CQME

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

INTERIM REPORT
2018

* *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
Mr. Wang Pengcheng

Independent Non-executive Directors

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

SUPERVISORS

Mr. Xia Hua *(Exercising the duties and powers acting as Chairman)*
Ms. Wu Yi
Mr. Huang Hui
Mr. Zhang Mingzhi

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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ALTERNATE AUTHORIZED REPRESENTATIVE AND CONTACT INFORMATION

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Hong Kong

AUDITOR

ShineWing Certified Public Accountants
(Special General Partnership)
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Chongqing City

LEGAL ADVISORS

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

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WEBSITE OF THE COMPANY

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SHARE INFORMATION

Listing Place

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

Stock Code:

02722

FINANCIAL YEAR END

31 December

Results Highlights

Chongqing Machinery & Electric Co., Ltd. (the "Company" or "Chongqing Machinery & Electric") and its subsidiaries (collectively the "Group") announce the highlights of the consolidated results as set out below.

- Revenue of the Group for the six months ended 30 June 2018 amounted to approximately RMB2,768.0 million, representing a decrease of approximately 22% from the corresponding period of last year.

- Gross profit of the Group for the six months ended 30 June 2018 amounted to approximately RMB604.2 million, representing an increase of approximately 22.7% from the corresponding period of last year.

- Profit attributable to the shareholders of the Company for the six months ended 30 June 2018 amounted to approximately RMB227.8 million, representing an increase of approximately 17.4% from the corresponding period of last year.

- Basic earnings per share for the six months ended 30 June 2018 amounted to approximately RMB0.06.

Chairman's Statement

Dear shareholders,

The Company has applied China Accounting Standards for Business Enterprises in preparing the consolidated financial statements for the period. For details, please refer to the announcement of the Board of the Company dated 14 May 2018 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

The board of directors (the "Board") of the Company is pleased to announce the interim results of the Group for the six months ended 30 June 2018 (the "Period"). The Group's interim results have not been audited but have been reviewed by the audit and risk management committee and the Company's auditor, ShineWing Certified Public Accountants (Special General Partnership).

CHANGE IN ACCOUNTING POLICIES

According to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong"《(有關接受在香港上市的內地註冊成立公司採用內地的會計及審計準則以及聘用內地會計師事務所的諮詢總結》) published by the Hong Kong Stock Exchange in December 2010, on 29 March 2018, the Board of the Company decided that the Group will prepare the interim and annual financial statements in accordance with the China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and the relevant requirements since 2018.

Meanwhile, the Group adopted the "Accounting Standards for Business Enterprises No. 14 – Revenue", "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments", "Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets", "Accounting Standards for Business Enterprises No. 24 – Hedge Accounting", "Accounting Standards for Business Enterprises No. 37 – Presentation and Reporting of Financial Instrument" and the "Notice on Revising and Issuing the Format of Financial Statements of General Enterprises" (《關於修訂印發一般企業財務報表格式的通知》) (Cai Kuai [2018] No.15) amended by the Ministry of Finance in 2017 and will prepare its interim and annual financial statements of 2018 based on the above standards. Please refer to note IV.31 to the financial information for details.

RESULTS

Total revenue of the Group for the six months ended 30 June 2018 amounted to approximately RMB2,768.0 million, representing a decrease of around 22% from approximately RMB3,548.0 million for the corresponding period of last year, mainly due to the closure of foreign trade business of a low gross profit by the Group since 2018.

Profit attributable to the shareholders of the Company for the six months ended 30 June 2018 amounted to approximately RMB227.8 million, representing an increase of around 17.4% from approximately RMB194.0 million for the corresponding period of last year.

For the six months ended 30 June 2018, earnings per share amounted to approximately RMB0.06 (for the first half of 2017: RMB0.05). Total assets of the Group as at 30 June 2018 amounted to approximately RMB16,824.6 million (as at 31 December 2017: approximately RMB16,290.7 million), while total liabilities amounted to approximately RMB9,565.6 million (as at 31 December 2017: approximately RMB9,112.7 million); total equity was approximately RMB7,259.0 million (as at 31 December 2017: approximately RMB7,178.0 million); net asset value per share was approximately RMB1.97 (as at 31 December 2017: approximately RMB1.95).

During the first half of 2018, the global economy continued the recovery trend. The economy of the United States continued its strong growth, the economy of Europe recovered at a moderate pace, and the capital market and the exchange rates of the emerging countries experienced substantial fluctuation, and the economy growth slowed down. The Sino-US dispute could have an impact on the progress of the world's economy recovery. The domestic economic growth during the first half of the year remained good trend of progress amidst stabilisation. As the promotion of supply-side structural reform of the PRC government deepens, the industrial economy experienced the situation of improvement amidst stabilization, the structure was optimised and the efficiency was improved significantly. The growth rate of the domestic GDP in the first half of the year was approximately 6.8%. Centering on the "321" development strategies and the work theme of "implementation of new idea, cultivation of new kinetic energy, development the new pattern of 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 by virtue of "one corporation with one policy", concentrating on operation quality, innovation capacity, fine management, risk management and control, to promote industrial upgrade, to vigorously expand the domestic and overseas markets, to foster core competitiveness of businesses and develop new kinetic energy so as to maintain the leading position in the industry during the sustainable growth. The performance of the Group's business generally achieved the expected objectives during the first half of the year.

BUSINESS REVIEW AND OUTLOOK

According to the industrial guiding opinions of the Group for 2018-2022 which were considered and approved at the Board meeting of the Group, the industrial segments of the Group were adjusted from five industrial segments, namely the commercial automobile parts and components, general machinery, machine tools, power equipment, financial and trade, into three business segments, namely the clean energy equipment, high-end intelligent manufacturing and industrial services.

Clean energy equipment (hydroelectric generation equipment, electrical wires and cables, materials, wind power blades, industry blower, industrial pumps, gas compressors and other businesses)

With the increasing emphasis on environmental protection in the countries all over the world, measures to encourage the development of new energy sources were introduced in various countries, which increased the investment in new energy, and achieved rapid progress in technology, leading to the rapid rise of new energy in the world. Since 1997, the wind power generation in the world increased by about 80 times, and the photovoltaic power generation increased by about 440 times. The energy structure and power generation experiences rapid change, and the proportion of clean energy increased significantly, which led to the development of the Group's business in relation to clean energy equipment segment. In the first half of 2018, the hydropower equipment business actively expanded into Southeast Asia, South Asia and other markets, achieving rapid growth in operating income and successfully awarding orders of the EPC project of a hydropower station in Khimti, Nepal. The total installed capacity of the project is 48.8MW, and the total contract value is approximately US$88 million; for the wire and cable and materials business, the Group has actively adjusted the marketing model, expanded the sales area, and intensified the marketing of new product, new energy-saving and environmental protection wire and insulator, with orders achieving double-digit growth; for industrial pump business, driven by the country's vigorous promotion of nuclear power plant construction, orders increased and operating income achieved rapid growth; however, for the wind power blades business, 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 only amounted to 7,530MW in the first half of the year, representing a significant year-on-year decline, which resulted in the wind power blades business not meet the expected and in turn led to the slower growth of clean energy equipment segment generally in the first half of the year. Based on the analysis on the business orders and market trends of the segment, it is expected that the overall operating results of the segment for the year will remain stable in 2018.

In addition, Chongqing Cummins Engine Company Limited ("Chongqing Cummins"), a joint venture of the Company, is mainly engaged in the production of high horsepower diesel engines. Chongqing Cummins actively increased its marketing in power equipment, construction machinery, petroleum machinery and ships, and highlighted quality control. In the first half of 2018, its operating result achieved relatively rapid growth, and sales of engines above 500 horsepower reached a record high. The Company continued to maintain market leading position. The construction project of the high-power engine technology R&D center entered into the completion and commissioning stage, and the new high-power engine plant project commenced construction as planned. It is expected that the business will continue to achieve high quality growth throughout the year of 2018.

High-end intelligent manufacturing (intelligent gear-producing machines, intelligent precision screw machines, intelligent agricultural machinery, steering systems and other businesses)

In 2015, the PRC released "Made-in-China 2025". China's intelligent manufacturing has been effectively applied in 191 industries and expanded into other 82 industries. It has realised point-based breakthroughs and stepped into regional manufacturing industry, driving the improvement in key equipment, information technology, management software, platform software, industrial Internet and system solutions. As at the end of 2017, the output value of China's intelligent manufacturing industry reached RMB1.5 trillion, and it is expected to maintain an average compound growth rate of approximately 11% in the next few years. This has led to the development of the business related to the high-end intelligent equipment segment of the Group. In the first half of 2018, the businesses of intelligent gear machine tools and intelligent screw machine tools were driven by the recovery of demand in the machinery industry and automobile industry. Orders stabilized and rebounded, and operating income recorded increased. The new product YW723CNC all-purpose grinding machine (YW723CNC數控萬能磨齒機) won the "Best Ten Quality Products of 2017 (2017年度產品質量十佳)", and Y8030CNC gear machine tool (Y8030CNC數控車齒機) and YDA3132CNC-CR gear hobbing and milling edge machine tool (YDA3132CNC-CR滾齒銑棱複合機床) won the "CCMT2018 Chunyan Award (CCMT2018春燕獎)" with technical innovation; the steering system business also maintained rapid growth; and the self-developed intelligent agricultural machinery accelerated the pace of research and development, leading to the rapid growth of the high-end intelligent equipment segment in the first half of 2018. Based on the analysis on the business orders and market trends of the segment, it is expected that the overall operating results of the segment for the year will maintain better growth in 2018.

Industrial service business (financing, trading and other businesses)

In the first half of 2018, the Group's financial business remained stable. The Group's centralised purchase of bulk materials directly reduced the procurement cost of the Group by approximately RMB9.0 million. Since the Group voluntarily closed the foreign trade business of a low gross profit, the trading sales significantly decreased by approximately 92.8% over the same period of last year. It is expected that the sales revenue of the segment throughout the full year will decrease significantly in 2018 but the operating results will remain stable.

DEVELOPMENT STRATEGIES

By continuously centering on the main work task of "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 (抓市場、保質量、保交付、保服務、降成本、降『兩金』、降負債、增強核心競爭力)", the Group will deepen the corporate reform, strengthen the technological innovation, leading the upgrades and transformation of industrial structure, continue to improve the quality of operation and profitability of the Group, fully implement the work priorities in the second half of the year.

Work priorities of the second half of the year

(I) To strengthen the collaboration and dedicate to explore potential target market

The Group will establish a marketing collaboration mechanism. Based on the large marketing platform, the Group will lead the grouping marketing and integrated marketing of connected businesses, and form a benign grouping cooperation mechanism in technical research and production cooperation of projects. The Group will focus on the "offshore and overseas (兩海)" markets of agricultural machinery and services, diesel generator units, tube-in-sheet evaporative cooling air conditioner, turbine testing, wind power blades and the increment market of recycling, specialty cables and EPC general contracting and others, striving to make breakthroughs to some extent. The Group will seek for to set up an industrial service operation and maintenance platform, to guide the subsidiaries to extend from providing single product manufacturing into combination of manufacturing plus service operation and maintenance. The Group will execute internal professional business integration, so as to gradually integrate the identical or similar business resources of subsidiaries to form a professional support centralisation.

(II) To solve the difficulties and to ensure the long-term effect of "three guarantees and three reductions (三保三降)"

Three guarantees: firstly, to guarantee the quality assurance, the works to be involved comprised of completing the second QC competition, focusing on its results summary and promotion and application, keeping a close eye on the businesses of which quality loss control still has certain deficiency in the first half of the year, strengthening the quality control throughout the product life cycle, not tolerating for quality problems, with an aim to achieve an decrease in quality loss of RMB100 sales income by 6%. Secondly, to guarantee delivery, the works to be involved comprise of guiding the subsidiaries to form an integrated connection of product design, production organization, process control, customer communication, etc., in order to improve product delivery rate. Thirdly, to guarantee service, the works to be involved comprised of urging the subsidiaries to improve the after-sales service system with the core value of customer satisfaction, setting up a reasonable and appropriate inventory of spare parts, ensuring the timeliness of after-sales service, and improving customer satisfaction.

Three reductions: firstly, to reduce the cost. The Group will strengthen cost management, take the budget control as the main line, guide the subsidiaries to optimize the design, process, procurement, production, quality, management and other procedures to reduce costs; promote on-line operation of all materials of the electronic trading platform, constantly undertake the full coverage of centralised procurement of bulk materials, together with bettering the centralised procurement extension service, so as to further reduce procurement costs. Secondly, to reduce the receivables and inventory. The Group will enhance the management and control, setting out from the headstream, which represents the execution of purchase and sales contracts, paying attention to the terms of collection and payment, and linkages among the production, supply and sales, to prevent the squeezing from both customers and suppliers; the Group will identify key contradictions and focus on key enterprises, primarily conduct specific on-site solutions against the enterprises with high receivables, assisting subsidiaries to study, formulate and implement solutions, and strictly control new increments. Thirdly, to reduce liabilities. The Group will consolidate leverage management, improve the entity's profitability, strictly control financing size, enhance capital planning, and improve asset liquidity, to prevent debt ratio arising from the inflated assets and liabilities; the Group will pay close attention to changes in financing environment and monetary policy, and understand the trend of capital prices, select the appropriate financing proposals with the principle of safety, stability and cost-effectiveness, ensuring the smooth capital flows.

(III) To grasp the key point and to improve the innovation-driven capability

The Group will put great effort in research and development investment, patent declaration and new product development, push ahead the new product research and development and industrialization, and accelerate the progress of some product research and development and the result transformation. The Group will focus on promoting intelligent manufacturing projects such as the construction of digital manufacturing zones of nuclear power pump, promote smart factory models and applications to enhance the level of enterprise intelligence. The Group will promote the integration of the two industries, advance the standardization of important management data such as finance, human resources, operation and management, innovation projects, equity and fixed asset investment in accordance with the unified deployment of information construction; build a data integration platform and data center, and propel the portal platform plus management cockpit, laying the foundation for fine management.

(IV) To further advance and deepen the synchronization of capital operation and reform

The Group will take multiple measures to deepen reforms, persistently remove invalidity and revitalize stocks; promote investment introduction and reorganization as well as mergers and acquisitions, implement the spirit of deepening state-owned reforms of state-owned enterprises, develop the mixed-ownership economy, and formulate reform plans based on actual enterprise classification. The Group will deepen the reform of human resources, highlight the performance appraisal orientation, gradually introduce the "one profit and four rates (一利四率)" appraisal indicators, increase the weight of assessment, and strengthen the implementation of assessment on "one corporation with one policy"; also, the Group will cooperate with professional human resources service platform agencies, to make full use of the preferential policies of talents introduction and accumulation to broaden talent introduction channels, optimize staff structure of the enterprises; further, the Group will strengthen sharing and communication with the peers, exchange experience with Sino-foreign joint ventures, and share international human resource management experience.

SUMMARY

In the second half of 2018, the global economy will cause frictions in world trade due to the US challenge to the multilateral trading system, which will have an uncertain impact on the world economy and finance. Investment in the equipment manufacturing industry is expected to slow down, and the economic prospects of Europe and emerging countries are also dragged down to instability. Meanwhile, the FED is expected to raise interest rates again in the second half of the year, thus slowing the pace of world economic recovery. The Group's major export businesses are concentrated in Southeast Asia. The trade war has minimal impact on the core business of the Group, mainly due to that our export business is relatively in large amount.

Benefiting from the PRC government's efforts on promoting clean energy, intelligent grid projects, and the opportunities from the "Belt and Road" construction, accelerating the structural reform of the economic supply side, the domestic demand will continue to expand and the demand for expansion of power equipment business in Southeast Asia, South Asia and other countries will also increase. In line with the main work task of "one focus, three guarantees, three reductions and one enhancement (一抓三保三降一增強)", the Group will persistently and proactively expand the domestic and international markets, earnestly carry out the operation and management, actively promote technological innovation, focus on digital, interconnection and intellectual technology upgrades. The Group will comply with the guideline of "one corporation with one policy" to deepen the classification, to focus on key points, make up shortcomings, and strictly make assessment, and go all out to complete the Group's annual operating indicators.

On behalf of the Board, I would like to extend my heartfelt gratitude to our shareholders for their support and trust. My sincere appreciation also goes to our directors, supervisors and all of our staff members for their efforts in contributing to the Group.

Executive Director and Chairman
Wang Yuxiang

Chongqing, the PRC
23 August 2018

Management's Discussion and Analysis

RESULTS OVERVIEW

SALES

For the six months ended 30 June 2018, the Group's total revenue amounted to approximately RMB2,768.0 million, a decrease of approximately 22% as compared with approximately RMB3,548.0 million for the same period of last year, mainly due to the closure of foreign trade business with low gross profit by the Group since 2018.

Overall, revenue of the clean energy equipment segment was approximately RMB1,869.3 million (accounting for approximately 67.5% of the total revenue), a decrease of approximately 5.7%; revenue of the high-end intelligent manufacturing segment was approximately RMB802.7 million (accounting for approximately 29.0% of the total revenue), an increase of approximately 6.9%; revenue of the industrial service segment was approximately RMB95.4 million (accounting for approximately 3.5% of the total revenue), a decrease of approximately 88.3%.

During the Period, the sales revenue of the clean energy equipment segment declined, mainly due to a slight decrease in the wind power blade business. The sales revenue of the high-end intelligent manufacturing segment increased, mainly due to the significant increase in sales revenue of the intelligent manufacturing products. The decline in sales revenue of the industrial service segment was due to the Company's closure of foreign trade business with low gross profit since 2018. Excluding the trading revenue with low gross profit for the second half of 2017, it is expected that the sales revenue of the Group will maintain a stable growth in the second half of 2018 compared to the same period last year.

There has been no significant change in the possible future development of the Group's business and the Group's outlook for the financial year of 2018 since the publication of the Group's annual report for the year ended 31 December 2017.

GROSS PROFIT

The gross profit for the six months ended 30 June 2018 was approximately RMB604.2 million, a significant increase of approximately RMB111.9 million or approximately 22.7% as compared with approximately RMB492.3 million for the same period of last year mainly because the overall clean energy equipment segment was driven by the hydropower equipment business and other products with higher gross profit. The Group's gross profit is expected to remain stable in the second half of 2018.

ASSET DISPOSAL INCOME AND OTHER GAINS

Other gains for the six months ended 30 June 2018 were approximately RMB61.4 million, a decrease of approximately RMB125.3 million or approximately 67.1% as compared with approximately RMB186.7 million for the same period of last year, which was mainly because no income was generated from land disposal during the Period.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for the six months ended 30 June 2018 were approximately RMB398.7 million, a decrease of approximately RMB110.2 million or approximately 21.7% as compared with approximately RMB508.9 million for the same period of last year, mainly due to separate presentation of research and development expenses as a result of changes in standards during the Period, and the inclusion of research and development expenses in administration expenses for the same period of last year.

OPERATING PROFIT

The operating profit for the six months ended 30 June 2018 was approximately RMB265.9 million, an increase of approximately RMB26.6 million or approximately 11.1% as compared with approximately RMB239.3 million for the same period of last year.

NET FINANCE EXPENSES

The net interest expenses for the six months ended 30 June 2018 was approximately RMB62.8 million, an increase of approximately RMB20.9 million or approximately 49.9% as compared to approximately RMB41.9 million for the same period of last year, mainly due to the decrease of interest capitalization and increase in borrowings in the Period.

SHARE OF INVESTMENT INCOME OF ASSOCIATES AND JOINT VENTURES

The Group's share of investment income of associates and joint ventures for the six months ended 30 June 2018 was approximately RMB227.2 million, an increase of approximately RMB32.1 million or approximately 16.5% as compared with approximately RMB195.1 million for the same period of last year. This was due to an increase in results of Chongqing Cummins Engine Co., Ltd. resulting from the increase in sales of high-horse power product market, which resulted in an increase of approximately RMB58.2 million in investment income recognised by the Company as compared to the same period last year and due to an increase of approximately RMB3.7 million in investment income arising from Knon-Bremse Systems for Commercial Vehicles (Chongqing) Ltd. ; in contrast, affected by the change in the results of Chongqing ABB Power Transformer Co., Ltd. the investment income recognised during the Period decreased by approximately RMB45.7 million compared to the same period last year.

INCOME TAX EXPENSES

The income tax expenses for the six months ended 30 June 2018 were approximately RMB26.3 million, a decrease of approximately RMB4.7 million or approximately 15.2% as compared with approximately RMB31.0 million for the same period of last year.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the Period was approximately RMB227.8 million, an increase of approximately RMB33.8 million or approximately 17.4% as compared with approximately RMB194.0 million for the same period of last year. Earnings per share increased from approximately RMB0.05 in the same period last year to approximately RMB0.06 in the current Period.

BUSINESS PERFORMANCE

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

	Revenue		Gross Profit		Segment Results	
	Period ended 30 June		Period ended 30 June		Period ended 30 June	
	2018	2017	**2018**	2017	**2018**	2017
	(RMB in million, except for percentage)					
Clean energy equipment business						
Hydropower equipment	**260.4**	150.4	**38.7**	10.5	**(21.4)**	111.1
Electrical wires and cables	**728.5**	732.3	**107.5**	104.3	**48.3**	55.0
General machinery	**547.2**	848.6	**102.0**	107.9	**(7.1)**	26.1
Other products	**333.2**	251.1	**132.7**	113.8	**27.8**	24.9
Total	**1,869.3**	1,982.4	**380.9**	336.5	**47.6**	217.1
% of total	**67.5%**	55.9%	**63.0%**	68.4%	**75.2%**	200.6%
High-end intelligent manufacturing business						
CNC machine tools	**418.5**	391.7	**105.3**	88.3	**(35.9)**	(51.2)
Steering systems	**222.7**	185.1	**42.6**	36.9	**5.9**	5.8
Other products	**161.5**	174.1	**38.0**	5.0	**17.9**	(67.7)
Total	**802.7**	750.9	**185.9**	130.2	**(12.1)**	(113.1)

	Revenue		Gross Profit		Segment Results	
	Period ended 30 June		Period ended 30 June		Period ended 30 June	
	2018	2017	**2018**	2017	**2018**	2017
	(RMB in million, except for percentage)					
% of total	**29.0%**	21.2%	**30.8%**	26.4%	**(19.1%)**	(104.5%)
Industrial services business						
Trade	**56.7**	785.0	**3.9**	1.8	**2.2**	(0.9)
Finance	**33.9**	27.9	**29.3**	23.2	**25.4**	22.8
Other services	**4.8**	0.5	**3.6**	0.6	**0.1**	(2.4)
Total	**95.4**	813.4	**36.8**	25.6	**27.7**	19.5
% of total	**3.5%**	22.9%	**6.1%**	5.2%	**43.8%**	18.0%
Headquarters						
Total	**0.6**	1.3	**0.6**	–	**0.1**	(15.3)
% of total	**–%**	–%	**0.1%**	–%	**0.1%**	(14.1%)
Total	**2,768.0**	3,548.0	**604.2**	492.3	**63.3**	108.2

CLEAN ENERGY EQUIPMENT

Revenue from the clean energy equipment segment for the six months ended 30 June 2018 was approximately RMB1,869.3 million, a decrease of approximately RMB113.1 million or approximately 5.7% as compared with approximately RMB1,982.4 million for the six months ended 30 June 2017, which was primarily due to the decrease in sales revenue of wind power blades as compared with that of the same period of last year.

During the Period, the gross profit for the clean energy equipment segment was approximately RMB380.9 million, an increase of approximately RMB44.4 million or approximately 13.2% as compared with approximately RMB336.5 million for the six months ended 30 June 2017, which was primarily due to the increase in revenue of the hydropower equipment business and the adjustment of industrial pump products structure.

The results for the clean energy equipment segment for the six months ended 30 June 2018 were approximately RMB47.6 million, a significant decrease of approximately RMB169.5 million or approximately 78.1% as compared with the results of approximately RMB217.1 million for the six months ended 30 June 2017, which were primarily because there was land disposal income of this operating segment last year.

HIGH-END INTELLIGENT MANUFACTURING

Revenue from the high-end intelligent manufacturing segment for the six months ended 30 June 2018 was approximately RMB802.7 million, an increase of approximately RMB51.8 million or approximately 6.9% as compared with approximately RMB750.9 million for the six months ended 30 June 2017, which was mainly due to the increase in revenue of Intelligent Manufacturing Company.

During the Period, gross profit for the high-end intelligent manufacturing segment was approximately RMB185.9 million, an increase of approximately RMB55.7 million or 42.8% as compared with approximately RMB130.2 million for the six months ended 30 June 2017.

For the six months ended 30 June 2018, the results for the high-end intelligent manufacturing operating segment recorded a loss of approximately RMB12.1 million, a decrease in loss of approximately RMB101.0 million or approximately 89.3% as compared with a loss of approximately RMB113.1 million for the six months ended 30 June 2017, primarily due to the decrease in loss of Machine Tools Group and the exclusion of the continuous loss in the transmission systems business last year from the scope of consolidation of the Period.

INDUSTRIAL SERVICE

Revenue from the industrial service segment for the six months ended 30 June 2018 was approximately RMB95.4 million, a significant decrease of approximately RMB718.0 million or approximately 88.3% as compared with approximately RMB813.4 million for the six months ended 30 June 2017, mainly due to the Company's initiative to cease the low-margin foreign trade business.

During the Period, gross profit for the industrial service segment was approximately RMB36.8 million, an increase of approximately RMB11.2 million or approximately 43.8% as compared with approximately RMB25.6 million for the six months ended 30 June 2017, mainly due to the increase in gross profit margin of finance business from approximately 83.2% for the six months ended 30 June 2017 to approximately 86.4% for the six months ended 30 June 2018.

For the six months ended 30 June 2018, the results for the industrial service segment amounted to approximately RMB27.7 million, an increase of approximately RMB8.2 million or approximately 42.1% as compared with approximately RMB19.5 million for the six months ended 30 June 2017.

CASH FLOW

As at 30 June 2018, the cash and bank deposits (including restricted cash) of the Group amounted to approximately RMB1,944.6 million (31 December 2017: approximately RMB1,658.7 million), representing an increase of approximately RMB285.9 million or approximately 17.2%, mainly due to the receipt of approximately RMB319.0 million by the Group from Qijiang Gear Transmission Co., Ltd., a related company.

During the Period, the Group had a net cash flow generated from operating activities of approximately RMB-168.7 million (for the six months ended 30 June 2017: net cash flow generated from operating activities of approximately RMB-643.0 million), a net cash flow generated from investing activities of approximately RMB410.3 million (for the six months ended 30 June 2017: a net cash flow generated from investing activities of approximately RMB96.2 million), and a net cash flow generated from financing activities of approximately RMB-5.2 million (for the six months ended 30 June 2017: a net cash flow generated from financing activities of approximately RMB2.0 million).

BILLS RECEIVABLES, TRADE RECEIVABLES AND OTHER RECEIVABLES

As at 30 June 2018, the total bills receivables, trade receivables and other receivables of the Group amounted to approximately RMB5,206.7 million, an decrease of approximately RMB7.2 million as compared with approximately RMB5,213.9 million as at 31 December 2017, primarily due to the increases in general machinery business, intelligent manufacturing business and machine tools business of approximately RMB170.0 million, RMB100.0 million and RMB30.0 million, respectively, and the decrease in other receivables of the Company of approximately RMB319.0 million was due to the receipt of borrowings from Qijiang Gear Transmission Co., Ltd., a related company.

BILLS PAYABLES, TRADE PAYABLES AND OTHER PAYABLES

As at 30 June 2018, the total bill payables, trade payables and other payables of the Group amounted to approximately RMB3,620.3 million, an increase of approximately RMB335.1 million as compared with approximately RMB3,285.2 million as at 31 December 2017, primarily due to the increase in Water Turbine Company of approximately RMB100.0 million and the increase in Chongqing Pigeon Electric Wire & Cable Co., Ltd. of approximately RMB60.0 million.

ASSETS AND LIABILITIES

As at 30 June 2018, the total assets of the Group amounted to approximately RMB16,824.6 million, an increase of approximately RMB533.9 million as compared with approximately RMB16,290.7 million as at 31 December 2017. The total current assets amounted to approximately RMB10,799.4 million, an increase of approximately RMB254.6 million as compared with approximately RMB10,544.8 million as at 31 December 2017, accounting for approximately 64.2% of the total assets (31 December 2017: approximately 64.7%). However, the total non-current assets amounted to approximately RMB6,025.2 million, an increase of approximately RMB279.4 million as compared with approximately RMB5,745.8 million as at 31 December 2017, and accounting for approximately 35.8% of the total assets (31 December 2017: approximately 35.3%).

As at 30 June 2018, the total liabilities of the Group amounted to approximately RMB9,565.6 million, an increase of approximately RMB452.9 million as compared with approximately RMB9,112.7 million as at 31 December 2017. The total current liabilities amounted to approximately RMB7,362.6 million, an increase of approximately RMB279.2 million as compared with approximately RMB7,083.4 million as at 31 December 2017, accounting for approximately 77.0% of the total liabilities (31 December 2017: approximately 77.7%). However, the total non-current liabilities amounted to approximately RMB2,203.0 million, an increase of approximately RMB173.7 million as compared with approximately RMB2,029.3 million as at 31 December 2017, and accounting for approximately 23.0% of the total liabilities (31 December 2017: approximately 22.3%).

As at 30 June 2018, the net current assets of the Group amounted to approximately RMB3,436.8 million, an decrease of approximately RMB24.6 million as compared with approximately RMB3,461.4 million as at 31 December 2017.

CURRENT RATIO

As at 30 June 2018, the current ratio (the ratio of current assets over current liabilities) of the Group was 1.47:1 (31 December 2017: 1.49:1).

GEARING RATIO

As at 30 June 2018, by dividing borrowings by total capital, the gearing ratio of the Group was 33.06% (31 December 2017: 32.38%).

INDEBTEDNESS

As at 30 June 2018, the Group had an aggregate bank and other borrowings (not include deferred income) of approximately RMB3,668.5 million, an increase of approximately RMB178.6 million as compared with approximately RMB3,489.9 million as at 31 December 2017.

Borrowings repayable by the Group (not include deferred income) within one year amounted to approximately RMB1,978.6 million, an increase of approximately RMB56.4 million as compared with approximately RMB1,922.2 million as at 31 December 2017. Borrowings repayable after one year amounted to approximately RMB1,689.9 million, an increase of approximately RMB122.2 million as compared with approximately RMB1,567.7 million as at 31 December 2017.

SIGNIFICANT EVENTS

EVENTS FOR THE PERIOD

(1) On 18 January 2018, the Group has decided to cease the low-margin foreign trade business of Chongqing Shengpu Materials Co. Ltd, a wholly-owned subsidiary, from 2018. For details, please refer to the announcement of the Board of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 18 January 2018.

(2) In order to improve the efficiency and reduce the cost of the disclosure and the audit expenses, the Board passed a resolution that the Group is only required to prepare a financial statement in accordance with the PRC Accounting Standards for Business Enterprises since 2018. The interim results of the Group for the six months ended 30 June 2018 would be prepared in accordance with the PRC Accounting Standards for Business Enterprises. The Company believes that the proposed change in the accounting standards will not have any material adverse impact on the Group's interim results for the six months ended 30 June 2018. For details, please refer to the announcement of the Board of the Group published on the websites of the Hong Kong Stock Exchange and the Company on 14 May 2018.

(3) The Group and PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers reached an agreement on non-renewal of engagement, which would take effect after the conclusion of the annual general meeting. Approved by the 2017 Annual General Meeting of the Group, it agreed to engage ShineWing Certified Public Accountants (Special General Partnership) as the Group's 2018 external auditor to provide relevant internal and external audit services in accordance with the PRC Accounting Standards for Business Enterprises. For details, please refer to the announcement of the Board of the Group published on the websites of the Hong Kong Stock Exchange and the Company on 14 May 2018.

(4) With the approval of the Group's 2017 annual general meeting, Ms. He Xiaoyan has resigned as a non-executive director and Mr. Wang Pengcheng was appointed as a non-executive director. The above directors shall hold office from the date of the annual general meeting to the expiration of the term of the current Board. The Board was authorized to determine the remuneration of each director based on the directors' remuneration standards approved at the 2015 annual general meeting, and enter into a service agreement with each of the directors on terms and conditions as the Board considers appropriate (subject to those terms and conditions), and conduct all the actions and things necessary to carry out such matters. For details, please refer to the announcement of the Board of the Group published on the websites of the Stock Exchange of Hong Kong and the Company on 28 June 2018.

EVENTS AFTER THE PERIOD

The supervisory committee of the Group received the resignation from Mr. Xiang Hu, the member and chairman of the supervisory committee on 5 July 2018. For his personal reasons, he resigned as the member and chairman of the fourth session of the supervisory committee of the Group. The resignation of Mr. Xiang Hu did not result in the number of members of the fourth session of the supervisory committee of the Group to be lower than the statutory minimum number, and will not affect the normal operation of the supervisory committee of the Group. The resignation of Mr. Xiang Hu was effective immediately upon the delivery of the resignation to the supervisory committee. For details, please refer to the announcement of the Board of the Company published on the websites of the Stock Exchange of Hong Kong and the Group on 5 July 2018.

Save as disclosed above, the Company did not have any other material events that were subject to disclosure during the Period.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group had no significant contingent liabilities.

CAPITAL EXPENDITURE

During the Period, the total capital expenditure of the Group was approximately RMB217.0 million, which was principally used for plant expansion, production technology improvement and production, equipment intelligentization upgrade (for the six months ended 30 June 2017: approximately RMB385.6 million).

RISK OF FOREIGN EXCHANGE

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the HK dollar and US dollar. Foreign exchange risk arises when future commercial transactions and recognised assets and 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.

EMPLOYEES

As at 30 June 2018, the Group had a total of 7,960 employees (30 June 2017: a total of 10,448 employees). The decrease of employees was mainly due to the disposal of Qijiang Gear Transmission Co., Ltd. to the parent company. 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, improve training supervision on safety so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

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

As at 30 June 2018, so far as the Directors 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 Securities and Futures Ordinance ("SFO"):

Long positions in domestic shares of the Company with par value of RMB1.00 each

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 Corporation Limited	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 People's Republic of China	195,962,467	Domestic shares	Controlled corporation interest	(3)	7.58*(L)*	–	5.32

(L) *Long Position*

H shares of the Company with par value of RMB1.00 each

Name of shareholder	Number of shares	Status	*Note*	Percentage of total issued H shares	Percentage of total issued shares
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000*(L)* 0*(P)*	Custodian		7.93*(L)* 0*(P)*	2.37*(L)* 0*(P)*
The Bank of New York Mellon Corporation	87,276,000*(L)* 87,276,000*(P)*	Interest of corporation controlled by substantial shareholders	*(4)*	7.93*(L)* 7.93*(P)*	2.37*(L)* 2.37*(P)*
GE Asset Management Incorporated	75,973,334*(L)*	Investment manager		6.91*(L)*	2.06*(L)*

(L) Long Position
(S) Short Position
(P) Lending Pool

Notes:

(1) As Chongqing Machinery and Electronics Holding (Group) Co., Ltd. and Chongqing Yufu Assets Management Group Co., Ltd. are wholly owned by Chongqing State-owned Assets Supervision and Administration Commission, Chongqing State-owned Assets Supervision and Administration Commission is deemed to be interested in 1,924,225,189 domestic shares, 11,652,000 H shares and 232,132,514 domestic shares of the Company held by the two companies respectively.

(2) Chongqing Construction Engineering Group Corporation Limited is held as to 76.53% by Chongqing State-owned Assets Supervision and Administration Commission through its wholly-owned Chongqing Construction Investment Holding Co., Ltd. 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 Corporation Limited.

(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 People's Republic of China and as to 4.22% indirectly by the Ministry of Finance of the People's Republic of China through China Life Insurance (Group) Company, its wholly-owned subsidiary. Therefore, the Ministry of Finance of the People's Republic of China 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% interest in The Bank of New York Mellon (formerly known as "The Bank of New York"), which holds 87,276,000 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 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 which were required to be recorded in the register pursuant to Section 336 of the SFO as at 30 June 2018.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the Period, the Company has adopted and complied with the code provisions under the Corporate Governance Code set out in the Appendix 14 of the Listing Rules.

THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has complied with and adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 of the Listing Rules as the code for securities transactions by directors of the Company. The Company has obtained the respective confirmations by all of its directors that they have strictly complied with the provisions set out in the Model Code for the six months ended 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the six months ended 30 June 2018, neither the Group nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividends.

AUDIT AND RISK MANAGEMENT COMMITTEE

The audit and risk management committee, the management and the Company's auditor ShineWing Certified Public Accountants (Special General Partnership) have jointly reviewed the accounting standards, laws and regulations adopted by the Company and discussed internal control and financial reporting matters (including the review of the interim results) of the Group. The audit and risk management committee considered that the interim results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE

As at the date of this report, the executive Directors of the Company are Mr. Wang Yuxiang, Ms. Chen Ping, Mr. Yang Quan; the non-executive Directors are Mr. Huang Yong, Mr. Deng Yong, Mr. Dou Bo and Mr. Wang Pengcheng; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei.

As at the date of this report, the members of the Supervisory Committee of the Company are Mr. Xia Hua, Ms. Wu Yi, Mr. Huang Hui and Mr. Zhang Mingzhi.

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

The interim results announcement has been published on the websites of the Company (http://www.chinacqme.com) and the Stock Exchange. The interim report will also be available on the websites of the Company and the Stock Exchange on or around 14 September 2018 and will be dispatched to the shareholders of the Company thereafter by the means of receipt of corporate communications they selected.

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

Chongqing, the PRC
23 August 2018

Review Report

XYZH/2018CQA10340

To the Shareholders of Chongqing Machinery & Electric Co., Ltd:

We have reviewed the accompanying financial statements of Chongqing Machinery & Electric Co., Ltd (the "Company"), which comprise the consolidated and the Company's balance sheet as at 30 June 2018, the consolidated and the Company's income statements, the consolidated and the Company's cash flow statement and the consolidated and the Company's statement of changes in equity for January-June 2018 and notes to financial statements. The management of the Company is responsible for fair presentation of these financial statements. Our responsibility is to issue our review report on these financial statements based on our review.

We conducted our review in accordance with the "Review Standard for Chinese Certified Public Accountants No.2101-Review of Financial Statements". The standard requires us to plan and conduct a review to obtain limited assurance as to whether financial statements are free from material misstatement. A review is primarily limited to inquire of company personnel and performing analytical procedures on financial data. A review provides less assurance than audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects, the consolidated and the Company's financial position as at 30 June 2018, the consolidated and the Company's results of operations and cash flows for six-month period then ended in accordance with Accounting Standards for Business Enterprises.

ShineWing Certified Public Accountants LLP

CICPA:

CICPA:

China, Beijing

23 August 2018

Consolidated Income Statement

For the six months ended 30 June 2018

Item	*Notes*	**This Period**	Last Period
1. Total operating revenue		**2,767,959,138.61**	3,548,021,596.29
Including: Operating revenue	VI43	**2,733,873,606.55**	3,519,111,129.77
Interest income	VI43	**33,870,973.44**	28,792,373.02
Transaction fees and commission income	VI43	**214,558.62**	118,093.50
2. Total operating cost		**2,793,802,008.14**	3,692,033,982.65
Including: Operating cost	VI43	**2,159,124,333.67**	3,051,127,108.77
Interest expenses	VI43	**4,561,659.34**	4,566,493.17
Transaction cost and commission fees	VI43	**54,420.31**	34,063.60
Business taxes and surcharges		**28,517,225.78**	30,859,518.27
Selling and distribution expenses	VI44	**142,579,113.56**	132,602,869.09
Administrative expenses	VI45	**256,083,181.28**	376,344,103.64
Research and development expenses	VI46	**116,331,772.01**	–
Financial expenses	VI47	**62,780,594.46**	41,889,234.31
Including: Interest expenses		**63,291,660.09**	49,346,897.41
Interest income		**12,811,729.52**	7,590,186.04
Loss on impairment of assets	VI48	**2,178,043.43**	54,610,591.80
Impairment loss on credit	VI49	**21,591,664.30**	–
Add: Other gains	VI53	**60,759,243.59**	–
Investment income (Loss listed with "-")	VI50	**230,506,396.27**	196,574,269.00
Including: income from investments in associates and joint ventures		**227,196,327.78**	195,107,399.00
Gain arising from the changes in fair value (Loss listed with "-")	VI51	**(104,916.90)**	–
Gain on disposal of assets (Loss listed with "-")	VI52	**623,652.43**	186,715,396.00
3. Operating profit (Loss listed with "-")		**265,941,505.86**	239,277,278.64
Add: Non-operating income	VI54	**6,970,029.97**	18,753,923.66
Less: Non-operating expenses	VI55	**2,895,940.38**	6,378,165.62
4. Total profit (Loss listed with "-")		**270,015,595.45**	251,653,036.68
Less: Income tax expenses	VI56	**26,320,717.25**	31,029,926.28

Item	*Notes*	**This Period**	Last Period
5. Net profit (Net loss listed with "-")		**243,694,878.20**	220,623,110.40
(1) Classification by continuing or discontinued operation		**243,694,878.20**	220,623,110.40
1. Net profit attributable to continuing operation (Net loss listed with "-")		**243,694,878.20**	220,623,110.40
2. Net profit attributable to discontinued operation (Net loss listed with "-")		**–**	–
(2) Classification by ownership		**243,694,878.20**	220,623,110.40
1. Net profit attributable to shareholders of the controlling company		**227,779,287.39**	194,032,482.68
2. Net profit attributable to non-controlling interests		**15,915,590.81**	26,590,627.72
6. Net other comprehensive income after tax		**1,085,663.32**	5,699,476.68
Net other comprehensive income after tax attributable to shareholders of the controlling company		**1,085,663.32**	5,699,476.68
(1) Other comprehensive incomes that can not be reclassified as profit or loss		**–**	5,000,476.68
Including: 1. Changes in net assets or net liabilities from recalculation of designed retirement contribution plan		**–**	5,000,476.68
(2) Other comprehensive income that can be reclassified as profit or loss		**1,085,663.32**	699,000.00
Including: 1. Gain or loss from fair value changes of available-for-sale financial assets		**–**	245,000.00
2. Share of other comprehensive income of investee company under equity method that can be reclassified as profit or loss		**–**	353,000.00
3. Reserve of cash flow hedging		**1,324,807.42**	3,966,000.00
4. Translation differences of financial statements in foreign currencies		**(239,144.1)**	(3,865,000.00)

Consolidated Income Statement *(Continued)*

For the six months ended 30 June 2018

Item	*Notes*	**This Period**	Last Period
7. Total comprehensive income		**244,780,541.52**	226,322,587.08
Total comprehensive income attributable to shareholders of the controlling company		**228,864,950.71**	199,731,959.36
Total comprehensive income attributable to non-controlling interests		**15,915,590.81**	26,590,627.72
8. Earnings per share	Note 1		
(1) Basic earnings per share		**0.0618**	0.0527
(2) Diluted earnings per share		**0.0618**	0.0527

Note 1 – Note 2 of the Supplementary Information to Financial Statements

Consolidated Balance Sheet

As at 30 June 2018

Item	*Notes*	**Ending balance**	Beginning balance
Current assets			
Cash and cash equivalents	VI1	**1,944,570,182.69**	1,658,694,663.00
Financial assets held for sale	VI2	**129,079.58**	–
Notes receivable and Accounts receivable	VI3	**4,191,842,744.79**	3,883,314,358.00
Prepayments	VI4	**295,828,896.59**	434,915,529.00
Other receivables	VI5	**1,014,863,362.69**	1,330,585,622.92
Loans and advances to customers	VI10	**1,213,670,239.85**	1,007,178,150.00
Inventories	VI6	**1,581,288,413.22**	2,040,955,563.00
Contractual assets	VI7	**495,773,425.43**	–
Non-current assets due within one year	VI8	**1,138,300.00**	1,138,300.00
Other current assets	VI9	**60,279,233.34**	188,049,577.00
Total current assets		**10,799,383,878.18**	10,544,831,762.92

Consolidated Balance Sheet *(Continued)*

As at 30 June 2018

Item	Notes	Ending balance	Beginning balance
Non-current assets			
Loans and advances to customers	VI10	–	37,894,354.00
Long-term receivables	VI11	**42,669,104.46**	91,669,620.00
Long-term equity investments	VI12	**1,193,500,242.34**	1,046,677,545.00
Investment properties	VI13	**155,439,419.39**	164,020,539.97
Property, plant and equipment	VI14	**3,111,054,290.19**	2,866,356,781.00
Construction in progress	VI15	**371,748,287.56**	418,264,300.74
Intangible assets	VI16	**630,212,278.19**	615,280,099.72
Development expenditures	VI17	**11,935,929.19**	7,138,672.00
Goodwill	VI18	**143,312,435.00**	143,312,435.00
Long-term deferred expenses	VI19	**191,377,050.78**	203,065,942.02
Deferred tax assets	VI20	**137,894,750.23**	68,505,568.00
Other non-current assets	VI21	**36,040,440.23**	83,655,571.26
Total non-current assets		**6,025,184,227.56**	5,745,841,428.71
Total assets		**16,824,568,105.74**	16,290,673,191.63

Item	*Notes*	**Ending balance**	Beginning balance
Current liabilities			
Short-term loans	VI22	**1,701,672,391.31**	1,669,889,955.00
Deposits from banks and other financial institutions	VI29	**888,848,304.06**	877,057,450.00
Notes payable and accounts payable	VI23	**3,026,439,284.01**	2,759,082,239.00
Receipts in advance	VI24	**502,903,663.92**	677,552,844.00
Contractual liabilities	VI25	**44,079,785.91**	–
Employee benefits payables	VI26	**61,270,077.44**	57,693,334.00
Taxes and levies payables	VI27	**235,795,184.79**	221,341,231.00
Other payables	VI28	**593,901,573.51**	526,130,339.20
Non-current liabilities due within one year	VI30	**301,746,095.32**	294,663,555.00
Other current liabilities	VI31	**5,945,215.03**	–
Total current liabilities		**7,362,601,575.30**	7,083,410,947.20

Consolidated Balance Sheet *(Continued)*

As at 30 June 2018

Item	Notes	Ending balance	Beginning balance
Non-current liabilities			
Long-term loans	VI32	**699,200,000.00**	562,411,906.00
Bonds payable	VI33	**798,404,883.43**	797,674,683.43
Long-term payables	VI34	**195,225,668.79**	211,496,663.00
Long-term employee benefits payables	VI35	**15,968,000.00**	15,968,000.00
Provisions	VI36	**12,443,765.42**	–
Deferred revenue	VI37	**388,502,803.13**	383,378,140.00
Deferred tax liabilities	VI20	**93,257,810.80**	58,346,309.00
Total non-current liabilities		**2,203,002,931.57**	2,029,275,701.43
Total liabilities		**9,565,604,506.87**	9,112,686,648.63
Shareholder's equity			
Share capital	VI38	**3,684,640,154.00**	3,684,640,154.00
Capital reserves	VI39	**47,161,642.67**	49,744,935.00
Other comprehensive income	VI40	**27,458,877.32**	27,977,334.00
Surplus reserves	VI41	**309,950,966.18**	297,517,132.00
Retained earnings	VI42	**2,776,458,202.81**	2,717,844,150.00
Total equity attributable to shareholders of the Company		**6,845,669,842.98**	6,777,723,705.00
Non-controlling interests		**413,293,755.89**	400,262,838.00
Total shareholder's equity		**7,258,963,598.87**	7,177,986,543.00
Total liabilities and shareholder's equity		**16,824,568,105.74**	16,290,673,191.63

Consolidated Statement of Changes in Equity

As at 30 June 2018

This Period

Item	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained earning	Non-controlling interests	Total equity
	Equity attributable to the equity holders of the controlling Company												
		Other equity instruments											
1. Balance at 31 December 2017	3,684,640,154.00	-	-	-	49,744,935.00	-	27,977,334.00	-	297,517,132.00	-	2,717,844,150.00	400,262,838.00	7,177,986,543.00
Add: Change in accounting policing	-	-	-	-	-	-	-	-	-	-	-169,165,234.60	-2,884,672.92	-172,049,907.52
2. Balance at 1 January 2018	3,684,640,154.00	-	-	-	49,744,935.00	-	27,977,334.00	-	297,517,132.00	-	2,548,678,915.40	397,378,165.08	7,005,936,635.48
3. Increase/Decrease for the period (Decrease listed with "-")	-	-	-	-	-2,583,292.33	-	-518,456.68	-	12,433,834.18	-	227,779,287.41	15,915,590.81	253,026,963.39
(1) Total comprehensive income	-	-	-	-	-	-	-518,456.68	-	-	-	227,779,287.41	15,915,590.81	243,176,421.54
(2) Others	-	-	-	-	-2,583,292.33	-	-	-	12,433,834.18	-	-	-	9,850,541.85
4. Balance at 30 June 2018	3,684,640,154.00	-	-	-	47,161,642.67	-	27,458,877.32	-	309,950,966.18	-	2,776,458,202.81	413,293,755.89	7,258,963,598.87

Consolidated Statement of Changes in Equity *(Continued)*

As at 30 June 2018

Item	Share capital	Preferred shares (Other equity instruments)	Perpetual bond (Other equity instruments)	Others (Other equity instruments)	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained earning	Non-controlling interests	Total equity
	Last Period												
	Equity attributable to the equity holders of the controlling Company												
1. Balance at 31 December 2016	3,684,640,154.00	-	-	-	156,143,834.00	-	14,176,621.00	-	332,505,407.00	-	2,551,313,941.00	580,595,859.00	7,319,375,816.00
2. Balance at 1 January 2017	3,684,640,154.00	-	-	-	156,143,834.00	-	14,176,621.00	-	332,505,407.00	-	2,551,313,941.00	580,595,859.00	7,319,375,816.00
3. Increase/Decrease for the year (Decrease listed with "-")	-	-	-	-	-10,959,885.00	-	5,699,476.68	-	-	-	65,070,079.68	-197,698,031.28	-137,888,359.92
(1) Total comprehensive income	-	-	-	-	-	-	5,699,476.68	-	-	-	194,032,482.68	26,590,627.72	226,322,587.08
(2) Profit appropriations	-	-	-	-	-	-	-	-	-	-	-128,962,403.00	-93,180,091.00	-222,142,494.00
1. Appropriate to Shareholders	-	-	-	-	-	-	-	-	-	-	-128,962,403.00	-98,540,091.00	-227,502,494.00
2. Increase capital by shareholders non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	5,360,000.00	5,360,000.00
(3) Others	-	-	-	-	-10,959,885.00	-	-	-	-	-	-	-131,108,568.00	-142,068,453.00
4. Balance at 30 June 2017	3,684,640,154.00	-	-	-	145,183,949.00	-	19,876,097.68	-	332,505,407.00	-	2,616,384,020.68	382,897,827.72	7,181,487,456.08

Consolidated Statement of Cash Flow

For the six months ended 30 June 2018

Item	*Notes*	**This Period**	Last Period
1. Cash flows from operating activities			
Cash received from sales of goods and rendering of services		**2,292,404,403.92**	4,211,152,212.25
Net decrease in central bank and interbank payments		**–**	19,618,805.51
Net decrease in loans and advances to customers		**–**	247,492,186.00
Cash received from tax refund		**9,344,656.79**	–
Cash received relating to other operating activities		**420,536,260.80**	19,541,607.50
Sub-total of cash inflows from operating activities		**2,722,285,321.51**	4,497,804,811.26
Cash paid for goods and services		**2,030,859,091.33**	3,924,566,469.77
Net decrease in customer deposits and interbank deposits		**–**	210,707,638.00
Cash paid to and on behalf of employees		**418,278,866.11**	461,572,603.99
Payments of taxes and surcharges		**149,925,870.45**	157,954,483.96
Cash paid relating to other operating activities		**291,923,849.45**	386,562,165.69
Sub-total of cash outflows from operating activities		**2,890,987,677.34**	5,141,363,361.41
Net cash flows from operating activities		**(168,702,355.83)**	(643,558,550.15)

Consolidated Statement of Cash Flow *(Continued)*

For the six months ended 30 June 2018

Item	*Notes*	**This Period**	Last Period
2. Cash flows from investment activities			
Cash received from return of investments		**198,763,506.71**	161,466,872.00
Cash received from investments income		**159,076,955.91**	93,285,355.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**926,228.00**	93,531,162.00
Cash received relating to other investing activities		**355,727,525.16**	13,871,229.00
Sub-total of cash inflows from investing activities		**714,494,215.78**	362,154,618.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets		**96,340,047.84**	253,494,733.47
Cash paid for investments		**168,597,735.85**	1,630,722.00
Cash paid relating to other investing activities		**39,222,569.91**	10,787,894.85
Sub-total of cash outflow from investing activities		**304,160,353.60**	265,913,350.32
Net cash flows from investing activities		**410,333,862.18**	96,241,267.68

Consolidated Statement of Cash Flow *(Continued)*

For the six months ended 30 June 2018

Item	Notes	This Period	Last Period
3. Cash flows from financing activities			
Cash received from loans granted		775,000,000.00	664,837,217.00
Cash received relating to other financing activities		–	5,360,000.00
Sub-total of cash inflows from financing activities		775,000,000.00	670,197,217.00
Cash paid for repayment of borrowings		584,155,743.12	363,561,203.00
Cash paid for dividends, profits or payments of interests		61,862,147.16	144,603,296.03
Cash paid relating to other financing activities		134,149,408.90	160,031,378.24
Sub-total of cash outflows from financing activities		780,167,299.18	668,195,877.27
Net cash flows from financing activities		(5,167,299.18)	2,001,339.73
4. Effects of changes in exchange rate on cash and cash equivalents		120,596.22	6,198,805.59
5. Net increase in cash and cash equivalents		236,584,803.39	(539,117,137.15)
Add: opening balance of cash and cash equivalents		1,174,539,298.00	1,442,933,183.75
6. Balance of cash and cash equivalents at the end of this period	VI58	1,411,124,101.39	903,816,046.60

Notes to Consolidated Financial Statements

For the six months ended 30 June 2018
(All amounts are presented in RMB except otherwise stated)

I. GENERAL INFORMATION

Chongqing Machinery & Electric Co., Ltd. (the "Company") was established on 27 July 2007 as a joint share company with limited liability by Chongqing Machinery & Electronics Holding (Group) Co., Ltd. ("CQMEHG"), Chongqing Yufu Assets Management Group co., ltd ("Yufu company", originally called Chongqing Yufu Assets Management Co., Ltd), China Huarong Asset Management Co., Ltd. ("Huarong company"), and Chongqing Construction Engineering Group Co. Ltd. ("CCEG"). The address of the Company's registered office is No. 60, Huangshan Road Central, Northern New District, Chongqing, the PRC. The Company's headquarter is located in Chongqing, PRC. The parent company and the ultimate controlling shareholder is Chongqing Machinery & Electronics Holding (Group) Co. Ltd. The Group was established with a registered capital of RMB2,679.74 Million (RMB1 per share).

On 13 June 2008, the Group publicly issued 1,004.90 million H shares to foreign investors with approval of the Circular "Zhengjian Xuke [2008] No. 285" of the China Securities Regulatory Commission, and the shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). After issuing the shares, the total share capital increased to RMB3,684.64 million.

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 consolidated financial statements have been approved for issue by the Board of Directors of the Group on 23 August 2018.

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

For details, please refer to relevant content as set out in "VII. CHANGES IN CONSOLIDATION SCOPE" and "VIII. INTEREST IN OTHER ENTITIES" of this note.

III. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of preparation

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises – Basic Standard, and the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as "the Accounting Standards for Business Enterprises" or "CAS") and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15-General Rules on Financial Reporting issued by the China Securities Regulatory Commission, and based on the accounting policies and accounting estimates set out in "IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES" in this note.

(2) Going concern

The financial statements are prepared on a going concern basis. The Group has a history of recent profitable operations and financial support, so it is reasonable to prepare financial statements on a going concern basis.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Declaration on Compliance with CAS

The Company complied with the requirements of CAS in preparing its financial statements, which give a true and full view of the financial position, financial performance and cash flows of the Group.

2. Accounting Period

The Group's accounting period is from 1 January to 31 December.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

3. Business Cycle

The Group treats 12 months as a business cycle and the criteria for classifying current and non-current assets and liabilities.

4. Functional Currency

The Group's functional currency is Renminbi (RMB).

5. Measurement for Business Combinations under Common Control and Business Combinations not under Common Control

The consideration transferred and net assets acquired in a business combination under common control shall be measured at the combination-date carrying amount. The differences between the carrying amount of net assets acquired and consideration transferred shall adjust capital reserve; if capital reserve is not sufficient for offsetting, the retained earnings shall be adjusted. Acquisition-related costs shall be recognized as expenses in the periods in which the costs are incurred. The costs to issue debt or equity securities shall be recognized in initial costs of debt or equity securities.

The consideration transferred and identifiable net assets in a business combination not under common control shall be measured at fair value at the acquisition date. Where the cost of combination exceeds the acquirer's share of the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill; where the cost of combination is less than the acquirer's share of the fair value of the acquiree's identifiable net assets, the difference are recorded in profit or loss for the period. Acquisition-related costs shall be recognized as expenses in the periods in which the costs are incurred. The costs to issue debt or equity securities shall be recognized in initial costs of debt or equity securities.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

6. Preparation of Consolidated Financial Statements

The consolidated financial statements are for the Group consisting of the Company and its subsidiaries.

The Company shall consolidate its subsidiaries when it obtains control and shall not consolidate its subsidiaries when it loses control. For a subsidiary acquired in a business combination involving enterprises under common control, the Company shall consolidate the subsidiary from the date when both entities are ultimately controlled by the same party or parties. The portion of the net profits realized before the combination date is presented separately in the consolidated income statement.

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

All significant intra-group balances, transactions and unrealized profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognized as non-controlling interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Unrealized profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to shareholders of the Company. Unrealized profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to shareholders of the Company and minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealized profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to shareholders of the Company and minority interests in accordance with the allocation proportion of the parent in the subsidiary.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

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

If the accounting treatment of a transaction which considers the Group as an accounting entity is different from that considers the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

7. Cash and Cash Equivalents

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

8. Foreign Currency Business Transactions and Translation of Foreign Currency Financial Statements

(1) Foreign currency transactions

Foreign currency transactions are translated into functional currency using the spot exchange rates at the dates of the transactions.

(2) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated using the spot exchange rates at the balance sheet date. Among the shareholders' equity items, the items other than "retained earnings" are translated using the spot exchange rates at the dates of the transactions. The income and expense items in the income statements of overseas operations are translated using the spot exchange rates at the dates of the transactions. The differences arising from the above translations are recognized in other comprehensive income. The cash flows of overseas operations are translated using the spot exchange rates at the dates of the cash flows incurred. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. Financial Assets and Financial Liabilities

The Group recognizes a financial asset or liability when it enters a financial instrument contract.

(1) Financial assets

1) *Classification of financial assets*

Based on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset, the Group classifies the financial assets into financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss.

2) *Recognition of financial assets*

A financial asset is classified as measured at amortized cost if all the following conditions are met:

a. The objective of the business model within which the asset is held is to hold assets in order to collect contractual cash flows, and

b. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

A financial asset is classified as measured at fair value through other comprehensive income if all the following conditions are met:

a. The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

b. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. Financial Assets and Financial Liabilities *(Continued)*

(1) Financial assets *(Continued)*

2) Recognition of financial assets (Continued)

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income.

3) Measurement of financial assets

The Group measures a financial asset or financial liability at its fair value. In the case of financial assets or financial liabilities measured at fair value through profit or loss, the relating transaction costs shall be recognized in the current profit or loss. In the case of financial assets or financial liabilities other than measured at fair value through profit or loss, the relating transaction costs shall be recognized into the initial amount of such financial assets or financial liabilities.

Financial assets measured at amortized cost (not be part of any hedging relationship) are subsequently measured at amortized cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortization are recorded in current profit or loss.

Gain or loss incurred by financial assets measured at fair value through other comprehensive income (excepting the case that the Group designate an investment of equity instruments not held for trading measured at fair value through other comprehensive income) shall be recognized in other comprehensive income except the impairment loss or gains, foreign exchange profit or loss, and interests calculated by the effective interest rate method of financial assets measured at fair through other comprehensive income shall be measured in profit or loss. Fair value changes of investments of equity instrument shall be recognized in other comprehensive income.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. Financial Assets and Financial Liabilities *(Continued)*

(1) Financial assets *(Continued)*

3) Measurement of financial assets (Continued)

Fair value changes of financial assets measured at fair value through profit or loss shall be recognized in current profit or loss.

The interest income of financial assets shall be subject to “CAS 22 – Recognition and Measurement of Financial Instruments”, Section. 39.

The dividend income of financial assets shall be subject to “CAS 22 – Recognition and Measurement of Financial Instruments”, Section. 65.

4) Derecognition of financial assets

The Group will derecognized the financial asset if one of the following conditions is satisfied: (a) the contractual rights to collect the cash flows from the financial asset terminate; (b) when the financial asset is transferred, and the Group transfers substantially all the risks and rewards of ownership of the financial asset; (c) when the financial asset is transferred, the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and has not retained control.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. Financial Assets and Financial Liabilities *(Continued)*

(1) Financial assets *(Continued)*

4) Derecognition of financial assets (Continued)

When the financial asset is transferred, if the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset but it retains control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset and recognize relevant financial liabilities.

When a transfer of the financial asset qualifies for derecognition, the difference between the carrying amount of the financial asset transferred and the sum of the consideration received from the transfer and the cumulative amount of changes in fair value that has been previously recorded in other comprehensive income, is recorded in current profit or loss (the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding).

If a transfer of part of a financial asset qualifies for derecognition, the carrying amount of the entire financial asset transferred is allocated between the part that is derecognized and the part that continues to be recognized, based on the respective fair values of those parts. The difference between the sum of consideration received from the transfer and cumulative amount of changes in fair value that shall be allocated to the part derecognized which has been previously recognized in other comprehensive income and the above allocated carrying amount, is recorded in current profit or loss (the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding).

When an investment of equity instrument not held for trading that designated measured at fair value through other comprehensive income is derecognized, the accumulated amount of gains and losses previously measured in other comprehensive income shall be transferred to retained earnings.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. Financial Assets and Financial Liabilities *(Continued)*

(1) Financial assets *(Continued)*

5) Impairment test method and measurement of financial assets

The Group always measures the loss allowance at an amount equal to the lifetime expected credit losses for the following items:

(a) The Group shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition;

(b) If the credit risk on a financial instrument has not increased significantly since initial recognition, the Group shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses;

(c) If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the financial instrument no longer belongs to the credit risk increased significantly since initial recognition, the Group shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. Financial Assets and Financial Liabilities *(Continued)*

(2) Financial liabilities

1) *Classification and reclassification of financial liabilities*

The Group classify all financial liabilities as subsequently measured at amortised cost, except for: (a) Financial liabilities measured at fair value through profit or loss, including financial liabilities held for trading (including derivatives that are liabilities) and those designated as measured at fair value through profit or loss upon initial recognition; (b) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. "CAS 23-Transfer of Financial Assets" shall be applied to the measurement of such financial liabilities; (c) financial guarantee contracts that do not satisfied (a) and (b), and commitments to provide a loan at a below-market interest rate that do not satisfied (a). If the Group as the issuer of such contracts or commitments shall subsequently measure it at the higher amount between the amounts of the loss allowance determined in accordance with section 8 of "CAS 23-Transfer of Financial Assets" and the initial cost less the accumulative depreciation recognized in accordance with the principles of "CAS 14-Revenue".

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. Financial Assets and Financial Liabilities *(Continued)*

(2) Financial liabilities *(Continued)*

2) Derecognition criteria of financial liabilities

When the present obligation or a part of the present obligation of a financial liability is discharged, a financial liability or a part of a financial liability shall be derecognized. A contract is entered into between the Company and the creditor to replace the existing financial liability by a new financial liability. And if the contract terms of new financial liability are substantially different with those in existing financial liability, it shall derecognize the existing financial liability and recognize a new financial liability. As for substantive changes made to all or part of the contract terms of the existing financial liabilities, the existing financial liabilities or part of it shall be derecognized. And financial liabilities after term revision will be recognized as a new financial liability.

The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in current profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. Financial Assets and Financial Liabilities *(Continued)*

(3) Methods for determination of the fair value of financial instruments

The Group measures the fair value of financial instruments at the prices in principal market, or in the absence of a principal market, uses valuation techniques to determine the fair value. The Group shall use valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value, select inputs that are consistent with the characteristics of the asset or liability that market participates would take into account in a transaction for the asset or liability and maximize the use of relevant observable inputs. Unobservable inputs shall be used to measure fair value only when the relevant observable inputs are not available or impracticable.

(4) Derivative instruments and hedge activities

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. Financial Assets and Financial Liabilities *(Continued)*

(4) Derivative instruments and hedge activities *(Continued)*

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.

(5) Fair value hedge

Gain or loss arising from changes in fair value of hedge instruments that are derivatives shall be measured in current profit or loss.

Gain or loss arising from changes in exchanges rate of hedge instruments that are non-derivatives shall be measured in current profit or loss.

If the hedge no longer meets the criteria for hedge accounting, the carrying amount of hedged items adopting the effective interest method shall be adjusted and amortized in profit or loss until maturity.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. Financial Assets and Financial Liabilities *(Continued)*

(6) Cash flow hedge

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

When the forecast transaction that is hedged results in the recognition of a financial asset or liability, the gain and loss previously accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss. But if the loss accumulated in equity is expected unlikely to make up partially or fully in the future accounting periods, the uncover part of loss is transferred to profit or loss in the period.

When the forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously accumulated in equity should be transferred out from equity and reclassified in the initial measurement of the cost of the non-financial asset or liability.

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 should remain in equity and will be treated based on the relevant accounting policy when the forecast transaction actually happened. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity should be immediately transferred to profit or loss in the period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. Financial Assets and Financial Liabilities *(Continued)*

(7) 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 should be recognized in other comprehensive income and listed separately from other items.

On disposal of the foreign operations, the above mentioned separately listed gain or loss relating to the hedging instrument on equity should be transferred to the current profit or loss.

The gain or loss relating to the ineffective portion shall be recognized in current profit or loss.

10. Inventories

The Group's inventories include but not limited to the raw materials, unfinished products, finished goods, low-value consumption goods and completed but unsettled goods. The Inventories shall be measured at the lower of cost and net realizable value.

Cost of goods shipped is determined using the weighted average formula. The costs of finished goods and unfinished goods include raw materials, direct labor and manufacturing expenses allocated according to systematic method under normal production capacity.

Provisions for impairment on inventories is determined at the excess amount of the carrying amounts of inventories over their net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion, applicable variable selling expenses and related taxes.

Perpetual inventory system is adopted by the Group.

Low-value consumption goods are amortized at one time when they are used.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

11. Long-term Equity Investment

Long-term equity investments comprise the investment towards subsidiaries and investments towards associates and joint ventures.

Subsidiaries are all entities over which the Group has control. Joint ventures are joint arrangements in which the Group through separate entities have joint control with other parties and have rights only to its net assets according to legal form, terms of contracts and other facts and circumstances. Associates are all entities over which the Group has significant influence on their financial and operating decisions.

Investments for the subsidiaries, the balance sheet is shown using cost method and adjusted and prepared for the consolidated financial statements using the equity method. While the investments in associates and joint ventures should use the equity method.

(1) Initial recognition

Long-term equity investments acquired through a business combination

As for long-term equity investment acquired through a business combination under common control, the initial recognition are measured in accordance with the proportion of the book value of the owner's equity of the merged party in ultimately control party's consolidated financial statements; while the initial recognition are as the actual acquisition costs if the acquisition is not under common control.

Long-term investment acquired from otherwise than through a business combination

For a long-term equity investment acquired by paying cash, the initial investment cost shall be the actual purchase price has been paid. For a long-term equity investment acquired through the issuance of equity securities, the initial investment cost is the fair value of the securities issued.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

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

(2) Subsequent measurement and recognition of profit or loss

Under the cost method, a long-term equity investment is measured at initial investment cost. Cash dividends or profit distributions declared by the investee shall be recognized as investment incomes and recorded in current profit or loss.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the investor's interest in the fair values of the investee's identifiable net assets at the acquisition date, it is recognized as the initial investment cost. Where the initial investment cost is less than the investing enterprise's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference shall be charged to profit or loss in the current period, and increase the amount for the long term investment.

Under the equity method, the Group recognizes the current investment income according to its share of the investee's net profit or loss. If the investee company has tremendous losses, the Group shares the losses at the maximum amount of their net invest. The Group offsets the carrying amount until it turns into zero, unless the Group has other obligations towards the investee company, it should recognize the estimated liabilities. The changes of investee's owner's equity except net profit or loss, other comprehensive income and profit distribution shall be adjusted against the carrying amount of long-term investment and recognized in capital reserve. The carrying amount of the investment shall be reduced by the portion of any profit distributions or cash dividends declared by the investee that is attributed to the investor. The unrealized profit or loss resulting from transactions between the Group and its associates or joint ventures shall be eliminated in proportion to the Company's interest in the investee, based on which investment income or losses shall be recognized. The unrealized part of loss resulting from transactions between the Group and its associates or joint ventures belongs to asset impairment loss shall not be eliminated.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

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

(3) Basis for determining control, joint control and significant influence over investee

Control over an investee when the investor has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the Group and the other parties sharing control.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies with the other parties.

(4) Impairment of long-term equity investment

When the recoverable amount of long-term investments on subsidiaries, joint venture or associates is lower than the carrying amounts, the carrying amount shall be decreased to the recoverable amount (VI.12).

12. Investment Properties

Investment properties comprise land-use rights and buildings which are held for long-term rental yields and not occupied by the Group, and uncompleted buildings which are intended to hold for rent. Investment properties are initially recognized at cost. The subsequently costs shall be added to the initial costs of the investment properties when the economic benefit related is likely to realize and is measurable. Or else, it should be stated in current profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

12. Investment Properties *(Continued)*

Depreciation (or amortization) of investment properties is calculated using a straight-line method to allocate the depreciable amounts (cost less residual value) over the estimated useful life. Below is the table of estimated useful lives, residual value rate and annual depreciation (amortization) rates:

Category	Estimated useful life	Estimated residual value rates (%)	Annual depreciation rate (%)
Buildings (including the land-use right)	30-50 years	0%-5%	1.90% -3.33%

If the usage is changed into owner-occupied, the investment property is reclassified into a property, plant and equipment or an intangible asset since the day the change has been made. On the contrary, the fix or intangible asset is transferred into investment property if the usage of these properties is to earn rentals or capital appreciations. When a transfer occurs, the previous carrying amount shall be used as the new book value.

The estimated useful lives, estimated residual value rates and depreciation method shall be annually reviewed and adjusted properly.

An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gains from sale, transfer, written-off or destroy of the investment properties less the carrying amount and relevant taxes shall be recognized in current profit or loss.

When an investment property's recoverable amount is lower than its carrying amount, the carry amount shall be decreased to the recoverable amount.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

13. Property, Plant and Equipment

(1) Recognition and Initial measurement of property, plant and equipment

Property, plant and equipment comprise buildings, machineries, transportations, office equipments end etc.

Property, plant and equipment are recognized when it is probable that the future economic benefits associated with the assets will flow into the entity, and the cost of the asset can be measured reliably. It is recognized at purchase cost or construction cost for the initial cost. The state owned property, plant and equipment were recognized at the evaluation price during the system-changing of the state-owned enterprise.

Subsequent recognition is recorded when the future economic benefits associated with the asset is likely to flow into the entity and the cost of the asset can be measured reliably. The value of the replaced part shall be derecognized its carrying amount. The other subsequent expenses are recognized in the current profit or loss.

(All amounts are presented in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

13. Property, Plant and Equipment *(Continued)*

(2) Depreciation of property, plant and equipment

Depreciation is calculated using a straight-line method to allocate the depreciable amounts (cost less residual value) over the estimated useful life. As for the property, plant and equipment with impairment provisions, the Depreciation is calculated using a straight-line method to allocate the depreciable amounts (cost less residual and impairment value) over the estimated useful life.

No.	Category	Estimated useful lives (years)	Estimated residual value (%)	Annual depreciation rate (%)
1	Buildings	20-50 years	5%	1.90%-4.75%
2	Machinery equipments	7-28 years	5%	3.39%-13.57%
3	Transportations	6-12 years	5%	7.92%-15.83%
4	Office equipments	3-14 years	5%	6.79%-31.67%

The estimated useful lives, estimated residual value rate and depreciation method shall be annually reviewed and adjusted properly.

When the recoverable amount of property, plant and equipment is lower than the carrying amounts, the carrying amounts shall be decreased to the recoverable amounts.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

13. Property, Plant and Equipment *(Continued)*

(3) Recognition and measurement of finance leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. It shall be initially recognized at the lower of the fair value of the assets and the present value of the minimum lease payments. The difference between the fair value and the present value of the minimum lease payments is recognized as unsettled financing expenses.

Property, plant and equipment under finance leases shall apply the same depreciation method with the Group's own property, plant and equipment. When it can be reasonably determined that the ownership of the leased asset will be transferred to the Group, the assets then shall be depreciated within the lease terms; otherwise, the assets shall be depreciated based on the shorter of the lease term and the estimated useful life.

(4) Disposal of property, plant and equipment

The property, plant and equipment should be derecognized on disposal or when the property, plant and equipment is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gains from sale, transfer, written-off or destroy of the property, plant and equipment less the carrying amount and relevant taxes shall be recognized in current profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

14. Construction in Progress

Construction in progress is recognized according to the actual costs. The actual costs include construction cost, installment cost, borrowing costs eligible for capitalization and other necessary expenses incurred in order to make the construction in progress ready to use. When construction in progress reaches the predetermined usable state, it should be transferred to fixed asset and be depreciated from the next month. When the recoverable amount of construction in progress is lower than the carrying amount, the carrying amount shall be decreased to the recoverable amount.

15. Borrowings Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized 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. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete. Capitalization should be suspended during periods in which active development is interrupted abnormally for more than 3 months. And it recapitalized when the abnormal interruption is over.

Where funds are borrowed specifically, costs eligible for capitalization are the actual costs incurred less the interest earned by the unused part deposited in the bank or any income earned on the temporary investment of such borrowings.

Where funds are part of a general pool, the eligible amount is determined by applying a capitalization rate to the expenditure on that asset. The capitalization rate will be the weighted average of the borrowing costs applicable to the general pool.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

16. Intangible Assets

Intangible assets comprise the land-use rights, Technical know-how, brand, customer relationships, franchise rights and software etc, it is recognized at cost. The state owned intangible assets were recognized at the evaluation price during the system-changing of the state-owned enterprise.

(1) Land-use right

Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the useful life of 30 to 50 years. If it is difficult to identify the purchase price of the land-use right to that of the building, the whole price is recognized as fix asset.

(2) Technical know-how

Technical know-how is shown at cost as all investors agreed. Amortization is calculated using the straight-line method to allocate the cost of technical know-how over its estimated useful life of 10 years. The Group acquired all of the technical know-how which is acquired by the subsidiaries and should be recognized at fair value at the acquisition date in 2011. And the estimated useful life is 6 to 10 years.

(3) Brand and customer relationships

Brand and customer relationships are recognized at fair value at the acquisition date in a business combination in 2010. Since brand has an indefinite useful life, brand shall not be amortized during the useful life and should be tested annually for impairment. Customer relationships shall be amortized using the straight-line method over their estimated useful lives of 10 to 12 years.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

16. Intangible Assets *(Continued)*

(4) Software

Software licenses are capitalized on the basis of the purchase price and are amortized over their estimated useful lives of 2 to 10 years.

(5) Franchise rights

The Group engages in certain service concession arrangements in which the Group carries out construction work for the granting authority and receives in exchange a right to operate the assets concerned in accordance with the pre-established conditions set by the granting authority. The franchise rights are classified as intangible assets or accounts receivable from the granting authority.

According to the contract, in a certain period after the construction, the Group is entitled to receive certain amount of monetary resources or other financial assets from the granting authority; or when the charge for the user is lower than a certain limitation, the granting authority would compensate for the difference, which is shown as financial assets while the group recognize the income.

Also if the operator receives a right to charge user within a certain period, but the amount is uncertain and unable to claim a right for accounts receivable, it is stated as intangible asset while recognizing the income.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

16. Intangible Assets *(Continued)*

(5) Franchise rights *(Continued)*

If intangible assets model is applicable, the Group classifies the relevant non-current assets linked to the long-term investment in these franchise arrangements as "franchise rights" within under intangible assets classification on the consolidated balance sheet. Once the relevant infrastructure projects under the franchise arrangements have been completed, the franchise rights will be amortized over the term of the franchise period on the straight-line basis under the intangible assets model.

If financial assets model is applicable, the Group classifies the assets under these franchise arrangements as financial assets on the consolidated balance sheet. Once the relevant infrastructure projects under the franchise 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 within the franchise period.

(6) Regular review of the useful lives and the amortization method

As for intangible asset with a definite useful life, the useful lives and depreciation method shall be annually reviewed and adjusted properly.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

16. Intangible Assets *(Continued)*

(7) Research and development

Internal research and development costs will be separated into research expenditure and development cost based on their nature and whether there is a great uncertainty of the research and development will finally form an intangible asset.

Research expenditure is recognized as expenses as incurred. Costs incurred on development projects are recognized as intangible assets when all following criteria are fulfilled:

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

2) Management intends to complete the intangible asset to use or sell it;

3) It can be demonstrated how the intangible asset will generate probable future economic benefits;

4) Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

5) The expenditure attributable to the intangible asset during its development can be reliably measured.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

16. Intangible Assets *(Continued)*

(7) Research and development *(Continued)*

If development costs don't meet the above criteria, they are recognized as an expense as incurred. Development costs previously recognized as an expense cannot be reclassified as an intangible asset in subsequent periods. Capitalized costs are recorded as develop expenditures on balance sheet and are transferred into intangible assets only after technical and commercial feasibility of the asset for sale or use have been established.

(8) Impairment of intangible assets

When the recoverable amount is lower than its carrying amount, the carrying amount of the asset shall be written down to the recoverable amount.

17. Long-term Deferred Expenses

Long-term deferred expenses include the improvement expenditures of property, plant and equipment under operating lease, and other expenses which incurred in the current period but are required to be amortized for more than one fiscal period. Long-term deferred expenses are amortized on the straight-line basis over the expected benefit period and are recorded as the actual expenses less the accumulated amortization.

As for the molds stated in the long-term deferred expenses, they are amortized adopting units-of-production method based on estimated times for which they can be used over the benefit period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

18. Impairment of Long-term Assets

At the end of each reporting period, property, plant and equipment, construction in progress, intangible assets with definite useful life, investment property carried at cost, and long-term equity investments in subsidiaries, associates, and joint ventures are assessed for impairment when there is any indication that an asset may be impaired. Intangible assets not yet available for use shall at least be assessed for impairment annually no matter there is any indication for impairment or not. If the impairment test shows that the recoverable amount is lower than the carrying amount, the difference between them shall be recognized as provision for impairment. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. Recoverable amount should be determined for the individual asset. If it is not possible to determine the recoverable amount for the individual asset, the recoverable amount shall be determined for cash-generating units in which the asset included. The cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill and intangible assets with indefinite useful lives are at least tested for impairment annually no matter there is any indication for impairment or not. To test for impairment, goodwill must be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. When the test result shows that the carrying amount of the cash-generating units or groups of cash-generating units to which goodwill allocated exceeds the recoverable amount, an impairment loss should be recognized. The impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the cash-generating units or groups of cash-generating units; and then, reduce the carrying amounts of the other assets included in the cash-generating units or groups of cash-generating units pro rata on the basis.

Reversal of an impairment loss for the above assets is prohibited.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

19. Employee Benefits

Employee benefits of the Group refer to rewards or compensations paid for services provided by employees or employer layoffs benefits, which include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

Short-term employee benefits include salaries, bonus, allowance and subsidies, staff benefits, medical insurance, employment injury insurance, maternity insurance, housing fund, union and educational appropriations, short-term paid absences, etc. Short-term benefits are recognized as liabilities during the accounting period when employees render service to the Group. Employee benefits are recognized as profit or loss in the current period or allocated to the cost of related assets. The non-monetary benefits are measured at fair value.

Post-employment benefit schemes are classified as defined contribution plan and defined benefit plan. Defined contribution plans of the Group are a kind of post-employment benefit scheme in which the Group pays fixed fees to an independent fund and is no longer obligated to make further payments. Defined benefit plans are post-employment benefit plans other than a defined contribution plans. The post-employment benefits of the Group mainly refer to basic pension and unemployment insurance during this reporting period, both of which belong to the defined contribution plan.

Employees of the Group are all involved in employee's endowment insurance policy implemented by local labour and social security department. The Group makes the monthly payment to the local institution of employee's endowment insurance at a regulated base and proportion. After employees are retired, local labour and social security department has the obligation to pay their basic pension. The payment made according to the policy when employee render service to the Group is recognized as a liability and stated as profit or loss or allocated to the cost of related assets during the period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

19. Employee Benefits *(Continued)*

Termination benefits are the compensations made to employees when the Group terminates the employment relationship with employees prior to the expire of the employment contracts or provides compensations as an offer to encourage employees to accept voluntary layoffs. When the Group provides termination benefits, the employment benefit liabilities generated from termination benefits are recognized to profit or loss in the current period on the early date of the followings: (a) when the Group can no longer withdraw the offer of those benefits or layoff plans unilaterally; and (b) when the Group recognizes costs for a restructuring related to termination benefits.

The Group offers early retirement benefit for the employees who accept the internal retirement arrangement. Early retirement benefit refers to the wages and social insurance paid for the employees who do not attain the statutory retirement age and being approved by the Group's management team for retirement. The Group will pay such retirement benefit for the early retired employee from the date of early retirement to date where statutory retirement age is attained. The basis of accounting treatment for early retirement benefits shall be the same as the termination benefits. If the recognition conditions for termination benefits were satisfied, the employment benefit liabilities generated from wages and social insurance paid for the early retired employees shall be recognized to profit or loss in the current period all at once. Any difference arising from the changes of actuarial assumptions or adjustment of the welfare standard shall be included to the profit and loss in the current period.

The termination benefits expected to be paid within a year since balance sheet day are presented as current liabilities.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

20. Dividend Distribution

Cash dividend is recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

21. Provisions

Provision is recognized if, and only if: a present obligation has arisen as a result of a past event (such as warranty, onerous contract and etc.), payment is probable and the amount can be estimated reliably.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation. Lots of factors, such as risks and uncertainties that surround the underlying events and time value of money etc, are taken into account. Where the effect of time value of money is material, the best estimate shall be the present value of the future cash flow. Where discounting is used, the increase of a provision to reflect the passage of time shall be recognized as borrowing costs.

Provisions shall be reviewed as at balance sheet date and adjusted to reflect the current best estimates.

Provisions expected to be paid within a year since balance sheet day are presented as current liabilities.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

22. Revenue Recognition and Measurement

The Group recognizes revenue by five-step. Step 1: identify the contracts with a customer; step 2: identify the performance obligations in the contract; step 3: determine the transaction price; step 4: allocate the transaction price to the performance obligations in the contract and step 5: recognize revenue when (or as) the entity satisfies a performance obligation. The Group recognizes the revenue when customers obtain the control of the good or service.

On inception of the contract, the company identifies each separate performance obligations and the transaction price is allocated to each separate performance obligation in proportion to the stand-alone price of the promised goods. If the stand-alone selling price cannot be directly observed, the Group adopts appropriate techniques to estimate, the ultimately transaction price allocated to each performance obligation reflects the right of the Group to collect expectation considerations from customers by transferring the promised goods.

For each separate performance obligation in the contract, when one of the following criteria is met, the company should recognize the transaction price allocated to each performance obligation as revenue over time within the performance progress: the customer simultaneously receives and consumes the benefits as the performance takes place; the customer can control the asset which is created by the company's performance; the company's performance does not create an asset with an alternative use and the company has an enforceable right to payment for performance completed to date. The performance progress shall be determined by input method or output method according to the nature of the goods to be transferred. When the performance progress cannot be determined, The Company is expected to be reimbursed for the costs already incurred and recognize the revenue based on the costs already incurred until the performance progress can be reasonably determined.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

22. Revenue Recognition and Measurement *(Continued)*

If none of the above criteria has been met, the company should recognize the transaction price allocated to each performance obligation as revenue at a point in time when customer obtains control of the promised good. When judging whether the customer obtains control of the promised good or not, the company should consider the following indications: the company has a present right to the payment for the goods, which means the customer has a present obligation to pay; the company has transferred legal title of the goods to customers, which means customers have legal title to the goods; the company has transferred physical possession of the goods to customers, which means customers has owned the physical possession of the goods; the company has transferred the significant risks and rewards of the ownership to the customers, which means customers have received the significant risks and rewards of the goods; customers have accepted the goods. And other indications show customers have obtained control of the goods.

Disclosure of contractual assets and contractual liabilities: contractual assets refer to the Group's right (has not yet become unconditional) to collect costs from customers in exchange for goods or services transferred by the Group. Contractual liabilities refer to the obligations of the Group to transfer goods or services to customers as a result of receiving consideration from customers (or receiving consideration from customers). On balance sheet date, the contractual assets and liabilities under the same contract shall be shown on a net basis, the contractual assets and liabilities under different contracts cannot be offset against each other.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

23. Government Grants

Government grants refer to the monetary or non-monetary assets obtained free from the government, which include tax return, financial subsidies etc.

Government grants are accounted for when the Group can satisfy the attached conditions and is able to receive the grants. If the government grant is monetary assets, it shall be measured at received or receivable amount. If the government grant is non-monetary assets, it shall be measured at fair value; if the fair value cannot be reliably obtained, it shall be measured at a nominal amount.

Government grants obtained by the Group which are relevant to purchase, construction or acquisition of long-term assets in other ways are classified as government grants related to assets; all other government grants are classified as government grants related to income.

Government grants related to assets shall offset carrying amount of relevant assets or be recognized as deferred income. If it is recognized as deferred income, it will be amortized to profit or loss on a reasonable and systematic basis within the useful life of the relevant asset. Government grants related to income, as compensation for costs and expenses in subsequent periods, are recognised as deferred revenue and shall be recorded in profit or loss or offset the relevant costs over the period in which the relevant costs or losses are recognized. If the grant is a compensation for related expenses or losses already incurred, the grant is recorded directly in current profit or loss or offset the relevant costs. The Group adopts the same presentation for the similar government grants.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

23. Government Grants *(Continued)*

The government grants related to daily activities shall be recognized in operating profits. Those that are not related to daily activities shall be recognized in non-operating income and expenses.

As for policy-based concessional interest rate loans received by the Group, the actual amount of borrowings received shall be taken as the recorded value of the loan, and the relevant borrowing costs shall be calculated according to the loan principal and the policy-based preferential interest rate. Finance discount directly collected by the Group shall be used to offset the relevant borrowing costs.

24. Deferred Tax Assets and Deferred Tax Liabilities

Deferred tax assets and deferred tax liabilities are recognized based on the temporary differences between the tax bases and carrying amount of assets and liabilities. A deferred tax asset shall be recognized for deductible losses to the extent that it is probable that tax profit will be available against which the deductible losses can be utilized in accordance with tax law Deferred tax liabilities for taxable temporary differences relating to goodwill are not recognized to the extent they arise from the initial recognition of goodwill. Deferred tax assets and liabilities are not recognized if the temporary differences arise 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. As at balance sheet date, deferred tax assets and deferred tax liabilities are determined using the applicable tax rates that are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

24. Deferred Tax Assets and Deferred Tax Liabilities *(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 tax liabilities are recognized on taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except to the extent that 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. Deferred tax assets are recognized 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 to the extent that both of the following conditions are satisfied:

(1) the deferred tax assets and the deferred tax liabilities relate to income tax levied by the same taxation authority on the same taxable entity within the Group;

(2) the taxable entity within the Group has a legally enforceable right to set off current tax assets against current tax liabilities.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

25. Lease

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. All other leases are classified as operating leases.

(1) Operating leases

For operating leases, the lease payments should be recognized as an expense in the income statement over the lease term on a straight-line basis.

Lease income should be recognized over the lease term on a straight-line basis.

(2) Finance leases

At commencement of the lease term, finance leases are recorded as assets at the lower of the fair value of the asset and the present value of the minimum lease payments. The difference between the recorded amount and the minimum lease payments is accounted for as unrecognized finance charge, which is amortized using effective interest method. The minimum lease payments less the unrecognized financing charges are recognized as long-term payables.

26. Held-for-sale Assets

Non-current assets or disposal groups meeting the following conditions are classified as held-for-sale assets: 1) the non-current assets or disposal groups can be immediately sold under current conditions pursuant to general terms for selling such assets or disposal groups; 2) The group has entered into a legally binding sale agreement with other parties and has obtained relevant approval, and the sales are expected to be completed within one year.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

26. Held-for-sale Assets *(Continued)*

Qualified held-for-sale assets (excluding financial assets, investment property measured at fair value and deferred tax assets) are measured at the lower of carrying amount and the fair value less costs to sell. The part of carrying amount over the fair value less costs to sell shall be recognized as impairment loss on assets.

The assets and liabilities associated with held-for-sale assets and disposal group shall be presented on balance sheet separately as current assets and current liabilities.

27. Discontinued Operation

Discontinued operations referring to be clearly distinguished component which has been disposed of or is classified as held for sale, shall satisfy one of the following condition: (1) the component represents an independent main business or a separate main area of operation; (2) the component is part of a related plan for disposing an independent main business or a separate main operating area; (3) the component is a specially subsidiary obtained for resale.

Net profits attributable to discontinued operation in the income statement include operating profit and loss and disposal gain and loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

28. Segment Information

The Group determines the operating segment based on internal organizational structure, management requirements and internal reporting system. The reportable segment and disclosing the information are determined based on operating segment.

Operating segment refer to the components within the Group that satisfy all the following conditions: (1) the components can generate income and expenses in daily activities; (2) the operating results of the components are regularly reviewed by the management of the Group to make decisions about resources to be allocated to the segment and assess its performance; (3) Discrete financial information including the financial position, operating results and cash flow of the component is available. If two or more operating segments have similar economic characteristics and meet certain conditions, they can be merged into one operating segment.

29. Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the issuer to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due. Such financial guarantees are given to banks, financial institutions and other entities to secure related party' loans, overdrafts and other bank facilities.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

29. Financial Guarantee Contracts *(Continued)*

The financial guarantee contract is initially recognized at fair value on the date the guarantee was given, and shall be subsequently measured at the higher of amortized value and the best estimate of the reserves required for performance of the group's guarantee obligations on balance sheet date. The increased liabilities associated with the contract and shall be recorded in current profit or loss. These estimates are based on similar business experience, past losses and management judgment.

30. Critical Accounting Estimates and Judgments

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.

(1) 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 recognizes 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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

30. Critical Accounting Estimates and Judgments *(Continued)*

(1) Taxation *(Continued)*

Deferred tax assets are recognized as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax in the periods in which such estimate is changed.

(2) Impairment of non-financial assets

Provision of impairment on goodwill

Goodwill is reviewed for impairment annually. The group conducts an annual impairment test on goodwill. The recoverable amount of cash-generating units or groups of cash-generating units to which goodwill has been allocated is the present value of its future cash flows estimated on the basis of management's estimates.

If the management modified the gross profit rate used in the calculation of the future cash flow of cash-generating units or groups of cash-generating units, the Group shall recognize the provision of impairment on goodwill when the modified gross profit rate is lower than the current gross profit rate.

If the management modified the pre-tax discount rate used for cash flow discounting, the Group shall recognize the provision of impairment on goodwill when the modified pre-tax discount rate is higher than the current discount rate.

The provision of impairment on goodwill cannot be reversed if the actual gross profit rate or pre-tax discount rate is higher or lower than the estimates of the management.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

30. Critical Accounting Estimates and Judgments *(Continued)*

(3) Impairment of long-term assets

Long-term assets are reviewed for impairment annually according to the accounting policy described in III.18. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and the present value of the expected future cash flow. The calculation of value in use requires the company to estimate the future cash flows expected to be derived from the cash-generating unit and the appropriate discount rate based on the assumptions and estimates of the management. After sensitivity analysis, the management believes that the carrying amount of the asset will be fully recovered.

If the management modified the gross profit rate used in the calculation of the future cash flow of cash-generating units or groups of cash-generating units, the Group shall recognize the provision of impairment on long-term assets when the modified gross profit rate is lower than the current gross profit rate.

(4) Impairment of accounts receivable and other receivables

Accounts receivable 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 expected credit losses for Accounts receivable 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.

(5) Valuation of inventory

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

31. Changes in Critical Accounting Policies and Estimates

(1) Changes in critical accounting policies

In 2017, Ministry of Finance revised "CAS 14 – Revenue", "CAS 22 – Financial Instruments: Recognition and Measurement", "CAS 23 – Transfer of Financial Assets", "CAS 24 – Hedging Accounting", "CAS 37 – Financial Instruments: Presentation" and issued ""General Enterprise Financial Statement Format Notice" (Caikuai [2018] No. 15)" in 2018. As for the public company listed both inside and outside the PRC and public company listed outside the PRC applying International Financial Reporting Standards or CAS to prepare its financial statements, the revised CAS shall be applied commencing from 1 January 2018. On 29 March 2018, the Company held the first General Meeting in 2018 of the fourth session of board of directors and approved that the Group would apply the above revised CAS commencing from 1 January 2018 as required by the Ministry of Finance.

The application of the new notice and revised CASs will impact the Group's accounting policy and the presentation of financial statements commencing from 1 January 2018. The Group has applied the modified retrospective application method to adjust the cumulative effect of applying the revised CASs to all prior periods to the balance of retained earnings as at 1 January 2018 in accordance with transitional provisions. The Group shall not present the comparative information. The impact on the consolidated financial statements as at 1 January 2018 is addressed below.

(All amounts are presented in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

31. Changes in Critical Accounting Policies and Estimates *(Continued)*

(1) Changes in critical accounting policies *(Continued)*

Table 1:

Financial statements (Before adjustment)	31 December 2017	Financial statements (After adjustment)	1 January 2018	Adjustment	Note
Notes receivable	1,479,630,312.00	Notes receivable and accounts receivable	3,823,030,279.74	-60,284,078.26	(a)
Accounts receivable	2,403,684,046.00				
Interest receivable	19,416,374.00	Other receivables	1,317,945,398.82	-12,640,224.09	(a)
Dividend receivable	260,528,433.00				
Other receivables	1,050,640,815.91				
Inventory – completed but unsettled	641,364,728.98	Contractual assets	410,170,037.87	-231,194,691.11	(b)
Receipts in advance	128,077,485.21	Contractual liabilities	26,418,362.05	-101,659,123.16	
Notes payable	809,054,101.00	Notes payable and accounts payable	2,759,082,239.00		
Accounts payable	1,950,028,138.00				
Interest payable	11,250,751.00	Other payables	526,130,339.20		
Dividend payable	30,077,325.00				
Other payables	484,802,263.20				
Long-term payables	207,600,793.00	Long-term payables	211,496,663.00		
Payables for specific projects	3,895,870.00				
Administrative expenses	376,344,103.64	Administrative expenses	291,602,829.28		
		Research and development expenses	84,741,274.36		

(All amounts are presented in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

31. Changes in Critical Accounting Policies and Estimates *(Continued)*

(1) Changes in critical accounting policies *(Continued)*

Table 2:

Item	31 December 2017	Adjustment	1 January 2018
Asset	16,290,673,191.63	-261,053,173.09	16,029,620,018.54
Liabilities	9,112,686,648.63	-89,003,265.55	9,023,683,383.08
Equity attributable to equity holders	6,777,723,705.00	-169,165,234.60	6,608,558,470.40
Non-controlling interest	400,262,838.00	-2,884,672.92	397,378,165.08

Table 3: The impact on the Company's financial statements is addressed below due to the adoption of revised CAS.

Financial statements (Before adjustment)	31 December 2017	Financial statements (After adjustment)	1 January 2018
Interest receivable	40,221,072.58		
Dividend receivable	260,528,431.94	Other receivables	1,994,281,937.00
Other receivables	1,693,532,432.48		
Interest payable	9,261,300.00	Other payables	60,628,414.00
Other payables	51,367,114.00		

Due to the adoption of the revised CAS 14 and CAS 22 in 2017, the provision for impairment of financial assets is based on the expected credit losses rather than the historical credit record, so that the provision for impairment was increased, resulting in a decrease of equity attribute to the shareholders of the Company amounting to RMB169,165,234.60, and a decreased of non-controlling interest amounting to RMB2,884,672.92. The explanation is illustrated as follows:

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

31. Changes in Critical Accounting Policies and Estimates *(Continued)*

(1) Changes in critical accounting policies *(Continued)*

(a) The impact on provision for impairment of receivables

In 2017 and prior period, the Group and its subsidiaries assessed the impairment based on the analysis of customers' financial conditions and their historical credit records. As a result of management assessment, no provision for impairment was made for the overdue receivables amounting to RMB1.433 billion. Due to the adoption of revised CAS 22 for reporting period commencing 1 January 2018, the Company recalculated the beginning balance of provision for impairment based on the expected credit loss rate, resulting in an increase amounting to RMB72.9243 million of the beginning balance of provision for impairment.

(b) The impact on provision for impairment of contractual assets

Pursuant to revised "CAS 14 – Revenue" in 2017, Chongqing Water Turbine Works Co., Ltd. reclassified the assets recorded under construction contract into contractual assets. Pursuant to revised "CAS 22 – Financial Instruments: Recognition and Measurement", Chongqing Water Turbine Works Co., Ltd. performed impairment assessment on contractual assets based on expected credit losses. A provision for impairment of RMB129.5356 was made against the beginning balance of contractual assets, resulting in a decrease of the beginning balance of retained earnings.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

31. Changes in Critical Accounting Policies and Estimates *(Continued)*

(1) Changes in critical accounting policies *(Continued)*

(b) The impact on provision for impairment of contractual assets (Continued)

As at the balance sheet date, contractual assets and contractual liabilities are offset under the same contract. Chongqing Water Turbine Works Co., Ltd. reclassified the beginning balance of inventory-completed but unsettled and receipts in advance related to construction project into contractual assets and contractual liabilities.

(c) Deferred tax asset amounting to RMB30.41 million was recognized on the above provision for impairment, resulting in a decrease amounting to RMB169.1652 million of the equity attributable to shareholders of the Company and a decrease amounting to RMB2.8847 million of non-controlling interests.

(2) Changes in critical accounting estimates

None.

(All amounts are presented in RMB except otherwise stated)

V. TAXATION

1. Main categories of tax and corresponding tax rate

Category of tax	Tax base	Tax rate
Enterprise income tax	Taxable income	15%, 25% and 0%
Value-added tax ("VAT")	Taxable value-added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period)	17%, 16%, 13%, 11%, 10%, 6%
VAT (easy to collect)	Taxable value-added amount multiplied by VAT collection rate	5%, 3%
City maintenance and construction tax	Taxable amounts of VAT	5% and 7%
Educational surcharge	Taxable amounts of VAT	2% and 3%

Note: Pursuant to regulation jointly issued by the Ministry of Finance and the State Administration of Taxation on April 4, 2018 (Cai Shui [2018] No. 32), since May 1, 2018, the original applicable tax rates of 17% and 11% for the VAT sales receivable or imported goods of the taxpayers would be adjusted to 16% and 10% respectively.

2. Tax preference

The Group and its ten subsidiaries, including: Chongqing Shengpu Materials Co., Ltd. ("Shengpu Materials"), Chongqing Yinhe Forging & Founding Co., Ltd. ("Yinhe Forging & Founding"), Chongqing Water Turbine Works Co., Ltd. ("Water Turbine Company"), Chongqing Chongtong Turbine Technology Co., Ltd. ("Chongtong Turbine"), Chongqing Chongtong Wide Wisdom Air Conditioning Equipment Co., Ltd. ("Chongtong Wide Wisdom"), Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. ("Finance Company"), Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd. ("Technology Research Academy"), Xilinhaote Chenfei Wind Power Equipment Co., Ltd. ("Xilin Chenfei") and Chongtong Chengfei Wind Power Equipment Jiangsu Co., Ltd., ("Jiangsu Chengfei") apply corporate income tax rate of 25%.

V. TAXATION *(CONTINUED)*

2. Tax preference *(Continued)*

Pursuant to circle of in-depth implementing the western development strategy on the problem of enterprise income tax which was issued by the State Administration of Taxation on April 6, 2012 (The State Administration of Taxation announcement No.12, 2012) (the "Circle"), management of the Group believes that its subsidiaries which was approved by Chongqing Municipal Office, SAT to enjoy 15% preferential enterprise income tax rate from 2001 to 2011, is still eligible to enjoy 15% preferential enterprise income tax rate from 2012 to 2020.

Since the urban sewage treatment program engaged by Chongqing General Industry (Group) Tong Kang Water Affairs Co., Ltd. meets the requirements of document (Cai shui [2009] No. 166), the corporate income tax shall be exempted from the first year to the third year and halved from the fourth year to the sixth year starting from the tax year in which the first production and operation income is obtained by the program. The preference period is from 1 January 2014 to 31 December 2019. The Company has filed corporate income tax preference on July 12, 2016. Pursuant to notice of VAT refund as soon as it is imposed (Tongguo Taxation Park Shui Tong [2015] No. 8576) and notice of issuing on the catalogue of value-added tax preferences for the comprehensive utilization of resources and services (Cai Shui [2015] No. 78), Tong Kang Water Affair Company shall be refunded by 70% of actual VAT payment based on the preference policy of refundable VAT as soon as it is imposed. The valid period of VAT reduction is from 1 August 2015, and usually applies to high-tech enterprise with 15%.

On 16 July 2015, Jilin Chongtong Chengfei New Material Co., Ltd. ("Chongtong Chengfei") obtained the high-tech certificate issued by Jilin Province Science and Technology Department (No. GF201522000016), which is valid for 3 years. Pursuant to regulations of article 28 under the enterprise income tax law of the People's Republic of China, the corporate income tax applied to Chongtong Chengfei is 15% for 2018. (For 2017: 15%)

The Group's subsidiaries in United Kingdom, including Precision Technologies Group (PTG) Limited. ("PTG Group"), Holoryd Precision Rotors Inc. ("Holroyd"), PTG Heavy Industries Ltd. ("PTG Heavy Industries"), Milnrow Investment Ltd. ("Milnrow Investment"), Precision Components Limited. ("Precision Components") and PTG Advanced Developments Ltd. ("PTG Advanced Developments") were applied 20% of enterprise income tax rate for 2018 (For 2017: 20%)

V. TAXATION *(CONTINUED)*

2. Tax preference *(Continued)*

The Group's subsidiary in Germany, PTG Deutschland Gmbh ("PTG Deutschland") was applied 15.2% of enterprise income tax rate for 2018. (For 2017: 15.2%)

The Group's subsidiary in Hong Kong, PTG Investment Development Company Ltd. ("PTG Hong Kong") was applied 16.5% corporate income tax rate for 2018. (For 2017: 16.5%)

The Group's subsidiary in United Kingdom, Precision Technologies Group (US) Limited (PTG US) was applied 20% of enterprise income tax rate for 2018. (For 2017: 20%)

The Group's subsidiary in United States, Precision Technologies Group (PTG) Limited and Chongqing Holroyd Precision Screw Manufacturing Co., Ltd were applied 34% and 39% of enterprise income tax rate respectively for 2018. (For 2017: 34% and 39%)

The Group's subsidiary, Xinjiang Fubaotian Cotton-picking Service Co., Ltd. ("Fubaotian") is engaged in agricultural machinery operations and its income is exempted from enterprise income tax.

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS

Unless otherwise stated, among the following disclosed data in the financial statements, "Beginning balance" refers to the amount on January 1, 2018 and "Ending balance" refers to the amount on June 30, 2018 "Current period" refers to the period from 1 January 2018 to 30 June 2018. "Last period" refers to the period from 1 January 2017 to 30 June 2017. All amounts are presented in RMB except otherwise stated.

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

1. Cash and Cash Equivalents

Items	**Ending balance**	Beginning balance
Cash in hand	**1,061,684.38**	815,653.00
Cash at bank	**1,410,062,417.01**	1,173,723,645.00
Other cash equivalents	**533,446,081.30**	484,155,365.00
Total	**1,944,570,182.69**	1,658,694,663.00
Including: cash deposited abroad	**32,875,902.88**	44,881,223.00

Restricted cash

Items	**Ending balance**
Deposits for bank acceptance bills	**127,735,451.12**
Deposits for letters of credit	**8,757,765.98**
Performance bond	**7,904,798.17**
Deposit pledged as collateral	**165,741,044.72**
Statutory reserve	**135,782,478.40**
Deposit pledged for bills payable	**7,520,942.91**
Project specific funds	**80,000,000.00**
Others	**3,600.00**
Total	**533,446,081.30**

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

2. Financial Assets at Fair Value through Profit and Loss

Items	**Ending balance**	Beginning balance
Stock investment	**129,079.58**	–
Total	**129,079.58**	–

3. Notes Receivable and Accounts Receivable

Items	**Ending balance**	Beginning balance
Notes receivable	**1,436,667,813.52**	1,479,630,312.00
Accounts receivable	**3,147,383,288.16**	2,721,679,459.00
Less: provision for bad debts	**392,208,356.89**	317,995,413.00
Total	**4,191,842,744.79**	3,883,314,358.00

(1) Classification of notes receivable

Items	**Ending balance**	Beginning balance
Bank acceptance bills	**658,196,735.34**	970,811,177.00
Commercial acceptance bills	**778,471,078.18**	508,819,135.00
Total	**1,436,667,813.52**	1,479,630,312.00

Notes: Please refer to Note VI (59) for details of restricted notes

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

3. Notes Receivable and Accounts Receivable *(Continued)*

(2) Notes receivables that endorsed or discounted and undue on 30 June 2018

Items	Derecognized amount	Recognized amount
Bank acceptance bills	379,349,935.27	–
Commercial acceptance bills	1,960,140.00	–
Total	381,310,075.27	–

(3) Accounts receivable

Aging	Ending balance	Beginning balance
Within 1 year	2,495,950,716.21	1,790,417,859.00
1-2 years	249,723,223.99	491,819,091.00
2-3 years	104,825,302.70	137,712,101.00
3-4 years	128,243,087.93	88,920,034.00
4-5 years	52,710,053.18	60,633,668.00
Over 5 years	115,930,904.15	152,176,706.00
Total	3,147,383,288.16	2,721,679,459.00
Less: provision for bad debts	392,208,356.89	317,995,413.00
Carrying amount	2,755,174,931.27	2,403,684,046.00

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

4. Prepayments

(1) Aging analysis

Items	Ending balance		Beginning balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	208,897,420.62	70.61	407,763,676.00	93.76
1-2 years	71,810,877.12	24.27	11,730,675.00	2.70
2-3 years	4,473,370.29	1.51	5,709,647.00	1.31
Over 3 years	10,647,228.56	3.61	9,711,531.00	2.23
Total	295,828,896.59	100.00	434,915,529.00	100.00

(2) Top five prepayments aged over 1 year

Name of creditors	Name of debtors	Ending balance	Aging	Reasons for unsettlement
Chongqing Sino-Germany Smart Factory Solutions Co., Ltd.	Zhejiang Complete Equipment Import and Export Co.LTD.	19,033,314.58	Within 1 year, 1-2 years	Unshipped
Chongqing Machine Tools (Group) Co., Ltd.	Xi'an Bowa Industry Automation Equipment Co., Ltd	9,837,555.00	Within 1 year, 1-2 years	Unshipped
Chongqing Machine Tools (Group) Co., Ltd.	FANUC CORPORATION	6,930,002.66	Within 1 year, 1-2 years	Unshipped
Chongqing No. 2 Machine Tools Factory Co., Ltd.	GSK CNC Equipment Co. Ltd.	5,657,156.00	Within 1 year, 1-2 years	Unshipped
Chongqing Sino-Germany Smart Factory Solutions Co., Ltd.	Gleason Gear Technology(Suzhou) Co., Ltd.	3,913,200.00	Within 1 year, 1-2 years	Unshipped
Total		45,371,228.24		

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

4. Prepayments *(Continued)*

(3) Top five debtors

Name of creditors	Name of debtors	**Ending balance**	Aging	Reasons for unsettlement
Chongqing Pigeon Electric Wire & Cable Co., Ltd. ("Pigeon Wire")	Jinchuan group wire and cable Co., Ltd.	**10,600,000.06**	Within 1 year	Products not yet received
Chongqing General Industry (Group) Co., Ltd.	Techstorm Advanced Materials Co., Ltd	**14,662,970.69**	Within 1 year	Products not yet received
Chongqing Machine Tools (Group) Co., Ltd.	Zhejiang Complete Equipment Import and Export Co.LTD.	**19,033,314.58**	Within 1 year, 1-2 years	Unshipped
Chongqing Machine Tools (Group) Co., Ltd.	Siemens Ltd.	**16,155,981.81**	Within 1 year, 1-2 years	Unshipped
Chongqing Machine Tools (Group) Co., Ltd.	Xi'an Bowa Industry Automation Equipment Co., Ltd	**9,837,555.00**	Within 1 year, 1-2 years	Unshipped
Total		**70,289,822.14**		

5. Other Receivables

Items	**Ending balance**	Beginning balance
Dividend receivable	**214,387,477.71**	260,528,433.00
Interest receivable	**23,645,540.42**	19,416,374.00
Other receivables	**847,964,292.08**	1,103,823,783.92
Less: provision for bad debts	**71,133,947.52**	53,182,968.00
Carrying amount	**1,014,863,362.69**	1,330,585,622.92

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

5. Other Receivables *(Continued)*

(1) Dividend receivable

Investees	Ending balance	Beginning balance
Chongqing Cummins Engine Co., Ltd. (CQ Cummins)	208,495,662.31	253,495,663.00
Chongqing Hongyan Fangda Automotive Suspension Co., Ltd. ("Hongyan")	4,816,103.40	4,816,103.00
Exedy Chongqing Driving System Co., Ltd. ("Exedy")	–	1,760,373.00
Chongqing Youyan Smelting New Material Co., Ltd. ("Chongqing Youyan")	975,250.00	355,832.00
Pigeon Wire	100,462.00	100,462.00
Total	214,387,477.71	260,528,433.00

(2) Interest receivable

Items	Ending balance	Beginning balance
Related party borrowings	20,009,018.00	17,089,647.00
Loan issued	2,527,952.96	2,161,727.00
Due from banks or other financial institutes	1,108,569.46	165,000.00
Total	23,645,540.42	19,416,374.00

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

5. Other Receivables *(Continued)*

(3) Other receivables

Items	**Ending balance**	Beginning balance
Other receivables	**847,964,292.08**	1,103,823,783.92
Less: provision for bad debts	**71,133,947.52**	53,182,968.00
Carrying amount	**776,830,344.56**	1,050,640,815.92

1) *Aging analysis*

Aging	**Ending balance**	Beginning balance
Within 1 year	**449,209,300.46**	833,336,546.92
1-2 years	**245,152,111.98**	98,401,403.00
2-3 years	**83,448,031.88**	113,304,974.00
3-4 years	**17,357,251.45**	8,838,886.00
4-5 years	**2,855,622.31**	6,457,541.00
Over 5 years	**49,941,974.00**	43,484,433.00
Total	**847,964,292.08**	1,103,823,783.92
Less: Provision for impairment	**71,133,947.52**	53,182,968.00
Net carrying amount	**776,830,344.56**	1,050,640,815.92

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

6. Inventory

(1) Classification of inventory

Items	Ending balance Gross carrying amount	Ending balance Provision for impairment	Ending balance Net carrying amount
Raw materials	**301,497,674.46**	**6,539,693.49**	**294,957,980.97**
Work in progress	**627,916,856.18**	**39,916,136.09**	**588,000,720.09**
Finished goods	**701,129,886.34**	**25,871,067.16**	**675,258,819.18**
Low value consumables	**7,272,582.76**	**600,431.18**	**6,672,151.58**
Consigned processing materials	**16,398,741.40**	**–**	**16,398,741.40**
Total	**1,654,215,741.14**	**72,927,327.92**	**1,581,288,413.22**

Items	Beginning balance Gross carrying amount	Beginning balance Provision for impairment	Beginning balance Net carrying amount
Raw materials	387,626,716.00	25,327,789.00	362,298,927.00
Work in progress	551,505,655.00	34,185,872.00	517,319,783.00
Finished goods	487,902,869.00	18,967,104.00	468,935,765.00
Low value consumables	51,036,359.00	–	51,036,359.00
Completed but unsettled	641,364,729.00	–	641,364,729.00
Total	2,119,436,328.00	78,480,765.00	2,040,955,563.00

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

6. Inventory *(Continued)*

(2) Provision of impairment

Items	Beginning balance	Addition Provision	Addition Others	Less Write-off	Less Transfer-out	Ending balance
Raw materials	25,327,789.00	–	–	–	–	25,327,789.00
Work in progress	34,185,872.00	1,811,271.05	–	–	–	35,997,143.05
Finished goods	18,967,104.00	366,772.38	–	7,731,480.51	–	11,602,395.87
Total	78,480,765.00	2,178,043.43	–	7,731,480.51	–	72,927,327.92

7. Contractual Assets

Items	Ending balance Gross carrying amount	Ending balance Provision for impairment	Ending balance Net carrying amount
Completed but unsettled assets arising from construction contract	625,308,993.40	129,535,567.97	495,773,425.43
Total	625,308,993.40	129,535,567.97	495,773,425.43

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

8. Non-current Assets due within One Year

Items	**Ending balance**	Beginning balance
Finance lease security deposit	**1,138,300.00**	1,138,300.00
Total	**1,138,300.00**	1,138,300.00

9. Other Current Assets

Items	**Ending balance**	Beginning balance
Available-for-sale financial assets	**–**	152,773,313.00
Unused deductible VAT	**49,221,650.02**	30,333,752.96
Prepaid tax	**1,713,842.92**	3,493,250.78
Deferred expenses	**9,343,740.40**	1,449,260.26
Total	**60,279,233.34**	188,049,577.00

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

10. Loans and Advances

(1) Loans and advances aged within 1 year

1) Classification of loans and advances based on individual or corporations

Items	Ending balance	Beginning balance
Loans and advances to corporations		
– Loans	1,222,908,960.00	974,836,560.00
– Discount	22,011,076.79	60,374,547.00
Total	1,244,920,036.79	1,035,211,107.00
Less: Provision for impairment	31,249,796.94	28,032,957.00
Including: Provision on individual basis	–	–
Provision on portfolio basis	31,249,796.94	28,032,957.00
Carrying amount	1,213,670,239.85	1,007,178,150.00

2) Classification of loans and advances based on industry

Industry	Ending balance	Proportion (%)	Beginning balance	Proportion (%)
Manufacturing industry	1,244,920,036.79	100.00	1,035,211,107.00	100.00
Total	1,244,920,036.79	–	1,035,211,107.00	–
Less: provision for impairment	31,249,796.94	–	28,032,957.00	–
Including: Provision on individual basis	–	–	–	–
Provision on portfolio basis	31,249,796.94	–	28,032,957.00	–
Carrying amount	1,213,670,239.85	–	1,007,178,150.00	–

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

10. Loans and Advances *(Continued)*

(1) Loans and advances aged within 1 year *(Continued)*

3) Classification of loans and advances based on location

Area	**Ending balance**	Proportion (%)	Beginning balance	Proportion (%)
Southwest	**1,244,920,036.79**	100.00	1,035,211,107.00	100.00
Total	**1,244,920,036.79**	–	1,035,211,107.00	–
Less: provision for impairment	**31,249,796.94**	–	28,032,957.00	–
Including: Provision on individual basis	**–**	–	–	–
Provision on portfolio basis	**31,249,796.94**	–	28,032,957.00	–
Carrying amount	**1,213,670,239.85**	–	1,007,178,150.00	–

4) Classification of loans and advances based on type of security

Items	**Ending balance**	Beginning balance
Unsecured loan	**354,320,036.79**	125,536,560.00
Guaranteed loan	**760,100,000.00**	767,800,000.00
Mortgaged loan	**130,500,000.00**	75,000,000.00
Pledged loan	**–**	66,874,547.00
Total	**1,244,920,036.79**	1,035,211,107.00
Less: provision for impairment	**31,249,796.94**	28,032,957.00
Including: Provision on individual basis	**–**	–
Provision on portfolio basis	**31,249,796.94**	28,032,957.00
Carrying amount	**1,213,670,239.85**	1,007,178,150.00

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

10. Loans and Advances *(Continued)*

(1) Loans and advances aged within 1 year *(Continued)*

5) Overdue loan

As of 20 June 2018, the Group does not have any overdue loans.

6) Provision for impairment

	Current Period		Last period	
Items	Individual	Portfolio	Individual	Portfolio
Beginning balance	–	28,032,957.00	–	18,052,080.00
Provision	–	3,216,839.94	–	9,980,877.00
Transfer-out	–	–	–	–
Write-off	–	–	–	–
Recovered:	–	–	–	–
– Amounts recovered from receipt of previously write-off loans and advances	–	–	–	–
– Amounts recovered from appreciation of discounted value of loans and advances	–	–	–	–
– Amounts recovered from other factors	–	–	–	–
Ending balance	–	31,249,796.94	–	28,032,957.00

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

10. Loans and Advances *(Continued)*

(2) Loans and advances aged over 1 year

1) *Classification of loans and advances based on individual or corporations*

Items	Ending balance	Beginning balance
Loans and advances to corporations		
– Loans	–	38,989,025.00
Total	–	38,989,025.00
Less: Provision for impairment	–	1,094,671.00
Including: Provision on individual basis	–	–
Provision on portfolio basis	–	1,094,671.00
Carrying amount	–	37,894,354.00

2) *Classification of loans and advances based on industry*

Industry	Ending balance	Proportion (%)	Beginning balance	Proportion (%)
Manufacturing industry	–	–	38,989,025.00	100.00
Total	–	–	38,989,025.00	–
Less: provision for impairment	–	–	1,094,671.00	–
Including: Provision on individual basis	–	–	–	–
Provision on portfolio basis	–	–	1,094,671.00	–
Carrying amount	–	–	37,894,354.00	–

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

10. Loans and Advances *(Continued)*

(2) Loans and advances aged over 1 year *(Continued)*

3) Classification of loans and advances based on location

Area	Ending balance	Proportion (%)	Beginning balance	Proportion (%)
Southwest	–	–	38,989,025.00	100.00
Total	–	–	38,989,025.00	–
Less: provision for impairment	–	–	1,094,671.00	–
Including: Provision on individual basis	–	–	–	–
Provision on portfolio basis	–	–	1,094,671.00	–
Carrying amount	–	–	37,894,354.00	–

4) Classification of loans and advances based on type of security

Items	Ending balance	Beginning balance
Unsecured loan	–	38,989,025.00
Total	–	38,989,025.00
Less: provision for impairment	–	1,094,671.00
Including: Provision on individual basis	–	–
Provision on portfolio basis	–	1,094,671.00
Carrying amount	–	37,894,354.00

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

10. Loans and Advances *(Continued)*

(2) Loans and advances aged over 1 year *(Continued)*

5) Overdue loan

As of 30 June 2018, the Group does not have any overdue loans aged over 1 year.

6) Provision for impairment

	Current Period		Last period	
Items	Individual	Portfolio	Individual	Portfolio
Beginning balance	–	1,094,671.00	–	659,835.00
Provision	–	–	–	434,836.00
Transfer-out	–	–	–	–
Write-off	–	–	–	–
Recovered:	–	1,094,671.00	–	–
– Amounts recovered from receipt of previously write-off loans and advances	–	1,094,671.00	–	–
– Amounts recovered from appreciation of discounted value of loans and advances	–	–	–	–
– Amounts recovered from other factors	–	–	–	–
Ending balance	–	–	–	1,094,671.00

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

11. Long-term Receivables

(1) Breakdown of long-term receivables

Items	Ending balance Gross carrying amount	Ending balance Provision for impairment	Ending balance Net carrying amount	Beginning balance Gross carrying amount	Beginning balance Provision for impairment	Beginning balance Net carrying amount
Long-term receivables from related parties (Please refer to Note)	42,000,000.00	–	42,000,000.00	91,000,000.00	–	91,000,000.00
Lease security deposit	669,104.46	–	669,104.46	669,620.00	–	669,620.00
Total	42,669,104.46	–	42,669,104.46	91,669,620.00	–	91,669,620.00

Note: In order to construct the R&D center of high-powered engine technology and production line project of high-powered engine, National Development Fund Co., Ltd entrusted China Development bank Co., Ltd to issue the entrusted loan to the Group for project capital investment. The total amount of this loan is RMB122,000,000 which is restricted to the construction of the R&D center of high-powered engine technology and production line project of high-powered engine. The term of the loan is from 14 March 2016 to 14 March 2026. The loan interest shall be calculated at the fixed annual rate of 1.2% and paid quarterly. Chongqing Cummins borrowed from the Group through shareholder loan. Among which RMB8,800,000 will be due on 10 July 2019, RMB8,800,000 will be due on 10 January 2020, RMB8,700,000 will be due on 10 July 2020, RMB8,700,000 will be due on10 January 2021, and RMB7,000,000 will be due on 10 July 2021.

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

12. Long-term Equity Investment

Name of investee	Accounting method	Percentage of shareholdings	Voting rights	Cost of investment	Beginning balance	Increase or decrease					Ending balance
						Increase or Decrease in investment	Investment gain or loss recognized under equity method	Adjustment of other comprehensive income	Cash dividend declared	Decrease	
Joint ventures											
Chongqing Cummins Engine Co., Ltd.	Equity method	50.00	50.00	370,189,551.00	348,023,204.00	-	190,137,777.29	-	-	-	**538,160,981.29**
Subtotal				370,189,551.00	348,023,204.00	-	190,137,777.29	-	-	-	**538,160,981.29**
Associates											
Chongqing ABB Power Transformer Co., Ltd. ("Chongqing ABB") (refer to Note 1)	Equity method	37.80	37.80	236,651,166.00	298,625,219.00	-	12,541,457.38	-	77,650,013.00	-	**233,516,663.38**
Chongqing Midea General Refrigeration Equipment Co., Ltd ("Midea Tongyong") (refer to Note 2)	Equity method	10.00	11.11	46,687,500.00	15,158,554.00	-	618,793.88	-	-	-	**15,777,347.88**
Chongqing Yongtong Gas Co., Ltd.	Equity method	20.00	20.00	4,000,000.00	335,438.00	-	1,204,022.14	-	-	-	**1,539,460.14**
Hongyan (refer to Note 2)	Equity method	44.00	42.86	51,306,166.00	113,146,768.00	-	10,152,639.91	-	-	-	**123,299,407.91**

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

12. Long-term Equity Investment *(Continued)*

Name of investee	Accounting method	Percentage of shareholdings	Voting rights	Cost of investment	Beginning balance	Increase or decrease					Ending balance
						Increase or Decrease in investment	Investment gain or loss recognized under equity method	Adjustment of other comprehensive income	Cash dividend declared	Decrease	
Exedy (refer to Note 2)	Equity method	27.00	33.33	16,880,157.00	78,241,557.00	-	2,973,707.73	-	2,104,197.09	-	79,111,067.64
Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd.	Equity method	34.00	34.00	44,231,369.00	42,606,938.00	-	5,641,695.35	-	-	-	48,248,633.35
Chongqing Youyan	Equity method	41.50	41.50	33,200,000.00	39,150,730.00	-	2,472,674.07	-	619,418.00	-	41,003,986.07
Chongqing Jiangbei Machinery (refer to Note 2)	Equity method	41.00	20.00	57,933,968.00	58,166,434.00	-	455,409.21	-	-	-	58,621,843.21
WPG Company in Italy	Equity method	35.00	35.00	6,058,193.00	2,414,655.00	-	-230,853.20	-	-	-	2,183,801.80
Chongqing Shenjian Automotive Drive Part Co., Ltd.	Equity method	35.00	35.00	50,808,049.00	50,808,048.00	-	1,229,001.67	-	-	-	52,037,049.67
Subtotal				547,756,568.00	698,654,341.00	-	37,058,548.14	-	80,373,628.09	-	655,339,261.05
Total				917,946,119.00	1,046,677,545.00	-	227,196,325.43	-	80,373,628.09	-	1,193,500,242.34

Note 1: According to the resolutions of the board meeting and the Agreement of Consolidation by Merger signed on 16 June 2017, Chongqing Power Transformer Co., Ltd. became a wholly owned subsidiary of the Company on Oct 31st 2017. After completion of the merger, Chongqing Power Transformer Co., Ltd. is deregistered and its 37.8% shares of Chongqing ABB Power Transformer Co., Ltd. held are transferred to the Company.

Note 2: Difference between the percentage of shareholding and voting rights is derived from the difference between numbers of shareholders in the board of directors and the percentage of shareholding.

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

13. Investment Property

Items	Buildings and land-use rights	Total
I. Gross carrying amount		
1. Beginning balance	202,925,610.00	202,925,610.00
2. Increase	–	–
(1) Purchase	–	–
(2) Transfer from inventory, property, plant and equipment or construction in progress	–	–
(3) Business combination	–	–
3. Decrease	6,417,746.66	6,417,746.66
(1) Disposal	–	–
(2) Others	1,341,535.72	1,341,535.72
(3) Transferred into property, plant and equipment	5,076,210.94	5,076,210.94
4. Ending balance	196,507,863.34	196,507,863.34
II. Accumulated depreciation and amortization		
1. Beginning balance	38,905,070.03	38,905,070.03
2. Increase	3,429,557.11	3,429,557.11
(1) Depreciation and amortization	3,247,248.52	3,247,248.52
(2) Transferred from property, plant and equipment	182,308.59	182,308.59
3. Decrease	1,266,183.19	1,266,183.19
(1) Disposal	–	–
(2) Others	1,266,183.19	1,266,183.19
4. Ending balance	41,068,443.95	41,068,443.95
III. Provision for impairment		
1. Beginning balance	–	–
2. Increase	–	–
(1) Provision for impairment	–	–
3. Decrease	–	–
(1) Disposal	–	–
(2) Others	–	–
4. Ending balance	–	–
IV. Net carrying amount		
1. Ending balance	155,439,419.39	155,439,419.39
2. Beginning balance	164,020,539.97	164,020,539.97

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

14. Property, Plant and Equipment

(1) Breakdown of property, plant and equipment

Items	Buildings	Machinery equipment	Transportation	Office equipments	Total
I. Gross carrying amount					
1. Beginning balance	2,257,903,568.00	1,463,926,674.00	62,142,174.00	57,483,954.00	3,841,456,370.00
2. Increase	161,948,265.74	174,181,474.99	3,915,765.13	15,264,850.45	355,310,356.31
(1) Purchase	3,861,767.62	11,707,215.51	3,915,765.13	15,264,850.45	34,749,598.71
(2) Transfer from construction in process	153,010,287.18	162,012,159.48	–	–	315,022,446.66
(3) Transfer from investment property	5,076,210.94	–	–	–	5,076,210.94
(4) Others	–	462,100.00	–	–	462,100.00
3. Decrease	182,308.59	31,868,110.76	3,471,125.38	691,642.92	36,213,187.65
(1) Disposal	182,308.59	31,868,110.76	3,471,125.38	691,642.92	36,213,187.65
4. Ending balance	2,419,669,525.15	1,606,240,038.23	62,586,813.75	72,057,161.53	4,160,553,538.66
II. Accumulated depreciation and amortization					
1. Beginning balance	240,109,929.00	653,467,650.72	44,461,657.00	33,021,240.00	971,060,476.72
2. Increase	31,680,293.90	59,965,398.21	1,610,583.68	9,404,057.10	102,660,332.89
(1) Depreciation and amortization	30,499,175.63	59,965,398.21	1,610,583.68	9,404,057.10	101,479,214.62
(2) Transfer from investment property	1,181,118.27	–	–	–	1,181,118.27
3. Decrease	–	24,387,699.82	3,319,991.50	552,982.10	28,260,673.42
(1) Disposal	–	24,387,699.82	3,319,991.50	552,982.10	28,260,673.42
4. Ending balance	271,790,222.90	689,045,349.11	42,752,249.18	41,872,315.00	1,045,460,136.19
III. Provision for impairment	–		–	–	–
1. Beginning balance	–	3,927,136.86	–	111,975.42	4,039,112.28
2. Increase	–	–	–	–	–
(1) Provision for impairment	–	–	–	–	–
3. Decrease	–	–	–	–	–
(1) Disposal	–	–	–	–	–
4. Ending balance	–	3,927,136.86	–	111,975.42	4,039,112.28
IV. Net carrying amount	–	–	–	–	–
1. Ending balance	2,147,879,302.25	913,267,552.26	19,834,564.57	30,072,871.11	3,111,054,290.19
2. Beginning balance	2,017,793,639.00	806,531,886.42	17,680,517.00	24,350,738.58	2,866,356,781.00

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

14. Property, Plant and Equipment *(Continued)*

(2) Restriction on property, plant and equipment

Please refer to VI.59 for details.

(3) Property, plant and equipment under finance lease

Items	Ending balance of gross carrying amount	Accumulated depreciation	Provision for impairment	Ending balance of net carrying amount
Machinery equipment	366,022,689.23	19,007,841.61	–	347,014,847.62

Items	Beginning balance of gross carrying amount	Accumulated depreciation	Provision for impairment	Beginning balance of net carrying amount
Machinery equipment	246,821,235.00	5,513,555.00	–	241,307,680.00

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

15. Construction in Progress

Items	Ending balance Gross carrying amount	Provision for impairment	Net carrying amount
Relocation project of Yinhe Forging & Founding	67,436,812.19	–	67,436,812.19
Plant and building reconstruction of Chongtong	58,259,841.02	–	58,259,841.02
Machinery industrialization base construction project of Machinery Manufacture	51,772,823.61	–	51,772,823.61
Xinjiang Cotton picker project of Fu Baotian	51,095,284.99	–	51,095,284.99
Environmental-friendly relocation project of Water Turbine Works	45,191,735.32	–	45,191,735.32
Environmental-friendly relocation project of Tool Factory	34,898,977.97	–	34,898,977.97
Purchase of Machinery equipments	28,149,565.92	–	28,149,565.92
Others	37,500,873.54	2,557,627.00	34,943,246.54
Total	374,305,914.56	2,557,627.00	371,748,287.56

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

15. Construction in Progress *(Continued)*

	Beginning balance		
Items	Gross carrying amount	Provision for impairment	Net carrying amount
Relocation project of Yinhe Forging & Founding	17,033,603.33	–	17,033,603.33
Plant and building reconstruction of Chongtong	76,974,011.60	–	76,974,011.60
Machinery industrialization base construction project of Machinery Manufacture	2,246,355.72	–	2,246,355.72
Xinjiang Cotton picker project of Fu Baotian	51,095,284.52	–	51,095,284.52
Environmental-friendly relocation project of Water Turbine Works	208,902,929.45	–	208,902,929.45
Environmental-friendly relocation project of Tool Factory	259,492.17	–	259,492.17
Purchase of Machinery equipments	29,811,805.04	–	29,811,805.04
Others	34,498,445.91	2,557,627.00	31,940,818.91
Total	420,821,927.74	2,557,627.00	418,264,300.74

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

16. Intangible assets

Items	Land-use rights	Software	Technical know-how	Brand	Customer relationships	Franchise rights	Others	Total
I. Gross carrying amount								
1. Beginning balance	552,580,287.00	26,110,854.00	82,515,490.00	12,256,200.00	55,044,064.00	68,257,380.00	10,940,392.00	807,704,667.00
2. Increase	22,760,894.34	662,528.95	5,500,000.00	-	-	3,074,313.14	-	31,997,736.43
(1) Purchase	22,760,894.34	662,528.95	5,500,000.00	-	-	3,074,313.14	-	31,997,736.43
(2) Internal research	-	-	-	-	-	-	-	-
(3) Gain by consolidation	-	-	-	-	-	-	-	-
3. Decrease	-	204,245.28	469,024.08	-	-	-	-	673,269.36
(1) Disposal	-	204,245.28	469,024.08	-	-	-	-	673,269.36
4. Ending balance	575,341,181.34	26,569,137.67	87,546,465.92	12,256,200.00	55,044,064.00	71,331,693.14	10,940,392.00	839,029,134.07
II. Accumulated depreciation and amortization								
1. Beginning balance	95,224,701.28	19,523,393.00	24,047,959.00	-	31,873,845.00	10,814,277.00	10,940,392.00	192,424,567.28
2. Increase	5,352,353.13	941,673.11	3,085,097.04	-	2,293,502.67	4,719,662.65	-	16,392,288.60
(1) Depreciation and amortization	5,352,353.13	941,673.11	3,085,097.04	-	2,293,502.67	4,719,662.65		16,392,288.60
3. Decrease	-	-	-	-	-	-	-	-
(1) Disposal	-	-	-	-	-	-	-	-
4. Ending balance	100,577,054.41	20,465,066.11	27,133,056.04	-	34,167,347.67	15,533,939.65	10,940,392.00	208,816,855.88
III. Provision for impairment								
1. Beginning balance	-	-	-	-	-	-	-	-
2. Increase	-	-	-	-	-	-	-	-
(1) Provision for impairment	-	-	-	-	-	-	-	-
3. Decrease	-	-	-	-	-	-	-	-
(1) Disposal	-	-	-	-	-	-	-	-
4. Ending balance	-	-	-	-	-	-	-	-
IV. Net carrying amount								
1. Ending balance	474,764,126.93	6,104,071.56	60,413,409.88	12,256,200.00	20,876,716.33	55,797,753.49	-	630,212,278.19
2. Beginning balance	457,355,585.72	6,587,461.00	58,467,531.00	12,256,200.00	23,170,219.00	57,443,103.00	-	615,280,099.72

Note: The restriction on intangible assets is detailed in VI.59.

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

17. Development Expenditures

Items	Beginning balance	Increase	Decrease: Recognized in profit or loss	Decrease: Transferred to intangible assets	**Ending balance**
Wind blade technology of Chongtong Chengfei	7,138,672.00	4,266,686.70	–	–	**11,405,358.70**
ERP project of KINGDEE	–	305,982.90	–	–	**305,982.90**
Others	–	224,587.59	–	–	**224,587.59**
Total	7,138,672.00	4,797,257.19	–	–	**11,935,929.19**

18. Goodwill

(1) Cost of goodwill

Name of investee	Beginning balance	Increase	Decrease	**Ending balance**
PTG six entities	127,650,489.00	–	–	**127,650,489.00**
CAFF	15,368,000.00	–	–	**15,368,000.00**
Power Transformer	293,946.00	–	–	**293,946.00**
Total	143,312,435.00	–	–	**143,312,435.00**

Note: PTG six entities comprise Holroyd Precision Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, Precision Components Limited, PTG Advanced Developments Limited, and PTG Deutschland GmbH. PTG six entities belong to CNC machine tools business section, while Chongqing CAFF Automotive Braking & Steering System Co. Ltd. ("CAFF") belongs to other segment.

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

18. Goodwill *(Continued)*

(2) Goodwill allocated to the Group's cash-generating units or groups of cash-generating units

Name of the investee	**Ending balance**	Beginning balance
PTG six entities	**127,650,489.00**	127,650,489.00
CAFF	**15,368,000.00**	15,368,000.00
Power Transformer	**293,946.00**	293,946.00
Total	**143,312,435.00**	143,312,435.00

The recoverable amount of the cash-generating units or groups of cash-generating units is determined base on the five-year budget approved by the management and calculated using cash flow forecasting method. As for the cash flow over five years, the below estimated growth rate is applied for calculation.

Major assumptions for discounted cash flow method

	Current period		Last period	
Items	**CAFF**	**PTG six entities**	CAFF	PTG six entities
Growth rate	**1%**	**0%**	1%	0%
Gross profit rate	**16%-18%**	**44%-46%**	16%-18%	44%-46%
Discount rate	**15%**	**21%**	15%	21%

Weighted average growth rate used by the management is identical with the anticipatory data stated in the industry report, which is not more than the average long-term growth rate of each product. The pre-tax rate is selected as the discount rate which matches the certain risks the cash-generating units or groups of cash-generating units contain. The assumptions above apply to the analysis for the recoverable amount of cash-generating units or groups of cash-generating units in each operating segment.

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

19. Long-term deferred expenses

Items	Beginning balance	Increase	Amortization	Other decrease	**Ending balance**
2.0 megawatt mode	34,694,189.11	941,465.85	1,230,890.00	–	**34,404,764.96**
Power blade tools	5,362,537.52	437,508.03	831,102.35	–	**4,968,943.20**
Expansion project of blade yard	129,804.84	–	40,990.98	–	**88,813.86**
Lease fee	30,643,358.90	1,236,609.91	2,553,084.06	6,044,159.85	**23,282,724.90**
Reconstruction of hazards storehouse	5,972.36	–	5,972.36	–	**–**
Heating combing fee	188,995.56	–	51,544.26	–	**137,451.30**
Mold	134,001,288.18	8,483,662.55	13,105,552.24	–	**129,379,398.49**
Others	4,110,590.55	1,630,368.70	555,210.18	–	**5,185,749.07**
Decrease: Provision for impairment-mold	6,070,795.00	–	–	–	**6,070,795.00**
Total	203,065,942.02	12,729,615.04	18,374,346.43	6,044,159.85	**191,377,050.78**

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

20. Deferred Tax Assets and Deferred Tax Liabilities

(1) Deferred tax assets before offsetting

Items	Ending balance		Beginning balance	
	Deferred tax assets (Deferred tax liabilities)	deductible temporary differences (Deductible tax losses)	Deferred tax assets (Deferred tax liabilities)	deductible temporary differences (Deductible tax losses)
I. Deferred tax assets	137,894,750.23	888,325,843.75	68,505,568.00	402,595,487.78
Provision for impairment	76,097,871.37	507,319,142.53	37,205,637.20	227,886,617.15
Financial instruments at fair value through profit or loss	15,737.54	104,916.93	–	–
Deductible tax loss	48,491,344.04	292,303,133.76	6,604,338.80	35,692,279.63
Deferred revenue	10,250,876.69	68,339,177.94	20,628,608.00	113,015,239.00
Retirement and termination benefit	523,530.03	3,490,200.24	659,535.00	4,396,907.00
Accrued expenses	2,395,390.56	15,969,272.35	3,407,449.00	21,604,445.00
Others	120,000.00	800,000.00	–	–
II. Deferred tax liabilities	93,257,810.80	431,268,639.04	58,346,309.00	253,821,001.42
Gain or loss from fair value changes of available-for-sale financial assets	–	–	693,328.00	2,773,313.00
Temporary tax free income	12,122,506.50	80,816,710.00	38,559,856.00	169,991,721.42
Amortization of land in New District	39,682,493.16	179,395,057.65	–	–
Appreciation of assets valuation	21,647,770.72	91,836,709.71	19,093,125.00	81,055,967.00
Gain on disposal of land	19,805,040.42	79,220,161.68	–	–

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

20. Deferred Tax Assets and Deferred Tax Liabilities *(Continued)*

(2) Unrecognized deferred tax assets

Items	Ending balance	Beginning balance
Deductible temporary differences	63,376,273.70	95,941,343.00
Deductible tax losses	779,303,790.02	832,486,562.00
Total	842,680,063.72	928,427,905.00

(3) Deductible tax losses not recognized in deferred tax assets from domestic subsidiaries will be expired in the following years

Year	Ending balance	Beginning balance
2018	63,781,802.38	17,584,495.00
2019	49,386,187.63	102,469,561.00
2020	65,740,926.27	146,084,351.00
2021	92,048,335.20	110,125,431.00
2022	429,631,817.49	409,628,492.00
2023	76,714,177.60	–
Total	777,303,246.57	785,892,330.00

Note: As at 30 June 30 2018, the deductible tax losses not recognized in deferred tax assets from the PTG Group is RMB2,000,543.45 (31 December 2017: RMB46,594,232), with no expiry date.

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

21. Other Non-current Assets

Items	Ending balance	Beginning balance
Prepayment for equipment and engineering	12,775,628.93	30,401,819.26
Prepayment for land-use right	16,202,995.00	47,161,963.00
Plant form debt recovery	3,958,156.30	2,988,129.00
Others	3,103,660.00	3,103,660.00
Total	36,040,440.23	83,655,571.26

22. Short-term loans

Category	Ending balance	Beginning balance
Pledged loans	68,000,000.00	16,250,000.00
Mortgage loans	40,000,000.00	–
Guaranteed loans	212,250,000.00	–
Unsecured loans	1,381,422,391.31	1,653,639,955.00
Total	1,701,672,391.31	1,669,889,955.00

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

23. Accounts Payable and Notes Payable

Items	Ending balance	Beginning balance
Notes payable	877,941,550.56	809,054,101.00
Accounts payable	2,148,497,733.45	1,950,028,138.00
Total	3,026,439,284.01	2,759,082,239.00

(1) Notes payable

Category	Ending balance	Beginning balance
Bank acceptance bills	611,065,107.52	795,147,671.00
Commercial acceptance bills	266,876,443.04	13,906,430.00
Total	877,941,550.56	809,054,101.00

(2) Accounts payable

Items	Ending balance	Beginning balance
Within 1 year	1,329,136,438.06	1,632,271,110.00
Over 1 year	819,361,295.39	317,757,028.00
Total	2,148,497,733.45	1,950,028,138.00

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

23. Accounts Payable and Notes Payable *(Continued)*

(2) Accounts payable *(Continued)*

Major accounts payable over 1 year

Name of creditors	Ending balance	Reason
Chongqing Zhonghuan Construction Co., Ltd.	34,898,434.32	Unsettled
Jiangsu CTC Technical Fabrics Co., Ltd.	16,546,876.34	Unsettled
Yicheng Xincai Material technology (Shanghai) Co., Ltd.	20,026,292.00	Unsettled
Taishan Fiberglass INC.	18,620,726.54	Unsettled
Bazhou Wuhaote Electric Power Tubing Co., Ltd.	19,734,560.99	Unsettled
Chongqing Honghai Lizhi Electromechanical Device Co., Ltd.	15,042,285.00	Unsettled
Shanghai Chenglai New Material Technology Co., Ltd.	18,093,965.80	Unsettled
Siemens Ltd. China	14,256,917.52	Temporary Unsettled
Total	157,220,058.51	

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

24. Receipts in Advance

(1) Aging analysis

Items	Ending balance	Beginning balance
Within 1 year	332,375,765.94	497,755,583.00
Over 1 year	170,527,897.98	179,797,261.00
Total	502,903,663.92	677,552,844.00

(2) Classification of receipts in advance

Items	Ending balance	Beginning balance
Advances on sales	502,903,663.92	659,470,990.00
Settled but not completed projects	–	18,081,854.00
Total	502,903,663.92	677,552,844.00

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

24. Receipts in Advance *(Continued)*

(3) Major receipts in advance over 1 year

Name of creditor	Ending balance	Reason
Beijing Jingcheng New Energy Co., Ltd.	16,803,000.00	Unsettled
Xilin Gol Sunite Alkali Co., Ltd.	8,420,000.00	Unsettled
Chongqing Construction Engineering Group Real Estate Development Co., Ltd.	6,466,584.48	Unsettled
Beijing Sanju Lvneng Technology Co., Ltd.	5,250,000.00	Unsettled
Nanning oasis Chemical Co., Ltd.	5,202,660.00	Unsettled
Nanning Chemical Group Co., Ltd.	3,820,050.00	Unsettled
Pingshan Jingye Fiberboards Co., Ltd.	4,291,833.00	Unsettled
Total	50,254,127.48	

25. Contractual Liabilities

Items	Ending balance	Beginning balance
Settled but not completed projects	44,079,785.91	–
Total	44,079,785.91	–

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

26. Employee Benefits Payables

(1) Classification of employee benefits payables

Items	Beginning balance	Increase	Decrease	**Ending balance**
Short-term employee benefits payable	50,647,933.00	372,838,677.11	369,606,034.07	**53,880,576.04**
Post-employment benefits – defined contribution plan	3,943,392.00	43,520,820.65	42,368,077.02	**5,096,135.63**
Termination benefits	2,188,000.00	18,306,583.59	18,791,678.60	**1,702,904.99**
Other employee benefit due within one year	–	–	–	**–**
Others	914,009.00	424,279.11	747,827.33	**590,460.78**
Total	57,693,334.00	435,090,360.46	431,513,617.02	**61,270,077.44**

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

26. Employee Benefits Payables *(Continued)*

(2) Short-term employee benefits

Items	Beginning balance	Increase	Decrease	Ending balance
Salaries, bonuses, allowances and subsidies	16,400,797.17	288,368,831.76	290,313,464.93	14,456,164.00
Staff welfare	1,548,047.39	21,070,999.59	19,838,619.41	2,780,427.57
Social insurance	1,083,341.62	28,520,977.93	27,984,669.10	1,619,650.45
Including: Medical insurance	1,049,569.10	25,935,160.40	25,500,257.45	1,484,472.05
Injury Insurance	22,998.05	2,421,042.48	2,362,864.33	81,176.20
Maternity insurance	12,056.46	94,298.92	52,353.18	54,002.20
Others	-1,281.99	70,476.13	69,194.14	–
Housing fund	842,556.88	20,136,883.43	18,785,036.04	2,194,404.27
Labor union fee and employee education fee	30,776,589.94	5,126,078.15	3,072,738.34	32,829,929.75
Short-term paid absence	–	–	–	–
Other short-term benefits	-3,400.00	9,614,906.25	9,611,506.25	–
Total	50,647,933.00	372,838,677.11	369,606,034.07	53,880,576.04

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

26. Employee Benefits Payables *(Continued)*

(3) Defined contribution plan

Items	Beginning balance	Increase	Decrease	**Ending balance**
Basic endowment insurance	3,163,086.00	42,267,012.32	41,149,301.85	**4,280,796.47**
Unemployment insurance	780,306.00	1,253,808.33	1,218,775.17	**815,339.16**
Total	3,943,392.00	43,520,820.65	42,368,077.02	**5,096,135.63**

27. Taxes Payable

Items	**Ending balance**	Beginning balance
Enterprise income tax	**126,325,957.17**	124,285,739.00
Value-added tax	**102,424,110.69**	89,565,416.00
City maintenance and construction tax	**989,501.28**	1,714,343.00
City land use tax	**150,760.61**	149,905.00
Real estate tax	**620,386.55**	578,104.90
Individual income tax	**2,341,381.98**	860,623.74
Others	**2,943,086.51**	4,187,099.36
Total	**235,795,184.79**	221,341,231.00

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

28. Other Payables

Items	Ending balance	Beginning balance
Interest payable	30,653,520.11	11,250,751.00
Dividends payable	19,843,525.37	30,077,325.00
Other payables	543,404,528.03	484,802,263.20
Total	593,901,573.51	526,130,339.20

(1) Interest payable

Items	Ending balance	Beginning balance
Interest payable on corporate bonds	27,381,300.00	9,261,300.00
Interests payable on short-term loans	347,597.44	338,324.00
Interests payable on deposit absorption	2,924,622.67	1,651,127.00
Total	30,653,520.11	11,250,751.00

(2) Dividends payable

Items	Ending balance	Beginning balance
Ordinary shares	19,843,525.37	30,077,325.00
Total	19,843,525.37	30,077,325.00

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

28. Other Payables *(Continued)*

(3) Other payables

1) Classification of other payables by nature

Nature of Payables	Ending balance	Beginning balance
Payables to third parties	21,258,313.70	3,100,000.00
Staff housing fund payable	7,663,985.29	6,001,412.00
Purchase of Engineering equipment	247,646,432.03	270,307,805.00
Deposits and risk fund	56,455,755.69	43,068,049.00
Auditing fee	–	1,902,500.00
Sales commission	2,248,800.01	423,785.00
Payable to other related parties	64,651,486.65	43,300,416.00
Demolition	8,725,310.79	15,291,331.00
Staff payable	3,128,757.59	34,584,268.00
Transportation fee	3,121,173.78	2,101,883.00
Maintenance of housing and equipment	27,466,078.70	2,231,810.00
Payable on behalf of others	20,432,718.71	–
Estimated maintenance fees	–	16,587,851.00
Others	80,605,715.09	45,901,153.20
Total	543,404,528.03	484,802,263.20

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

28. Other Payables *(Continued)*

(3) Other payables *(Continued)*

2) Major other payables over 1 year

Company name	Amount	Reason
Jiangsu Nantong the third construction group Limited Co., Ltd.	29,808,748.28	Project not yet completed
Chongqing International construction Corporation	24,638,721.97	Project not yet completed
Demolition compensation (compensation for families in upper area of the plant)	7,433,979.40	Unfinished
Chongqing Huazhong compressor factory	6,603,592.07	Payables on behalf of others (unsettled)
Tianjin Dewei coating Chemical Co., Ltd.	6,100,000.00	
Chongqing Tian Hui Industrial Co., Ltd.	2,795,001.00	Lease deposit
Xinjiang Hua Guan Green Agricultural Technology Co., Ltd.	2,100,000.00	Patent royalty
Chongqing Machinery and Electronics Holding (Group) Co., Ltd.	2,000,000.00	Corporate bond guarantee fee (not due)
Total	81,480,042.72	

29. Deposits from Banks and Other Financial Institutions

Items	Ending balance	Beginning balance
Deposits in corporate saving account	693,869,950.83	693,135,277.00
Fixed deposits (including notice deposits) within one year	125,094,800.00	169,094,800.00
Deposit pledged as collateral	69,883,553.23	14,827,373.00
Total	888,848,304.06	877,057,450.00

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

30. Non-current Liabilities due within One Year

Items	**Ending balance**	Beginning balance
Long-term Loans due within one year	**196,740,192.31**	174,466,466.00
Long-term payables due within one year	**80,231,316.38**	77,828,780.00
Deferred revenue due within one year	**24,614,586.63**	42,368,309.00
Other long-term liabilities due within one year	**160,000.00**	–
Total	**301,746,095.32**	294,663,555.00

31. Other Current Liabilities

Items	**Ending balance**	Beginning balance
Warranty and guarantees for repair, replacement and compensation	**5,945,215.03**	–
Total	**5,945,215.03**	–

Note: The beginning balance is recorded in other payables. Please refer to VI. 28 for details.

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

32. Long-term Loans

Items	Ending balance	Beginning balance
Guaranteed loans	337,200,000.00	179,600,000.00
Mortgage loans	295,000,000.00	315,811,906.00
Unsecured loans	67,000,000.00	67,000,000.00
Total	699,200,000.00	562,411,906.00

33. Bonds Payable

(1) Classification of bonds payable

Items	Ending balance	Beginning balance
Corporate bond	800,000,000.00	800,000,000.00
Unrecognized financing charges	1,595,116.57	2,325,316.57
Total	798,404,883.43	797,674,683.43

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

33. Bonds Payable *(Continued)*

(2) Movements of bonds payable

Name of the bond	Par value	Issue date	Maturity of bond	Issuing value	Beginning balance	Issued in current period	Interest accrued on par value	Amortization of discount and premium	Repaid in current period	**Ending balance**
Corporate bond	800,000,000.00	29 September 2016	5 years	800,000,000.00	797,674,683.43	–	17,120,000.00	-730,200.00	–	**798,404,883.43**
Total	800,000,000.00			800,000,000.00	797,674,683.43	–	17,120,000.00	-730,200.00	–	**798,404,883.43**

Note: According to Zhengjian Xuke [2016] No. 701 issued by China Securities Regulatory Commission, the Group issued corporate bonds amounting to RMB800,000,000 on 29 September 2016, with a bond term of five years (including the option for the Group to increase the coupon rate at the end of the third year and the option for bond holders to sell back). The interest is paid annually with annual simple rate of 4.28%.

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

34. Long-term Payables

Items	Ending balance	Beginning balance
Long-term payables	192,290,668.79	207,600,793.00
Special payables	2,935,000.00	3,895,870.00
Total	195,225,668.79	211,496,663.00

(1) Classification of long-term payables

Items	Ending balance	Beginning balance
Finance lease payable	187,702,724.56	207,600,793.00
Others	4,587,944.23	–
Total	192,290,668.79	207,600,793.00

(2) Classification of special payable

Items	Beginning balance	Increase	Decrease	Ending balance
Special payables on national project	3,895,870.00	–	960,870.00	2,935,000.00
Total	3,895,870.00	–	960,870.00	2,935,000.00

Note: Pursuant to Fagai Touzi [2005] No. 1201 "Notice on the Investment Plan under Special National Budget for Major Equipment Localization" issued by National Development and Reform Commission, the balance of special payables on national project as at 30 June 30 2018 is RMB2,935,000.00, which will be used for the localization projects of major equipment approved by the state respectively.

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

35. Long-term Employee Benefits Payable

Items	**Ending balance**	Beginning balance
Post-employment benefits payable	**14,484,000.00**	14,484,000.00
Termination benefits payable	**1,484,000.00**	1,484,000.00
Total	**15,968,000.00**	15,968,000.00

36. Provision

Items	**Ending balance**	Beginning balance
Loss on repair, replacement and compensation	**12,443,765.42**	–
Total	**12,443,765.42**	–

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

37. Deferred Revenue

Items	Beginning balance	Increase	Decrease	**Ending balance**	Reason
Government grants – government appropriation fund	115,133,405.00	20,040,018.00	1,155,072.69	**134,018,350.31**	Project R&D and technical transformation
Government grants – relocation grants	230,881,132.00	–	7,591,937.66	**223,289,194.34**	Relocation project
Unrealized income on sale and leaseback transactions	1,897,885.00	–	220,685.27	**1,677,199.73**	Sale and leaseback transactions
Deferred rental income	24,666,831.82	–	5,573,811.95	**19,093,019.87**	Rental income received in advance
Amortization of gain on disposal of assets	9,945,550.52	–	317,180.80	**9,628,369.72**	Disposal of assets
Others	853,335.66	–	56,666.50	**796,669.16**	Others
Total	383,378,140.00	20,040,018.00	14,915,354.87	**388,502,803.13**	

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

38. Share Capital

Items	**Ending balance**	Beginning balance
Restricted shares – state-owned legal person shareholdings		
CQMEHG	**1,924,225,189.00**	1,924,225,189.00
China Huarong Asset Management Co., Ltd.	**195,962,467.00**	195,962,467.00
Chongqing Yufu Assets Management Co., Ltd.	**232,132,514.00**	232,132,514.00
Chongqing Construction Engineering Group Co., Ltd.	**232,132,514.00**	232,132,514.00
Total restricted shares	**2,584,452,684.00**	2,584,452,684.00
Non-restricted shares		
Overseas listing H shares	**1,100,187,470.00**	1,100,187,470.00
Total non-restricted shares	**1,100,187,470.00**	1,100,187,470.00
Total	**3,684,640,154.00**	3,684,640,154.00

39. Capital Reserve

Items	Beginning balance	Increase	Decrease	**Ending balance**
Capital reserve transferred under original standard	-15,166,711.00	–	–	**-15,166,711.00**
Others	64,911,646.00	–	2,583,292.33	**62,328,353.67**
Total	49,744,935.00	–	2,583,292.33	**47,161,642.67**

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

40. Other Comprehensive Income

Items	Beginning balance	Current period					Ending balance
		Pre-tax amount	Less: Reclassifications of previous other comprehensive income to profit or loss	Less: Income tax expenses	After-tax amount attributable to shareholders of the Company	After-tax amount attributable to non-controlling shareholders	
1. Other comprehensive income that cannot be reclassified into profit or loss							
Including: Changes in net assets or net liabilities from recalculation of defined benefit plan	12,790,369.00	–	–	–	–	–	**12,790,369.00**
Other comprehensive income of the investee that cannot be reclassified into profit or loss under equity method	–	–	–	–	–	–	**–**
2. Other comprehensive income that can be reclassified into profit or loss							
Including: Other comprehensive income of the investee that can be reclassified into profit or loss under equity method	2,275,625.00	–	–	–	–	–	**2,275,625.00**

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

40. Other Comprehensive Income (*Continued*)

Items	Beginning balance	Current period: Pre-tax amount	Current period: Less: Reclassifications of previous other comprehensive income to profit or loss	Current period: Less: Income tax expenses	Current period: After-tax amount attributable to shareholders of the Company	Current period: After-tax amount attributable to non-controlling shareholders	**Ending balance**
Gain or loss from fair value changes of available-for-sale financial assets	1,604,120.00	2,132,435.61	3,310,068.49	426,487.12	–	–	**-**
Effective portion of hedging gain or loss on net investment	-8,715,772.00	1,324,807.42	–	–	1,324,807.42	–	**-7,390,964.58**
Translation differences of financial statements in foreign currencies	20,022,992.00	-239,144.10	–	–	-239,144.10	–	**19,783,847.90**
Total other comprehensive income	27,977,334.00	3,218,098.93	3,310,068.49	426,487.12	1,085,663.32	–	**27,458,877.32**

Note: The Group's partial borrowings in US dollar amounting to USD11,500,000.00 are designated as a net investment hedging for US subsidiary. On 30 June 2018, the fair value of the loan was approximately RMB76,093,475.43. The exchange gain arising from translating the borrowings into the corresponding functional currency on 30 June 2018 is RMB1,324,807.42, recognized in other comprehensive income.

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

41. Surplus Reserves

Item	Beginning balance	Increase	Decrease	Ending balance
Statutory surplus reserves	297,517,132.00	12,433,834.18	–	309,950,966.18
Total	297,517,132.00	12,433,834.18	–	309,950,966.18

42. Retained Earnings

Items	Current period	Last year
Ending balance of last year	2,717,844,150.00	2,551,313,941.00
Add: Adjustment of beginning balance	-169,165,234.60	–
Including: retroactive adjustment due to adoption of revised CAS	-169,165,234.60	–
Beginning balance of current year	2,548,678,915.40	2,551,313,941.00
Add: Net profit attributable to shareholders of the Company	227,779,287.41	316,644,903.00
Less: Appropriation to statutory reserve	–	20,845,494.00
Appropriation to staff bonus and welfare	–	306,794.00
Declared ordinary share dividends	–	128,962,406.00
Ending Balance	2,776,458,202.81	2,717,844,150.00

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

43. Operating Revenue & Operating Cost

Items	Current period Revenue	Current period Cost	Last period Revenue	Last period Cost
Main operations	**2,679,037,789.71**	**2,127,846,900.73**	3,231,552,060.83	2,783,692,215.35
Other operations	**54,835,816.84**	**31,277,432.94**	287,559,068.94	267,434,893.42
Interest	**33,870,973.44**	**4,561,659.34**	28,792,373.02	4,566,493.17
Transaction fees and commission income	**214,558.62**	**54,420.31**	118,093.50	34,063.60
Total	**2,767,959,138.61**	**2,163,740,413.32**	3,548,021,596.29	3,055,727,665.54

Note: Interest income, transaction fees and commission income are derived from the Finance Company. Interest expense, transaction fees and commission expense are related to costs of Finance Company.

(1) Operating revenue and operating cost are presented on segment basis:

Items	Current period Revenue	Current period Cost	Last period Revenue	Last period Cost
High-end intelligent equipment business	**778,286,361.43**	**601,912,091.89**	710,749,397.02	581,732,991.59
Industrial services	**138,164,919.47**	**118,523,359.30**	1,306,496,238.07	1,289,561,706.34
Clean energy equipment business	**1,840,613,126.05**	**1,473,129,759.83**	1,796,941,636.96	1,481,207,628.77
Less: elimination between segments	**78,026,617.24**	**65,718,310.29**	582,635,211.22	568,810,111.35
Total	**2,679,037,789.71**	**2,127,846,900.73**	3,231,552,060.83	2,783,692,215.35

Note: The revenue and cost of the industrial services do not include the revenue and cost of Financial Company.

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

43. Operating Revenue & Operating Cost *(Continued)*

(2) Breakdown of revenue

Items	Current period	Last period
Recognized at a certain point in time	2,507,562,381.83	3,397,661,572.60
Recognized over time	260,396,756.78	150,360,023.69
Total	2,767,959,138.61	3,548,021,596.29

44. Selling and Distribution Expenses

Items	Current period	Last period
Traveling expenses	31,879,412.05	16,904,244.00
Employee benefits	31,824,177.65	31,300,773.23
Transportation expense	30,528,514.02	31,339,409.28
After-sale service fee	10,819,991.54	7,591,197.00
Advertising expense	4,706,891.69	3,390,009.00
Depreciation expenses	178,635.61	48,416.45
Others	32,641,491.00	42,028,820.13
Total	142,579,113.56	132,602,869.09

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

45. Administrative Expenses

Items	Current period	Last period
Employee benefits	**130,529,232.10**	168,073,153.24
R&D	**–**	84,741,274.36
Depreciation and amortization expenses	**27,137,908.39**	26,704,125.83
Insurance expenses	**10,799,432.68**	9,316,237.31
General office expenses	**4,331,050.70**	9,690,481.97
Director's fees, agency fee and consulting fee	**4,036,439.11**	8,469,677.38
Business entertainment fee	**2,995,314.31**	3,241,188.21
Repair charges	**1,992,947.70**	5,711,043.25
Property tax and other taxes	**422,400.00**	1,424,000.00
Others	**73,838,456.29**	58,972,922.09
Total	**256,083,181.28**	376,344,103.64

46. Research and Development Expenses

Items	Current period	Last period
Research and development expenses	**116,331,772.01**	–
Total	**116,331,772.01**	–

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

47. Financial Expenses

Items	Current period	Last period
Interest expense	63,291,660.09	49,346,897.41
Less: interest income	12,811,729.52	7,590,186.04
Exchange gain and loss	-1,122,653.75	-987,495.06
Others	13,423,317.64	1,120,018.00
Total	62,780,594.46	41,889,234.31

48. Loss on Impairment of Assets

Items	Current period	Last period
Impairment loss on receivables	–	44,727,832.54
Impairment loss on inventory	2,178,043.43	9,882,759.26
Total	2,178,043.43	54,610,591.80

49. Impairment Loss on Credit

Items	Current period	Last period
Impairment loss on accounts receivable	14,158,733.84	–
Impairment loss on other receivables	5,310,761.52	–
Impairment loss on loans and advances	2,122,168.94	–
Total	21,591,664.30	–

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

50. Investment Income

Items	Current period	Last period
Investment income from long-term equity investments under equity method	227,196,327.78	195,107,399.00
Investment income from available-for-sale financial assets during holding period	–	1,466,870.00
Investment income from disposals of available-for-sale financial assets	3,310,068.49	–
Total	230,506,396.27	196,574,269.00

51. Gain arising from the Changes in Fair Value

Items	Current period	Last period
Financial assets at fair value through profit or loss	-104,916.90	–
Total	-104,916.90	–

52. Gains on Disposals of Assets

Items	Current period	Last period	Amount recorded in extraordinary profit and loss
Gains on disposals of non-current assets which are not classified as held for sale	623,652.43	186,715,396.00	623,652.43
Including: Gains on disposals of property, plant and equipment	623,652.43	186,715,396.00	623,652.43
Total	623,652.43	186,715,396.00	623,652.43

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

53. Other Income

Items	Current period	Last period
Amortization of deferred revenue	14,915,354.87	–
Income related government grants received in current period	45,843,888.72	–
Total	60,759,243.59	–

54. Non-operating Income

Items	Current period	Last period
Government grants	3,143,100.00	15,856,534.00
Debt restructuring	1,155,518.94	–
Others	2,671,411.03	2,897,389.66
Total	6,970,029.97	18,753,923.66

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

55. Non-operating Expenses

Items	Current period	Last period
Debt restructuring	1,320,476.16	2,409,567.00
Others	1,575,464.22	3,968,598.62
Total	2,895,940.38	6,378,165.62

56. Income Tax Expense

Item	Current period	Last period
Current income tax	27,312,203.70	32,272,174.60
Deferred income tax	-991,486.45	-1,242,248.32
Total	26,320,717.25	31,029,926.28

57. Other Comprehensive Income

Please refer to VI. 40 Other Comprehensive Income for details.

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

58. Supplementary Information to The Consolidated Cash Flow Statement

Items	Current period	Last period
1. Reconciliation of net profit to cash flows from operating activities		
Net profit	243,694,878.20	220,623,110.40
Add: Provisions for asset impairment	2,178,043.43	54,610,591.80
Impairment loss on credit	21,591,664.30	–
Depreciation of property, plant and equipment, depletion of oil and gas assets, depreciation of productive biological assets	104,726,463.17	96,061,491.86
Amortization of intangible assets	16,392,288.88	14,150,494.51
Amortization of long-term deferred expenses	18,374,346.43	33,589,889.04
Losses on disposal of property, plant and equipment, intangible assets and other long-term assets (gain listed as "-")	-623,652.43	-186,715,396.00
Losses on retirement of property, plant and equipment (gain listed as "-")	–	–
Gains or losses on changes in fair value (gain listed as "-")	104,916.90	–
Financing expenses (gain listed as "-")	60,589,601.57	65,531,037.35
Investment losses (gain listed as "-")	-230,506,396.27	-196,574,269.00
Decrease in deferred tax assets (increase listed as "-")	-69,389,182.23	-16,277,161.32
Increase in deferred tax liabilities (decrease listed as "-")	34,911,501.80	15,152,493.00
Decrease in inventories (increase listed as "-")	465,220,586.86	-169,971,895.58
Decrease in contractual assets (increase listed as "-")	-625,308,993.40	–
Decrease in operating receivables (increase listed as "-")	-12,798,175.66	-773,217,215.41
Increase in operating payables (decrease listed as "-")	-241,940,033.30	199,478,279.20
Increase in contractual liabilities (decrease listed as "-")	44,079,785.91	–
Others	–	–
Net cash flows from operating activities	-168,702,355.83	-643,558,550.15
2. Significant non-cash investing and financing activities:	–	–
Conversion of debts into capital	–	–
Convertible bonds due within one year	–	–
Property, plant and equipment acquired under finance leases arrangement	–	–
3. Changes in cash and cash equivalents:	–	–
Ending balance of cash	1,411,124,101.39	903,816,046.60
Less: Beginning balance of cash	1,174,539,298.00	1,442,933,183.75
Add: Ending balance of cash equivalents	–	–
Less: Beginning balance of cash equivalents	–	–
Net increase in cash and cash equivalents	236,584,803.39	-539,117,137.15

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

58. Supplementary Information to The Consolidated Cash Flow Statement *(Continued)*

(1) Cash and cash equivalents

Items	Current period	Last period
Cash		
Including: Cash in hand	1,061,684.38	815,653.00
Bank deposits available for use on demand	1,410,062,417.01	1,173,723,645.00
Ending balance of cash and cash equivalents	1,411,124,101.39	1,174,539,298.00

59. Restricted Assets of Ownership

(1) Restricted notes receivable

Items	Ending Balance	Beginning balance
Bank acceptance bills	192,091,980.22	100,939,398.00
Total	192,091,980.22	100,939,398.00

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS *(CONTINUED)*

59. Restricted Assets of Ownership *(Continued)*

(2) Restricted property, plant and equipment and intangible assets

Categories	Ending balance of cost	Accumulated depreciation	Provision for impairment	**Ending balance of net carrying amount**
Buildings	691,945,781.15	52,190,797.33	–	**639,754,983.82**
Land-use rights	199,986,919.71	20,242,777.28	–	**179,744,142.43**
Total	891,932,700.86	72,433,574.61	–	**819,499,126.25**

Note 1: The above restricted assets are used for mortgage loans: (1) the loan of Chongtong Group amounted to RMB40,000,000.00 in Jiangsu Bank, Dongru branch; (2) bank acceptance limit amounted to RMB30,000,000.00 of Chongtong Group in Jiangsu Bank, Dongru branch (loan term: 8 June 2018 – 8 June 2019, 10% upon the benchmark interest rate); (3) the loan of Machine Tools Group amounted to RMB295,000,000.00 (loan term: 10 March 2015 – 15 February 2023, 2% upon the benchmark interest rate).

Note 2: Please refer to VI.1 for details of restricted cash and cash equivalents.

VII. CHANGES IN CONSOLIDATION SCOPE

1. Business Combination not under Common Control

None.

2. Business Combination under Common Control

None.

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES

1. Interests in Subsidiaries

(1) Group structure

No.	Name of subsidiaries	Major business location	Place of registration	Nature of business	Registered capital (RMB'0000)	Shareholding (%) Direct	Indirect	Acquisition method
1	Chongqing CAFF Automotive Braking & Steering System Co., Ltd. ("CAFF")	Yubei district, Chongqing	Yubei district, Chongqing	Manufacturing of vehicle parts and components	23,280.00	100.00	–	Investment
2	Chongqing Huahao Smelting Co., Ltd.					100.00	–	Investment
3	Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd.	Northern new district, Chongqing	Northern new district, Chongqing	Manufacturing of industry products	10,161.04	100.00	–	Business combinations under common control
3.1	Chongqing Mengxun Electronic Technology Co., Ltd.	Nan'an district, chongqing	Nan'an district, chongqing	Manufacturing of mobile communication products and electronic information product	5,431.24	–	66.26	Business combinations under common control
4	Chongqing Machine Tools (Group) Co., Ltd.	Nan'an district, chongqing	Nan'an district, chongqing	Manufacturing of gear-cutting machines	59,424.13	100.00	–	Investment
4.1	40% Chongqing Sino-Germany Smart Factory Solutions Co., Ltd.	Nan'an district, chongqing	Nan'an district, chongqing	Consultation, designation, manufacturing and selling of automatic and intelligent equipment	10,000.00	–	40.00	Investment

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. Interests in Subsidiaries *(Continued)*

(1) Group structure *(Continued)*

No.	Name of subsidiaries	Major business location	Place of registration	Nature of business	Registered capital (RMB'0000)	Shareholding (%) Direct	Shareholding (%) Indirect	Acquisition method
4.2	51% Fu Baotian Cotton picking services Co., Ltd.	Tacheng district, Xinjiang	Tacheng district, Xinjiang	Service of cotton picking	500.00	-	51.00	Investment
4.3	100% Chongqing Tool Factory Co., Ltd.	Jiangjin district, Chongqing	Jiangjin district, Chongqing	Manufacturing of cutting tools for gear-cutting machines	6,000.00	-	100.00	Investment
4.4	100% Chongqing No. 2 Machine Tools Factory Co., Ltd.	Nan'an district, chongqing	Nan'an district, chongqing	Manufacturing of machinery tools	8,000.00	-	100.00	Investment
4.5	100% Chongqing Yinhe Forging & Founding Co., Ltd.	Jiangjin district, Chongqing	Jiangjin district, Chongqing	Manufacturing of foundry goods	1,870.40	-	100.00	Investment
4.6	100% Chongqing Shengong Machinery Manufacture Co., Ltd.	Nan'an district, chongqing	Nan'an district, chongqing	Manufacturing of machinery tools	110.00	-	100.00	Investment
4.7	55% Chongqing Holroyd Precision Rotors Manufacturing Co., Ltd.	Nan'an district, chongqing	Nan'an district, chongqing	Design, manufacture and selling screw	4,000.00	-	55.00	Investment
5	(PTG) Limited	United Kingdom	United Kingdom	Shell company	GBP2000	100.00	-	Investment
5.1	100% Precision Components Ltd.	United Kingdom	United Kingdom	Production of screw	GBP 1	-	100.00	Business combination not under common control
5.2	100% PTG Heavy Industries Ltd.	United Kingdom	United Kingdom	Design and manufacture of machine tools	GBP 2	-	100.00	Business combination not under common control

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. Interests in Subsidiaries *(Continued)*

(1) Group structure *(Continued)*

No.	Name of subsidiaries	Major business location	Place of registration	Nature of business	Registered capital (RMB'0000)	Shareholding (%) Direct	Indirect	Acquisition method
5.3	100% Milnrow Investments Ltd.	United Kingdom	United Kingdom	Leasing of properties	GBP198	–	100.00	Business combination not under common control
5.4	100% PTG Advanced Developments Ltd.	United Kingdom	United Kingdom	Shell company, dissolved in April 2018	GBP1	–	100.00	Business combination not under common control
5.5	100% PTG Deutschland GmbH	Germany	Germany	Selling of machinery tools	EUR2.5	–	100.00	Business combination not under common control
5.6	100% PTG Investment Development Company Ltd.	Hong Kong	Hong Kong	Import and export materials and equipment	HKD60	–	100.00	Business combination not under common control
5.7	100% Precision Technologies Group (US) Limited	United Kingdom	United Kingdom	Holding Company	USD1	–	100.00	Business combination not under common control
6	Chongqing Water Turbine Works Co., Ltd.	Jiangjin district, Chongqing	Jiangjin district, Chongqing	Manufacturing of power generators	14,709.71	100.00	–	Investment
7	Pigeon Wire	Yubei district, Chongqing	Yubei district, Chongqing	Manufacture electric wires and cables	10,010.00	74.00	–	Investment
7.1	100% Chongqing Pigeon Electrical Porcelain Co., Ltd	Changshou district, Chongqing	Changshou district, Chongqing	Manufacture electrical porcelain	5,300.00	–	100.00	Investment
7.2	50% Chongqing Pigeon Electric Materials Co., Ltd.	Changshou district, Chongqing	Changshou district, Chongqing	Manufacture electrical material	680.00	–	50.00	Investment
8	Chongqing General Industry (Group) Co., Ltd.	Nan'an district, Chongqing	Nan'an district, Chongqing	Manufacturing of general machinery	51,509.01	100.00		Investment

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. Interests in Subsidiaries *(Continued)*

(1) Group structure *(Continued)*

No.	Name of subsidiaries	Major business location	Place of registration	Nature of business	Registered capital (RMB'0000)	Shareholding (%) Direct	Shareholding (%) Indirect	Acquisition method
8.1	Chongqing Chongtong Wide Wisdom Air Conditioning Equipment Co., Ltd.	Nan'an district, Chongqing	Nan'an district	Designation and manufacturing water cooling unit	3,000.00	–	42.00	Investment
8.2	Chongqing Chongtong Turbine Technology Co., Ltd	Nan'an district, Chongqing	Nan'an district	Detection and maintenance of turbine machinery products	3,000.00	–	40.00	Investment
8.3	Jilin Chongtong Chengfei New Material Co., Ltd.	Jilin province	Baicheng district, Jilin	Manufacturing of wind-power equipment	15,265.62	–	91.18	Investment
8.3.1	Jilin Chongtong Chengfei New Material Co., Ltd.-Wuwei branch	Jilin province	Jilin province	Manufacturing of wind-power equipment		–	91.18	Investment
8.3.2	Chongqing Chongtong Chengfei New Material Co., Ltd	Chongqing	Chongqing	Manufacturing of wind-power equipment	5,000.00	–	91.18	Investment
8.3.3	Gansu Chongtong Chengfei New Material Co., Ltd.	Gansu province	Gansu province	Manufacturing of wind-power equipment	5,000.00	–	91.18	Investment
8.3.4	Chongtong Chengfei Wind Power Equipment Jiangsu Co., Ltd.	Rudong district, Jiangsu	Rudong district, Jiangsu	Manufacturing of wind-power equipment	10,000.00	–	91.18	Investment
8.3.5	Xilinhaote Chenfei Wind-Power Equipment Co., Ltd.	Xilin, Neimeng	Xilin, Neimeng	Manufacturing of wind-power equipment	5,000.00	–	91.18	Investment

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. Interests in Subsidiaries *(Continued)*

(1) Group structure *(Continued)*

No.	Name of subsidiaries	Major business location	Place of registration	Nature of business	Registered capital (RMB'0000)	Shareholding (%) Direct	Shareholding (%) Indirect	Acquisition method
8.4	Chongqing Shunchang General Electrical Equipment Co., Ltd.	Nan'an district, Chongqing	Nan'an district, Chongqing	Manufacturing of general electric apparatus for general machine	100.00	–	100.00	Investment
8.5	Chongqing General Industry (Group) Tong Kang Water Affairs Co., Ltd	Tongnan district, Chongqing	Tongnan district, Chongqing	Sewerage treatment and environmental engineering construction	1,000.00	–	100.00	Investment
9	Chongqing Pump Industry Co., Ltd.	Shapingba district, Chongqing	Shapingba district, Chongqing	Manufacturing of pumps	19,641.15	100.00	–	Investment
10	Chongqing Gas Compressor Factory Co., Ltd.	Shapingba district, Chongqing	Shapingba district, Chongqing	Manufacturing of gas compression machine	18,721.39	100.00	–	Investment
11	Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd.	Northern new district, Chongqing	Northern new district, Chongqing	Provision of engineering services	3,000.00	100.00	–	Business combination under common control
12	Chongqing Shengpu Materials Co., Ltd.	Northern new district, Chongqing	Northern new district, Chongqing	Sales of machinery materials	2,140.50	100.00	–	Investment
13	Chongqing Machinery and Electronics Holding Group Finance Company Limited ("CMEFC")	Northern new district, Chongqing	Northern new district, Chongqing	Provide financial service	60,000.00	70.00	–	Investment

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. Interests in Subsidiaries *(Continued)*

(2) Significant partly-owned subsidiaries

Name of subsidiary	Shareholding of non-controlling shareholders	Profit or loss attributable to non-controlling shareholders	Dividends distributed to minority shareholders	Ending balance of non-controlling interest
Pigeon Wire	26%	10,480,711.12	–	78,553,408.12
CMEFC	30%	5,731,472.12	–	219,507,758.12

(3) Key financial information of significant partly-owned subsidiaries

	Ending balance					
Name of subsidiaries	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Pigeon Wire	883,709,999.42	232,752,279.42	1,116,462,278.84	756,275,527.73	25,225,958.66	781,501,486.40
CMEFC	3,007,943,976.39	11,456,466.93	3,019,400,443.32	2,287,707,916.41	-	2,287,707,916.41

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. Interests in Subsidiaries *(Continued)*

(3) Key financial information of significant partly-owned subsidiaries *(Continued)*

	Beginning balance					
Name of subsidiaries	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Pigeon Wire	653,366,000.36	239,168,133.33	892,534,133.69	571,462,649.62	26,556,077.37	598,018,726.98
CMEFC	2,853,994,763.13	9,721,089.76	2,863,715,852.89	2,151,128,233.03	–	2,151,128,233.03

	Current period				Last period			
Name of subsidiaries	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Pigeon Wire	730,384,972.48	40,310,427.37	40,310,427.37	-35,347,415.61	738,439,189.49	46,617,157.43	46,617,157.43	-16,955,786.52
CMEFC	55,332,485.95	19,104,907.05	19,104,907.05	-257,284,581.76	51,309,050.05	28,048,473.17	28,048,473.17	-95,349,817.50

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. Interests in Joint Ventures or Associates

(1) Significant joint ventures or associates

Name of associates or joint venture	Principal place of business	Place of registration	Nature of business	Proportion of shareholding (%) Directly	Indirectly	Accounting method
Associates						
CQ Cummins	Shapingba District, Chongqing	Shapingba District, Chongqing	Largest professional manufacturer of heavy-duty and high-horse power engines in China	50.00	–	Equity method
Joint ventures						
Chongqing ABB	Huayan, Jiulongpo District, Chongqing	Huayan, Jiulongpo District, Chongqing	Power transformer, reactor, HVDC converter transformer, UHV AC transformer, sets of insulator	37.80	–	Equity method
Chongqing Youyan	Qijiang, Chongqing	Qijiang, Chongqing	Manufacturing and selling: non-ferrous metal, non-ferrous metal alloys and rolling processing, metal powder and its products, metal products	41.50	–	Equity method
Chongqing Jiangbei Machinery	Yufu,Jiangbei District, Chongqing	Yufu,Jiangbei District, Chongqing	Manufacturing and sale of large separation machinery and its systems	41.00	–	Equity method
Water Gen Power S.r.l	Huayan, Jiulongpo District, Chongqing	Huayan, Jiulongpo District, Chongqing	Power transformer, reactor, HVDC converter transformer, UHV AC transformer, sets of insulator	49.00	–	Equity method
EXEDY (Chongqing) Co.,Ltd	Nanan District, Chongqing	Nanan District, Chongqing	Manufacturing and sale of clutch and clutch pump	27.00	–	Equity method

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. Interests in Joint Ventures or Associates *(Continued)*

(1) Significant joint ventures or associates *(Continued)*

Name of associates or joint venture	Principal place of business	Place of registration	Nature of business	Proportion of shareholding (%) Directly	Indirectly	Accounting method
Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd	Yubei District, Chongqing	Yubei District, Chongqing	Manufacturing and sale of commercial vehicle valves	34.00	–	Equity method
Hongyan	Yubei District, Chongqing	Yubei District, Chongqing	Development, manufacturing and sales of car leaf spring, auto air suspension, guide arm and other auto parts	44.00	–	Equity method
Midea Tongyong	Nanan District, Chongqing	Nanan District, Chongqing	Manufacturing of centrifugal refrigerator	–	10.00	Equity method (note)
Chongqing gasengineering Co. Ltd	Yubei District, Chongqing	Yubei District, Chongqing	Sales of gas	–	20.00	Equity method
Chongqing Shenjian Automotive Drive Part Co., Ltd	Nanan District, Chongqing	Nanan District, Chongqing	Automobile transmission	–	35.00	Equity method

Note: Although the Group only owns 10% of interest in Midea Tongyong, the Group assigns a representative as the member of board of directors, therefore the Group has significant influence over Media Tongyong which is accounted for as an associate of the Group.

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. Interests in Joint Ventures or Associates *(Continued)*

(2) Key financial information of significant joint ventures

	CQ Cummins	
Item	**Ending balance**	Beginning balance
Current assets	**1,986,225,346.91**	1,664,415,654.00
Including: Cash and cash equivalents	**559,200,753.37**	270,604,937.37
Non-current assets	**618,783,293.09**	512,901,875.00
Total assets	**2,605,008,640.00**	2,177,317,529.00
Current liabilities	**1,437,273,585.84**	1,430,489,552.15
Non-current liabilities	**91,413,091.59**	50,781,568.37
Total liabilities	**1,528,686,677.43**	1,481,271,120.52
Non-controlling interest	**–**	–
Total equity attributable to shareholders of the Company	**1,076,321,962.57**	696,046,408.47
Net assets calculated based on shareholding ratio(i)	**538,160,981.29**	348,023,204.00
Adjusting events	**–**	–
– Goodwill	**–**	–
– Unrealized profit in internal transactions	**–**	–
– Others	**–**	–
Carrying amount of equity investment in joint ventures	**538,160,981.29**	348,023,204.00
Fair value of investment in joint ventures with public offer	**–**	–
Operating revenue	**1,631,513,068.25**	1,271,004,052.44
Financial expenses	**-488,185.33**	-4,965,155.68
Income tax expense	**66,222,588.26**	49,625,919.76
Net profit	**380,275,553.61**	263,968,065.53
Net profit of discontinued operation	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**380,275,553.61**	263,968,065.53
Dividends declared and distributed in current period	**–**	–
Dividends from the associates in current period	**–**	–

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. Interests in Joint Ventures or Associates *(Continued)*

(3) Key financial information of significant associates

Item	ABB		Chongqing Youyan		Hongyan	
	Ending balance	Beginning balance	Ending balance	Beginning balance	Ending balance	Beginning balance
Current assets	1,207,536,251.32	1,373,533,536.00	93,173,619.09	84,519,136.00	503,980,109.19	377,942,625.00
Including: Cash and cash equivalents	98,519,899.84	66,673,624.00	11,631,492.17	19,974,960.36	16,812,215.57	15,448,273.37
Non-current assets	231,613,156.43	239,860,333.00	20,062,668.84	20,783,630.00	126,250,071.11	132,969,848.00
Total assets	1,439,149,407.75	1,613,393,869.00	113,236,287.93	105,302,766.00	630,230,180.30	510,912,473.00
Current liabilities	788,930,210.30	818,989,227.00	14,431,502.22	10,963,657.00	324,855,959.73	230,354,760.55
Non-current liabilities	32,450,248.63	4,390,835.00		-	5,549,754.00	5,792,536.00
Total liabilities	821,380,458.93	823,380,062.00	14,431,502.22	10,963,657.00	330,405,713.73	236,147,296.55
Non-controlling interest	-	-	-	-	19,598,539.51	17,613,431.00
Total equity attributable to shareholders of the Company	617,768,950.74	790,013,807.00	98,804,785.71	94,339,109.00	280,225,927.06	257,151,745.45
Net assets calculated based on shareholding ratio (i)	233,516,663.38	298,625,219.00	41,003,986.07	39,150,730.00	123,299,407.91	113,146,768.00
Adjusting events	-	-	-	-	-	-
– Goodwill	-	-	-	-	-	-
– Unrealized profit in internal transactions	-	-	-	-	-	-
– Others (ii)	-	-	-	-	-	-
Carrying amount of equity investment in associates	233,516,663.38	298,625,219.00	41,003,986.07	39,150,730.00	123,299,407.91	113,146,768.00
Fair value of investment in associates with public offer	-	-	-	-	-	-
Operating revenue	491,896,823.30	760,567,857.93	196,372,056.32	162,364,115.44	533,022,259.76	330,152,073.49
Financial expenses	-656,085.50	2,812,258.73	158,705.58	64,628.82	561,746.10	3,443,997.66
Income tax expense	5,892,398.88	-25,284,179.98	1,087,484.29	690,324.29	5,969,675.82	3,756,748.93
Net profit	33,178,458.69	185,733,850.07	5,958,247.34	3,911,837.66	25,059,289.80	21,288,244.00
Net profit of discontinued operation	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	33,178,458.69	185,733,850.07	5,958,247.34	3,911,837.66	25,059,289.80	21,288,244.00
Dividends declared and distributed in current period	77,650,013.00	-	619,418.00	1,245,000.00	-	-
Dividends from the associates in current period	77,650,013.00	-	-	1,245,000.00	-	1,914,489.50

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. Interests in Joint Ventures or Associates *(Continued)*

(3) Key financial information of significant associates *(Continued)*

Item	EXEDY (Chongqing) Co., Ltd		Chongqing Jiangbei Machinery		Chongqing Shenjian Automotive Drive Part Co., Ltd	
	Ending balance	Beginning balance	**Ending balance**	Beginning balance	**Ending balance**	Beginning balance
Current assets	**334,321,803.46**	354,834,611.00	**193,706,601.62**	186,516,981.00	**176,306,499.82**	129,328,694.00
Including: Cash and cash equivalents	**6,946,692.22**	5,001,111.78	**10,798,172.50**	14,231,525.50	**33,446,529.24**	14,707,654.18
Non-current assets	**164,895,969.06**	164,885,581.00	**177,070,275.82**	183,919,459.00	**274,616,771.79**	224,407,110.00
Total assets	**499,217,772.52**	519,720,192.00	**370,776,877.44**	370,436,440.00	**450,923,271.61**	353,735,804.00
Current liabilities	**192,679,602.78**	212,238,328.00	**215,959,568.62**	216,070,088.78	**299,155,986.84**	208,569,952.86
Non-current liabilities	**13,100,868.00**	17,250,288.00	**11,837,203.42**	12,497,000.00	**3,090,000.00**	-
Total liabilities	**205,780,470.78**	229,488,616.00	**227,796,772.04**	228,567,088.78	**302,245,986.84**	208,569,952.86
Non-controlling interest	**433,347.52**	448,032.00	**-**	-	**-**	-
Total equity attributable to shareholders of the Company	**293,003,954.22**	289,783,544.00	**142,980,105.40**	141,869,351.22	**148,677,284.77**	145,165,851.14
Net assets calculated based on shareholding ratio (i)	**79,111,067.64**	78,241,557.00	**58,621,843.21**	58,166,434.00	**52,037,049.67**	50,808,048.00
Adjusting events	**-**	-	**-**	-	**-**	-
- Goodwill	**-**	-	**-**	-	**-**	-
- Unrealized profit in internal transactions	**-**	-	**-**	-	**-**	-
- Others	**-**	-	**-**	-	**-**	-
Carrying amount of equity investment in associates	**79,111,067.64**	78,241,557.00	**58,621,843.21**	58,166,434.00	**52,037,049.67**	50,808,048.00
Fair value of investment in associates with public offer	**-**	-	**-**	-	**-**	-
Operating revenue	**257,443,952.44**	250,757,486.44	**92,341,277.38**	70,239,396.08	**83,632,437.45**	46,910,189.99
Financial expenses	**4,251,839.53**	2,358,745.39	**3,428,168.38**	2,507,305.14	**28,751.81**	313,697.53
Income tax expense	**4,443,145.98**	2,155,684.78	**-**	-	**-**	45,800.78
Net profit	**11,120,764.02**	11,726,853.21	**1,110,754.18**	1,814,381.81	**3,509,024.39**	-14,698,896.29
Net profit of discontinued operation	**-**	-	**-**	-	**-**	-
Other comprehensive income	**-**	-	**-**	-	**-**	-
Total comprehensive income	**11,120,764.02**	11,726,853.21	**1,110,754.18**	1,814,381.81	**3,509,024.39**	-14,698,896.29
Dividends declared and distributed in current period	**2,104,197.09**	4,260,092.82	**-**	-	**-**	-
Dividends from the associates in current period	**-**	4,260,092.82	**-**	-	**-**	-

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

1. Objectives and Policies of Risk Management

The objectives of risk management the Group is to achieve the right balance between the risks and benefits, to reduce the negative impact of risks on the Group business performance to the lowest level and to maximize the interests of shareholders and other equity investors. Based on the risk management objectives, the Group's basic strategy is to determine and analyze various risks faced by the Group, to set up the appropriate risk-taking bottom line and manage risks, to timely monitor various risks in a reliable way and to control risks within the limits.

(1) Market risk

1) *Foreign exchange risk*

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises when future commercial transaction or recognized assets or liabilities are denominated in a currency that is entity's functional currency. Management has set up a policy to require the companies within the Group to manage their foreign exchange risks against their functional currency.

2) *Interest rate risk*

The Group's interest rate risk arises from interest bearing bank deposits and borrowings. Bank deposits and borrowings at floating 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 floating rate contracts depending on the prevailing market conditions. During 2017 and 2018, The Group's bank deposits and borrowings at floating rates were denominated in RMB, USD, EUROS, HKD, and UKP. The Group currently does not hedge its exposure to interest rate risk.

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(CONTINUED)*

1. Objectives and Policies of Risk Management *(Continued)*

(1) Market risk *(Continued)*

2) Interest rate risk (Continued)

As at 30 June 2018, the Group's bank borrowings at floating rates and at fixed rates are as follows:

Nature of borrowings	**Ending balance**	Beginning balance
Borrowings at floating rates	**1,035,690,192.31**	1,540,766,000.00
Borrowings at fixed rates	**1,561,922,391.31**	776,275,000.00
Total	**2,597,612,583.62**	2,317,041,000.00

3) Price risk

The Group sells goods at market prices. Therefore the Group is subject to price fluctuations.

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(CONTINUED)*

1. Objectives and Policies of Risk Management *(Continued)*

(2) Credit risk

As at 30 June 2018, the maximum credit risk exposure that may cause financial losses of the Group mainly comes from the loss on the Group's financial assets caused by the failure of the other party to perform its obligations and the financial guarantee assumed by the Group, including:

The carrying amount of financial assets recognized in the consolidated balance sheet; for financial instruments measured at fair value, the carrying amount reflects the risk exposure.

The Group's liquid capital is deposited in banks with high credit rating, so the credit risk of liquid capital is relatively low.

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 on receivables is required, the Group takes into consideration the future cash flows, aging 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 on receivables, if any, has been made in the financial statements after assessing the recovery of individual debts. Further quantitative disclosures in respect of the impairment of trade and other receivables are set out in VI.3 and VI.5.

Maximum exposure to guarantee risk before collateral held or other credit enhancements:

Item	**Ending balance**	Beginning balance
Financial guarantees	**39,000,000.00**	19,000,000.00

As the Group's credit risk involves more than one counterparties and customers, the credit risk is not overly concentrated.

(All amounts are presented in RMB except otherwise stated)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(CONTINUED)*

1. Objectives and Policies of Risk Management *(Continued)*

(3) Liquidity risk

Liquidity risk is the risk that the Group unable to meet its financial obligations on the expiry dates. This Group's liquidity risk management method is to ensure enough liquidity for performing matured debts avoiding unacceptable loss or damage to corporate reputation. The Group regularly analyses debt structure and deadline to ensure enough money. The Group management monitors the usage of bank borrowing and ensures to comply with the loan agreement.

The major financial liabilities held by the Group are analyzed in terms of the maturity of the remaining contractual obligations without discounting as follows:

Ending balance

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Accounts payable and other payables	3,654,373,980.58	–	–	–	3,654,373,980.58
Borrowings	1,858,412,583.62	–	490,200,000.00	249,000,000.00	2,597,612,583.62
Corporate bonds	34,240,000.00	834,240,000.00	–	–	868,480,000.00
Finance lease liabilities	68,362,159.42	85,849,123.29	124,398,235.72	–	278,609,518.43
Financial guarantee contracts	39,000,000.00	–	–	–	39,000,000.00
Total	5,654,388,723.62	920,089,123.29	614,598,235.72	249,000,000.00	7,438,076,082.63

(All amounts are presented in RMB except otherwise stated)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(CONTINUED)*

1. Objectives and Policies of Risk Management *(Continued)*

(3) Liquidity risk *(Continued)*

Beginning balance

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Accounts payable and other payables	4,118,851,000.00	–	–	–	4,118,851,000.00
Borrowings	1,912,844,000.00	56,263,000.00	430,353,000.00	126,555,000.00	2,526,015,000.00
Corporate bonds	34,240,000.00	834,240,000.00	–	–	868,480,000.00
Finance lease liabilities	81,342,000.00	75,567,000.00	167,472,000.00	–	324,381,000.00
Financial guarantee contracts	19,000,000.00	–	–	–	19,000,000.00
Total	6,166,277,000.00	966,070,000.00	597,825,000.00	126,555,000.00	7,856,727,000.00

2. Capital Risk 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.

(All amounts are presented in RMB except otherwise stated)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(CONTINUED)*

2. Capital Risk Management *(Continued)*

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 30 June 2018 and 31 December 2017 are as follows:

Item	**Ending balance**	Beginning balance
Total borrowings	**3,585,315,308.18**	3,437,377,000.00
Total equity	**7,258,963,598.87**	7,177,986,543.00
Total capital	**10,844,278,907.05**	10,615,363,543.00
Gearing ratio	**33.06%**	32.38%

X. DISCLOSURE OF FAIR VALUE

1. Assets and Liabilities Carried at Fair Value and Fair Value Hierarchy

		Ending balance	
Item	**Level 1**	**Level 2**	**Level 3**
1. Continuous fair value measurement			
(1) Financial assets measured at fair value through profit or loss	129,079.58	–	–
Total assets measured continuously at fair value	129,079.58	–	–

X. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

2. Determination of Quoted Prices in Active Markets as Level 1 Inputs of Fair Value Hierarchy

The fair value of financial instruments traded in active markets is based on quoted 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 price used for financial assets held by the Group is closing price of the stock exchange on the last trading day of the reporting period.

3. Qualitative and Quantitative Information of Valuation Techniques and Significant Inputs Applied in Level 2 of Fair Value Hierarchy

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 maximize 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.

4. Qualitative and Quantitative Information of Valuation Techniques and Significant Inputs Applied in Level 3 of Fair Value Hierarchy

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION

1. Controlling Shareholder and Ultimate-controlling Party

(1) Controlling Shareholder and Ultimate-controlling Party

Controlling shareholder and ultimate controlling party	Place of Registration	Business nature	Registered capital (RMB'0000)	Shareholding proportion (%)	Voting rights (%)
CQMEHG	No. 60 Middle Section of Huangshan Avenue, New North Zone, Chongqing	Management of state-owned assets authorized by Chongqing SASAC	184,288.00	52.22	52.22

(2) Registered capital of the controlling shareholder (Unit: RMB'0000)

Controlling shareholder	Beginning balance	Increase	Decrease	Ending balance
CQMEHG	184,288.00	–	–	184,288.00

(3) Shareholdings attributable to controlling shareholders (Unit: RMB'0000)

	Shareholding amount		Shareholding proportion (%)	
Controlling shareholder	Ending balance	Beginning balance	Ending proportion	Beginning proportion
CQMEHG	199,919.48	199,919.48	52.22	52.22

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

2. Subsidiaries

Please refer to "VIII.8.1. (1) Group structure" for information about subsidiaries.

3. Joint Ventures and Associates

Please refer to "VIII.8.2. (1) Significant joint ventures or associates" for information about joint ventures and associates. The other joint ventures or associates that entered into transactions in current or previous period with the Group are addressed below.

Joint venture or associates	Relationship with the Group
Chongqing Cummins Engine Co., Ltd.	Joint venture
Chongqing ABB Power Transformer Co. Ltd.	Associate
Chongqing Youyan Smelting New Material Co., Ltd.	Associate
Chongqing Jiangbei Machinery Co. Ltd.	Associate
Water Gen Power S.r.l	Associate
EXEDY Chongqing Co. Ltd.	Associate
Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd.	Associate
Chongqing Hongyan Fangda Automotive Suspension Co. Ltd.	Associate
Chongqing Midea General Refrigeration Equipment Co. Ltd.	Associate of a subsidiary
Chongqing Gas Engineering Stock Co. Ltd.	Associate of a subsidiary
Chongqing Shenjian Automotive Drive Part Co., Ltd.	Associate of a subsidiary

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

4. Other Related Parties

Other related parties	Relationship with the Group
CQMEHQ	Parent company
Chongqing Chongtong Power Transformer Co. Ltd.	A subsidiary of parent company
Chongqing Changjiang Bearing Co. Ltd.	A subsidiary of parent company
Chongqing Rui Shida Power Technology Co. Ltd.	A subsidiary of parent company
Chongqing Military Industry Group Co. Ltd.	A subsidiary of parent company
CQMEHG Asset Management Co. Ltd.	A subsidiary of parent company
CQMEHG Casting Co. Ltd.	A subsidiary of parent company
Chongqing Electrical Science Research Institute	A subsidiary of parent company
Chongqing Bosen Electrical Group High Voltage Apparatus Co. Ltd.	A subsidiary of parent company
Chongqing Standard Fasteners Industrial Co. Ltd.	A subsidiary of parent company
Chongqing Heavy Vehicle Special Truck Co. Ltd.	A subsidiary of parent company
Chongqing General Machinery Industry Co. Ltd.	A subsidiary of parent company
Chongqing General Aviation Industry Group Co. Ltd.	A subsidiary of parent company
Chongqing Crane Works Co. Ltd.	A subsidiary of parent company

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

4. Other Related Parties *(Continued)*

Other related parties	Relationship with the Group
Chongqing Liangjiang New Area Machinery & Electronic Microcredit Co. Ltd.	A subsidiary of parent company
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.	A subsidiary of parent company
CQMEHG Electrical Industry Investment Co. Ltd.	A subsidiary of parent company
Chongqing Bosen Electrical Group Co. Ltd.	A subsidiary of parent company
Qijiang Gear Transmission Co. Ltd.	A subsidiary of parent company
Chongqing Heavy Automobile Group Kafu Parts Co., Ltd.	Under the same control of parent company
Chongqing Heavy Automobile Group Hongqi Property Co. Ltd.	Under the same control of parent company
Chongqing Heavy Automobile Group Hongqi Wuyou Co. Ltd.	Under the same control of parent company
Chongqing Heavy Automobile Group Hongyan Automobile Spring Co. Ltd.	Under the same control of parent company
Chongqing Xitong Electric Co. Ltd.	Under the same control of parent company
Chongqing General Aviation Co. Ltd.	Under the same control of parent company
Chongqing General Aviation Industry Group Airport Co. Ltd.	Under the same control of parent company
Chongqing General Aircraft Industry Co. Ltd.	Under the same control of parent company
Chongqing Qichi Automobile Parts and Components Co. Ltd.	Under the same control of parent company

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

4. Other Related Parties *(Continued)*

Other related parties	Relationship with the Group
Chongqing Feiying Hoisting Equipment Co. Ltd.	Under the same control of parent company
Chongqing Automobile Standard Fasteners Factory	Under the same control of parent company
Chongqing Juntong Automobile Co. Ltd.	Under the same control of parent company
Chongqing Jianan Instrument Co. Ltd.	Under the same control of parent company
Chongqing Jidian Property Management Co. Ltd.	Under the same control of parent company
CQMEHG Asset Management Co. Ltd. Shuangqiao Business Management Branch Company	Under the same control of parent company
Chongqing Huazhan Metal Material Restructuring Co. Ltd.	Under the same control of parent company
Chongqing Hongyan Automobile Engineering Property Co. Ltd.	Under the same control of parent company
Chongqing High Strength Fasteners Factory	Under the same control of parent company
Chongqing Fuye Trading Company	Under the same control of parent company
Chongqing Bosen Electrical Group Switchgear Co. Ltd.	Under the same control of parent company
Chongqing Standard Fasteners Industry Co. Ltd. Huazhan Metal Material Restructuring Branch	Under the same control of parent company
Chongqing Standard Fasteners Material Restructuring Factory	Under the same control of parent company
Chongqing Xinan Computer Co. Ltd.	Under the same control of parent company

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

4. Other Related Parties *(Continued)*

Other related parties	Relationship with the Group
Qijiang Qichi Xinxin Welfare Co. Ltd.	Under the same control of parent company
Qijiang Qichi Forge Co. Ltd.	Under the same control of parent company
Qijiang Gear Factory	Under the same control of parent company
Chongqing Shuangqiao Hongyan Automobile Real Estate Development Co. Ltd.	Under the same control of parent company
Chongqing Heavy Automobile Group Transportation Co.,Ltd.	Associate of parent company
Chongqing Electric Machine Federation Ltd.	Associate of parent company
SAIC-IVECO Hongyan Commercial Vehicle Co. Ltd. Accessories Sales Branch Company	Associate of parent company
SAIC-IVECO Hongyan Commercial Vehicle Co. Ltd.	Associate of parent company
SAIC-IVECO Hongyan Cheqiao Co. Ltd.	Associate of parent company
Chongqing Special Type Electrical Machine Factory Co. Ltd.	Other associates
Chongqing Zili MachineWorks	Other associates
Chongqing Qichi Ruiante Transmission Co. Ltd.	Other associates
Kunlun Finance Leasing Company	Other associates

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

(II) RELATED PARTY TRANSACTIONS

1. Sale/Purchase of Goods and Rendering/Receiving Services

(1) Transactions with parent company, fellow subsidiaries and associates of subsidiaries

Revenue	**Current period**	Last period
Revenue from sales of goods	**136,819,898.32**	61,812,000.00
Revenue from provision of services	**14,518,693.16**	385,000.00
Revenue from loans services	**23,702,355.07**	21,119,000.00
Total	**175,040,946.55**	83,316,000.00

Expense	**Current period**	Last period
Purchase of materials	**12,263,985.84**	34,306,000.00
Services	**24,275,537.31**	9,496,000.00
Expenses for deposit taking service	**3,396,041.29**	4,719,000.00
Other expenses	**10,420,056.60**	13,337,000.00
Total	**50,355,621.04**	61,858,000.00

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

(II) RELATED PARTY TRANSACTIONS *(Continued)*

1. Sale/Purchase of Goods and Rendering/Receiving Services *(Continued)*

(2) Transactions with associates

Revenue	Current period	Last period
Revenue from sales of goods	171,927.35	4,883,000.00
Revenue from provision of services	–	–
Revenue from loans services	655,883.65	–
Total	827,811.00	4,883,000.00

Expense	Current period	Last period
Purchase of materials	224,188.03	4,612,000.00
Services	–	–
Expenses for deposit taking service	18,589.29	–
Other expenses	1,166,366.43	–
Total	1,409,143.75	4,612,000.00

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

(II) RELATED PARTY TRANSACTIONS *(Continued)*

1. Sale/Purchase of Goods and Rendering/Receiving Services *(Continued)*

(3) Transactions with joint ventures

Revenue	Current period	Last period
Revenue from sales of goods	–	–
Revenue from provision of services	2,337,450.48	–
Revenue from loans services	–	740,000.00
Total	2,337,450.48	740,000.00

2. Guarantees

(1) The Group as guarantor

Guarantor	Vouchee	Guaranteed amount	Starting date	Due date	Whether guarantee has been fulfilled
Chongqing Machinery & Electric Co. Ltd.	Chongqing Jiangbei Machinery Co. Ltd.	10,000,000.00	2017-10-18	2018-10-17	No
Chongqing Machinery & Electric Co. Ltd.	Chongqing Jiangbei Machinery Co. Ltd.	10,000,000.00	2017-10-23	2018-10-22	No
Chongqing Machinery & Electric Co. Ltd.	Chongqing Jiangbei Machinery Co. Ltd.	10,000,000.00	2017-10-25	2018-10-24	No
Chongqing Machinery & Electric Co. Ltd.	Chongqing Jiangbei Machinery Co. Ltd.	5,000,000.00	2017-8-11	2018-8-10	No
Chongqing Machinery & Electric Co. Ltd.	Chongqing Jiangbei Machinery Co. Ltd.	4,000,000.00	2017-11-30	2018-11-29	No
Total		39,000,000.00			

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

(II) RELATED PARTY TRANSACTIONS *(Continued)*

2. Guarantees *(Continued)*

(2) The Group as vouchee

Guarantor	Vouchee	Guaranteed amount	Starting date	Due date	Whether guarantee has been fulfilled
CQMEHG	Chongqing Machinery & Electric Co. Ltd.	800,000,000.00	2016-9-29	2021-9-29	No
CQMEHG	Chongqing Machinery & Electric Co. Ltd.	122,000,000.00	2016-3-14	2026-3-14	No
CQMEHG	Chongqing Machinery & Electric Co. Ltd.	60,000,000.00	2016-3-14	2031-3-14	No
Total		982,000,000.00			

3. Transfer of Assets and Debt Restructuring

On 26 January 2018, 51% interest of Chongqing Rui Shida Power Technology Co. Ltd. ("RSDA") held by the Company and 20% interest held by CMETRC were transferred to the parent company CQMEHG with total consideration of RMB2. Upon the completion of the transaction, the Company and CMETRC no longer hold any interest in RSDA and CQMEHQ will hold 71% interests in RSDA.

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(III) BALANCES WITH RELATED PARTIES

1. Receivables

Items	Ending balance	Beginning balance
Accounts receivable due from		
Associates	26,569,585.05	5,372,266.00
Fellow subsidiaries and associates	126,902,492.56	60,680,811.00
Other receivables due from		
Fellow subsidiaries and associates	14,338,596.23	280,800,320.00
Joint venture	–	2,337,450.00
Associates	152,033,876.44	140,257,198.00
Prepayments due from		
Fellow subsidiaries and associates	2,213,881.99	1,872,140.00
Joint venture	–	–
Associates	–	–
Notes receivable due from		
Fellow subsidiaries and associates	5,189,000.00	3,309,644.00
Joint venture	–	–
Associates	667,773.02	200,000.00
Interest receivable due from		
Fellow subsidiaries and associates	20,653,032.36	19,468,298.00
Joint venture	486,242.33	482,939.00
Associates	397,361.41	393,457.00
Dividend receivable due from		
Fellow subsidiaries and associates	–	–
Joint venture	208,495,662.31	253,495,662.31
Associates	5,880,065.40	7,032,770.40
Long-term receivables due from		
Fellow subsidiaries and associates	–	49,000,000.00
Joint venture	42,000,000.00	42,000,000.00
Associates	–	–
Loans and advances due from		
Fellow subsidiaries and associates	1,192,908,960.00	1,044,200,132.00
Joint venture	–	–
Associates	30,000,000.00	30,000,000.00

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

(III) BALANCES WITH RELATED PARTIES *(Continued)*

2. Payables

Items	Ending balance	Beginning balance
Accounts payable due to		
Fellow subsidiaries and associates	27,722,430.54	9,883,188.00
Joint venture	–	–
Associates	–	–
Other payables due to		
Fellow subsidiaries and associates	57,825,993.37	43,300,416.00
Joint venture	–	–
Associates	–	–
Notes payable due to		
Fellow subsidiaries and associates	13,552,904.90	4,740,000.00
Joint venture	–	–
Associates	–	–
Receipts in advance due to		
Fellow subsidiaries and associates	5,738,441.52	–
Joint venture	–	–
Associates	1,103,478.00	–
Interest payable due to		
Fellow subsidiaries and associates	2,239,669.37	1,727,251.00
Joint venture	–	–
Associates	–	–
Deposits taking from		
Fellow subsidiaries and associates	882,391,618.33	866,137,978.00
Joint venture	–	–
Associates	17,606.72	10,919,475.00
Long-term payables due to		
Fellow subsidiaries and associates	182,410,264.40	184,309,737.84
Joint venture	–	–
Associates	–	–
Non-current liabilities due within one year due to		
Fellow subsidiaries and associates	–	–
Joint venture	182,410,264.40	184,309,737.84
Associates	–	–

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

(IV) COMMITMENTS

As at balance sheet date, there is no commitment associated with related parties that is contracted but not presented in balance sheet.

(V) REMUNARATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Key management compensation (including paid and payable amount of compensation to directors, supervisors and senior management)

Items	Current period	Last period
Salaries and allowances	1,459,350.00	1,397,000.00
Social insurance, housing fund and pension cost	249,480.00	230,000.00
Bonus	2,512,610.00	2,742,000.00
Total	4,221,440.00	4,369,000.00

XII. CONTIGENCIES

As at 30 June 2018, there are no contingencies specified to be disclosed.

(All amounts are presented in RMB except otherwise stated)

XIII. COMMITMENTS

1. Capital Commitments

Capital expenditure contracted during the reporting period but not yet incurred by the Group are as follows:

Items	Ending balance	Beginning balance
House, building and equipment	77,564,948.90	128,541,946.00
Intangible assets	4,300,000.00	14,768,600.00
Total	81,864,948.90	143,310,546.00

2. Operating Lease Commitments

The future aggregate minimum lease payments under of the Group non-cancelable operating leases are as follows:

Items	Ending balance	Beginning balance
Within 1 year	45,645,055.99	26,790,628.00
Over 1 year	1,250,000.00	62,216,608.00
Total	46,895,055.99	89,007,236.00

(All amounts are presented in RMB except otherwise stated)

XIV. LEASES

The future aggregate lease payments of property, plant and equipment, and construction in progress under of the Group finance leases are as follows:

Items	Ending balance	Beginning balance
Within 1 year	68,362,159.42	81,341,982.00
1-2 years	85,849,123.29	75,566,628.00
2-5 years	124,398,235.72	167,472,195.00
Over 5 years	–	–
Total	278,609,518.43	324,380,805.00

Note: As at 30 June 2018, the balance of unrecognized financing charges is RMB29,829,347.89 (31 December 2017: RMB38,951,232.00).

XV. EVENTS AFTER THE REPORTING PERIOD

1. **Significant Non-adjusting Events**

   None.

2. **Profit Distribution**

   None.

3. **Sales Return**

   None.

4. **Except for the above disclosures, the Group has no other significant events occurring after the reporting period.**

XVI. OTHER SIGNIFICANT EVENTS

1. Segment Information

Reportable segments of the Group are business units classified by different businesses or services and operated in different districts. Since different businesses and districts require corresponding technology and marketing strategy, each segment of the Group independently manages its production and operating activities. The Group evaluates operating results of each segment so as to make decisions to allocate resources and evaluate performances.

The Group has 10 reportable segments as follows:

Engine: in charge of production and sales of engines;

Gear box: in charge of production and sales of gear boxes;

Hydroelectric generation equipment: in charge of production and sales of hydroelectric generation equipment;

Electrical wire and cable: production and sales of wire and cable;

General machinery: production and sales of general machinery;

Machinery tools: production and sales of machinery tools in China and Europe;

High-voltage transformers: production and sales of High-voltage transformers;

Financial services: providing financial services, such as loans, etc.

Other segments: producing and selling other products;

Inter-segment transfer prices are determined after negotiation by both parties.

The assets, liabilities, incomes and expenses are allocated based on the operations of the segment.

(All amounts are presented in RMB except otherwise stated)

XVI. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. Financial information of reportable segments

Performance of each segment from January to June 2018 is as follows:

Item	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
Total segment revenue	-	-	260,396,756.78	730,384,972.48	548,575,850.44	55,332,485.95	419,786,879.83	-	112,210,247.98	724,964,980.25	-	2,851,652,173.71
Inter-segment revenue	-	-	-	-1,935,064.48	-1,361,025.60	-21,482,337.92	-1,249,934.89	-	-55,480,056.82	-2,184,615.39	-	-83,693,035.10
Revenue from external customers	-	-	260,396,756.78	728,449,908.00	547,214,824.84	33,850,148.03	418,536,944.94	-	56,730,191.16	722,780,364.86	-	2,767,959,138.61
Operating (loss)/profit	190,137,777.29	-	-21,356,366.52	48,292,592.42	-7,074,161.58	25,438,754.08	-35,920,657.01	12,541,457.38	2,190,146.08	43,714,295.05	7,977,668.67	265,941,505.86
Interest income	-	-	498,953.15	503,424.66	6,885,941.62	-	2,674,469.57	-	61,649.16	35,827,656.71	-33,640,365.35	12,811,729.52
interest costs	-	-	-1,645,052.54	-7,780,811.83	-22,530,430.55	-	-37,181,002.95	-	-2,684,816.91	-48,742,001.45	44,971,792.25	-75,592,323.98
Investment income from associates and joint ventures	190,137,777.29	-	-	-	618,793.88	-	1,228,158.54	12,541,457.38	-	22,670,140.69	-	227,196,327.78
Total profit	190,137,777.29	-	-21,288,574.40	48,353,773.06	-5,664,260.47	25,438,754.08	-37,293,875.32	12,541,457.38	2,189,766.28	59,798,617.08	-4,197,839.53	270,015,595.45
Income tax expense	-	-	65,724.95	-7,908,387.64	-637,823.94	-6,333,847.03	-1,679,705.26	-	-	-9,826,678.33	-	-26,320,717.25
Net profit	190,137,777.29	-	-21,222,849.45	40,445,385.42	-6,302,084.41	19,104,907.05	-38,973,580.57	12,541,457.38	2,189,766.28	49,971,938.75	-4,197,839.53	243,694,878.20

(All amounts are presented in RMB except otherwise stated)

XVI. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. Financial information of reportable segments *(Continued)*

Other items	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
Depreciation on property, plant and equipment and investment properties	-	-	17,298,142.49	7,736,678.10	20,582,663.54	58,464.16	39,632,411.12	-	2,627.31	19,415,476.45	-	104,726,463.17
Amortization of lease prepayments and intangible assets	-	-	973,160.69	368,215.63	6,738,555.63	152,172.30	6,887,824.,54	-	-	1,272,360.08	-	16,392,288.88
Provision on inventory	-	-	-	-	-	-	1,811,271.05	-	-	366,772.38	-	2,178,043.43
Provision for/(reversal of) impairment of accounts and other receivables	-	-	5,613,695.87	4,344,029.98	9,110,680.94	2,122,169.37	-9,061,124.76	-	-3,417,620.98	12,879,833.89	-	21,591,664.30
Additions to non-current assets (other than financial instruments, long- term equity investment and deferred tax assets)	-	-	49,880,422.26	-6,930,610.72	20,308,659.04	223,393.32	97,182,661.09	-	-3,007.11	-97,530,598.60	-	63,130,919.28

(All amounts are presented in RMB except otherwise stated)

XVI. OTHER SIGNIFICANT EVENTS (CONTINUED)

2. Financial information of reportable segments (Continued)

Performance of each segment from January to June 2017 is as follows:

Item	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Total
Total segment revenues	-	136,428,699.97	150,360,024.63	735,930,627.13	848,458,094.58	49,210,648.04	398,183,475.21	-	1,284,806,961.53	542,698,828.13	4,146,077,359.22
Inter-segment revenue	-	-	-	-3,587,919.20	-8,000.00	-21,283,126.02	-6,511,579.13	-	-499,710,799.73	-66,954,338.85	-598,055,762.93
Revenue from external customers	-	136,428,699.97	150,360,024.63	732,342,707.93	848,450,094.58	27,927,522.02	391,671,896.08	-	785,096,161.80	475,744,489.28	3,548,021,596.29
Operating (loss)/profit	131,984,032.77	-66,506,182.11	111,078,000.00	54,946,000.00	26,063,126.47	22,794,205.13	-51,180,533.02	-241,610.09	-964,220.01	11,971,712.50	239,944,531.64
Interest income	-	80,702.36	367,007.14	115,523.49	4,487,020.37	-	345,687.69	2,864.17	61,916.15	2,055,286.58	7,516,007.95
Interest costs	-	-1,831,000.00	-72,506.47	-5,069,597.07	-10,947,262.19	-	-20,087,873.83	-	-1,036,158.54	-10,360,844.16	-49,405,242.26
Investment income from associates and joint ventures	131,984,032.77	-239,042.76	-	-	1,110,761.00	-6,835,977.20	-	58,280,167.03	-	10,807,458.16	195,107,399.00
Total profit	131,984,032.77	-72,101,763.05	111,372,500.67	49,724,109.22	20,713,645.66	15,958,227.93	-70,922,719.23	58,041,421.11	1,938,462.40	4,945,119.20	251,653,036.68
Income tax expense	-	304,392.75	-23,645,000.00	-8,516,817.42	-2,287,423.97	-9,476,424.75	17,933,974.85	-	-	-5,342,627.73	-31,029,926.28
Net profit	131,984,032.77	-71,797,370.30	87,727,500.67	41,207,291.80	18,426,221.69	6,481,803.18	-52,988,744.38	58,041,421.11	1,938,462.40	-397,508.53	220,623,110.40

(All amounts are presented in RMB except otherwise stated)

XVI. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. Financial information of reportable segments *(Continued)*

Other items	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Total
Depreciation on property, plant and equipment and investment properties	-	9,231,223.28	4,219,851.44	15,307,048.40	32,192,542.98	48,716.46	36,016,982.96	20,719.38	13,383.33	15,741,042.75	112,791,510.97
Amortization of lease prepayments and intangible assets	-	1,284,594.48	1,109,029.77	367,563.81	3,258,211.53	140,481.12	6,486,077.76	-	-	1,004,422.27	13,650,380.74
Provision on inventory	-	5,338,318.57	-	-	-	-	54,239.63	-	-	4,490,201.06	9,882,759.26
Provision for/(reversal of) impairment of accounts and other receivables	-	4,665,482.51	47,836,344.88	157,032.29	915,431.00	-3,898,624.35	-6,738,071.87	-	-456,885.16	2,247,123.25	44,727,832.54
Additions to non-current assets (other than financial instruments, long term equity investments and deferred income tax assets)	-	26,386,000.00	183,390,000.00	1,085,000.00	97,955,000.00	-	70,418,000.00	-	5,000.00	38,177,443.23	417,416,443.23

(All amounts are presented in RMB except otherwise stated)

XVI. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. Financial information of reportable segments *(Continued)*

Information on the assets and liabilities of reported segment as at 30 June 2018 and 31 December 2017 is as follows:

30 June 2018	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
Total assets	538,160,981.29	-	2,170,719,903.84	1,116,462,278.84	3,618,233,710.03	3,019,400,443.32	3,467,883,133.96	233,516,663.38	179,100,030.90	10,670,749,189.12	-8,189,658,228.96	16,824,568,105.73
Total liabilities	-	-	1,604,059,584.65	781,501,486.40	2,655,065,423.20	2,287,707,916.41	2,404,041,785.22	-	156,039,018.22	3,512,539,145.01	-3,835,349,852.23	9,565,604,506.87
Investment of associates or joint ventures	538,160,981.29	-	-	-	15,777,347.88	-	52,037,049.67	233,516,663.38	-	354,008,200.12	-	1,193,500,242.34

(All amounts are presented in RMB except otherwise stated)

XVI. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. Financial information of reportable segments *(Continued)*

31 December 2017	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
Total assets	348,023,204.00	-	2,276,865,189.00	892,534,134.00	3,311,217,066.00	2,863,715,853.00	3,433,307,147.00	315,442,331.00	482,749,186.00	9,905,960,343.00	-7,539,141,261.37	16,290,673,191.63
Total liabilities	-	-	1,568,132,602.00	598,018,727.00	2,315,408,698.00	2,151,128,233.00	2,308,099,634.00	-	461,877,940.00	3,391,116,437.00	-3,681,095,622.38	9,112,686,648.62
Investment of associates or joint ventures	348,023,204.00	-	-	-	15,158,557.00	-	50,808,891.00	298,625,221.00	-	334,061,672.00	-	1,046,677,545.00

3. Other significant transactions and events that have impact on investor decisions

None.

(All amounts are presented in RMB except otherwise stated)

XVII. NOTES TO MAJOR ITEMS OF THE FINANICAL STATEMENTS OF THE COMPANY

1. Other Receivables

Item	Ending balance	Beginning balance
Dividend receivables	214,387,477.71	260,528,433.00
Interest receivables	58,214,133.67	40,221,072.00
Other receivables	955,938,129.47	1,723,373,601.00
Less: Provision for bad debts	33,106,013.35	29,841,169.00
Carrying amount	1,195,433,727.50	1,994,281,937.00

(1) Dividends receivables

Item	Ending balance	Beginning balance
Chongqing Cummins	208,495,662.31	253,495,663.00
Chongqing Hongyan Fangda	4,816,103.40	4,816,103.00
Exedy	–	1,760,373.00
Chongqing Youyan	975,250.00	355,832.00
Pigeon Electric Wires & Cables	100,462.00	100,462.00
Total	214,387,477.71	260,528,433.00

(All amounts are presented in RMB except otherwise stated)

XVII.NOTES TO MAJOR ITEMS OF THE FINANICAL STATEMENTS OF THE COMPANY *(CONTINUED)*

1. Other Receivables *(Continued)*

(2) Interest receivable

Item	Ending balance	Beginning balance
Related-party borrowings	58,214,133.67	40,221,072.00
Total	58,214,133.67	40,221,072.00

(3) Aging analysis

Aging	Ending balance	Beginning balance
Within 1 year	881,587,335.91	1,535,933,397.00
1 to 2 years	12,839,223.58	187,419,088.02
2 to 3 years	61,490,454.00	–
3 to 4 years	–	–
4 to 5 years	–	–
Over 5 years	21,115.98	21,115.98
Total	955,938,129.47	1,723,373,601.00
Less: Provision for bad debts	33,106,013.35	29,841,169.00
Carrying amount	922,832,116.12	1,693,532,432.00

(All amounts are presented in RMB except otherwise stated)

XVII. NOTES TO MAJOR ITEMS OF THE FINANICAL STATEMENTS OF THE COMPANY *(CONTINUED)*

2. Long-term Equity Investments

(1) Classification of long-term equity investments

	Ending balance			Beginning balance		
Item	Gross carrying amount	Impairment	Net carrying amount	Gross carrying amount	Impairment	Net carrying amount
Investment in subsidiaries	3,773,161,503.05	88,741,458.00	3,684,420,045.05	3,753,161,503.00	88,741,458.00	3,664,420,045.00
Investment in associates and joint ventures	1,106,289,427.49	-	1,106,289,427.49	962,518,551.00	-	962,518,551.00
Total	4,879,450,930.54	88,741,458.00	4,790,709,472.54	4,715,680,054.00	88,741,458.00	4,626,938,596.00

(All amounts are presented in RMB except otherwise stated)

XVII.NOTES TO MAJOR ITEMS OF THE FINANICAL STATEMENTS OF THE COMPANY *(CONTINUED)*

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

(2) Investments in subsidiaries

Investee	Beginning balance	Increase	Decrease	Ending balance	Provision for impairment	Balance of impairment
Chongqing CAFF Automotive Braking & Steering System Co., Ltd	230,367,260.00	20,000,000.00	–	250,367,260.00	–	–
Chongqing Huahao Smelting Co., Ltd.	88,741,458.00	–	–	88,741,458.00	–	88,741,458.00
Chongqing Water Turbine Works Co., Ltd.	360,948,318.00	–	–	360,948,318.00	–	–
Chongqing Pigeon Electric Wires & Cables Co., Ltd	126,893,602.52	–	–	126,893,602.52	–	–
Chongqing General Industry (Group) Co., Ltd	794,139,695.15	–	–	794,139,695.15	–	–
Chongqing Pump Industry Co., Ltd.	197,411,466.90	–	–	197,411,466.90	–	–
Chongqing Gas Compressor Factory Co., Ltd.	120,313,860.15	–	–	120,313,860.15	–	–
Chongqing Machine Tools (Group) Co., Ltd.	1,059,637,386.00	–	–	1,059,637,386.00	–	–
Chongqing Shengpu Materials Co., Ltd.	20,992,435.00	–	–	20,992,435.00	–	–
CMEFC	448,068,452.58	–	–	448,068,452.58	–	–
Precision Technologies Group (PTG) Limited	145,697,206.75	–	–	145,697,206.75	–	–
Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd.	24,080,288.00	–	–	24,080,288.00	–	–
Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd.	135,870,074.00	–	–	135,870,074.00	–	–
Total	3,753,161,503.05	20,000,000.00	–	3,773,161,503.05	–	88,741,458.00

(All amounts are presented in RMB except otherwise stated)

XVII.NOTES TO MAJOR ITEMS OF THE FINANICAL STATEMENTS OF THE COMPANY *(CONTINUED)*

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

(3) Investments in joint venture and associates

Investee	Beginning balance	Increase or decrease in current period: Additional investment	Reduced investment	Investment profit and loss recognized under equity method	Adjustment of other comprehensive income	Other equity changes	Cash dividends declared in current period	Provision for impairment	Others	**Ending balance**	Balance of impairment
1. Joint venture											
CQ Cummins	348,023,204.00	-	-	190,137,777.29	-	-	-	-	-	**538,160,981.29**	-
Sub Total	348,023,204.00	-	-	190,137,777.29	-	-	-	-	-	**538,160,981.29**	-
2. Associates		-	-		-	-	-	-	-		-
Chongqing ABB	298,625,219.00	-	-	12,541,457.38	-	-	77,650,013.00	-	-	**233,516,663.38**	-
Hongyan Fangda	113,146,768.00	-	-	10,152,639.91	-	-	-	-	-	**123,299,407.91**	-
Exedy	78,241,557.00	-	-	2,973,707.73	-	-	2,104,200.25	-	-	**79,111,064.48**	-
Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd.	42,606,938.00	-	-	5,641,695.35	-	-	-	-	-	**48,248,633.35**	-
Chongqing Youyan	38,449,942.00	-	-	2,472,674.07	-	-	619,418.00	-	-	**40,303,198.07**	-
Chongqing Jiangbei Machinery	41,010,268.00	-	-	455,409.21	-	-	-	-	-	**41,465,677.21**	-
WPG Italy	2,414,655.00	-	-	-230,853.20	-	-	-	-	-	**2,183,801.80**	-
Sub Total	614,495,347.00	-	-	34,006,730.45	-	-	80,373,631.25	-	-	**568,128,446.20**	-
Total	962,518,551.00	-	-	224,144,507.74	-	-	80,373,631.25	-	-	**1,106,289,427.49**	-

(All amounts are presented in RMB except otherwise stated)

XVII. NOTES TO MAJOR ITEMS OF THE FINANICAL STATEMENTS OF THE COMPANY *(CONTINUED)*

3. Operating Revenue & Operating Cost

	Current period		Last period	
Items	Revenue	Cost	Revenue	Cost
Main operations				
Other operations	575,752.80	–	–	–
Total	575,752.80	–	–	–

Notes: Income of current period is rental income, and the cost is measured in administrative expenses.

4. Investment Income

Items	Current period	Last period
Investment income from long-term equity investments accounted using equity method	224,144,505.79	368,093,658.32
Investment income from financial assets available-for-sale during holding period	–	1,466,870.75
Investment income from disposals of available-for-sale financial assets	3,310,068.49	–
Total	227,454,574.28	369,560,529.07

XVII. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 23 August 2018.

(All amounts are presented in RMB except otherwise stated)

1. DETAILS OF EXTRAORDINARY PROFIT OR LOSS FOR THE PERIOD

(1) In accordance with the requirements of the "Explanatory Announcement on Information Disclosure for Companies Offering Securities to the Public No.1 – Extraordinary Profit or Loss (2008)" issued by the China Securities Regulatory Commission, extraordinary profit or loss of the Group from January 2018 to June 2018 are as follows:

Item	Amount for the period	Explanation
Gains and losses from disposal of non-current assets	623,652.43	
Tax refunds and relief of ultra vires or without formal approval or incidental tax refunds or relief	3,280,311.12	
Government grants included in the profit or loss for the period	63,902,343.59	
Funds utilization fees collected from non-financial enterprises included in the profit or loss for the period	1,155,440.25	
Gains and losses from debt restructuring	-164,957.22	
Employee resettlement compensation	-16,618,691.20	
Investment income derived from the holding of financial assets held for trading, gains and losses arising from changes in fair value of financial liabilities held for trading and disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets (excluding the effective hedging activities related to the normal operation of the Group)	3,205,151.59	
Other non-operating income and expenses apart from the above	2,251,465.75	
Sub-total	57,634,716.31	
Impact on income tax	8,645,207.45	
Impact on non-controlling interest (after tax)	569,024.50	
Total	48,420,484.36	

(All amounts are presented in RMB except otherwise stated)

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

In accordance with the requirements of the "Preparation Rules for Information Disclosures by Companies Offering Securities to the Public No.9 – Calculations and Disclosures for Return on Net Assets and Earnings Per Share (Revised in 2010)" issued by the China Securities Regulatory Commission, the weighted average return on net assets, basic earnings per share and diluted earnings per share of the Group from January 2018 to June 2018 are as follows:

Profit for the reporting period	Weighted average return on net assets (%)	Earnings per share: Basic earnings per share	Earnings per share: Diluted earnings per share
Net profit attributable to the shareholders of the Company	3.3860	0.0618	0.0618
Net profit attributable to the shareholders of the Company (excluding: extraordinary profit and loss)	2.6662	0.0487	0.0487

Note: Diluted earnings per share equals net profit attributable to the shareholders of the Company after adjusting dilutive potential ordinary share divided by adjusted weighted average issued ordinary shares. Due to no exist of dilutive potential ordinary share for the six months ended 30 June 2018, diluted earnings per share equals basic earnings per share.

3. THE EXPLANATION FOR ADJUSTMENT OF BEGINNING BALANCE

On 29 March 2018, the Company held the first general meeting of the fourth session of shareholders and approved that the Group shall prepare the financial statements only based on CAS commencing from preparing the interim financial statements for the six months ended 30 June 2018, in accordance with the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" published by the Stock Exchange in December 2010. On 28 June 2018, the article of the Company is approved to be revised. Starting from the current financial year, the Group decided to prepare its financial statements in accordance with CAS issued by the Ministry of Finance of the PRC and relevant requirements.

The differences in net profit for the year ended 31 December 2017 and net assets as at 31 December 2017 arising from applying CAS and HKFRS are as following:

Item	Net Profits of 2017 (RMB'000)	Net Assets as at 31 December 2017 (RMB'000)
Applying HKFRS	374,419	7,025,528
The appreciation of evaluation	553	116,766
Government appropriation recorded in capital surplus	-5,378	6,018
The balance of enterprise relocation compensation	-3,730	29,503
Others	155	172
Applying CAS	366,019	7,177,987

Chongqing Machinery & Electric Co., Ltd.
23 August 2018