2 Capital management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as borrowings divided by total capital. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus borrowings. The Group aims to maintain the gearing ratio at a reasonable level.

The gearing ratios at 31 December 2017 and 2016 were as follows:

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000* (Restated)
Total borrowings	**3,437,377**	2,861,319
Total equity	**7,025,528**	7,158,210
Total capital	**10,462,905**	10,019,529
Gearing ratio	**33%**	29%

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2017.

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Assets				
Available-for-sale financial assets				
– Equity investment with fixed return rate	–	–	152,773	152,773
Total assets	–	–	152,773	152,773

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016.

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Assets				
Available-for-sale financial assets				
– Equity investment with fixed return rate	–	–	150,000	150,000
– Equity securities	4,267	–	3,000	7,267
Total assets	4,267	–	153,000	157,267

There were no transfers between levels during the year.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(continued)*

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investments classified as trading securities or available-for-sale.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(continued)*

(c) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2017.

	Available-for-sale financial assets – Equity securities *RMB'000*	Available-for-sale financial assets – Equity investment with fixed return rate *RMB'000*	Total *RMB'000*
Balance at 1 January 2017	3,000	150,000	153,000
Additions	–	150,000	150,000
Gains recognised in other comprehensive income	–	2,773	2,773
Disposals	–	(150,000)	(150,000)
Disposal of subsidiaries	(3,000)	–	(3,000)
Balance at 31 December 2017	–	152,773	152,773
Total gains for the period including in profit or loss for assets held at the end of the reporting period	–	–	–

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(continued)*

(c) Financial instruments in level 3 *(continued)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2016.

	Available-for-sale financial assets – Equity securities *RMB'000*	Available-for-sale financial assets – Equity investment with fixed return rate *RMB'000*	Total *RMB'000*
Balance at 1 January 2016	3,000	–	3,000
Additions	–	150,000	150,000
Changes in fair value recognised in profit or loss	–	–	–
Disposals	–	–	–
Balance at 31 December 2016	3,000	150,000	153,000
Total gains for the period including in profit or loss for assets held at the end of the reporting period	–	–	–

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted cash, trade and other receivables and amount due from customers for contract work; and financial liabilities including trade and other payables, short-term borrowings, approximate their fair values due to their short maturities. The fair value of non-current financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments as disclosed in Note 29.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Taxation

The Group is subject to various taxes in the PRC, United Kingdom and Germany. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and tax in the periods in which such estimate is changed.

As at 31 December 2017, the Group has deferred tax assets of approximately RMB68,506,000. To the extent that it is probable that taxable profit will be available against which the deductible temporary differences will be utilised, deferred tax assets are recognised for temporary differences arising from provision for impairment of assets, deferred income, retirement and termination benefit obligations, and warranty and other accrued expenses.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Impairment of non-financial assets

Non-financial assets are reviewed for impairment in accordance with the accounting policy stated in Note 2.10. The recoverable amount of an asset or a cash-generating unit is the higher of an asset's or a cash-generating unit's fair value less costs to sell and value-in-use. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value, which has been prepared on the basis of management's assumptions and estimates.

(c) Impairment of trade and other receivables

Trade and other receivables are reviewed periodically to assess whether impairment losses exist and if they exist, the amounts of the impairment losses are estimated based on historical loss experience for trade and other receivables with similar credit risk. The methodology and assumptions used in estimating future cash flows are reviewed regularly to reduce any difference between the loss estimates and actual amounts.

(d) Write down of inventories

The Group estimates the write down of inventories with reference to aged inventories analyses, projections of expected future sale ability of goods and management experience and judgement. Based on this review, write down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual sale ability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

5. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the operating management committee that are used to make strategic decisions.

The operating management committee considers the business from a product perspective. From a product perspective, management assesses the performance of engines, gear boxes, hydroelectric generation equipment, electrical wires and cables, general machinery, financial services, machinery tools, high-voltage transformers and materials sales. The results of other products operations are included in the "other segments" column.

The operating management committee assesses the performance of the operating segments based on a measure of operating profit.

Sales between segments are carried out in the ordinary course of business and in accordance with the term of the underlying agreements. The revenue from external parties reported to the operating management committee is measured in a manner consistent with that in the statement of comprehensive income.

5. SEGMENT INFORMATION *(CONTINUED)*

The segment information for the year ended 31 December 2017 is as follows:

	Engines RMB'000	Gear boxes RMB'000	Hydroelectric generation equipment RMB'000	Electrical wires and cables RMB'000	General machinery RMB'000	Financial services RMB'000	Machinery tools RMB'000	High-voltage transformers RMB'000	Materials sales RMB'000	Other segments RMB'000	Total RMB'000
Total segment revenue	–	235,566	446,545	1,456,101	1,775,910	112,357	878,618	–	4,363,058	1,203,336	10,471,491
Inter-segment revenue	–	–	–	(5,728)	–	(45,047)	(12,624)	–	(1,046,017)	(69,475)	(1,178,891)
Revenue from external customers	–	235,566	446,545	1,450,373	1,775,910	67,310	865,994	–	3,317,041	1,133,861	9,292,600
Operating (loss)/profit	–	(129,229)	119,889	96,702	67,230	33,408	(12,646)	(427)	872	36,901	212,700
Finance income	–	124	528	291	2,195	–	2,267	10	144	12,170	17,729
Finance costs	–	(140)	(81)	(5,909)	(11,986)	–	(18,989)	–	(1,782)	(81,151)	(120,038)
Share of post-tax profits of associates and a joint venture	264,283	956	–	–	1,698	(13,944)	(1,777)	79,591	–	35,675	366,482
Profit before income tax											476,873
Income tax expense	–	558	(60,543)	(8,966)	255	(9,338)	(15,248)	–	–	(9,172)	(102,454)
Profit for the year											374,419
Other items											
Depreciation on property, plant and equipment and investment properties	–	31,346	14,020	23,356	70,639	96	70,670	41	16	40,979	251,163
Amortisation of lease prepayments and intangible assets	–	2,355	2,060	741	7,382	287	13,083	–	–	2,318	28,226
Write down of inventories	–	35,013	–	705	–	–	836	–	–	6,312	42,866
Provision for/(reversal of) impairment of trade and other receivables	–	2,366	36,063	15,839	633	10,416	(4,240)	–	905	8,681	70,663
Segment assets	348,023	–	2,240,654	712,962	3,259,389	2,060,885	3,204,001	315,442	439,503	3,615,805	16,196,664
Segment assets include:											
Investments in associates and a joint venture	348,023	–	–	–	15,159	–	50,809	298,625	–	334,092	1,046,708
Additions to non-current assets (other than financial instruments and deferred income tax assets)	–	27,818	244,090	3,696	212,102	223	89,081	–	5	78,096	655,111

5. SEGMENT INFORMATION *(CONTINUED)*

The segment information for the year ended 31 December 2016 is as follows:

	Engines RMB'000	Gear boxes RMB'000	Hydroelectric generation equipment RMB'000	Electrical wires and cables RMB'000	General machinery RMB'000	Financial services RMB'000	Machinery tools RMB'000	High-voltage transformers RMB'000	Materials sales RMB'000	Other segments RMB'000 (Restated)	Total RMB'000 (Restated)
Total segment revenue	–	386,242	405,852	1,227,146	1,798,492	98,930	693,403	–	4,261,878	989,704	9,861,647
Inter-segment revenue	–	–	(11)	(4,015)	–	(43,033)	(14,305)	–	(545,251)	–	(606,615)
Revenue from external customers	–	386,242	405,841	1,223,131	1,798,492	55,897	679,098	–	3,716,627	989,704	9,255,032
Operating (loss)/profit	–	(72,894)	3,000	211,137	78,029	21,593	(60,882)	(88)	179	98,156	278,230
Finance income	–	171	1,048	453	988	–	5,698	20	139	11,125	19,642
Finance costs	–	(365)	(631)	(14,589)	(8,787)	–	(42,926)	–	(1,395)	(50,953)	(119,646)
Share of post-tax profits of associates and a joint venture	251,019	(1,457)	–	–	2,195	(7,399)	–	74,466	–	32,804	351,628
Profit before income tax											529,854
Income tax expense	–	8,981	(93)	(32,151)	(3,192)	(5,420)	10,145	–	–	(5,452)	(27,182)
Profit for the year											502,672
Other items											
Depreciation on property, plant and equipment and investment properties	–	20,924	8,607	9,414	70,981	197	66,763	7	50	41,158	218,101
Amortisation of lease prepayments and intangible assets	–	2,569	2,249	735	6,796	270	12,165	–	–	2,870	27,654
Write down/(write back) of inventories	–	10,329	–	3,664	(119)	–	19,393	–	–	6,302	39,569
Provision for/(reversal of) impairment of trade and other receivables	–	999	1,332	946	1,905	11,335	(6,925)	–	(2,182)	38,366	45,776
Provision for impairment on property, plant and equipment	–	–	–	3,927	6,071	–	–	–	–	–	9,998
Segment assets	337,236	1,284,691	1,758,634	672,757	2,551,649	2,525,561	3,153,304	318,514	104,174	2,860,446	15,566,966
Segment assets include:											
Investments in associates and a joint venture	337,236	2,720	9,548	–	22,331	85,935	19,097	306,813	–	262,658	1,046,338
Additions to non-current assets (other than financial instruments and deferred income tax assets)	–	59,754	156,870	9,034	199,425	164	142,574	–	–	70,431	638,252

5. SEGMENT INFORMATION *(CONTINUED)*

Except for Holroyd Precision Limited, Precision Components Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited, PTG Deutschland GmbH ("PTG six entities"), Precision Technologies Group (US) Ltd., Pricision Technologies Group Inc., Holroyd Precision Rotors Inc., Precision Technologies Group Investment Development Company Limited ("PTGHK") and Precision Technologies Group (PTG) Limited, the other entities of the Group are domiciled in the PRC. The Group's total revenue from external customers located in the PRC for the year ended 31 December 2017 is approximately RMB9,076,755,000 (2016: RMB8,941,161,000), and the Group's total revenue from external customers located in other countries is approximately RMB215,845,000 (2016: RMB313,871,000).

As at 31 December 2017, the total of non-current assets other than financial instruments and deferred income tax assets located in the PRC was RMB5,325,856,000 (2016: RMB5,772,372,000), and the total of non-current assets located in other countries was RMB257,681,000 (2016: RMB267,572,000).

6. OTHER GAINS, NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Gains on disposal of lease prepayments, investment properties and property, plant and equipment	**225,066**	141,715
Gains on disposal of available-for-sale financial assets	**4,960**	–
Gains on disposal of associates	**5,024**	–
Gains on disposal of subsidiaries *(Note 40)*	**100,732**	59,831
Changes in fair value of equity interest owned before business combination	**–**	19,185
Others	**10,810**	5,903
	346,592	226,634

7. OTHER INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Government grants in relation to		
– Tax refunds *(a)*	**1,376**	18,031
– Further development of manufacturing technology *(b)*	**33,250**	27,204
– Relocation for environmental protection *(b)*	**14,679**	16,994
– Others	**21,550**	16,776
	70,855	79,005

(a) These tax refunds were granted by local tax authorities in relation to the sales of the Group's certain products.

(b) During the years ended 31 December 2017 and 2016, the Group received certain grants from local government for compensating the Group's expenditures on further development of manufacturing technology and relocation for environmental protection.

8. EXPENSES BY NATURE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Depreciation on property, plant and equipment *(Note 16)*	**248,176**	215,392
Depreciation on investment properties *(Note 17)*	**2,987**	2,709
Amortisation of lease prepayments *(Note 15)*	**12,154**	13,304
Amortisation of intangible assets *(Note 18)*	**16,072**	14,350
Amortisation of deferred income on sell and leaseback transactions *(Note 30)*	**(120)**	(215)
Employee benefit expenses *(Note 9)*	**923,435**	872,504
Changes in inventories of finished goods and work in progress *(Note 22)*	**53,539**	430,027
Raw materials and consumables used *(Note 22)*	**7,531,516**	6,887,021
Transportation costs	**71,186**	72,705
Research and development costs	**198,720**	173,755
Utilities	**99,277**	97,708
Repairs and maintenance expenditure on property, plant and equipment	**29,806**	28,095
Operating lease rentals *(Note 16)*	**46,771**	51,368
Write-down of inventories *(Note 22)*	**42,866**	39,569
Provision for impairment of receivables *(Note 19)*	**70,663**	45,776
Provision for impairment of property, plant and equipment *(Note 16)*	**–**	9,998
Provision for warranty *(Note 28)*	**32,265**	28,947
Auditors' remuneration		
– Annual audit	**3,500**	3,500
Other expenses	**114,534**	295,928
Total cost of sales, distribution costs and administrative expenses	**9,497,347**	9,282,441

9. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Salaries, wages and bonuses	**656,748**	637,438
Contributions to pension plans *(a)*	**81,886**	86,035
Supplemental pension benefits to qualified employees through profit or loss *(b) (Note 32)*		
– Interest cost	**2,086**	6,149
– Addition/(deduction) of termination benefit obligations	**30,432**	(16,529)
Housing benefits *(c)*	**33,172**	36,260
Welfare, medical and other expenses	**119,111**	123,151
	923,435	872,504

(a) The employees of the Group's subsidiaries in the PRC participate in various retirement benefit plans organised by the relevant municipal and provincial government in the PRC, under which the Group is required to make monthly contributions to these plans at rates ranging from 17% to 25%, depending on the applicable local regulations, of the employees' basic salary for the years ended 31 December 2017 and 2016.

The Group's subsidiaries in the United Kingdom operate a defined contributions pension scheme. The assets of the scheme are held separately from those of the companies in an independently administered fund. The pension charge represents contribution payable by the companies and is charged to profit or loss.

(b) The Group provided supplemental pension and other post-employment benefits to certain retired employees. The costs of providing these benefits are charged to profit or loss so as to spread the service cost over the average service lives of the retirees. For details, please refer to Note 32.

9. EMPLOYEE BENEFIT EXPENSES *(CONTINUED)*

(c) These represent contributions to the government-sponsored housing funds (at rates ranging from 7% to 12% of the employees' basic salary) in the PRC.

(d) Five highest paid individuals

For the year ended 31 December 2017, the five individuals whose emolument were the highest in the Group included one supervisor whose emolument are reflected in the analysis presented in Note 45. The emoluments payable to the five (2016: five) highest paid individuals during 2017 are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
– Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,077**	3,386
– Contributions to pension plans	**299**	868
– Discretionary bonuses	**4,111**	3,210
	5,487	7,464

9. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(d) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals Year ended 31 December	
	2017	2016
HKD1,000,001 – HKD1,500,000 (equivalent to approximately RMB835,911– RMB1,253,865)	**5**	4
HKD1,500,001 – HKD3,500,000 (equivalent to approximately RMB1,253,866– RMB2,925,685)	**–**	1
	5	5

10. FINANCE COSTS, NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Finance income		
– Interest income on bank deposits	**17,729**	19,642
Finance costs:		
– Bank borrowings	**(118,660)**	(98,686)
– Corporate bonds	**(37,651)**	(51,836)
– Finance lease liabilities	**(78)**	(100)
– Net exchange gains/(losses)	**2,435**	(7,591)
Less: amounts capitalised in qualifying assets	**33,916**	38,567
	(120,038)	(119,646)
Net finance costs	**(102,309)**	(100,004)

11. SUBSIDIARIES

All the subsidiaries are unlisted.

As at the date of this report, the particulars of the Group's principal subsidiaries are set out in Note 41.

Material non-controlling interests

The total non-controlling interests for the period is approximately RMB49,372,000 (2016: RMB61,838,000), of which approximately RMB20,505,000 (2016: RMB19,557,000) is for Chongqing Machinery and Electronics Holding Group Finance Company Limited ("CMEFC") and approximately RMB20,810,000 (2016: RMB39,713,000) is attributed to Chongqing Pigeon Electric Wire & Cable Co., Ltd. ("Pigeon Wire"). The total non-controlling interests at the end of 31 December 2017 is approximately RMB400,263,000 (2016:RMB580,596,000) of which approximately RMB213,776,000 (2016: RMB400,810,000) is for CMEFC and approximately RMB68,072,000 (2016: RMB69,370,000) is for Pigeon Wire. The non-controlling interests in respect of other subsidiaries are not material.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

11. SUBSIDIARIES *(CONTINUED)*

Summarised balance sheet

	CMEFC		Pigeon Wire	
	As at 31 December		As at 31 December	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current				
Assets	**2,816,100**	3,445,980	**653,366**	566,506
Liabilities	**(2,151,128)**	(2,676,485)	**(584,104)**	(501,641)
Total current net assets	**664,972**	769,495	**69,262**	64,865
Non-current				
Assets	**47,615**	48,486	**206,472**	218,373
Liabilities	**–**	–	**(13,915)**	(16,428)
Total non-current net assets	**47,615**	48,486	**192,557**	201,945
Net assets	**712,587**	817,981	**261,819**	266,810

11. SUBSIDIARIES (CONTINUED)

Summarised statement of comprehensive income

	CMEFC		Pigeon Wire	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	112,357	98,930	1,459,492	1,230,469
Profit before income tax	59,929	45,333	89,004	184,894
Income tax expense	(9,338)	(5,420)	(8,966)	(32,151)
Profit for the year	50,591	39,913	80,038	152,743
Other comprehensive income	–	–	–	–
Total comprehensive income	50,591	39,913	80,038	152,743
Total comprehensive income allocated to non-controlling Interests	20,505	19,557	20,810	39,713
Dividends paid to non-controlling Interests	(76,432)	–	(22,108)	(11,572)

11. SUBSIDIARIES *(CONTINUED)*

Summarised cash flows

	CMEFC		Pigeon Wire	
	Year ended 31 December		Year ended 31 December	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash flows from operating activities				
Cash (used in)/generated from operations	**(154,876)**	135,331	**86,915**	173,649
Interest paid	**(22,952)**	(23,936)	**(11,831)**	(15,313)
Income tax paid	**(12,872)**	(5,926)	**(15,709)**	(29,958)
Net cash (used in)/generated from operating activities	**(190,700)**	105,469	**59,375**	128,378
Net cash (used in)/generated from investing activities	**(299)**	(164)	**40,708**	69,980
Net cash used in financing activities	**(155,984)**	–	**(53,161)**	(204,784)
Net (decrease)/increase in cash and cash equivalents	**(346,983)**	105,305	**46,922**	(6,426)
Cash and cash equivalents at beginning of year	**1,640,421**	1,535,116	**94,015**	100,441
Cash and cash equivalents at end of year	**1,293,438**	1,640,421	**140,937**	94,015

The information above is the amount before inter-company eliminations.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated balance sheet are as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
– Associates	**698,685**	709,102
– Joint venture	**348,023**	337,236
	1,046,708	1,046,338

The amounts recognised in profit or loss are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
– Associates	**102,199**	100,609
– Joint venture	**264,283**	251,019
	366,482	351,628

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investments in associates

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**709,102**	484,977
Additions *(b)*	**6,058**	23,512
Share of profits	**101,619**	102,964
Share of other comprehensive income of investment accounted for using equity method	**1,295**	529
Changed from a subsidiary to an associate *(a)*	**52,586**	39,196
Increase in equity interest of an associate	**–**	64,990
Disposals *(c)*	**(73,697)**	–
Dividends declared	**(98,278)**	(7,066)
At end of the year	**698,685**	709,102

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investments in associates *(continued)*

(a) In July 2017, Chongqing Machine Tools (Group) Co., Ltd. ("Chongqing Machine Tools"), a wholly-owned subsidiary of the Company sold 65% equity interests in Chongqing Shenjian Automotive Drive Part Co., Ltd. ("Chongqing Shenjian") to Zhejiang Shuanghuan Driveline Co., Ltd. ("Shuanghuan Driveline"). After the disposal, the Group holds 35% equity interests in Chongqing Shenjian, and is accounted as an associate (Note 40).

(b) In April and September 2017, the Company acquired 35% and 14% equity interests of Water Gen Power s.r.l ("WGP") at a consideration of approximately RMB1,631,000 and RMB4,427,000 respectively, and WGP is accounted as an associate.

(c) In October 2017, Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear"), a wholly owned subsidiary of the Company sold all the 41% equity interests in Qijiang Qi-Chi High-New Founding Co., Ltd to Qijiang Chenguang Gear Co., Ltd. at a total consideration of approximately RMB2,457,000.

In November 2017, the Company and its subsidiaries Chongqing Machine Tools, Chongqing General Industry (Group) Co., Ltd. ("Chongqing General"), Chongqing Pump Industry Co., Ltd. ("Chongqing Pump") and Chongqing Water Turbine Works Co., Ltd. ("Water Turbine") sold all the 35% equity interests in Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd. ("CQMEM") to CQMEHG at a total consideration of approximately RMB61,016,000. Simultaneously, the Group sold all of its equity interests in Qijiang Gear to CQMEHG, which resulted the Group disposed the 10% equity interests in CQMEM held by Qijiang Gear to CQMEHG (see Note 40).

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investments in associates *(continued)*

(d) As at the date of this report, the particulars of the Group's principal associates are set out in Note 41. All the associates are unlisted companies and there are no quoted market price available, and equity method has been used to account all the associates. There are no contingent liabilities relating to the Group's interest in the associates.

(e) Chongqing ABB Power Transformer Co., Ltd. ("Chongqing ABB"), Chongqing Jiangbei Machinery Co., Ltd. ("Chongqing Jiangbei Machinery"), Chongqing Youyan Smelting New Material Co., Ltd. ("Chongqing Youyan"), Chongqing Hongyan Fangda Automobile Spring Co., Ltd. ("Hongyan"), Chongqing Shenjian and Exedy Chongqing Co., Ltd. ("Exedy") are associates of the Group as at 31 December 2017, which, in the opinion of the directors, are material to the Group.

Summarised financial information for associates

Set out below are the summarised financial information for Chongqing ABB, Chongqing Jiangbei Machinery, Chongqing Youyan, Hongyan, Chongqing Shenjian and Exedy which are accounted for using the equity method.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investments in associates *(continued)*

Summarised balance sheet

	Chongqing ABB		Chongqing Jiangbei Machinery		Chongqing Youyan		Hongyan		Chongqing Shenjian		Exedy	
	As at 31 December		As at 31 December		As at 31 December		As at 31 December		As at 31 December		As at 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB000*	***RMB'000***	*RMB'000*
Current												
Cash and cash equivalents	**66,674**	190,998	**14,232**	16,167	**19,975**	17,654	**15,448**	50,834	**14,708**	2,692	**5,001**	10,326
Other current assets (excluding cash)	**1,219,542**	1,436,693	**130,441**	86,625	**64,544**	54,715	**362,565**	264,057	**114,621**	83,625	**349,833**	341,141
Total current assets	**1,286,216**	1,627,691	**144,673**	102,792	**84,519**	72,369	**378,013**	314,891	**129,329**	86,317	**354,834**	351,467
Financial liabilities (excluding trade payables)	**(106,130)**	(61,520)	**(134,425)**	(91,203)	**-**	-	**(54,027)**	(142,111)	**(116,684)**	(15,188)	**(97,638)**	(105,679)
Other current liabilities (including trade payables)	**(712,859)**	(1,114,465)	**(81,645)**	(63,247)	**(11,007)**	(6,594)	**(176,328)**	(48,657)	**(91,886)**	(28,490)	**(114,600)**	(121,963)
Total current liabilities	**(818,989)**	(1,175,985)	**(216,070)**	(154,450)	**(11,007)**	(6,594)	**(230,355)**	(190,768)	**(208,570)**	(43,678)	**(212,238)**	(227,642)
Non-current												
Assets	**327,178**	366,024	**225,763**	237,171	**20,785**	23,847	**132,970**	143,234	**224,410**	106,132	**164,886**	189,782
Financial liabilities	**(4,391)**	(6,056)	**(12,497)**	(44,211)	**-**	-	**(23,406)**	(51,238)	**-**	-	**(17,250)**	(27,358)
Other liabilities	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**(448)**	(383)
Total non-current liabilities	**(4,391)**	(6,056)	**(12,497)**	(44,211)	**-**	-	**(23,406)**	(51,238)	**-**	-	**(17,698)**	(27,741)
Net assets	**790,014**	811,674	**141,869**	141,302	**94,297**	89,622	**257,222**	216,119	**145,169**	148,771	**289,784**	285,866

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investments in associates *(continued)*

Summarised statement of comprehensive income

	Chongqing ABB Year ended 31 December		Chongqing Jiangbei Machinery Year ended 31 December		Chongqing Youyan Year ended 31 December		Hongyan Year ended 31 December		Chongqing Shenjian Year ended 31 December		Exedy Year ended 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue	**1,432,163**	1,623,111	**158,272**	88,378	**345,782**	245,404	**693,384**	423,584	**97,092**	92,984	**510,177**	520,708
Depreciation and amortisation	**(13,119)**	(12,943)	**(15,087)**	(4,243)	**(3,509)**	(3,566)	**(15,770)**	(16,607)	**6,078**	5,568	**(15,186)**	(16,538)
Interest income	**9,993**	482	**47**	51	**24**	29	**183**	104	**45**	24	**29**	23
Interest expense	**–**	–	**(2,895)**	(2,588)	**–**	–	**(6,074)**	(6,790)	**(36)**	(25)	**(4,158)**	(11,043)
Share of profit of the associate	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(1,430)**	(499)
Profit/(loss) before income tax	**226,878**	326,328	**(489)**	10,974	**10,037**	8,352	**53,863**	44,402	**(3,547)**	(17,726)	**30,852**	35,702
Income tax expense	**(16,320)**	(81,888)	**(448)**	–	**(1,505)**	(1,255)	**(6,218)**	(10,051)	**(55)**	2,501	**(4,636)**	(5,605)
Profit/(loss) for the year	**210,558**	244,440	**(937)**	10,974	**8,532**	7,097	**47,645**	34,351	**(3,602)**	(15,225)	**26,216**	30,097
Other comprehensive income	**–**	–	**1,504**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total comprehensive income	**210,558**	244,440	**567**	10,974	**8,532**	7,097	**47,645**	34,351	**(3,602)**	(15,225)	**26,216**	30,097
Dividends received from the associate	**87,778**	18,469	**–**	–	**1,601**	2,075	**2,879**	1,914	**–**	–	**6,020**	2,145

The information above reflects the amounts presented in the financial statements of the associates (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investments in associates *(continued)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associate.

Summarised financial information	Chongqing ABB Year ended 31 December		Chongqing Jiangbei Machinery Year ended 31 December		Chongqing Youyan Year ended 31 December		Hongyan Year ended 31 December		Chongqing Shenjian Year ended 31 December		Exedy Year ended 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Opening net assets	**811,674**	616,094	**141,302**	95,598	**89,622**	87,525	**216,119**	186,120	**148,771**	118,160	**285,866**	263,712
Capital injection	**–**	–	**–**	34,730	**–**	–	**–**	–	**–**	–	**–**	–
Profit/(loss) for the year	**210,558**	244,440	**(937)**	10,974	**8,532**	7,097	**47,645**	34,350	**(3,602)**	(15,225)	**26,216**	30,097
Other comprehensive income	**–**	–	**1,504**	–	**–**	–	**–**	–	**–**	45,836	**–**	–
Dividend declared	**(232,218)**	(48,860)	**–**	–	**(3,857)**	(5,000)	**(6,542)**	(4,351)	**–**	–	**(22,298)**	(7,943)
Closing net assets	**790,014**	811,674	**141,869**	141,302	**94,297**	89,622	**257,222**	216,119	**145,169**	148,771	**289,784**	285,866
Interest in the associate (37.8%/41%/41.5%/44%/35%/27%) *(Note 41)*	**298,625**	306,813	**58,166**	57,934	**39,133**	37,193	**113,178**	95,093	**50,809**	52,070	**78,242**	77,184
Carrying value	**298,625**	306,813	**58,166**	57,934	**39,133**	37,193	**113,178**	95,093	**50,809**	52,070	**78,242**	77,184

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investment in a joint venture

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**337,236**	326,990
Share of profit	**264,283**	251,019
Dividend declared	**(253,496)**	(240,773)
At end of the year	**348,023**	337,236

As at the date of this report, the particulars of the Group's joint venture, Chongqing Cummins Engine Co., Ltd. ("CQ Cummins") is set out in Note 41. This joint venture is unlisted. There are no contingent liabilities relating to the Group's interest in the joint venture.

Summarised financial information for the joint venture

Set out below is the summarised financial information for CQ Cummins which is accounted for using the equity method.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investment in a joint venture ***(continued)***

Summarised balance sheet

	CQ Cummins	
	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current		
Cash and cash equivalents	**270,605**	118,573
Other current assets (excluding cash)	**1,393,811**	1,447,805
Total current assets	**1,664,416**	1,566,378
Financial liabilities (excluding trade payables)	**–**	–
Other current liabilities (including trade payables)	**(1,439,271)**	(1,330,370)
Total current liabilities	**(1,439,271)**	(1,330,370)
Non-current		
Assets	**521,683**	489,363
Financial liabilities	**(42,000)**	(42,358)
Other liabilities	**(8,782)**	(8,541)
Total non-current liabilities	**(50,782)**	(50,899)
Net assets	**696,046**	674,472

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investment in a joint venture *(continued)*

Summarised statement of comprehensive income

	CQ Cummins	
	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Revenue	**2,808,685**	2,541,463
Depreciation and amortisation	**(33,040)**	(23,358)
Interest income	**7,525**	5,949
Interest expense	**(571)**	(3,656)
Profit before income tax	**624,301**	585,644
Income tax expense	**(95,736)**	(83,607)
Profit for the year	**528,565**	502,037
Other comprehensive income	**–**	–
Total comprehensive income	**528,565**	502,037
Dividends received from the joint venture	**253,496**	240,773

Information above reflects the amounts presented in the financial statements of the joint venture, adjusted for differences in accounting policies between the Group and the joint venture, and not the Group's share of those amounts.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investment in a joint venture *(continued)*

Summarised financial information

	CQ Cummins Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Opening net assets	**674,472**	653,980
Profit for the year	**528,565**	502,037
Other comprehensive income	**–**	–
Dividend declared	**(506,991)**	(481,545)
Closing net assets	**696,046**	674,472
Interest in the joint venture @50%	**348,023**	337,236
Carrying value	**348,023**	337,236

13. TAXATION

(a) Income tax expense

(i) On 6 April 2012, State Taxation Administration issued Notice 12 (2012) ("the Notice") in respect of favorable corporate income tax policy applicable to qualified enterprises located in western China. The Directors of the Company are of the opinion that those group entities previously entitled to the 15% preferential income tax rate during the period from 2001 to 2011, will continue to be qualified under the new policy for the 15% preferential income tax rate from 2012 to 2020.

13. TAXATION *(CONTINUED)*

(a) Income tax expense *(continued)*

(ii) Pursuant to the certificate issued by the Department of Science and Technology in Jilin province on 16 July 2015, Jilin Chong Tong Chengfei New Material Co., Ltd. ("Chongtong Chengfei") is qualified as a high technology company and can enjoy the 15% preferential income tax rate from 2015 to 2017.

(iii) Fu Baotian Cotton Picking Services Co., Ltd., is exempted from income tax due to its principal activity is providing agricultural machinery operation services.

(iv) Other than the abovementioned group entities, the following group entities which are incorporated in the PRC are not entitled to the benefit of abovementioned favourable corporate income tax policy and subject to Corporate Income Tax ("CIT") rate of 25% for the years ended 31 December 2016 and 2017:

– the Company;
– Chongqing Shengpu Materials Co., Ltd.;
– Chongqing Yinhe Forging & Founding Co., Ltd.;
– Chongqing General Industry (Group) Tongkang Water Affairs Co., Ltd.;
– CMEFC;
– Xilinhaote Chenfei Wind Power Equipment Co., Ltd.;
– Chongtong Chengfei Wind Power Equipment Jiangsu Co., Ltd.;
– Chongqing Chongtong Turbine Technology Co., Ltd.;
– CMETRC;
– CMEIM; and
– Water Turbine (2016: 15%)

13. TAXATION *(CONTINUED)*

(a) Income tax expense *(continued)*

(v) The income tax rate of Holroyd Precision Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited, Precision Technologies Group (PTG) Limited and Precision Components Limited is 20% (2016: 20%). The income tax rate of PTG Deutschland GmbH is 15.2% (2016: 15.2%). The income tax rate of Precision Technologies Group Investment Development Company Limited ("PTGHK") is 16.5% (2016: 16.5%). The income tax rate of Precision Technologies Group (US) Limited is 20% (2016: 20%). The income tax rate of Precision Technologies Group Inc. is 34% (2016: 34%). The income tax rate of Holroyd Precision Rotors Inc. is 39% (2016: 39%).

The amount of income tax expense charged to profit or loss represents:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Current income tax	**136,913**	49,277
Deferred income tax *(Note 31)*	**(34,459)**	(22,095)
Income tax expense	**102,454**	27,182

13. TAXATION (CONTINUED)

(a) Income tax expense (continued)

The difference between the actual income tax charge in profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Profit before income tax	**476,873**	529,854
Tax calculated at statutory tax rates applicable to each group entities	**93,704**	89,158
Income not subject to tax		
– Share of profit of associates and joint venture	**(91,580)**	(87,474)
Tax concessions	**(14,664)**	(9,776)
Expenses not deductible for tax purposes	**7,539**	1,925
Temporary differences for which no deferred income tax asset was recognised	**8,990**	8,727
Utilisation of previously tax losses for which no deferred income tax assets was recognised	**(8,793)**	(4,829)
Tax losses for which no deferred income tax asset was recognised	**67,994**	29,451
Utilisation of previously temporary differences for which no deferred income tax asset was recognised	**(3,493)**	–
Change of applicable tax rate	**42,757**	–
Income tax expense	**102,454**	27,182

13. TAXATION *(CONTINUED)*

(a) Income tax expense *(continued)*

The weighted average applicable tax rate for the year ended 31 December 2017 is 20% (2016: 17%). The increase is caused by the incline of profit before tax of the subsidiaries which are subject to income tax rate of 25%.

The tax credit/(charge) relating to components of other comprehensive income is as follows:

	2017			2016		
	Before tax	Tax charge	After tax	Before tax	Tax credit/ (charge)	After tax
Fair value gains/(losses) on available-for-sale financial assets	2,773	(693)	2,080	(495)	74	(421)
Remeasurements of retirement and termination benefit obligations	7,740	(604)	7,136	2,016	(243)	1,773
Other comprehensive income	10,513	(1,297)	9,216	1,521	(169)	1,352
Current tax		–			–	
Deferred income tax *(Note 31)*		(1,297)			(169)	

(b) Value-added tax ("VAT") and related taxes

All companies except Fu Baotian Cotton Picking Services Co., Ltd. now comprising the Group in the PRC are subject to output VAT generally calculated at 17% of the product selling prices. An input credit is available whereby input VAT previously paid on purchases of goods and equipment can be used to offset the output VAT to determine the net VAT payable.

13. TAXATION *(CONTINUED)*

(c) Withholding tax ("WHT") for dividend paid to foreign investors

According to the new CIT law and the detailed implementation regulations, foreign shareholders are subject to a 10% WHT for the dividend repatriated by the Company starting from 1 January 2008. For certain treaty jurisdictions such as Hong Kong which has signed tax treaties with the PRC, the WHT rate is 5%.

WHT will be levied on the foreign shareholders for the dividends relating to 2017 (Note 33).

14. EARNINGS PER SHARE

	Year ended 31 December	
	2017	2016 (Restated)
Profit attributable to owners of the Company *(RMB'000)*	**325,047**	440,834
Weighted average number of ordinary shares in issue *(thousands)*	**3,684,640**	3,684,640
Basic and diluted earnings per share *(RMB per share)*	**0.09**	0.12

Diluted earnings per share is equal to basic earnings per share as there was no potential dilutive ordinary shares outstanding for both years presented.

15. LEASE PREPAYMENTS

Most of the lease prepayments represent the Group's interests in land use rights which are held on leases of between 30 to 50 years in the PRC. The movement is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
At beginning of the year		
Cost	**636,025**	730,872
Accumulated amortisation	**(104,445)**	(102,039)
Net book amount	**531,580**	628,833
For the year		
Opening net book amount	**531,580**	628,833
Additions	**–**	4,190
Disposals	**(36,726)**	(32,978)
Disposals of subsidiaries *(Note 40)*	**(40,362)**	(55,161)
Amortisation charge	**(12,154)**	(13,304)
Closing net book amount	**442,338**	531,580
At end of the year		
Cost	**537,332**	636,025
Accumulated amortisation	**(94,994)**	(104,445)
Net book amount	**442,338**	531,580

(a) All of the amortisation of the Group's land use rights was charged to administrative expenses.

(b) As at 31 December 2017, bank borrowings were secured by certain Group's lease prepayments with an aggregate carrying value of approximately RMB137,410,000 (2016: RMB140,544,000) (Note 29).

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and plants RMB'000	Equipment and machinery and moulds RMB'000	Motor vehicles RMB'000	Assets under construction RMB'000	Total RMB'000
At 1 January 2016 (Restated)					
Cost	1,603,355	2,478,172	108,224	1,432,761	5,622,512
Accumulated depreciation and impairment	(323,354)	(1,434,858)	(82,199)	(6,214)	(1,846,625)
Net book amount	1,280,001	1,043,314	26,025	1,426,547	3,775,887
Year ended 31 December 2016 (Restated)					
Opening net book amount	1,280,001	1,043,314	26,025	1,426,547	3,775,887
Transfers upon completion	105,453	144,969	1,169	(251,591)	–
Additions	1,099	100,696	4,364	503,594	609,753
Additions – sale and leaseback transaction *(Note 30)*	–	6,449	–	–	6,449
Acquisition of subsidiary	648	–	139	–	787
Transfers to investment properties *(Note 17)*	(1,117)	–	–	–	(1,117)
Disposals	(2,188)	(19,218)	(772)	–	(22,178)
Deductions – sale and leaseback transaction *(Note 30)*	–	(6,937)	–	–	(6,937)
Disposals of subsidiaries	(3,593)	(24,601)	(799)	(123,214)	(152,207)
Depreciation charge	(36,101)	(172,945)	(6,346)	–	(215,392)
Impairment charge	–	(9,998)	–	–	(9,998)
Closing net book amount	1,344,202	1,061,729	23,780	1,555,336	3,985,047
At 31 December 2016 (Restated)					
Cost	1,677,454	2,570,324	105,671	1,561,550	5,914,999
Accumulated depreciation and impairment	(333,252)	(1,508,595)	(81,891)	(6,214)	(1,929,952)
Net book amount	1,344,202	1,061,729	23,780	1,555,336	3,985,047

16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

	Buildings and plants RMB'000	Equipment and machinery and moulds RMB'000	Motor vehicles RMB'000	Assets under construction RMB'000	Total RMB'000
Year ended 31 December 2017					
Opening net book amount	1,344,202	1,061,729	23,780	1,555,336	3,985,047
Transfers upon completion	957,566	444,109	1,411	(1,403,086)	–
Additions	122,831	108,231	826	390,286	622,174
Additions – sale and leaseback transaction *(Note 30)*	–	210,637	–	–	210,637
Transfers from investment properties *(Note 17)*	6,570	–	–	–	6,570
Transfers to investment properties *(Note 17)*	(71,699)	–	–	–	(71,699)
Disposals	(17,856)	(11,222)	(75)	(37,432)	(66,585)
Deductions – sale and leaseback transaction *(Note 30)*	–	(210,637)	–	–	(210,637)
Disposals of subsidiaries *(Note 40)*	(267,295)	(431,984)	(1,792)	(3,184)	(704,255)
Depreciation charge	(52,170)	(190,410)	(5,596)	–	(248,176)
Closing net book amount	2,022,149	980,453	18,554	501,920	3,523,076
At 31 December 2017					
Cost	2,356,319	2,182,093	87,807	508,134	5,134,353
Accumulated depreciation and impairment	(334,170)	(1,201,640)	(69,253)	(6,214)	(1,611,277)
Net book amount	2,022,149	980,453	18,554	501,920	3,523,076

16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(a) Depreciation of the property, plant and equipment has been charged to profit or loss as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Cost of sales	**203,749**	169,802
Administrative expenses	**43,548**	44,258
Selling expenses	**879**	1,332
	248,176	215,392

(b) Bank borrowings were secured by certain Group's property, plant and equipment with an aggregate carrying value of approximately RMB532,501,000 as at 31 December 2017 (2016: RMB605,545,000) (Note 29).

(c) Lease rental expenses amounting to approximately RMB46,771,000 (2016: RMB51,368,000) relating to the lease of property were included in profit or loss (Note 8).

16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(d) Equipment and machinery includes the following amounts where the Group is a lessee under a finance lease:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Cost – Construction in progress	**119,399**	137,410
Cost – Equipment and machinery	**246,821**	16,506
Accumulated depreciation	**(5,514)**	(4,786)
Net book amount	**360,706**	149,130

The Group leases various equipment and machinery under non-cancellable finance lease agreements. All the lease terms are within 5 years.

(e) For the year ended 31 December 2017, interest expense of approximately RMB33,916,000 (2016: RMB38,567,000) arising from borrowings has been capitalized in the cost of property, plant and equipment at the weighted average interest rate of 4.42% (2016: 4.44%) per annum.

17. INVESTMENT PROPERTIES

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
At beginning of year		
Cost	**59,897**	78,492
Accumulated depreciation	**(31,902)**	(36,085)
Net book amount	**27,995**	42,407
For the year		
Opening net book amount	**27,995**	42,407
Transfer from owner-occupied property *(Note 16)*	**71,699**	1,117
Transfer to owner-occupied property *(Note 16)*	**(6,570)**	–
Depreciation charge	**(2,987)**	(2,709)
Disposals	**–**	(12,820)
Closing net book amount	**90,137**	27,995
At end of year		
Cost	**125,026**	59,897
Accumulated depreciation	**(34,889)**	(31,902)
Net book amount	**90,137**	27,995
Fair value at end of the year	**302,673**	202,457

17. INVESTMENT PROPERTIES *(CONTINUED)*

(a) Amounts recognised in profit and loss for investment properties

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Rental income	**20,224**	15,435
Direct operating expenses from property that generated rental income	**(2,987)**	(2,709)

(b) Depreciation of the Group's investment properties has been charged to profit or loss as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Cost of sales	**2,987**	2,709

As at 31 December 2016 and 2017, the Group had no unprovided contractual obligations for future repairs and maintenance.

(c) The Group's investment properties is analysed as follows:

As at 31 December 2016 and 2017, the fair value of investment properties is measured using significant unobservable inputs (level 3).

17. INVESTMENT PROPERTIES *(CONTINUED)*

(c) The Group's investment properties is analysed as follows (continued):

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers between levels 1, 2 and 3 during 2017 and 2016.

Valuation techniques

The valuation of investment property was determined using the direct comparison approach. Sales prices of comparable properties in close proximity are adjusted for property's size and the ageing degree.

The significant unobservable inputs adopted include:

Recent market price	—	Based on the actual market selling price of the properties.
Property's size	—	Based on the size of the properties.
The ageing degree	—	Based on the years of the properties used.

Description – Office building	**Fair value** *RMB'000*	**Valuation technique**	**Unobservable inputs**
At 31 December 2016	202,457	Direct comparison approach	RMB4,500 -RMB75,000 per square meter
At 31 December 2017	302,673	Direct comparison approach	RMB4,500 -RMB75,000 per square meter

17. INVESTMENT PROPERTIES *(CONTINUED)*

(d) Leasing arrangements

Certain investment properties are leased to tenants under long-term operating leases with rental payable at regular intervals during the year based on the payment terms. Minimum lease receipts under non-cancellable operating leases of investment properties not recognised in the consolidated financial statements are receivable as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Not later than 1 year	**11,282**	8,626
Later than 1 year and not later than 5 years	**30,719**	45,138
	42,001	53,764

18. INTANGIBLE ASSETS

	Goodwill	Technical know-how	Computer software	Brand	Customer relationships	Concession assets	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016 (Restated)								
Cost	143,018	78,195	24,798	28,556	73,345	64,826	14,074	426,812
Accumulated amortisation	–	(52,173)	(20,324)	–	(37,565)	(4,709)	(14,074)	(128,845)
Net book amount	143,018	26,022	4,474	28,556	35,780	60,117	–	297,967
Year ended 31 December 2016 (Restated)								
Opening net book amount	143,018	26,022	4,474	28,556	35,780	60,117	–	297,967
Additions	294	17,344	2,896	–	–	3,028	747	24,309
Amortisation charge	–	(3,090)	(1,903)	–	(6,377)	(2,739)	(241)	(14,350)
Closing net book amount	143,312	40,276	5,467	28,556	29,403	60,406	506	307,926
At 31 December 2016 (Restated)								
Cost	143,312	95,539	26,934	28,556	73,345	67,854	14,821	450,361
Accumulated amortisation	–	(55,263)	(21,467)	–	(43,942)	(7,448)	(14,315)	(142,435)
Net book amount	143,312	40,276	5,467	28,556	29,403	60,406	506	307,926
Year ended 31 December 2017								
Opening net book amount	**143,312**	**40,276**	**5,467**	**28,556**	**29,403**	**60,406**	**506**	**307,926**
Additions	**–**	**29,903**	**3,034**	**–**	**–**	**–**	**–**	**32,937**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**(74)**	**(74)**
Disposals of subsidiaries *(Note 40)*	**–**	**–**	**(337)**	**(16,300)**	**(10)**	**–**	**(20)**	**(16,667)**
Amortisation charge	**–**	**(4,459)**	**(1,947)**	**–**	**(6,224)**	**(3,362)**	**(80)**	**(16,072)**
Closing net book amount	**143,312**	**65,720**	**6,217**	**12,256**	**23,169**	**57,044**	**332**	**308,050**
At 31 December 2017								
Cost	**143,312**	**125,442**	**28,236**	**12,256**	**55,045**	**67,854**	**14,727**	**446,872**
Accumulated amortisation	**–**	**(59,722)**	**(22,019)**	**–**	**(31,876)**	**(10,810)**	**(14,395)**	**(138,822)**
Net book amount	**143,312**	**65,720**	**6,217**	**12,256**	**23,169**	**57,044**	**332**	**308,050**

18. INTANGIBLE ASSETS *(CONTINUED)*

(a) For the year ended 31 December 2017, amortisation of RMB2,015,000 (2016: RMB1,017,000) was charged to cost of sales and RMB14,057,000 (2016: RMB13,333,000) was charged to administrative expenses.

(b) Development cost of approximately RMB24,466,000 were capitalized by the Group during the year ended 31 December 2017 (2016: RMB16,380,000).

(c) Brand is treated as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely.

(d) Impairment tests for goodwill and brand

As set out in HKAS 36 "Impairment of Assets", a cash-generating unit is the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of cash flows from other assets or groups of assets. For the purpose of impairment testing of goodwill, goodwill is allocated to the Group's cash-generating unit (CGU), Chongqing CAFF Automotive Braking & Steering System Co. Ltd. ("CAFF"), PTG six entities and Power Transformer Co., Ltd. ("Power Transformer") identified according to the business acquired. The amounts allocated to CGU are as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
CAFF	**15,368**	15,368
PTG six entities	**127,650**	127,650
Power Transformer	**294**	294
	143,312	143,312

18. INTANGIBLE ASSETS *(CONTINUED)*

(d) Impairment for goodwill and brand *(continued)*

Brand is allocated to the Group's cash-generating unit (CGU), Qijiang Gear and PTG six entities identified according to the business acquired. The amounts allocated to CGU are as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Qijiang Gear *(i)*	–	16,300
PTG six entities	**12,256**	12,256
	12,256	28,556

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the manufacturing of automobile relating products and machinery tools in which the CGU operates.

(i) Qijiang Gear was disposed in 2017 (Note 40).

18. INTANGIBLE ASSETS *(CONTINUED)*

(d) Impairment for goodwill and brand *(continued)*

The key assumptions used for value-in-use calculations in 2017 are as follows:

	CAFF	PTG six entities
Sales volume (% annual growth rate)	4%	16%
Sales price (% annual growth rate)	0%	0%
Gross margin (% of revenue)	16%- 18%	44%- 46%
Long term growth rate	1%	0%
Pre-tax discount rate	15%	21%
Recoverable amount of the CGUs	N/A	N/A

Qijiang Gear was disposed in 2017 (Note 40).

The key assumptions used for value-in-use calculations in 2016 are as follows:

	CAFF	Qijiang Gear	PTG six entities
Sales volume (% annual growth rate)	4%	36%	16%
Sales price (% annual growth rate)	0%	0%	0%
Gross margin (% of revenue)	17%- 19%	20%	42%- 45%
Long term growth rate	1%	3%	0%
Pre-tax discount rate	15%	17%	21%
Recoverable amount of the CGUs	N/A	N/A	N/A

18. INTANGIBLE ASSETS *(CONTINUED)*

(d) Impairment for goodwill and brand *(continued)*

These assumptions have been used for the analysis of the CGU within the business.

Sales volume is the average annual growth rate over the five-year forecast period. It is based on past performance and management's expectations of market development.

Sales price is the average annual growth rate over the five-year forecast period. It is based on current industry trends and includes long term inflation forecasts for each CGU.

Gross margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels.

The long term growth rates used are consistent with the forecasts included in industry reports.

The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

According to the test results, there is no impairment for goodwill and brand.

19. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Trade and bills receivables *(a)*	**4,199,062**	3,505,005
Less: provision for impairment of trade receivables	**(315,747)**	(273,941)
Trade and bills receivables, net	**3,883,315**	3,231,064
Deposits paid	**95,474**	92,635
Less: provision for impairment of deposits paid	**(11,844)**	(11,726)
Deposits paid, net	**83,630**	80,909
Loans	**1,475,200**	1,262,499
Less: provision for impairment of loans	**(29,128)**	(18,712)
Loans, net	**1,446,072**	1,243,787
Prepayments	**434,916**	236,202
Staff advances	**35,861**	32,274
Others	**718,535**	500,932
Less: provision for impairment of receivables other than trade receivables, loans and deposits paid	**(41,096)**	(41,284)
Others, net	**677,439**	459,648
	6,561,233	5,283,884
Less: long-term receivables	**(670)**	(1,138)
long-term loans	**(129,989)**	(85,989)
provision for impairment of long-term loans	**1,095**	660
Less: long-term loans and receivables, net	**(129,564)**	(86,467)
Current portion	**6,431,669**	5,197,417

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

As at 31 December 2017, all loans were provided to related parties (Note 37). The effective interest rates of these loans ranged from 1.20% to 5.75% for the year ended 31 December 2017 (2016: 1.20% to 6.02%).

The Group transferred certain trade receivables to a third party with a total amount of RMB350,000,000 in December 2016.

(a) Ageing analysis of the trade and bills receivables at respective balance sheet dates are as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Less than 30 days	**1,508,895**	1,051,915
31 days to 90 days	**600,747**	605,989
91 days to 1 year	**1,158,159**	1,172,164
1 year to 2 years	**491,819**	301,492
2 years to 3 years	**137,712**	124,551
Over 3 years	**301,730**	248,894
	4,199,062	3,505,005

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(a) Aging analysis of the trade and bills receivables at respective balance sheet dates are as follows (continued):

As at 31 December 2017, trade and bills receivables of approximately RMB1,751,036,000 (2016: RMB1,515,453,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The analysis of ageing, which were counted from the day of recognition of trade receivables, is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
91 days to 1 year	**1,152,199**	1,154,733
1 year to 2 years	**428,983**	271,415
2 years to 3 years	**107,920**	89,305
Over 3 years	**61,934**	–
	1,751,036	1,515,453

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(a) Aging analysis of the trade and bills receivables at respective balance sheet dates are as follows (continued):

As at 31 December 2017, trade receivables of approximately RMB338,384,000 (2016: RMB331,648,000) were impaired. The amount of provision was approximately RMB315,747,000 as at 31 December 2017 (2016: RMB273,941,000). The individually impaired receivables mainly relate to certain customers, which are in difficult financial situations. It was assessed that a portion of the receivables is expected to be recovered based on the past collection history under similar circumstances. The ageing of these receivables is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
91 days to 1 year	**5,960**	17,431
1 year to 2 years	**62,836**	30,077
2 years to 3 years	**29,792**	35,246
Over 3 years	**239,796**	248,894
	338,384	331,648

(b) There is no concentration of credit risk with respect to the Group's trade receivables, as the Group has a large number of customers which are widely dispersed.

(c) The carrying amounts of the current portion of trade and other receivables approximate their fair value.

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
RMB	**6,404,313**	5,200,051
GBP	**43,763**	35,300
USD	**94,232**	8,043
EUR	**2,844**	29,366
HKD	**16,081**	11,124
	6,561,233	5,283,884

(e) Movements on the provision for impairment of trade and other receivables are as follows:

Trade receivables

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**273,941**	283,672
Provision for impairment of receivables	**60,063**	10,124
Disposal of subsidiaries	**(17,679)**	(12,943)
Receivables written off during the year as uncollectible	**(578)**	(6,912)
At end of the year	**315,747**	273,941

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(e) Movements on the provision for impairment of trade and other receivables are as follows (continued):

Deposits paid

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
At beginning of the year	**11,726**	12,349
Provision for impairment of deposits paid	**118**	1
Disposal of subsidiaries	**–**	(624)
At end of the year	**11,844**	11,726

Short-term loans

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**18,052**	6,952
Provision for impairment of short-term loans	**9,981**	11,100
At end of the year	**28,033**	18,052

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(e) Movements on the provision for impairment of trade and other receivables are as follows (continued):

Long-term loans

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**660**	424
Provision for impairment of long-term loans	**435**	236
At end of the year	**1,095**	660

Others

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**41,284**	16,969
Provision for impairment of receivables other than trade receivables, loans and deposits paid	**66**	24,315
Disposal of subsidiaries	**(28)**	–
Receivables written off during the year as uncollectible	**(226)**	–
At end of the year	**41,096**	41,284

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in profit or loss (Note 8).

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(f) The general credit period granted to customers is up to 90 days.

(g) As at 31 December 2017, the Group's bills receivables with carrying value of approximately RMB17,000,000 were secured for the Group's borrowings (Note 29).

(h) Refer to Note 37 for Group's trade and other receivables due from related parties.

(i) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Loans to related parties of approximately RMB81,500,000 (2016: RMB52,750,000) were secured by certain property, plant and equipment with an aggregate fair value of approximately RMB161,240,000 (2016: RMB75,364,000) as at 31 December 2017.

(j) The other classes within trade and other receivables do not contain impaired assets.

20. CONTRACT WORK-IN-PROGRESS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Contract cost incurred plus recognised profit less recognised losses	**1,890,551**	1,888,113
Less: progress billings	**(1,267,268)**	(1,311,387)
Contract work-in-progress	**623,283**	576,726
Representing:		
Amount due from customers for contract work	**641,365**	589,744
Amount due to customers for contract work	**(18,082)**	(13,018)
	623,283	576,726

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Contract revenue recognised as revenue in the year	**418,733**	348,542

21. RESTRICTED CASH

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Restricted cash denominated in RMB	**484,155**	407,631

The restricted cash held in dedicated bank accounts was pledged as security for the bills payable and issuance of letters of credit.

22. INVENTORIES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Raw materials	**333,829**	365,712
Work in progress	**476,038**	449,188
Finished goods	**535,655**	601,312
Consumables	**54,069**	29,544
	1,399,591	1,445,756

For the year ended 31 December 2017, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB7,585,055,000 (2016: RMB7,317,048,000).

For the year ended 31 December 2017, write-down of inventories recognised in cost of sales in profit or loss amounted to approximately RMB42,866,000 (2016: RMB39,569,000).

As at 31 December 2017, the provision for inventory write-down was approximately RMB101,063,000 (2016: RMB128,045,000). For the year ended 31 December 2017, the Group reversed provision amounted to approximately RMB3,968,000 (2016: RMB3,068,000) as the Group sold those goods which were written down.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**157,267**	7,763
Additions	**150,000**	150,000
Disposals	**(154,267)**	–
Disposal of subsidiaries *(Note 40)*	**(3,000)**	–
Changes in fair value	**2,773**	(496)
At end of the year	**152,773**	157,267
Less: non-current portion	**–**	(7,267)
Current portion	**152,773**	150,000

Available-for-sale financial assets include the following:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Listed:		
– Entity securities	**–**	4,267
Unlisted:		
– Entity securities	**–**	3,000
– Equity investment with fixed return rate	**152,773**	150,000
	152,773	157,267

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(CONTINUED)*

For the year ended 31 December 2017, the Group entered into an investment agreement (the "Investment Agreement") in relation to the investment of equity with fixed return rate managed by Chongqing Rural Commercial Bank.

All available-for-sale financial assets are denominated in RMB.

The fair values of unlisted securities and equity investments are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted securities. The fair values are within level 3 of the fair value hierarchy (see Note 3.3).

None of these financial assets is past due or impaired.

24. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Cash on hand	**816**	1,354
Cash at bank	**50,000**	400,567
Short-term bank deposits *(a)*	**1,123,724**	991,020
Cash and cash equivalents	**1,174,540**	1,392,941

(a) Short-term bank deposits can be withdrawn at the discretion of the Group without any restriction or significant compensation to the bank.

25. SHARE CAPITAL

	Number of Shares	Domestic shares	H shares	Total shares
	In thousand	*In thousand*	*In thousand*	*In thousand*
Registered, issued and fully paid				
At 1 January 2016 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640
At 31 December 2016 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640
At 31 December 2017 (nominal value of RMB1.00 each)	**3,684,640**	**2,584,453**	**1,100,187**	**3,684,640**

All the domestic shares and H shares are rank pari passu in all aspects.

26. OTHER RESERVES

	Capital reserve RMB'000	Investment revaluation reserve RMB'000	Net investment hedge RMB'000	Remeasurements of retirement and termination benefit reserve RMB'000	Statutory reserve fund RMB'000	Currency translation RMB'000	Total RMB'000
At 1 January 2016 (As previously reported)	(997,337)	3,569	–	4,132	311,736	(500)	(678,400)
Business combination under common control *(Note 39)*	63,429	–	–	–	2,799	–	66,228
At 1 January 2016 (As restated)	(933,908)	3,569	–	4,132	314,535	(500)	(612,172)
Changes in fair value of available-for-sale financial assets, net of tax	–	(421)	–	–	–	–	(421)
Share of other comprehensive income of investments accounted for using equity method	–	529	–	–	–	–	529
Remeasurements of retirement and termination benefit obligations, net of tax	–	–	–	1,773	–	–	1,773
Currency translation differences	–	–	–	–	–	17,517	17,517
Net investment hedge	–	–	(13,351)	–	–	–	(13,351)
Transfer to reserves	–	–	–	–	17,970	–	17,970
Contribution from CQMEHG	40,000	–	–	–	–	–	40,000
Others	(351)	–	–	–	–	–	(351)
At 31 December 2016 (As restated)	(894,259)	3,677	(13,351)	5,905	332,505	17,017	(548,506)

26. OTHER RESERVES *(CONTINUED)*

	Capital reserve *RMB'000*	Investment revaluation reserve *RMB'000*	Net investment hedge *RMB'000*	Remeasurements of retirement and termination benefit reserve *RMB'000*	Statutory reserve fund *RMB'000*	Currency translation *RMB'000*	Total *RMB'000*
At 1 January 2017 (As restated)	(894,259)	3,677	(13,351)	5,905	332,505	17,017	(548,506)
Disposal of available-for-sale financial assets, net of tax	–	(3,172)	–	–	–	–	(3,172)
Changes in fair value of available-for-sale financial assets, net of tax	–	2,080	–	–	–	–	2,080
Share of other comprehensive income of investments accounted for using equity method	–	1,295	–	–	–	–	1,295
Remeasurements of retirement and termination benefit obligations, net of tax	–	–	–	7,136	–	–	7,136
Currency translation differences	–	–	–	–	–	1,825	1,825
Net investment hedge *(b)*	–	–	4,635	–	–	–	4,635
Disposal of subsidiaries	–	–	–	–	(4,163)	–	(4,163)
Business combination under common control *(Note39)*	(147,109)	–	–	–	–	–	(147,109)
Acquisition of additional interests of subsidiaries	(10,960)	–	–	–	–	–	(10,960)
Transfer to reserves *(a)*	–	–	–	–	20,845	–	20,845
At 31 December 2017	(1,052,328)	3,880	(8,716)	13,041	349,187	18,842	(676,094)

26. OTHER RESERVES *(CONTINUED)*

(a) In accordance with the relevant laws and regulations in the PRC and the Articles of Association of the Company, it is required to appropriate 10% of its annual net profit, after offsetting any prior years' losses as determined under the PRC Accounting Standards for Business Enterprises, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the Company's share capital, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholders or by increasing the par value of the shares currently held by them. The fund is non-distributable except for liquidation situation.

Pursuant to the Articles of Association of the Company, approximately RMB20,845,000 was appropriated to the statutory surplus reserve fund from the net profit for the year ended 31 December 2017 (2016: RMB17,970,000).

(b) A proportion of the Group's US dollar-denominated borrowings amounting to USD11,500,000 is designated as a hedge of the net investment in the Group's US subsidiary. The fair value of the borrowings at 31 December 2017 was approximately RMB74,769,000. The foreign exchange gain of approximately RMB4,635,000 on translation of the borrowings to corresponding functional currency at the end of the year is recognised in other comprehensive income.

27. TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Deposit taking	**877,057**	1,100,010
Trade and bills payables *(a)*	**2,759,082**	2,357,028
Other taxes payable	**97,120**	107,625
Other payables	**468,905**	425,481
Interest payable	**11,251**	10,759
Accrued payroll and welfare	**55,504**	74,283
Advances from customers	**659,475**	588,525
	4,928,394	4,663,711

As at 31 December 2017, all deposit taking were due to related parties (Note 37). The effective interest rates of current deposit taking ranged from 0.37% to 2.89% for the year ended 31 December 2017 (2016: 0.37% to 3.02%).

27. TRADE AND OTHER PAYABLES *(CONTINUED)*

(a) As at 31 December 2017 and 2016, the ageing analysis of the trade and bills payables of the Group was as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Less than 30 days	**519,077**	605,674
31 days to 90 days	**508,858**	629,494
91 days to 1 year	**1,413,390**	868,000
1 year to 2 years	**168,659**	151,529
2 years to 3 years	**87,494**	55,695
Over 3 years	**61,604**	46,636
	2,759,082	2,357,028

(b) Refer to Note 37 for payables due to related parties.

28. PROVISIONS FOR WARRANTY

Provisions for warranty represents the warranty costs for after–sale services of certain vehicle parts and components, which are estimated based on present after-sale service policies and prior years' experiences on the incurrence of such costs. Such provision for warranty was charged to 'cost of sales' in profit or loss.

	Provision for warranty
	RMB'000
At 1 January 2016	15,519
Charged to cost of sales *(Note 8)*	28,947
Utilised during the year	(28,482)
At 31 December 2016	15,984
Charged to cost of sales *(Note 8)*	32,265
Utilised during the year	(31,661)
At 31 December 2017	16,588

29. BORROWINGS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Non-current		
Borrowings *(1)*	**1,304,554**	1,478,935
Finance lease liabilities *(2)*	**207,601**	74,780
	1,512,155	1,553,715
Current		
Borrowings *(1)*	**1,847,393**	1,270,857
Finance lease liabilities *(2)*	**77,829**	36,747
	1,925,222	1,307,604
Total borrowings	**3,437,377**	2,861,319

29. BORROWINGS *(CONTINUED)*

(1) Borrowings

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Non-current		
Long-term bank borrowings – secured *(a)*	**295,000**	295,000
Long-term bank borrowings – unsecured *(b)*	**191,068**	353,539
	486,068	648,539
Corporate bonds *(d)*	**797,674**	796,264
Other secured borrowings *(a)*	**20,812**	34,132
Total non-current borrowings	**1,304,554**	1,478,935
Current		
Bank borrowings		
– secured *(a)*	**16,250**	5,000
– unsecured *(b)*	**1,814,723**	1,248,891
	1,830,973	1,253,891
Other secured borrowings *(a)*	**13,320**	13,866
Other unsecured borrowings *(c)*	**3,100**	3,100
Total current borrowings	**1,847,393**	1,270,857
	3,151,947	2,749,792

29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(a) As at 31 December 2017, all these borrowings were secured by certain Group's lease prepayments and property, plant and equipment and bills receivables with net book value of approximately RMB137,410,000, RMB532,501,000 and RMB17,000,000 respectively (Notes 15,16 and 19).

As at 31 December 2016, all these borrowings were secured by certain Group's lease prepayments and property, plant and equipment with net book value of approximately RMB140,544,000 and RMB605,545,000, respectively (Notes 15 and 16).

(b) As at 31 December 2017, bank borrowings of approximately RMB182,000,000 were guaranteed by CQMEHG (2016: RMB182,000,000).

(c) As at 31 December 2017 and 2016, borrowings due to independent third parties of RMB3,100,000 were to support the Group's construction of certain production facilities.

(d) In September 2016, the Company issued RMB800,000,000 corporate bonds, which are guaranteed by CQMEHG, at annual interest rate of 4.28% and with maturity of 5 years (including the option for the Company to raise the coupon rate and the option for the bond holders to redeem the bond at the end of the third year). As at 31 December 2017, the bond are measured at approximately RMB797,674,000 at the amortized cost.

29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(e) The maturities of the Group's borrowings at respective balance sheet dates are set out as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Total borrowings		
– Within 1 year	**1,847,393**	1,270,857
– Between 1 and 2 years	**823,433**	169,733
– Between 2 and 5 years	**359,873**	924,357
– Above 5 years	**121,248**	384,845
	3,151,947	2,749,792

(f) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
RMB	**2,865,061**	2,474,813
GBP	**159,948**	144,660
USD	**117,220**	124,494
EUR	**9,718**	5,825
	3,151,947	2,749,792

29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(g) The weighted average effective interest rates at respective balance sheet dates are set out as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Bank borrowings	**4.12%**	4.40%
Corporate bonds	**4.28%**	4.28%

(h) The carrying amounts of current portion of non-current and current borrowings are approximate to their fair values.

The carrying value and fair value of non-current borrowings are set out as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Carrying amount		
Bank borrowings	**486,068**	648,539
Other borrowings	**20,812**	34,132
Corporate bonds	**797,674**	796,264
	1,304,554	1,478,935
Fair value		
Bank borrowings	**523,543**	664,631
Other borrowings	**20,979**	34,475
Corporate bonds	**807,519**	806,943
	1,352,041	1,506,049

29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(h) The carrying value and fair value of non-current borrowings are set out as follows *(continued)*:

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at respective balance sheet dates, ranging from 1.20% to 5.00% (2016: 1.20% to 5.00%) and are within level 2 of the fair value hierarchy.

(i) At each balance sheet date, the Group had the following undrawn borrowing facilities:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
– Expiring within 1 year (bank loans and bill facilities)	**3,556,535**	3,207,952
– Expiring beyond 1 year (bank loans)	**205,000**	205,000
	3,761,535	3,412,952

29. BORROWINGS *(CONTINUED)*

(2) Finance lease liabilities

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	**81,342**	42,218
Later than 1 year and no later than 5 years	**243,039**	80,050
	324,381	122,268
Unrecognised future finance charges on finance leases	**(38,951)**	(10,741)
Present value of finance lease liabilities	**285,430**	111,527

The present value of finance lease liabilities is analysed as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
– Within 1 year	**77,829**	36,747
– Later than 1 year and no later than 5 years	**207,601**	74,780
	285,430	111,527

30. DEFERRED INCOME

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Non-current		
– Government grants *(a)*	**464,006**	474,317
– Deferred income on sell and lease back transactions *(b)*	**1,729**	1,800
– Deferred rental income *(c)*	**25,109**	26,239
	490,844	502,356
Current		
– Government grants *(a)*	**39,686**	41,328
– Deferred income on sell and lease back transactions *(b)*	**169**	218
– Deferred rental income *(c)*	**9,130**	761
	48,985	42,307
Total deferred income	**539,829**	544,663

30. DEFERRED INCOME *(CONTINUED)*

(a) Government grants

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
At beginning of the year	**515,645**	466,202
Additions		
– government grants relating to assets	**51,911**	114,805
Deductions		
– created to profit or loss	**(47,721)**	(53,322)
– decrease from disposal of subsidiaries *(Note 40)*	**(16,143)**	(12,040)
At end of the year	**503,692**	515,645

The Group received grants from the local government relating to assets and were recorded as deferred income. The grants are amortized on a straight-line basis throughout the period of the useful lives of the underlying assets ranging from 2 to 40 years.

30. DEFERRED INCOME *(CONTINUED)*

(b) Deferred income on sale and leaseback transactions

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
At beginning of the year	**2,018**	2,721
Additions	**–**	(488)
Amortisation *(Note 8)*	**(120)**	(215)
At end of the year	**1,898**	2,018

During the year ended 31 December 2017, the Group sold machineries with carrying amount of approximately RMB210,637,000 at the consideration of approximately RMB210,000,000 and then lease back all of them at the fair value of approximately RMB210,637,000, which resulted in a financial lease.

During the year ended 31 December 2016, the Group sold machineries with carrying amount of approximately RMB6,937,000 at the consideration of approximately RMB6,449,000 and then lease back all of them at the fair value of approximately RMB6,449,000, which resulted in a financial lease. As a result, the loss of sales proceeds of approximately RMB488,000 would be deferred over the lease term of 3 years.

(c) Deferred rental income

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
At beginning of the year	**27,000**	–
Additions	**8,000**	27,000
Amortisation	**(761)**	–
At end of the year	**34,239**	27,000

31. DEFERRED INCOME TAX

(a) The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Deferred tax assets		
– Deferred tax assets to be recovered after more than 12 months	**62,887**	82,719
– Deferred tax assets to be recovered within 12 months	**5,619**	7,990
	68,506	90,709
Deferred tax liabilities		
– Deferred tax liabilities to be recovered more than 12 months	**(55,889)**	(68,175)
– Deferred tax liabilities to be recovered within 12 months	**(2,457)**	(2,586)
	(58,346)	(70,761)
Deferred tax assets (net)	**10,160**	19,948

31. DEFERRED INCOME TAX *(CONTINUED)*

(a) The analysis of deferred tax assets and deferred tax liabilities is as follows (continued):

The gross movement on the deferred tax is set out as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
At beginning of the year	**19,948**	11,415
Recognised in profit or loss *(Note 13)*	**34,459**	22,095
Recognised in other comprehensive income *(Note 13)*	**(1,297)**	(169)
Decrease in deferred tax assets relating to the disposal of subsidiaries *(Note 40)*	**(43,762)**	(5,026)
Decrease in deferred tax liabilities relating to the disposal of subsidiaries *(Note 40)*	**812**	–
Increase in deferred tax liabilities arising from the acquisition of subsidiary	**–**	(8,367)
At end of the year	**10,160**	19,948

31. DEFERRED INCOME TAX *(CONTINUED)*

(b) The movement in the deferred tax assets and liabilities during the year is as follows:

Deferred tax assets

	Provision for impairment of assets	Deferred income	Retirement and termination benefit obligations	Warranty and other accrued expenses	Tax losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016 (Restated)	32,526	5,579	20,995	5,906	22,349	87,355
Disposal of subsidiaries	(2,035)	(1,806)	(123)	–	(1,062)	(5,026)
Recognised in other comprehensive income	–	–	(243)	–	–	(243)
Recognised in profit or loss	1,363	6,790	(4,588)	(1,812)	6,870	8,623
At 31 December 2016 (Restated)	31,854	10,563	16,041	4,094	28,157	90,709
Disposal of subsidiaries *(Note 40)*	**(3,620)**	**(1,421)**	**(15,325)**	**(857)**	**(22,539)**	**(43,762)**
Recognised in other comprehensive income	**–**	**–**	**(604)**	**–**	**–**	**(604)**
Recognised in profit or loss	**11,847**	**4,533**	**547**	**(69)**	**5,305**	**22,163**
At 31 December 2017	**40,081**	**13,675**	**659**	**3,168**	**10,923**	**68,506**

31. DEFERRED INCOME TAX *(CONTINUED)*

(b) The movement in the deferred tax assets and liabilities during the year is as follows (continued):

Deferred tax liabilities

	Recognition of fair value change relating to acquisition of subsidiary *RMB'000*	Changes in fair value of available-for-sales financial assets *RMB'000*	Gain on disposals of lease prepayments and property, plant and equipment *RMB'000*	Total *RMB'000*
At 1 Janurary 2016	(16,418)	(757)	(58,765)	(75,940)
Acquisition of subsidiary	(8,367)	–	–	(8,367)
Recognised in other comprehensive income	–	74	–	74
Recognised in profit or loss	2,586	–	10,886	13,472
At 31 December 2016	(22,199)	(683)	(47,879)	(70,761)
Disposal of subsidiary	**812**	**–**	**–**	**812**
Recognised in other comprehensive income	**–**	**(693)**	**–**	**(693)**
Recognised in profit or loss	**2,501**	**476**	**9,319**	**12,296**
At 31 December 2017	**(18,886)**	**(900)**	**(38,560)**	**(58,346)**

31. DEFERRED INCOME TAX *(CONTINUED)*

(c) In accordance with the PRC tax law or other tax regulations applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. As at 31 December 2017, the Group did not recognise deferred tax assets of approximately RMB191,990,000 (2016: RMB125,672,000) in respect of losses amounting to approximately RMB832,486,000 (2016: RMB598,745,000), as management believes it is more than likely that such tax losses would not be utilised before they expire. As at 31 December 2017 and 2016, the tax losses carried forward are as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Year of expiry		
– 2017	**–**	67,965
– 2018	**17,584**	57,548
– 2019	**102,470**	132,513
– 2020	**146,084**	182,088
– 2021	**110,125**	133,784
– 2022	**409,628**	–
	785,891	573,898
No expiry date	**46,595**	24,847
	832,486	598,745

32. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

The amount of retirement and termination benefit obligation recognised in the consolidated balance sheet is determined as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Non-current		
Retirement benefit obligations	**15,423**	142,839
Termination benefit obligations	**545**	3,148
	15,968	145,987
Current		
Retirement benefit obligations	**1,250**	27,218
Termination benefit obligations	**939**	3,315
	2,189	30,533
	18,157	176,520

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Present value of defined benefits obligations	**18,157**	176,520
Less: current portion	**(2,189)**	(30,533)
	15,968	145,987

32. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS *(CONTINUED)*

The movements of retirement and termination benefit obligations for the years ended 31 December 2017 and 2016 are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**176,520**	226,881
Change for the year		
– Interest costs	**2,086**	6,149
– Remeasurement effects recognised in other comprehensive income	**(7,740)**	(2,016)
– Disposal of subsidiaries *(Note 40)*	**(155,777)**	(823)
– Additions/(deductions) on termination benefit obligations	**30,432**	(16,529)
– Payments	**(27,364)**	(37,142)
At end of the year	**18,157**	176,520

The above obligations were determined by an independent actuarial firm using the projected unit credit method.

32. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)

(a) The material actuarial assumptions used in valuing these obligations are as follows:

– Discount rates adopted (per annum):

	As at 31 December	
	2017	2016
Discount rates	**4.00%**	3.00%

The effect of above changes in discount rate was reflected as actuarial gains and losses and charged to OCI or profit or loss in the period of change.

– Trend rate: 5% – 9.5% (2016: 5% – 9.5%);

– Mortality: Average life expectancy of residents in the PRC;

– Medical costs paid to early retirees are assumed to continue until the death of the retirees.

– Expected maturity analysis of pension benefits:

At 31 December 2017	Less than a year *RMB'000*	Between 1-2 years *RMB'000*	Between 2-5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Long-term employee benefit obligations	2,189	1,608	3,261	11,099	18,157

32. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)

(a) The material actuarial assumptions used in valuing these obligations are as follows *(continued)*:

Based on the assessment and HKAS 19, the Group estimated that, at 31 December 2017, a provision of approximately RMB18,157,000 is sufficient to cover all future retirement-related obligations.

Obligation in respect of retirement and termination benefits of approximately RMB18,157,000 is the present value of the unfunded obligations, of which the current portion amounting to approximately RMB2,189,000 (2016: RMB30,533,000) has been included under current liabilities.

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

	Change in assumption	**Impact on overall liability**
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 4.7%/5.1%
Average salary increase rate	Increase/decrease by 0.5%	Increase/decrease by 3.3%/3.0%
Rate of mortality	Increase/decrease by 1 year	Decrease/increase by 4.0%/4.1%

In 2017, retirement and termination benefit obligations of approximately RMB32,518,000 were charged in administrative expenses (2016: RMB10,380,000 credited in administrative expenses), and a gain of approximately RMB7,740,000 (2016: RMB2,016,000) was created in other comprehensive income.

33. DIVIDENDS

The dividends paid in 2017 and 2016 were RMB128,963,000 (RMB0.035 per share) and RMB92,116,000 (RMB0.025 per share) in respect of final dividends for the years ended 31 December 2016 and 2015 respectively. A final dividend in respect of the year ended 31 December 2017 of RMB0.030 per share, amounting to a total dividend of RMB110,539,000 is to be proposed at the forthcoming annual general meeting of the Company to be held on 28 June 2018. These financial statements do not reflect this as dividend payable.

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	2017	2016
	RMB'000	*RMB'000*
Dividend not recognised at the end of the reporting periods		
Proposed final dividend of RMB0.030 (2016: RMB0.035) per share	**110,539**	128,963
	110,539	128,963

34. CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended 31 December 2017 RMB'000	2016 RMB'000 (Restated)
Profit before income tax	476,873	529,854
Adjustments for:		
– Depreciation of property, plant and equipment and investment properties	251,163	218,101
– Amortisation of intangible assets and lease prepayments	28,226	27,654
– Amortisation of deferred income	(48,602)	(53,537)
– Amortisation of other non-current assets	14,105	17,847
– Write-down of inventories	42,866	39,569
– Provision for impairment of property, plant and equipment	–	9,998
– Gains on disposal of subsidiaries	(100,732)	(59,831)
– Interest income	(17,729)	(19,642)
– Interest expense	120,038	119,646
– Share of profit from associates and joint venture	(366,482)	(351,628)
– Gains on disposal of property, plant and equipment, investment properties, lease prepayments and intangible assets	(225,066)	(141,715)
– Provision for impairment of receivables	70,663	45,776
– Dividends received from available-for-sale financial assets	(201)	–
– Gains on disposal of available-for-sale financial assets	(4,960)	–
– Gains on disposal of associates	(5,024)	–
– Changes in fair value of equity interest owned before business combination	–	(19,185)
	235,138	362,907
Changes in working capital:		
– Inventories	(268,205)	366,580
– Trade and other receivables	(1,528,101)	(1,190,269)
– Contract work-in-progress	(46,557)	(53,872)
– Restricted cash	(76,524)	128,501
– Retirement and termination benefit obligations	3,068	(48,345)
– Trade and other payables	931,686	417,097
	(984,633)	(380,308)
Cash used in operations	(749,495)	(17,401)

34. CASH GENERATED FROM OPERATIONS *(CONTINUED)*

(b) Proceeds from disposal of property, plant and equipment, investment properties, lease prepayments and intangible assets.

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment, investment properties, lease prepayments and intangible assets comprise:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Net book amount of property, plant and equipment, investment properties, lease prepayments and intangible assets	**103,385**	67,976
Gains on disposals of property, plant and equipment, investment properties, lease prepayments and intangible assets	**225,066**	141,715
Advances or settled amounts from disposal of property, plant and equipment, investment properties, lease prepayments and intangible assets	**21,185**	19,217
Prepayments on disposal of property, plant and equipment, investment properties, lease prepayments and intangible assets	**(53,892)**	–
Proceeds from disposal of property, plant and equipment, investment properties, lease prepayments and intangible assets	**295,744**	228,908

(c) Non-cash transaction

In 2017, the principal non-cash transaction was the endorsement of bills receivable of approximately RMB29,056,000 (2016: RMB101,705,000) for the acquisition of property, plant and equipment.

34. CASH GENERATED FROM OPERATIONS (CONTINUED)

(d) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	Year ended 31 December 2017 RMB'000	2016 RMB'000 (Restated)
Cash and cash equivalents	**1,174,540**	1,392,941
Borrowings – repayable within one year	**(1,925,222)**	(1,307,604)
Borrowings – repayable after one year	**(1,512,155)**	(1,553,715)
Net debt	**(2,262,837)**	(1,468,378)
Cash and cash equivalents	**1,174,540**	1,392,941
Gross debt – fixed interest rates	**(1,896,611)**	(1,562,182)
Gross debt – variable interest rates	**(1,540,766)**	(1,299,137)
Net debt	**(2,262,837)**	(1,468,378)

34. CASH GENERATED FROM OPERATIONS *(CONTINUED)*

(d) Net debt reconciliation *(continued)*

	Other assets	Liabilities from financing activities				
	Cash	Finance leases due within 1 year	Finance leases due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net debt as at 1 January 2017	1,392,941	(36,747)	(74,780)	(1,270,857)	(1,478,935)	(1,468,378)
Cash flows	(179,825)	36,607	(139,046)	(530,180)	–	(812,444)
Foreign exchange adjustments	1,312	–	–	2,622	–	3,934
Disposals of subsidiaries	(39,888)	–	–	113,635	19,500	93,247
Other non-cash movements	–	(77,689)	6,225	(162,613)	154,881	(79,196)
Net debt as at 31 December 2017	1,174,540	(77,829)	(207,601)	(1,847,393)	(1,304,554)	(2,262,837)

35. CONTINGENCIES

The Group has certain legal claims arising in the ordinary course of business as at 31 December 2017. Based on the legal opinion provided by the lawyers, the directors are of the opinion that no material liabilities will arise from those legal claims.

36. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred by the Group are as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Property, plant and equipment	**128,542**	458,117
Intangible assets	**14,769**	14,769
	143,311	472,886

Capital expenditure of property, plant and equipment which were contracted for as at 31 December 2017 but not yet incurred by a joint venture CQ Cummins amounted to approximately RMB187,089,000 (2016: RMB110,699,000).

(b) Operating lease commitments

The future aggregate minimum lease payments under of the Group at the end of reporting period non-cancelable operating leases were as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
No later than 1 year	**26,791**	38,210
Later than 1 year and no later than 5 years	**47,751**	49,684
Over 5 years	**14,465**	28,364
	89,007	116,258

37. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence on making financial and operating decisions. Parties are also considered to be related if they are subject to common control. According to HKAS 24 (Revised), government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group.

The Company's parent company is CQMEHG, a state-owned enterprise established in the PRC and is controlled by the PRC government that owns a significant portion of the productive assets in the PRC. Accordingly, as stipulated by HKAS 24 (Revised), related parties include CQMEHG and its subsidiaries (other than the Group), other government-related entities and their subsidiaries, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and CQMEHG as well as their close family members.

Other than those disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the years ended 31 December 2017 and 2016 and balances arising from related party transactions as at 31 December 2017 and 2016.

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions

For the years ended 31 December 2017 and 2016, the Group had the following significant transactions with related parties.

Continuing related party transactions

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Transactions with the parent company, fellow subsidiaries and associates		
Revenue		
– Revenue from sales of goods	**127,463**	72,791
– Revenue from loans service	**44,935**	36,170
– Revenue from provision of services	**2,775**	8,430
Expenses		
– Purchase of materials	**51,791**	69,318
– Services	**1,415**	1,282
– Expenses for deposit taking service	**13,234**	11,886
– Other expenses	**31,506**	33,298
Loan repayments received	**–**	18,000

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions *(continued)*

Continuing related party transactions *(continued)*

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Transactions with associates		
Revenue		
– Revenue from sales of goods	**4,148**	3,988
– Revenue from loans service	**2,981**	6,192
– Revenue from provision of services	**167**	1,038
Expenses		
– Purchase of materials	**9,922**	14,986
– Expenses for deposit taking service	**56**	177
– Other expenses	**1,013**	9,137
Loan repayments received	**10,000**	50,068
Loan advanced during year	**10,000**	–

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions *(continued)*

Continuing related party transactions *(continued)*

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Transactions with joint venture		
– Revenue from loans service	**1,390**	370
– Other expenses	**2,228**	2,689
Loan advanced during year	**–**	42,000

Discontinuing related party transactions

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Transactions with the parent company, fellow subsidiaries and associates		
Acquisition of subsidiaries	**147,109**	–
Disposal of subsidiaries and associate	**316,481**	–

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Trade and other receivables		
Trade receivables due from		
– Fellow subsidiaries and associates	**63,232**	42,479
– Associates	**6,331**	2,544
Other receivables due from		
– CQMEHG	**975**	1,267
– Fellow subsidiaries and associates	**33,279**	3,920
– Joint venture	**2,820**	2,521
– Associates	**31,609**	40,068
Loans to		
– CQMEHG	**–**	230,000
– Fellow subsidiaries and associates	**1,363,200**	920,499
– Joint venture	**42,000**	42,000
– Associates	**70,000**	70,000
Prepayments due from		
– Fellow subsidiaries and associates	**1,872**	523
– Associates	**–**	677
	1,615,318	1,356,498
Less: long-term other receivables	**(129,989)**	(85,989)
Current portion	**1,485,329**	1,270,509

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties *(continued)*

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Trade and other payables		
Trade payables due to		
– Fellow subsidiaries and associates	**14,622**	23,881
Deposit taking from		
– CQMEHG	**2,890**	104,055
– Fellow subsidiaries and associates	**859,010**	984,652
– Associates	**15,157**	11,303
Other payables due to		
– CQMEHG	**10,087**	6,475
– Fellow subsidiaries and associates	**55,990**	65,807
– Associates	**–**	161
	957,756	1,196,334

(c) Financial guarantee contracts

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Guarantees provided to		
– Associates	**19,000**	69,000
Guaranteed by		
– CQMEHG	**982,000**	982,000

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(d) Key management compensation

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	**2,901**	2,901
Contributions to pension plans	**498**	500
Discretionary bonuses	**4,246**	4,525
	7,645	7,926

(e) Transactions with government-related entities in PRC

Apart from transactions mentioned above, transactions with other government-related entities include but are not limited to sales and purchases of goods and other assets; use of public utilities; and bank deposits and bank borrowings.

These transactions are conducted in the ordinary course of the Group's business on terms similar to those that would have been entered into with non-government-related entities. The Group has also established its pricing strategy and approval processes for material transactions. Such pricing strategy and approval processes do not depend on whether the counterparties are government-related entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

38. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Acquisition of additional interests in a subsidiary

In June 2017, the Company acquired an additional 19% of the equity interests of CMEFC for a purchase consideration of approximately RMB142,067,000. The carrying amount of the 49% non-controlling interests in CMEFC on the date of acquisition was approximately RMB338,122,000. The Group recognised a decrease in non-controlling interests of approximately RMB131,107,000 and a decrease in other reserves within the equity attributable to owners of the Company of approximately RMB10,960,000. The effect of changes in the ownership interest of CMEFC on the equity attributable to owners of the Company during the period is summarised as follows:

	2017 *RMB'000*
Carrying amount of non-controlling interests acquired	131,107
Consideration paid to non-controlling interests	(142,067)
Excess of consideration paid recognised within equity	(10,960)

39. BUSINESS COMBINATION UNDER COMMON CONTROL

CMEIM and CMETRC were established by CQMEHG in August 2015 and November 2011, respectively. In November 2017, the Group acquired the entire equity interests in CMEIM and CMETRC for a cash consideration of approximately RMB132,720,000 and RMB14,389,000, respectively.

CMEIM, CMETRC and the Group were ultimately controlled by CQMEHG before and after the Acquisition. Accordingly, the aforesaid transactions were regarded as business combinations under common control. These consolidated financial statements incorporated the results of CMEIM and CMETRC as if CMEIM, CMETRC and the Group had always been combined. Details of the adjustments for the common control combinations on the Group's financial position as at 31 December 2017 and 2016 and the Group's results for the year then ended are set out bellow:

39. BUSINESS COMBINATION UNDER COMMON CONTROL *(CONTINUED)*

	The Group before transferred subsidiaries *RMB'000*	Transferred subsidiaries *RMB'000*	Consolidation adjustments *RMB'000*	Total *RMB'000*
Year ended 31 December 2017				
Revenue	9,098,261	194,339	–	9,292,600
Profit before income tax	471,163	5,744	(34)	476,873
Income tax expense	(102,752)	298	–	(102,454)
Profit for the year	368,411	6,042	(34)	374,419
As at 31 December 2017				
Assets				
Non-current assets	5,480,661	179,359	(7,977)	5,652,043
Current assets	10,375,926	168,695	–	10,544,621
Total assets	15,856,587	348,054	(7,977)	16,196,664
Equity				
Share capital	3,684,640	131,610	(131,610)	3,684,640
Other reserves	(791,971)	2,799	113,078	(676,094)
Retained earnings	3,606,537	(8,350)	18,532	3,616,719
Non-controlling interests	369,618	38,622	(7,977)	400,263
Total equity	6,868,824	164,681	(7,977)	7,025,528
Liabilities				
Non-current liabilities	2,030,295	47,018	–	2,077,313
Current liabilities	6,957,468	136,355	–	7,093,823
Total liabilities	8,987,763	183,373	–	9,171,136
Total equity and liabilities	15,856,587	348,054	(7,977)	16,196,664

39. BUSINESS COMBINATION UNDER COMMON CONTROL *(CONTINUED)*

	The Group before transferred subsidiaries *RMB'000*	Transferred subsidiaries *RMB'000*	Consolidation adjustments *RMB'000*	Total *RMB'000*
Year ended 31 December 2016				
Revenue	9,129,302	125,730	–	9,255,032
Profit before income tax	534,700	(4,903)	57	529,854
Income tax expense	(28,501)	1,319	–	(27,182)
Profit for the year	506,199	(3,584)	57	502,672
As at 31 December 2016				
Assets				
Non-current assets	5,998,704	147,159	(7,943)	6,137,920
Current assets	9,343,438	135,613	(50,005)	9,429,046
Total assets	15,342,142	282,772	(57,948)	15,566,966
Equity				
Share capital	3,684,640	121,610	(121,610)	3,684,640
Other reserves	(654,383)	2,799	103,078	(548,506)
Retained earnings	3,433,583	(10,635)	18,532	3,441,480
Non-controlling interests	553,367	35,172	(7,943)	580,596
Total equity	7,017,207	148,946	(7,943)	7,158,210
Liabilities				
Non-current liabilities	2,229,002	43,817	–	2,272,819
Current liabilities	6,095,933	90,009	(50,005)	6,135,937
Total liabilities	8,324,935	133,826	(50,005)	8,408,756
Total equity and liabilities	15,342,142	282,772	(57,948)	15,566,966

40. DISPOSAL OF SUBSIDIARIES

In July 2017, Chongqing Machine Tools, a wholly-owned subsidiary of the Company sold 65% equity interests in Chongqing Shenjian at the consideration of approximately RMB103,183,000. After the disposal, the Group holds 35% equity interests in Chongqing Shenjian and still has significant influence over it and accounted for as an associate. A gain on disposal of the equity interest of approximately RMB20,745,000 and a gain on retained interest of approximately RMB8,196,000 were recognised in profit or loss.

In November 2017, the Group sold 100% equity interests in Qijiang Gear to CQMEHG at the consideration of approximately RMB255,465,000. A gain on disposal of the equity interest of approximately RMB71,791,000 was recognised in profit or loss.

Details of net assets disposed of and gain on disposal of Chongqing Shenjian and Qijiang Gear Group are as follows:

	Chongqing Shenjian As at 31 July 2017	**Qijiang Gear As at 30 November 2017**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Disposal proceeds:			
Cash received	103,183	255,465	358,648
Less: Net assets disposed	(82,438)	(183,674)	(266,112)
Gain on retained interest	8,196	–	8,196
Net gain on disposal of subsidiaries *(Note 6)*	28,941	71,791	100,732

40. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

	Chongqing Shenjian As at 31 July 2017 RMB'000	Qijiang Gear Group As at 30 November 2017 RMB'000	Total RMB'000
Property, plant and equipment	80,755	623,500	704,255
Lease prepayments	14,570	25,792	40,362
Intangible assets	54	16,613	16,667
Deferred income tax assets	2,862	40,900	43,762
Trade and other receivables	65,074	226,335	291,409
Cash and cash equivalents	30,922	8,966	39,888
Other assets	–	12,591	12,591
Inventory	27,378	215,058	242,436
Trade and other payables	(94,787)	(698,462)	(793,249)
Available-for-sale financial assets	–	3,000	3,000
Investment in associate	–	15,248	15,248
Borrowings	–	(133,135)	(133,135)
Deferred income	–	(16,143)	(16,143)
Deferred income tax liabilities	–	(812)	(812)
Employee benefit obligation	–	(155,777)	(155,777)
Net assets	126,828	183,674	310,502
Less: equity interests hold	(44,390)	–	(44,390)
Net assets disposed	82,438	183,674	266,112
Cash received	103,183	255,465	358,648
Less: Cash and cash equivalents of subsidiary disposed	(30,922)	(8,966)	(39,888)
Net cash inflow on disposal of equity interests in subsidiaries	72,261	246,499	318,760

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES

(a) Subsidiaries

As at 31 December 2017, the Company has direct and indirect interests in the following principal subsidiaries:

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital (RMB'000)	Attributable equity interest Directly held	Indirectly held	Principal activities
Chongqing Rui Shida Power Technology Co., Ltd. (重慶瑞時達動力技術有限公司)	PRC/ 20 December 2016	Limited liability company	20,000	71%	–	Technical development and consultation for new energy vehicles and components
CAFF (重慶卡福汽車制動轉向系統有限公司)	PRC/ 27 June 2003	Limited liability company	198,682	100%	–	Manufacturing of vehicle parts and components
Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd. (重慶機電智能製造有限公司)	PRC/ 5 August 2015	Limited liability company	101,610	100%	–	Manufacturing of industry products
Chongqing Unication Electronic Technology Co., Ltd. (重慶盟訊電子科技有限公司)	PRC/ 29 November 2001	Limited liability company	54,312	–	66%	Manufacturing of mobile communication products and electronic information product
Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd. (重慶機電裝備技術研究院有限公司)	PRC/ 13 October 2011	Limited liability company	20,000	100%	–	Provision of engineering services
Chongqing General (重慶通用工業(集團)有限責任公司)	PRC/ 6 April 1997	Limited liability company	515,090	100%	–	Manufacturing of general machinery
Chongqing Pump Industry Co., Ltd. (重慶水泵廠有限責任公司)	PRC/ 12 September 2002	Limited liability company	196,411	100%	–	Manufacturing of pumps
Chongqing Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司)	PRC/ 12 September 2002	Limited liability company	187,214	100%	–	Manufacturing of gas compression machine
Chongqing Shunchang General Electrical Equipment Co., Ltd. (重慶順昌通用電器有限責任公司)	PRC/ 20 January 2007	Limited liability company	1,000	–	100%	Manufacturing of general electric apparatus for general machine
Chongqing Chongtong Wide Wisdom Air Conditioning Equipment Co., Ltd. (重慶重通智遠空調設備有限公司)(i)	PRC/ 11 August 2016	Limited liability company	29,640	–	42%	Designation and manufacturing water cooling unit
Chongqing Chongtong Turbine Technology Co., Ltd. (重慶重通透平技術股份有限公司)	PRC/ 07 January 2016	Limited liability company	25,000	–	67%	Detection and maintenance of turbine machinery products
Jilin Chongtong Chengfei New Material Co., Ltd. (吉林重通成飛新材料股份有限公司)	PRC/ 17 September 2009	Limited liability company	160,000	–	92%	Manufacturing of wind-power equipment

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	Indirectly held	Principal activities
Xilinhaote Chenfei Wind-Power Equipment Co., Ltd. (錫林浩特晨飛風電設備有限公司)	PRC/ 16 November 2011	Limited liability company	50,000	–	92%	Manufacturing of wind-power equipment
Chongqing Chongtong Chengfei New Material Co., Ltd. (重慶重通新材料有限公司)	PRC/ 1 April 2015	Limited liability company	50,000	–	100%	Manufacturing of wind-power equipment
Chongqing General Industry (Group) Tong Kang Water Affairs Co., Ltd (重慶通用工業集團潼康水務有限公司)	PRC/ 16 July 2012	Limited liability company	10,000	–	100%	Sewerage treatment and Environmental engineering construction
CMEFC (重慶機電控股集團財務有限公司)	PRC/ 16 January 2014	Limited liability company	600,000	70%	–	Provide financial service
Chongqing Machine Tools (Group) Co., Ltd. (重慶機床(集團)有限責任公司)	PRC/ 31 December 2005	Limited liability company	594,241	100%	–	Manufacturing of gear-cutting machines
Chongqing No. 2 Machine Tools Factory Co., Ltd. (重慶第二機床廠有限責任公司)	PRC/ 12 June 2007	Limited liability company	80,000	–	100%	Manufacturing of machinery tools
Chongqing Tool Factory Co., Ltd. (重慶工具廠有限責任公司)	PRC/ 13 February 2007	Limited liability company	60,000	–	100%	Manufacturing of cutting tools for gear-cutting machines
Chongqing Yinhe Forging & Founding Co., Ltd. (重慶銀河鑄鍛有限責任公司)	PRC/ 6 October 1997	Limited liability company	18,704	–	100%	Manufacturing of foundry goods
Chongqing Shengpu Materials Co., Ltd. (重慶盛普物資有限公司)	PRC/ 1 February 2007	Limited liability company	21,405	100%	–	Sales of machinery materials
Chongqing Shengong Machinery Manufacture Co., Ltd. (重慶神工機械製造有限責任公司)	PRC/ 28 April 2000	Limited liability company	1,103	–	100%	Manufacturing of machinery tools
Fu Baotian Cotton picking services Co.,Ltd. (新疆福保田採棉服務有限公司)	PRC/ 10 June 2015	Limited liability company	1,500	–	51%	Service of cotton picking
Chongqing Sino-Germany Smart Factory Solutions Co.,Ltd. (重慶世瑪德智能製造有限公司)*(i)*	PRC/ 26 April 2016	Limited liability company	40,000	–	40%	Consultation, designation, manufacturing and selling of automatic and intelligent equipment
Chongqing Water Turbine Works Co., Ltd. (重慶水輪機廠有限責任公司)	PRC/ 26 March 1998	Limited liability company	147,097	100%	–	Manufacturing of power generators
Chongqing Huahao Smelting Co., Ltd. (重慶華浩冶煉有限公司)	PRC/ 16 April 2002	Limited liability company	61,335	100%	–	Metallurgical production
Gansu Chongtong Chengfei New Material Co., Ltd. (甘肅重通成飛新材料有限公司)	PRC / 24 June 2016	Limited liability company	50,000	–	100%	Manufacturing of wind-power equipment

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital (RMB'000)	Attributable equity interest Directly held	Indirectly held	Principal activities
Chongtong Chengfei Wind Power Equipment Jiangsu Co., Ltd. (重通成飛風電設備江蘇有限公司)	PRC/1 December 2014	Limited liability company	100,000	–	100%	Manufacturing of wind-power equipment
Pigeon Wire (重慶鴿牌電線電纜有限公司)	PRC/ 20 January 2001	Limited liability company	100,100	74%	–	Manufacture electric wires and cables
Chongqing Pigeon Electric Materials Co., Ltd. (重慶鴿牌電工材料有限公司) *(ii)*	PRC/ 19 October 2006	Limited liability company	6,800	–	50%	Manufacture electrical material
Chongqing Pigeon Electrical Porcelain Co., Ltd. (重慶鴿牌電瓷有限公司)	PRC/ 19 October 2006	Limited liability company	53,000	–	74%	Manufacture electrical porcelain
Precision Technologies Group (PTG) Limited (精密技術集團有限公司	United Kingdom/ 1 August 2011	Limited liability company	UKP20,000	100%	–	Production and technical service of machineries
Holroyd Precision Limited (霍洛伊德精密有限公司)	United Kingdom/ 12 June 2006	Limited liability company	1	–	100%	Production and technical service of screw grinding machines and screw milling machines
Precision Components Limited (精密零部件加工有限公司)	United Kingdom/ 2 June 2007	Limited liability company	–	–	100%	Production of screw
PTG Heavy Industries Limited (PTG重工有限公司)	United Kingdom/ 16 May 2008	Limited liability company	–	–	100%	Design and manufacture of machine tools
Milnrow Investments Limited (米羅威投資有限公司)	United Kingdom/29 November 2006	Limited liability company	1	–	100%	Leasing of properties
PTG Advanced Developments Limited (PTG高級發展有限公司)	United Kingdom/ 4 April 2008	Limited liability company	–	–	100%	Researching and developing of machinery tools
PTG Deutschland GmbH (PTG德國公司)	Germany/ 15 May 2010	Limited liability company	EUR25	–	100%	Selling of machinery tools
Chongqing Holroyd Precision Rotors Manufacturing Co., Ltd. (重庆霍洛伊德精密螺杆制造有限 任公司)	PRC/ 15 December 2011	Limited liability company	40,000	–	100%	Design, manufacture and selling screw
Precision Technologies Group Investment Development Company Limited (精密技術集團投資發展有限公司)	Hong Kong/ 27 April 2012	Limited liability company	HKD600	–	100%	Import and export materials and equipment
Precision Technologies Group (US) Ltd. (精密技術集團(美國)有限公司)	United Kingdom/ 4 April 2015	Limited liability company	–	–	100%	Holding Company
Pricision Technologies Group Inc. (精密技術集團公司)	United Kingdom/ 20 April 2015	Incorporated Company	USD1	–	100%	Holding Company
Holroyd Precision Rotors Inc. (霍洛伊德精密轉子公司)	United States/ 20 April 2015	Incorporated Company	USD11,500	–	100%	Rotor Component Manufacturer

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(continued)*

(i) The Group has less than 50% interests in these companies, they are considered as subsidiaries of the Group because the Group has majority voting rights on their Board of Directors and their strategic, operating, investing and financing activities are controlled by the Group.

(ii) The Group has 74% interests in Pigeon Wire, which owns 50% interests in Chongqing Pigeon Electric Materials Co., Ltd.. Chongqing Pigeon Electric Materials Co., Ltd. is considered as a subsidiary of the Group because the Group has majority voting rights on the Board of Directors and its strategic, operating, investing and financing activities are controlled by the Group.

(b) Joint venture

As at 31 December 2017, the Company has the following principal joint venture (unlisted):

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	Indirectly held	Principal activities
CQ Cummins (重慶康明斯發動機有限公司)	PRC/ 15 June 1995	Limited liability company	417,600	50%	–	Manufacturing of engines

(i) CQ Cummins manufactures engines for automobile, electricity and other industries. CQ Cummins is a strategic partnership for the Group, providing new technologies for diesel engine business.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES *(CONTINUED)*

(c) Associates

As at 31 December 2017, the Company has direct and indirect interest in the following principal associates (all are unlisted):

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Hongyan (重慶紅岩汽車方大汽車懸架有限公司) *(ii)*	PRC/27 June 2003	Limited liability company	119,081	44%	–	Manufacturing of automobile springs for vehicles
Exedy (愛思帝(重慶)驅動系統有限公司) *(ii)*	PRC/3 December 2003	Limited liability company	101,040	27%	–	Manufacturing of clutches
Midea Tongyong (重慶美的通用製冷設備有限公司) *(i)*	PRC/4 August 2004	Limited liability company	USD12,500	–	10%	Manufacturing of refrigeration equipment
Chongqing Yongtong Gas Co., Ltd. (重慶永通燃氣股份有限公司)	PRC/6 December 2006	Limited liability company	20,000	–	20%	Provision of gas engineering services
Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd. (克諾爾商用車系統(重慶)有限公司)	PRC/23 February 2011	Limited liability company	135,594	34%	–	Manufacturing of vehicle parts and components
Chongqing Youyan (重慶有研重冶新材料有限公司) *(ii)*	PRC/15 July 2014	Limited liability company	80,000	41.5%	–	Manufacturing of metallic products
Chongqing ABB (重慶ABB變壓器有限公司) *(ii)*	PRC/22 January 1998	Limited liability company	USD48,647	37.8%	–	Manufacturing and maintenance of power transformer
Chongqing Jiangbei Machinery (重慶江北機械有限責任公司) *(ii)*	PRC/10 September 2002	Limited liability company	150,000	41%	–	Manufacturing of separation machinery
Chongqing Shenjian Automotive Drive Part Co., Ltd. (重慶神箭汽車傳動件有限責任公司) *(ii)*	PRC/19 July 1999	Limited liability company	83,011	–	35%	Manufacturing of transmission systems for vehicles

(i) Although the Company owns 10% of equity interests of Midea Tongyong, one representative of the Company has been assigned to Midea Tongyong as a director of the board, the Company can exercise significant influence over Midea Tongyong and therefore accounted it as an associate.

(ii) Chongqing Jiangbei Machinery mainly produces manufacturing, selling and exporting of separation machinery and is a strategic part for the Group on general electric apparatus for general machine.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES *(CONTINUED)*

(c) Associates *(continued)*

Chongqing ABB provides high-voltage transmitter products to the electric power industry, and is a strategic partner of the Group because it brings high reliability and safety to the power and emission industry.

Hongyan engaged in automatic elastic suspension components manufacturing, and striving to maintain a leading edge in the industry. The Group has built long-term cooperation relationship with Hongyan because of its exceptional quality products.

Exedy dedicated to the development of wide-diesel engine muffler damping clutch, and the products are highly appreciated by the auto production companies of the Group.

Chongqing Youyan mainly produces metallurgical powder, taking the leading position in metallurgy with its production and sales ranking in the forefront.

Chongqing Shenjian mainly produces and sells transmission systems and is a strategic part for the Group for machinery tools.

42. ULTIMATE HOLDING COMPANY

The Directors regard CQMEHG as the ultimate holding company of the Company.

43. EVENTS OCCURRING AFTER THE REPORTING PERIOD

In January 2018, the Company and its subsidiary CMETRC transferred all the 71% equity interests in Chongqing Rui Shida Power Technology Co., Ltd. ("RSDA") to CQMEHG at the total consideration of RMB2. Upon the completion of the transaction, the Company and CMETRC no longer hold any equity interest in RSDA.

44. BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December	
		2017	2016
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**35,727**	6,198
Lease prepayments		**18,691**	–
Intangible assets		**1,619**	1,685
Investments in associates		**503,928**	228,213
Investments in subsidiaries		**2,620,237**	3,059,394
Investment in a joint venture		**200,929**	200,929
Available-for-sale financial assets		**–**	20,000
Trade and other receivables		**256,000**	321,000
		3,637,131	3,837,419
Current assets			
Trade and other receivables		**1,737,329**	920,702
Dividends receivable		**260,528**	277,660
Available-for-sale financial assets		**152,773**	150,000
Cash and cash equivalents		**970,196**	779,905
Restricted cash		**80,817**	110,563
		3,201,643	2,238,830
Total assets		**6,838,774**	6,076,249

44. BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY *(CONTINUED)*

Balance sheet of the Company *(continued)*

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		3,684,640	3,684,640
Other reserves	(Note (a))	(625,739)	(651,506)
Retained earnings	(Note (a))	1,462,998	1,380,890
Total equity		4,521,899	4,414,024
LIABILITIES			
Non-current liabilities			
Borrowings		921,743	916,335
Deferred income		48,978	55,595
Deferred income tax liabilities		9,060	–
		979,781	971,930
Current liabilities			
Borrowings		1,268,337	620,172
Deferred income		6,617	6,333
Trade and other payables		62,140	63,790
		1,337,094	690,295
Total liabilities		2,316,875	1,662,225
Total equity and liabilities		6,838,774	6,076,249

The balance sheet of the Company was approved by the Board of Directors on 29 March 2018 and was signed on its behalf by:

Director　　　　Director

44. BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY *(CONTINUED)*

Note (a) Reserves movements of the Company

	Other reserves					
	Capital reserve *RMB'000*	Investment revaluation reserve *RMB'000*	Statutory reserve fund *RMB'000*	Total *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At 1 January 2016	(981,212)	–	311,736	(669,476)	1,376,056	706,580
Profit for the year	–	–	–	–	114,920	114,920
Dividends *(Note 33)*	–	–	–	–	(92,116)	(92,116)
Transfer to reserves	–	–	17,970	17,970	(17,970)	–
At 31 December 2016	(981,212)	–	329,706	(651,506)	1,380,890	729,384
At 1 January 2017	(981,212)	–	329,706	(651,506)	1,380,890	729,384
Profit for the year	–	–	–	–	231,916	231,916
Business combination under common control	2,842	–	–	2,842	–	2,842
Changes in fair value of available-for-sale financial assets, net of tax	–	2,080	–	2,080	–	2,080
Dividends *(Note 33)*	–	–	–	–	(128,963)	(128,963)
Transfer to reserves	–	–	20,845	20,845	(20,845)	–
At 31 December 2017	(978,370)	2,080	350,551	(625,739)	1,462,998	837,259

45. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

(a) Directors', supervisors' and senior management's emoluments

The remuneration of every director, supervisor and the chief executive is set out below:

For the year ended 31 December 2017:

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
Directors				
Mr. Wang Yuxiang *(Chairman)*	221	–	507	728
Ms. Chen Ping	255	63	334	652
Mr. Yang Quan	230	63	457	750
Mr. Huang Yong	60	–	–	60
Mr. Lo Wahwai	136	–	–	136
Mr. Ren Xiaochang	80	–	–	80
Mr. Jin Jingyu	80	–	–	80
Mr. Deng Yong	60	–	–	60
Mr. Liu Wei	80	–	–	80
Ms. He Xiaoyan	60	–	–	60
Mr. Dou Bo *(Appointed November 2017)*	5	–	–	5
Mr. Wei Fusheng *(Resigned from November 2017)*	55	–	–	55
Mr. Yu Gang *(Resigned from March 2016)*	–	–	77	77
	1,322	126	1,375	2,823

45. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(CONTINUED)*

(a) Directors', supervisors' and senior management's emoluments *(continued)*

For the year ended 31 December 2017: *(continued)*

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
Supervisors				
Mr. Xiang Hu	255	63	468	786
Mr. Huang Hui	60	–	–	60
Ms. Wu Yi	60	–	–	60
Mr. Xia Hua	258	60	924	1,242
Mr. Zhang Mingzhi	256	60	217	533
	889	183	1,609	2,681
Senior management				
Deng Rui	230	63	215	508
Zhang Shu	230	63	216	509
Sun Wenguang	230	63	216	509
Duan Caijun (Resigned from December 2016)	–	–	273	273
Chen Yu *(Resigned from June 2016)*	–	–	137	137
Liu Yonggang *(Resigned from March 2016)*	–	–	68	68
Zhao Zicheng *(Resigned from June 2016)*	–	–	137	137
	690	189	1,262	2,141
	2,901	498	4,246	7,645

45. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(CONTINUED)*

(a) Directors', supervisors' and senior management's emoluments *(continued)*

For the year ended 31 December 2016:

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
Directors				
Mr. Wang Yuxiang *(Chairman)*	221	–	520	741
Ms. Chen Ping *(Appointed from June 2016, Acting as general manager)*	120	29	90	239
Mr. Yang Quan	221	60	292	573
Mr. Huang Yong	54	–	–	54
Mr. Lo Wahwai	125	–	–	125
Mr. Ren Xiaochang	74	–	–	74
Mr. Jin Jingyu	74	–	–	74
Mr. Deng Yong	54	–	–	54
Mr. Liu Wei	74	–	–	74
Mr. Wei Fusheng *(Appointed from June 2016)*	30	–	–	30
Ms. He Xiaoyan *(Appointed from June 2016)*	30	–	–	30
Mr. Yu Gang *(Resigned from March 2016)*	57	16	385	458
Mr. Wang Jiyu *(Resigned from June 2016)*	24	–	–	24
Mr. Yang Jingpu *(Resigned from June 2016)*	24	–	–	24
	1,182	105	1,287	2,574

45. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(CONTINUED)*

(a) Directors', supervisors' and senior management's emoluments *(continued)*

For the year ended 31 December 2016 *(continued)*:

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
Supervisors				
Mr. Xiang Hu *(Appointed from June 2016)*	232	60	437	729
Mr. Huang Hui	48	–	–	48
Ms. Wu Yi	48	–	–	48
Mr. Xia Hua	315	56	637	1,008
Mr. Zhang Mingzhi	223	56	252	531
Mr. Yang Mingquan *(Resigned from June 2016)*	24	–	–	24
Mr. Wang Pengcheng *(Resigned from June 2016)*	12	–	–	12
	902	172	1,326	2,400
Senior management				
Duan Caijun	220	60	419	699
Deng Rui *(Appointed from June 2016)*	110	29	72	211
Zhang Shu *(Appointed from June 2016)*	110	29	72	211
Sun Wenguang *(Appointed from June 2016)*	110	29	72	211
Chen Yu *(Resigned from June 2016)*	111	30	396	537
Liu Yonggang *(Resigned from March 2016)*	52	16	719	787
Zhao Zicheng *(Resigned from June 2016)*	104	30	162	296
	817	223	1,912	2,952
	2,901	500	4,525	7,926

45. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(CONTINUED)*

(a) Directors', supervisors' and senior management's emoluments *(continued)*

For the years ended 31 December 2017 and 2016, no directors, supervisors or senior management of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors, supervisors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) Directors' retirement benefits and termination benefits

For the years ended 31 December 2017 and 2016, no special retirement and termination benefits' plans to the directors for the year except for the plans to all the Group's employees mentioned in Note 9. No other retirement and termination benefits were paid to or receivable by those directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking.

(c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2017, the Company did not provide any consideration to any third party for making available director's services (2016: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31 December 2017, no loans, quasi-loans or other dealings in favour of directors of the Company, controlled bodies corporate by and connected entities with such directors (2016: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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重慶機電股份有限公司

CHONGQING MACHINERY & ELECTRIC CO., LTD.*