



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



2018

ANNUAL REPORT

* For identification purposes only

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Corporate Information

DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Huang 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. Sun Wenguang (*Chairman*)
Ms. Wu Yi
Mr. Huang Hui
Mr. Zhang Mingzhi
Mr. Xia Hua

COMMITTEES UNDER BOARD OF DIRECTORS

Members of the Audit and Risk Management Committee

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

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

Corporate Information (Continued)

LEGAL REPRESENTATIVE

Mr. Wang Yuxiang

COMPANY SECRETARY

Ms. Chiu Hoi Shan (*Practising Solicitor*)

QUALIFIED ACCOUNTANT

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

AUTHORIZED REPRESENTATIVES AND CONTACT INFORMATION

Mr. Yang Quan
No. 60 Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC
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Tel.: (86) 023-6307 5687

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

ALTERNATE AUTHORIZED REPRESENTATIVE AND CONTACT INFORMATION

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

REGISTERED ADDRESS

No. 60 Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC

HONG KONG SHARE REGISTRAR

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

AUDITORS

ShineWing Certified Public Accountants (Special General Partnership)
9th Floor, Block A, Fuhua Mansion,
No. 8 Chaoyangmen Beidajie,
Dongcheng District, Beijing, PRC

LEGAL ADVISOR

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

WEBSITE OF THE COMPANY

www.chinacqme.com

PRINCIPAL BANKER

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

SHARE INFORMATION

Listing Place

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

Stock Code

02722

FINANCIAL YEAR END

31 December

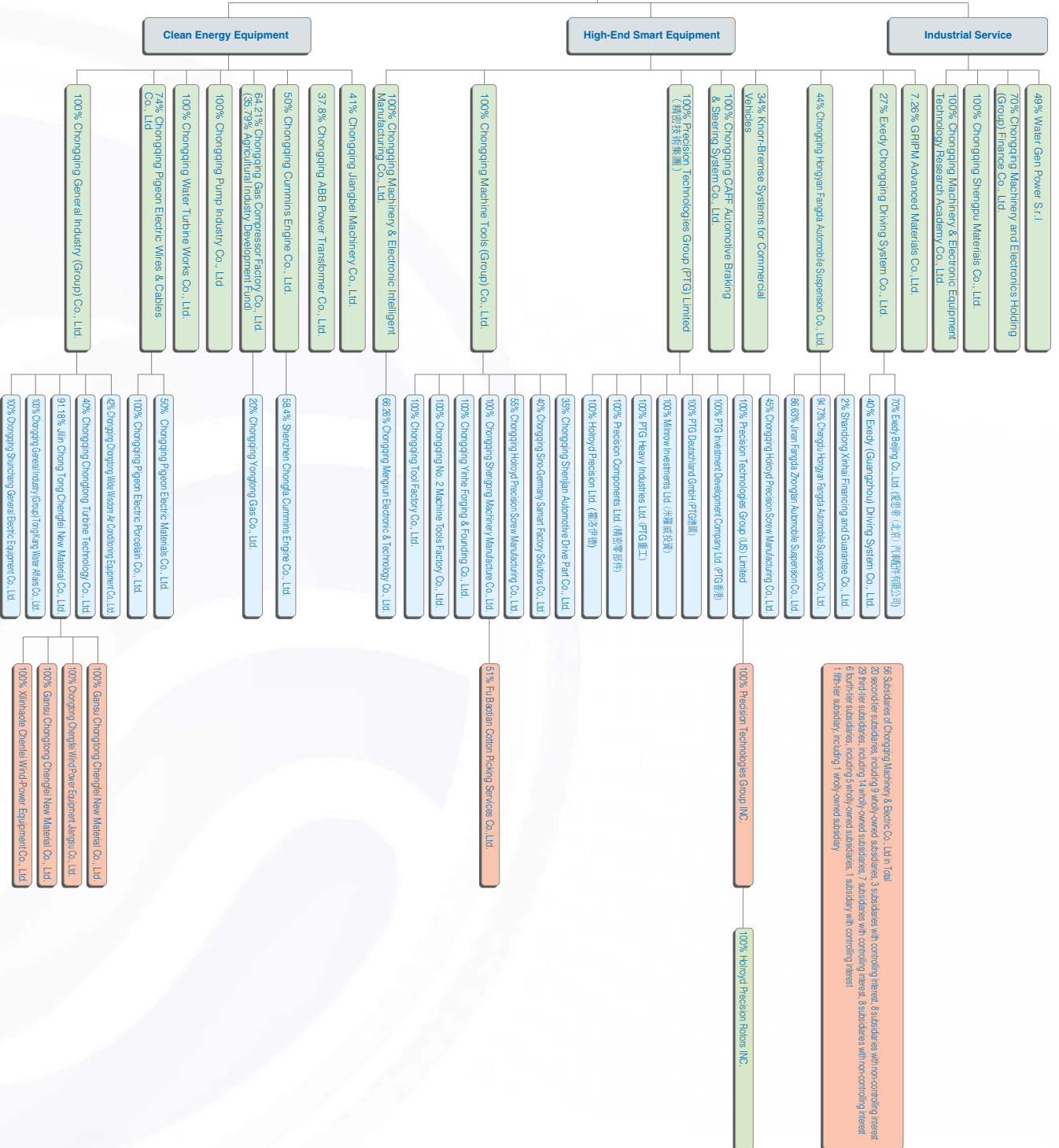
Financial Highlights

<i>(RMB'000)</i>	2014	2015	2016 (Restated)	2017 (note)	2018
Revenue and profit					
Revenue	9,485,570	9,010,422	9,255,032	9,292,602	5,284,318
Profit before income tax	630,679	523,896	529,854	468,472	555,672
Income tax expense	(66,906)	(57,311)	(27,182)	(102,453)	(60,500)
Profit for the year	563,773	466,585	502,672	366,019	495,172
Attributable to					
Owners of the Company	511,943	417,634	440,834	316,645	444,061
Non-controlling interests	51,830	48,951	61,838	49,374	51,111
Dividends – Proposed final dividends	169,493	92,116	128,963	110,539	147,386
Earnings per share attributable to owners of the Company					
– Basic <i>(RMB)</i>	0.14	0.11	0.12	0.09	0.12
Assets and liabilities					
Non-current assets	4,852,425	5,627,580	6,137,920	5,745,841	5,747,618
Current assets	8,782,188	9,139,491	9,429,046	10,544,832	10,530,066
Current liabilities	5,420,311	6,869,058	6,135,937	7,083,411	6,736,277
Net current assets	3,361,877	2,270,433	3,293,109	3,461,421	3,793,789
Total assets less current liabilities	8,214,302	7,898,013	9,431,029	9,207,262	9,541,407
Non-current liabilities	1,963,333	1,343,211	2,272,819	2,029,276	2,311,745
Net assets	6,250,969	6,554,802	7,158,210	7,177,987	7,229,662
Equity attributable to owners of the Company					
	5,844,478	6,106,407	6,577,614	6,777,724	6,808,900
Non-controlling interests	406,491	448,395	580,596	400,263	420,762

Note: expressed in accordance with the China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC.

Group Structure

Chongqing Machinery & Electric Co., Ltd.



Results Highlights

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



The revenue of the Group for the year ended 31 December 2018 amounted to approximately RMB5,284.3 million, representing a decrease of approximately RMB4,008.3 million or approximately 43.1% as compared with approximately RMB9,262.6 million for the same period of 2017.

Profit attributable to the shareholders of the Company for the year ended 31 December 2018 was approximately RMB444.1 million, representing an increase of approximately RMB127.5 million or approximately 40.3% as compared with approximately RMB316.6 million for the same period of 2017.

Basic earnings per share for the year ended 31 December 2018 amounted to approximately RMB0.12 (2017: approximately RMB0.09).

The board of directors (the “Board”) of the Company proposed to declare a final dividend of RMB0.04 per share (tax inclusive) for the year ended 31 December 2018 (2017: RMB0.03 (tax inclusive)).

Chairman's Statement



Dear Shareholders,

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, the Board of the Company decided on 29 March 2018 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.

Chairman's Statement (Continued)

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 annual financial statements of 2018 based on the above standards. Please refer to note IV, 35 to the consolidated financial statements for details.

On behalf of the Board, I am pleased to announce the annual results of the Group for the year ended 31 December 2018 (the “Period” or the “Year”). The Group’s annual results have been audited by the Company’s auditor, ShineWing Certified Public Accountants (Special General Partnership). It is my pleasure to present the annual results of the Group as well as its sustainable development strategy and outlook to shareholders.

RESULTS REVIEW

Looking back at 2018, the global economy has gradually slowed down due to various factors such as the rise of trade protectionism, the continued tightening of US monetary policy, and the rise in geopolitical risks. In particular, the United States unilaterally provoked the Sino-US trade war in the second half of 2018; economic slowdown is shown in the economies of the euro zone and Japan; the political risks of Brexit were unknown; the divided economic recovery of emerging economies have caused currency depreciation, market turmoil, rising inflation and fluctuations exchange rate, a decline in economic growth in many countries and a weakening of the global economic recovery. The Chinese government has adhered to structural adjustments and achieved practical results. The transformation and upgrading of corporate structure have accelerated, and the economy is turning to the process of high-quality development. Regarding the fundamental reforms, the results of de-capacity, de-stocking, de-leveraging, cost reduction and gap-filling have gradually emerged, and the industrial economy has gradually stabilized. The annual GDP remained at 6.6%, and the total economic output exceeded RMB90 trillion. In 2018, taking the new “321” development strategy as the guideline, being guided by the principles of “high starting point innovation, high efficiency reform, high quality development”, the Group fully implemented the “1331” work measures, with a focus on “three major changes”, highlighted the main work line of “one focus, three guarantees, three reductions and one enhancement (一抓三保三降一增強)”, adopted “one enterprise and one policy”, focused on operational quality, fine management, risk management and control, promoted industrial upgrading, promoted innovation, vigorously expanded domestic and international markets, enhanced business core competitiveness and developed new kinetic energy. The Group continued to maintain its leading position in innovation in the industry and its overall business achieved its expected goals.

Chairman's Statement (Continued)

Total operating revenue of the Group as at 31 December 2018 was approximately RMB5,284.3 million (2017: approximately RMB9,292.6 million), representing a decrease of approximately RMB4,008.3 million or approximately 43.1% over last year. Gross profit was approximately RMB1,245.8 million (2017: approximately RMB1,136 million), representing an increase of approximately RMB109.8 million or approximately 9.7% over last year. Profit attributable to the shareholders of the Company amounted to approximately RMB444.1 million (2017: approximately RMB316.6 million), representing an increase of approximately RMB127.5 million or approximately 40.3% over last year.

During the Period, the Group's administrative expenses accounted for approximately 9.7% of the revenue while selling expenses accounted for approximately 5.6%. The administrative expenses and selling expenses was lower than last year for approximately 15.0% in general. The Group maintained a stable financial position during the Period. As at 31 December 2018, total cash and bank deposits of the Group amounted to approximately RMB2,164.7 million, representing an increase of approximately 30.5% as compared to the same period of last year.

Earnings per share for the Period were approximately RMB0.12 (2017: approximately RMB0.09). Total assets as at 31 December 2018 amounted to approximately RMB16,277.7 million (31 December 2017: approximately RMB16,290.7 million), while total liabilities amounted to approximately RMB9,048.0 million (31 December 2017: approximately RMB9,112.7 million); and net asset per share was approximately RMB1.96 (31 December 2017: approximately RMB1.95).

BUSINESS REVIEW AND OUTLOOK

Clean energy equipment (hydroelectric generation equipment, electrical wires, electrical cables and materials, wind power blades, industry blowers, industrial pumps, gas compressors etc.)

In 2018, countries around the world focused on environmental protection, introduced plans for new energy development and development measures, increased investment in new energy, and vigorously promoted research and development of related technologies, which drive the rapid development of the global new energy industry. The global wind power and hydropower demand has grown rapidly, the energy structure and power generation have risen rapidly, and the proportion of clean energy has increased significantly, which has led to the development of the Group's clean energy equipment sector.

Chairman's Statement (Continued)

In 2018, the hydropower equipment business expanded into markets in Central and South America, Africa and South Asia in various modes, and the market orders achieved rapid growth. We successfully entered into EPC contract packages in Nepal. We also entered into two self-operated general contracting contracts for Guilia and Vietnam, with a contractual value of US\$9.16 million. The wire, cable and materials business actively adjusted the marketing model, created a "hydropower integration" and "one-stop procurement platform", expanded the sales area, increased the market share of the supporting market, and achieved two-digit growth in orders. The industrial pump business continued to maintain its leading position in the steel market, and its operating income achieved rapid growth; the gas compressor business has generated stable operating income, and the new independent research and development "multi-layer clamping high-pressure container" (多層夾緊式高壓容器) is available in the market. However, affected by factors such as the decrease in national subsidy, wind power curtailment, grid connection of wind power, and other factors, the operating income of wind power blade business has dropped sharply compared with previous years, resulting in the overall operating income of the clean energy equipment sector reaching approximately RMB3,499.5 million, a decrease of approximately 17.6% compared with the same period of the previous year.

In addition, Chongqing Cummins Engine Company Limited ("Chongqing Cummins"), a joint venture of the Company, is principally engaged in the production of high-horsepower diesel engine. Chongqing Cummins actively increased its marketing in power equipment, engineering machinery, petroleum machinery and ships, and highlighted quality control. In 2018, the operating results achieved rapid growth, and the sales of engines with more than 500 horsepower reached a record high and continued to maintain leading position in the market. The construction project of the high-powered engine technology R&D center entered the completion commissioning phase, and the new high-powered engine new factory project was launched in 2019 as planned. The QSK series emission certification test was passed in 2018, filling the gaps in QSK38 and QSK50 domestic emission certificates; the VPI project met the first-stage emission standards of the national inland river, passed the review and entered mass production. The business is expected to achieve good growth in 2019. The annual results of Chongqing Cummins are set out in note VIII.2(2) to the consolidated financial statements.

Chairman's Statement (Continued)

Looking forward to 2019, along with the promotion of the “One Belt, One Road” initiative of the Chinese government and the relatively active fiscal policy and loose monetary policy implemented in China, the demand in overseas markets is increasing, especially in Southeast Asia and South Asia, where investment in electricity is active and demand is strong; the domestic market is in the national grid construction. In terms of the domestic market, driven by the construction of national power grids, construction of urban rail transit and construction of high-speed rail, with the state further strengthening policy support and investment in environmentally friendly clean energy, it is expected that the segment will achieve better growth.

High-end smart equipment (smart gear machine tools, smart screw machine tools, smart agricultural machinery, smart electronics, etc.)

In 2018, a series of smart manufacturing policies and related measures were introduced, which promoted the deep integration of smart manufacturing and industrial informationization, realized the rapid development of the intelligent level of manufacturing, and promoted improvements in key equipment, information technology, management software, platform software, industrial internet and system solutions. It provided a new industrial opportunity for the development of the Group's high-end smart equipment sector business.

In 2018, the business of smart gear machine tools and smart screw machine tools was driven by the recovery of demand in the machinery industry and the automotive industry. Orders have been stabilized upwardly and the operating income increased. Driven by the rapid increase in market demand, the smart electronic business has developed simultaneously with supporting businesses and smart storage equipment, achieving rapid growth. The high-end smart equipment segment of the Group recorded overall turnover of approximately RMB1,599.2 million for the whole year, representing a decrease of approximately 3.3% from the same period of last year, mainly due to the exit of transmission business from the Group's business during the Period.

Looking forward to 2019, the Group will take advantage of the opportunities of industrial digitalization and smart manufacturing to accelerate the development of high-quality development of smart gear machine tools, smart screw machine tools, smart agricultural machinery and smart electronics, and promote the construction of smart technology and applied research centers, industrial data centers, smart manufacturing displays and experience centers. The sector is expected to achieve good growth.



Chairman's Statement (Continued)

Industrial services (finance, trade, etc.)

In 2018, the Group's financial business remained stable with a turnover of approximately RMB183.4 million, a significant decrease of approximately 94.6% over the same period last year, mainly due to the Company's initiative to terminate low-margin trade business.

AWARDS

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

- The YW723CNC all-purpose grinding machine (YW723CNC 數控萬能磨齒機) of Chongqing Machine Tools (Group) Co., Ltd. ("Chongqing Machine Tools"), a subsidiary of the Company, won the "Best Ten Quality Products of 2017 (2017年度產品質量十佳)"; Y8030CNC gear machine tool (Y8030CNC 數控車齒機); YDA3132CNC-CR gear hobbing and milling edge machine tool (YDA3132CNC-CR 滾齒銑稜複合機床) won the "CCMT2018 Chunyan Award (CCMT2018 春燕獎)";
- "Key Technology and Equipment for Precision CNC Machining of Complex Shaped Gears(複雜修形齒輪精密數控加工關鍵技術與裝備)" of Chongqing Machine Tools won the second prize of National Science and Technology Progress Award;
- Chongqing General Industry (Group) Co., Ltd. ("Chongqing General"), a subsidiary of the Company, was awarded the "China Cement Industry Technology Standard Innovation Contribution Award" by the China Cement Association;
- Chongqing Pigeon Electric Wires & Cables Co., Ltd. ("Chongqing Pigeon"), a subsidiary of the Company, ranked the "Top 100 Enterprises of 2018 in Chinese Cable industry (2018年中國線纜行業100強企業)";
- Chongqing Water Turbine Works Co., Ltd. ("Chongqing Water Turbine"), a subsidiary of the Company, successfully established the "National Enterprise Technology Center".

Chairman's Statement (Continued)

DEVELOPMENT FOUNDATION AND ADVANTAGES

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

Regional advantages of “One Belt and One Road”, “Yangtze River Economic Belt” and Chongqing Free Trade Area has been taken advantage of bringing favorable development opportunities for the Group to tap potential markets. Meanwhile, the Group benefits from preferential policies such as western development and enjoys unique regional advantages, industrial policy advantages, and tax advantages.

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

The Group possesses many state-level enterprises technical centers, operations and technology plants in the UK and USA, famous brands in PRC, well-known trademarks in PRC, technical centers in Chongqing, famous brands in Chongqing and many patented technologies and keeps continuous investment in research and development.

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

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

Chairman's Statement (Continued)

DEVELOPMENT STRATEGIES

Development strategies and work priorities of the Group in 2019 are as follows:

I. DEVELOPMENT STRATEGIES

In 2019, the Group will closely follow the “13th Five-Year Plan” to focus on improving economic efficiency and high-quality development, adhere to the new “321” development strategy, and adopt “1334” as the main line of work, with “one policy for one enterprise” as the starting point, the Company actively responds to the impacts and risks brought by the complicated external environment and economic downward pressure. The Group is committed to improving its comprehensive research and judgment capabilities, its ability to accurately implement its strategy and its ability to conduct group operations. It will continue to deepen its transformation in terms of quality, efficiency and power, enhance its core competitiveness and promote the Group's entry into benign development.

II. Work priorities

(1) Deeply ploughing the market and exerting more efforts to drive growth

The Group actively grasp the opportunities brought about by the Country's “military and civilian integration” and “One Belt, One Road” policies for the construction market. Relying on the megamarketing platform, the Group is committed to improving the accuracy and timeliness of market pre-judgment; linking up and down the market to promote large projects and large orders; focusing on clean energy and environmental protection industries; grasping the market opportunities of wind power, hydropower, nuclear power and power grid construction; and striving to grasp the growth expectations of the rapid growth of smart equipment. The Group strives to achieve substantial breakthroughs in offshore wind power blades, urban rail transit construction, diesel generator units, smart storage systems, and Bosch exhaust gas disposal projects. Regarding overseas markets, we strive to achieve growth in key projects in countries such as Vietnam, Nepal, Angola and Thailand, promote the transformation of enterprises from manufacturing to integrated services and expand the platform of industrial service operation and maintenance.

Chairman's Statement (Continued)

(2) Strictly grasp the “three guarantees” and promote the improvement of business quality

First, guarantee quality: taking the QC competition as the entry point, the Group encourages all employees to participate in the enterprise quality culture, focuses on more technologies, arranges industrial employees to participate in the promotion of quality control application and supervision, strengthens product quality control throughout the life cycle, shows zero tolerance for quality problems, and controls product quality loss.

Second, guarantee delivery: the Group improves internal collaboration, implements dynamic monitoring of production plans, increases production capacity, improves production and sales, and shortens manufacturing cycles. The Group also guides the subsidiaries to form an integrated connection of product design, production organization, program control, customer communication, etc., to improve product delivery rate.

Third, guarantee service: supervise the subsidiaries to improve the after-sales service system with the core aim of customer satisfaction, change the marketing model, establish a reasonable and appropriate spare parts inventory, establish a customer satisfaction process management evaluation system, effectively improve the after-sales service market response, and reduce three Package service fees to improve customer satisfaction.

(3) Pay close attention to the “three reductions” to ensure the improvement of operating efficiency

First, reduce costs: the Group supervises and promote the cost reduction of enterprises, with budget control as the main line; guides and help subsidiaries to optimize the design, process, procurement, production, quality, management so to reduce costs; helps the subsidiaries to optimize financing structure; and continues to do a full coverage of bulk materials centralized procurement, unified purchasing, reducing costs by approximately RMB15 million.

Second, reduce the “two funds”: the Group strengthens management and control, pays attention to the terms and conditions of the payment and the connection between production, supply and marketing; strengthens the credit rating of customers and suppliers; and strictly controls the contract risk. For the subsidiaries with high receivables and high inventory, the Group pays close attention to their ageing and analysis of recycling and turnover, assists subsidiaries to develop, implements solutions, and strictly controls new projects.

Chairman's Statement (Continued)

Third, reduce debt: the Group strengthens leverage management, improves corporate profitability and repayment ability, strictly controls the scale of financing debt, and strengthens liquidity; the Group guides the subsidiaries to strengthen contract management, program control, and accounts for EPC projects; pays close attention to financing environment and changes in national financial policies, understanding the trend of bulk material prices and change of interest rate, and selecting appropriate financing options to ensure maximum benefits with a sound financial cost analysis.

(4) Focus on “four enhancements” and empower enterprises to develop in a healthy way

Enhance the original driving force of technological innovation

The Group increases the proportion of investment in research and development expenses of technology innovation; accelerates the new patent applications; focuses on accelerating the development and industrialization of more than 100 key new products such as high-speed variable-frequency direct-drive single-stage centrifugal blowers and wind turbine blade re-manufacturing, four-generation nuclear power lead-cooled reactors, and smart electrical equipment research and development; focuses on promoting the construction of the Industrial Empowerment Innovation Center; promotes projects for the four themes of “Smart Manufacturing Industry Technology and Applied Research, Manufacturing Industry Data, Smart Manufacturing Industry Demonstration and Experience, Smart Manufacturing Industry Integrated Technology Consulting and Service” cooperation platform; strengthens cooperation with well-known universities in production, education and research; accelerates the construction of a new base for the diesel engine business, accelerates the construction of the gas compressor business and the construction of the main structure, accelerates the completion and commissioning of the Bosch exhaust gas treatment project; promotes the application of the financial information system, remote online monitoring and intelligent diagnostic service system, and accelerates the construction of new models of smart manufacturing, and the construction of a number of key projects such as the life-cycle management smart platform; and achieves continuous innovation and enhance core competitiveness.

Chairman's Statement (Continued)

Enhance the driving force for reform and innovation

We will implement the spirit of reforming the state-owned assets of state-owned enterprises, develop a mixed-ownership economy, and formulate reform plans based on the actual classification of enterprises; actively revitalize subsidiaries' inefficient or unrealizable assets, idle land and other stock assets; continue to promote investment and reorganization and asset mergers and acquisitions; promote the mixed work of subsidiaries, and give priority to the trial operation of subsidiaries with relatively mature conditions; and improve the asset turnover rate and the main business level.

Enhance the risk prevention and control of enterprises

We will strengthen investment risk management; carry out follow-up audit of major new projects; strictly increase equity cooperation and investment project feasibility study; and continue to carry out investment project evaluation, explore and improve scientific indicator system and work flow.

We will strengthen legal risk management, actively organize subsidiaries to conduct training, exchanges and special meetings; review three areas of key legal work, guide subsidiaries to prepare common contract models for purchase and sale business, properly handle major legal disputes and focus on preventing violations of laws and regulations in key steps such as guarantees, bidding, and procurement.

We will strengthen operational risk management, strengthen the investigation and management of hidden dangers of enterprises' safety and environmental protection, increase the assessment by the principle of "zero tolerance", resolutely curb the occurrence of safety and environmental accidents; revise and improve the Group's "Risk Management Measures", conduct risk screening and analysis, carry out early warning and monitoring of key risk indicators, identify operational risk points, formulate evasion methods, and conduct enterprise risk control evaluation.

We will strengthen financial risk management, combine the "three reductions" policy to sort out the financial risk of enterprises, and strengthen guidance and assessment for enterprises that have long-term "two funds" problems, high debt and high risks, and enterprises lacking capital arrangement plans, so as to enhance the ability of enterprises to resist financial risks.

Chairman's Statement (Continued)

Enhance cohesiveness and develop consensus

We will implement the strategy of “build a strong enterprise through talented team” and strengthen and optimize the management team. We will continue to deepen the reform of human resources, gradually establish a long-term incentive mechanism for the management team of the subsidiaries and key technical personnel, actively explore the employees' shareholdings of the affiliated high-tech subsidiaries, establish support and incentives for the introduction of high-end talents in enterprises, and formulate the “Evaluation and Management Measures for Financial Personnel”, and “Three-Year Action Plan for Financial Team Structure Optimization”, cooperate with professional human resources service platforms to broaden the channels for the introduction of professionals and effectively optimize the human resources structure of enterprises, strengthen the supervision of the management team of subsidiaries and strengthen the sense of responsibility, discipline awareness, integrity awareness, firmly establish the bottom line thinking and red line awareness, pass on the positive energy of confidence, responsibility, discipline and high-spiritedness to employees, and promote the healthy development of enterprises.

SUMMARY

Looking ahead to 2019, the global economy will face the risk of slowing down after a mild recovery in the past two years. As more developed countries tighten monetary policy, the global interest rate hike cycle will raise capital costs, trade protectionism will lead to increased global economic uncertainty, geopolitical factors will continue to impact the pace of global economic recovery, and global GDP growth is expected to decline further. The Chinese government has firmly promoted the structural reform of the supply side of the enterprise economy, and the transformation of economic growth from quantity to quality is gradually achieving practical results. The Group focuses on increasing the investment in national clean energy, smart grid, environmental protection, urban rail transit, smart manufacturing and “One Belt, One Road” construction opportunities, and actively promotes the Group's high-quality development.

Chairman's Statement (Continued)

The best is in the worst of times. Facing the complicated and ever-changing domestic and international situation and market competition, the Group will maintain its determination and firm confidence in accordance with the requirements of high-quality development. The Group will face the difficulties bravely and fight hard; we will fully implement the work measures of “one focus, three guarantees, three reductions and four enhancements”. We will actively expand domestic and foreign markets, and try our best to improve business management, actively promote technological innovation, continuously optimize corporate governance, strengthen classification and stratification guidance. Besides, the Group will focus on the key areas, make up the shortcomings, and conduct strict assessments. We will do our utmost to complete our annual operating indicators. The Group will work hard to become a strong state-owned enterprise, and strive for the overall development of a benign circle and lead the Chongqing equipment manufacturing industry into high-quality development.

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

Executive Director, Chairman
Mr. Wang Yuxiang

Chongqing, the PRC
20 March 2019

Management's Discussion and Analysis

OUTLOOK AND PROSPECT

Looking ahead to 2019, the global economy will face the risk of slowing down after a mild recovery in the past two years. As more developed countries tighten monetary policy, the global interest rate hike cycle will raise capital costs, trade protectionism will lead to increased global economic uncertainty, geopolitical factors will continue to impact the pace of global economic recovery, and global GDP growth is expected to decline further. Regarding the US economy, the US economic growth rate will decline as a result of the impact of trade protectionism on its own economy and the Fed's continued interest rate hike. Regarding the Eurozone economy, European economic growth will slow down due to factors such as the European Central Bank's end of the bond purchase plan, the uncertainty of the "Brexit" and the populist trend. Regarding the Japanese economy, due to the weakening of global market demand, its growth rate is weak.

In 2019, the Chinese government will firmly promote the structural reform of the enterprise's economic supply side, and the transformation of the economic growth mode from quantity to quality is gradually achieving practical results. The adjustment of national policies will promote the economic turnaround, and many policy measures such as the rural revitalization strategy will help the economy stabilize. The 19th strategic plan will actively promote the high-quality development of the manufacturing industry, and the macro-policy will make more vigorous and targeted adjustments, pay more attention to "stable growth", focus on "expanding domestic demand", replace "liquidity" with "defense debt risk", and changing the focus from "three deduction, one reduction and one supplement" to "one reduction and one supplement". It is expected that the fiscal policy will be more active than 2018, opening the "front door" and blocking the "back door". The deficit rate in a broad and a narrow sense will be raised again, and the tax reduction measures will be more vigorous; the monetary policy will continue the correction trend in the second half of 2018, and continue to be targeted. M2 will bottom out, and open market interest rates may be lowered. The exchange rate policy focuses on reducing volatility, cyclical forces continue to dominate exchange rate movements, and exchange rates may continue to reverse cycle management. Looking ahead, GDP growth is expected to be around 6.5% in 2019.

Management's Discussion and Analysis (Continued)

Looking forward to 2019, the Group will invest more in the areas of national clean energy, smart grid, environmental protection, urban rail transit construction, smart manufacturing, etc., and seize the opportunity of “One Belt, One Road” construction. Guided by the “1334” main line of work, the Group takes “one policy for one enterprise” as its starting point, and actively responds to complex work lines around the “external market, internal management, deepening reform, continuous innovation, and strict risk control”, and Impacts and risks brought about by external environmental and economic downward pressures, improve comprehensive analytical capabilities, precise application ability, and group operational capabilities, and carry out business operations in an orderly manner, strengthen the construction of talent teams, introduce high-end, shortage of talents, optimize the compensation system, and enhance the core competitiveness of the enterprise, strengthen various risk prevention and control awareness, enhance the ability to resist risks, further refine the development plan, and do the actual work. Continuously deepening the changes in three major aspects of quality, efficiency and power, the Group has entered a fast track of benign development.

The Group expects that the business will continue to maintain a stable development in 2019.

BUSINESS REVIEW

Market Development

In 2018, the Group optimized its large-scale marketing system and focused on “up and down linkage, resource integration and full-market marketing” to strengthen the deep cultivation and development of the two markets. New orders for the year increased by 10.8% year-on-year, and cumulative orders increased by 13% year-on-year. The orders for industrial wind turbines in the petrochemical industry exceeded RMB100 million for the first time; orders for hydropower equipment mainframes and electromechanical equipment increased by 43% year-on-year; industrial pump dephosphorization systems continued to lead in the steel market with orders exceeding RMB440 million; offshore and overseas wind power orders for blades and evaporative cooling exceeded RMB100 million; and nuclear secondary pumps achieved orders of nearly RMB100 million.

Management's Discussion and Analysis (Continued)

Operational Quality

In 2018, the Group's product quality was effectively improved through special quality control training, QC improvement, 5S, lean production and other activities. The quality loss of integrated RMB100 product sales revenue decreased by 7% year-on-year. In response to the contradiction between production capacity and delivery of some subsidiaries, we reasonably planned the period of the production link, strengthened the supervision of the contract process, effectively improved the product delivery rate, and realized an increase of 5 percentage points year-on-year. Through a sound service system and service personnel assessment mechanism, we optimize the starting points of our service such as design and craft. We grasped customer needs in a timely manner, improved product quality and service satisfaction, and increased by 3 percentage points year-on-year.

Operational Efficiency

In 2018, the Group achieved cost reduction of approximately RMB74 million through optimization of technology, design, process, manufacturing, procurement and management; and enhanced bargaining power of suppliers through centralized procurement platform, achieving cost reduction of approximately RMB15 million. By taking measures such as clearing inventory, accelerating inventory turnover, and disposing of sluggish items in a timely manner, the Group's inventory at the end of the year is controlled within the target range. In terms of accounts receivable, although the Group adopted various methods to clean up historical debts, it was unable to achieve the expected targets due to the influence of wind turbine blades and smart gear machine tools. By establishing an analysis of the sensitivity factors of the dynamic measurement model of asset-liability ratio, the Group can dynamically monitor the financing of subsidiaries. The Group effectively controlled the gearing ratio, in particular, the net cash flow from operating activities in 2018 was changed from a negative for two consecutive years to a positive number.

Technological Innovation

In 2018, the Group's R&D investment ratio was 4.23%; 251 new patents were granted (including 26 invention patents), and 28 new products were identified or certified at the municipal level or above. The Group has added one state-level enterprise technology center, one municipal-level enterprise technology center, three municipal-level high-tech enterprises, and two "city-level post-doctoral research stations". The Group has a model innovation enterprise recognized by the Ministry of Industry and Information Technology and a demonstration enterprise of national intellectual property rights.

Management's Discussion and Analysis (Continued)

Our “efficient energy-saving ventilator product and system green design platform construction” and “non-road high-powered engine green key process breakthrough and integrated application” is listed as the green manufacturing system integration project of the Ministry of Industry and Information Technology. The first phase of the Group's new diesel engine business was completed and the second phase was launched.

Reform and Restructuring

In 2018, the Group completed the merger and cancellation of four non-business shell enterprises and newly established three emerging industrial companies to complete the two equity transfer and equity enhancement. The Group continuously optimise the human resources structure. The total number of employees decreased by 2.9%, non-production personnel is compressed by 2.7% and full-time labor productivity increased by 22% year-on-year. The secondary management organization and middle management personnel of the sub-enterprise tend to be in a reasonable state, and the human resource structure shows a good development trend in terms of age, culture, professional title and skills.

Risk Management

In 2018, the Group strengthened the scope of legal risk control, improved relevant rules and regulations, conducted timely investigations on internal control deficiencies and risks, and formulated prevention and control measures. The Group analyzed the internal evaluation and risks of the headquarters and two enterprises, and found existing and potential risks in a timely manner; conducted self-evaluation of risk control on 10 enterprises, completed the rectification of internal control defects and risk issues. For the two group-type subsidiaries that have problems of weak management, the Group has guided them to carry out rectification; the Group has also strengthened the handling of legal disputes for subsidiaries, legal support and risk analysis for major reforms and cooperation projects.

In addition, there are 18 annual audit plans approved by the board of directors, 21 actually completed plans, and 34 reports were issued. 3 economic responsibility audits were completed. For the first time, the evaluation of equity investment projects was completed, and the audit return visit and rectification and inspection work were carried out for the first time.



Management's Discussion and Analysis (Continued)

RESULTS OVERVIEW

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 smart manufacturing and industrial services.

Operation Analysis

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

In 2018, countries around the world focused on environmental protection, and introduced plans for new energy development and development measures, increased investment in new energy, and vigorously promoted research and development of related technologies, which drive the rapid development of the global new energy industry. The global wind power and hydropower demand has grown rapidly, the energy structure and power generation have risen rapidly, and the proportion of clean energy has increased significantly, which has led to the development of the Group's clean energy equipment sector.

In 2018, the hydropower equipment business expanded into markets in Central and South America, Africa and South Asia in various modes, and the market orders achieved rapid growth. We successfully entered into EPC contract packages in Nepal. We also entered into two self-operated general contracting contracts for Guilia and Vietnam, with a contractual value of US\$9.16 million. The wire, cable and materials business actively adjusted the marketing model, created a "hydropower integration" and "one-stop sales platform", expanded the sales area, increased the market share of the supporting market, and achieved two-digit growth in orders. The industrial pump business continued to maintain its leading position in the steel market, and its operating income achieved rapid growth; the gas compressor business had stable operating income, and the new independent research and development "multi-layer clamping high-pressure container" appeared in the market. However, the wind power blade business was mainly affected by factors such as subsidies from the state, wind curtailment, and grid connection. The operating income has fallen sharply compared with previous years, resulting in the overall operating income of the clean energy equipment sector reaching approximately RMB3,499.5 million. The decrease in the same period of last year was about 17.6%.

Management's Discussion and Analysis (Continued)

In addition, Chongqing Cummins Engine Company Limited ("Chongqing Cummins"), a joint venture of the Company, is principally engaged in the production of high-horsepower diesel engine. Chongqing Cummins actively increased its marketing in power equipment, construction machinery, petroleum machinery and ships, and highlighted quality control. In 2018, its operating performance achieved rapid growth, and the sales of engine production above 500 horsepower reached a record high. The market leadership has been maintained. The construction project of the high-powered engine technology R&D center entered the completion commissioning phase, and the new high-powered engine new factory project was launched in 2019 as planned. The QSK series emission certification test was passed in 2018, filling the gaps in QSK38 and QSK50 domestic emission certificates; the VPI project meeting the national inland river first-stage emission standards passed the review and entered mass production. The business is expected to achieve good growth in 2019. The annual results of Chongqing Cummins are set out in note VIII.2(2) to the consolidated financial statements.

High-end smart equipment (smart gear machine tools, smart screw machine tools, smart agricultural machinery, steering systems, etc.)

In 2018, a series of smart manufacturing policies and related measures were introduced, which promoted the deep integration of smart manufacturing and industrial informationization, realized the rapid development of the intelligent level of manufacturing, and promoted key equipment, information technology and management. There are improvements in software, platform software, industrial internet and system solutions. It provides a new industrial opportunity for the development of the Group's high-end smart equipment sector business.

In 2018, the business of smart gear machine tools and smart screw machine tools was driven by the recovery of demand in the machinery industry and the automotive industry. Orders upwardly stabilized and the operating income increased. Driven by the rapid increase in market demand, the smart electronic business has developed simultaneously with supporting businesses and smart storage equipment, achieving rapid growth. The high-end smart equipment segment of the Group recorded overall turnover of approximately RMB1,599.2 million for the whole year, representing a decrease of approximately 3.3% from the same period of last year, mainly due to the exit of transmission business from the Group's business during the period.

Management's Discussion and Analysis (Continued)

Industrial services business (finance, trade, etc.)

In 2018, the Group's financial business remained stable with a turnover of approximately RMB69 million, an increase of approximately 2.5% over the same period last year. The Group expanded the types and scope of the bulk commodity procurement, promoted the construction of e-commerce platform and directly reduced the procurement cost for the Group by approximately RMB15 million. Trading sales turnover decreased by approximately 96.8% over the same period of last year, mainly due to the Company's optimization of supply chain and logistics management, strengthening of risk management and control, and the initiative to stop low-margin foreign trade business. The industrial services segment recorded overall turnover of approximately RMB183.4 million, representing a significant decrease of approximately 94.6% over the same period of last year.

SALES

For the year ended 31 December 2018, the Group's operating revenue amounted to approximately RMB5,284.3 million, a decrease of approximately RMB4,008.3 million or approximately 43.1% as compared with approximately RMB9,292.6 million for the same period of 2017. As compared with 2017, the operating revenue of clean energy equipment segment was approximately RMB3,499.5 million (accounting for approximately 66.2% of total revenue), a decrease of approximately 17.6%; operating revenue of high-end smart equipment segment was approximately RMB1,599.2 million (accounting for approximately 30.3% of total revenue), a decrease of approximately 3.3%; operating revenue of industry service segment was approximately RMB183.4million (accounting for approximately 3.5% of total revenue), a significant decrease of approximately 94.6%. In view of the above, it is mainly due to the decrease in sales revenue of wind power blades business and termination of low-margin foreign trade business.

The Group expected that the operating revenue will maintain stable growth in 2019.

GROSS PROFIT

The gross profit for 2018 was approximately RMB1,245.8 million, increased by approximately RMB109.8 million or approximately 9.7%, as compared with approximately RMB1,136.0 million for the same period of 2017. The gross profit margin was approximately 23.6%, significantly increased by approximately 11.4 percentage points from 12.2% of the same period of last year, mainly due to the improvement in the gross profit margin of clean energy equipment segment and high-end smart equipment segment, and termination of low-margin foreign trade business.

Management's Discussion and Analysis (Continued)

OTHER GAINS

The other gains for 2018 were approximately RMB133.6 million, an increase of approximately RMB74.6 million or approximately 126.4%, as compared with approximately RMB59.0 million for the same period of 2017, mainly attributable to the income from the post-innovative development projects grants by the government of RMB47 million and technology R&D grants of RMB13.6 million. Details are set out in Note VI, 57 to the consolidated financial statements.

GAIN ON DISPOSAL OF ASSET

The gain on disposal of asset for 2018 was approximately RMB100.4 million, a decrease of approximately RMB140 million or approximately 58.2%, as compared with approximately RMB240.4 million for the same period of last year, mainly attributable to the decrease of RMB176.6 million in gain on disposal of land during the Period as compared with the same period of last year. Details are set out in Note VI, 56 to the consolidated financial statements.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for 2018 were approximately RMB812.1 million, a decrease of approximately RMB143.2 million or approximately 15.0%, as compared with approximately RMB955.3 million for the same period of 2017. The proportion of the selling and administrative expenses in turnover increased to approximately 15.4% from approximately 10.3% of the same period last year, mainly due to the decrease in overall turnover compared with the same period of last year attributable to the significant decrease in trade business during the Period. The selling expenses increased by approximately RMB16.0 million as compared with the same period last year, mainly due to the increase in transportation expenses; the administrative expenses significantly decreased by approximately RMB159.2 million as compared with the same period last year, mainly due to the exit of transmission business and automobile parts and components business from the Group's business scope.

OPERATING PROFIT

The operating profit for 2018 was approximately RMB556.7 million, an increase of approximately RMB76.8 million or approximately 16.0%, as compared with approximately RMB479.9 million for the same period of 2017, mainly due to the improvement on operating quality and the increase in gains from the investments on joint ventures of the Company.



Management's Discussion and Analysis (Continued)

FINANCE COSTS

Finance costs for 2018 amounted to approximately RMB128.9 million, an increase of approximately RMB29.1 million or approximately 29.2%, as compared with approximately RMB99.8 million for the same period of 2017, mainly due to the increase in average financing facilities and the increase in bank interest rates during the Period.

INVESTMENT INCOME

Investment income for 2018 amounted to approximately RMB418.9 million, a decrease of approximately RMB53.9 million as compared with approximately RMB472.8 million for the same period of 2017, mainly due to the decrease of approximately RMB58.3 million in gain on disposal of long-term equity investment as compared with the same period of last year. Share of investment income of associates and joint ventures was approximately RMB369.9 million, a slight increase of RMB9.1 million as compared with the same period of last year, due to steady rise in sales of the high-horsepower products of Chongqing Cummins Engine Company Limited, which resulted in an increase in investment income of approximately RMB56.4 million as compared with the same period last year. On the contrary, the performance of Chongqing ABB Transformer Co., Ltd. was affected by the decline in market demand, which was approximately RMB52.3 million lower than the same period of last year. Details are set out in Note VI, 55 to the consolidated financial statements.

INCOME TAX EXPENSES

The income tax expenses for the year ended 31 December 2018 were approximately RMB60.5 million, a decrease of approximately RMB42 million, or approximately 41%, as compared with approximately RMB102.5 million for the same period of 2017, mainly because of the decrease in taxable income during the Period. Details are set out in Note VI, 60 to the consolidated financial statements.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders for the year ended 31 December 2018 amounted to approximately RMB444.1 million, representing an increase of approximately RMB127.5 million or approximately 40.3% as compared with approximately RMB316.6 million for the same period of 2017. Earnings per share amounted to approximately RMB0.12, increase by approximately 33.3% as compared with approximately RMB0.09 of the same period of 2017.

Management's Discussion and Analysis (Continued)

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution as at 31 December 2018 was RMB2,708,521,621.

BUSINESS PERFORMANCE

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

	Revenue		Gross Profit		Segment Results	
	Period ended 31 December		Period ended 31 December		Period ended 31 December	
	2018	2017	2018	2017	2018	2017
	<i>(RMB in millions, except for percentage)</i>					
Clean energy equipment business						
Hydroelectric generation equipment	554.1	446.5	108.2	66.0	14.6	119.6
Electrical wires and cables	1,370.9	1,450.4	236.7	209.6	202.3	99.8
General machinery	910.0	1,775.9	201.9	268.2	47.1	64.9
Other products	664.5	575.0	250.0	214.2	50.6	40.5
Total	3,499.5	4,247.8	796.8	758.0	314.6	324.8
% of total	66.2%	45.7%	64.0%	66.7%	94.5%	161.8%
High-end smart equipment business						
CNC machine tools	883.4	866.0	246.2	203.2	0.7	(18.0)
Steering systems	410.9	366.0	72.3	71.2	14.1	10.8
Other products	304.9	422.4	57.5	32.3	21.2	(196.7)
Total	1,599.2	1,654.4	376.0	306.7	36.0	(203.9)
% of total	30.3%	17.8%	30.2%	27.0%	10.8%	(101.6%)

Management's Discussion and Analysis (Continued)

	Revenue		Gross Profit		Segment Results	
	Period ended 31 December		Period ended 31 December		Period ended 31 December	
	2018	2017	2018	2017	2018	2017
<i>(RMB in millions, except for percentage)</i>						
Industrial service business						
Trade business	105.5	3,317.0	3.5	9.5	(0.5)	–
Financial services	69.0	67.3	59.5	56.7	39.8	33.4
Other service	8.9	6.1	7.7	5.1	0.1	0.1
Total	183.4	3,390.4	70.7	71.3	39.4	33.5
% of total	3.5%	36.5%	5.7%	6.3%	11.8%	16.7%
Headquarters						
Total	2.2	–	2.3	–	(57.0)	46.3
% of total	–%	–%	0.2%	–%	(17.1%)	23.1%
total	5,284.3	9,292.6	1,245.8	1,136.0	333.0	200.7

CLEAN ENERGY EQUIPMENT BUSINESS

The revenue of the clean energy equipment business for the year ended 31 December 2018 amounted to approximately RMB3,499.5 million, representing a decrease of approximately RMB748.3 million or approximately 17.6% as compared with approximately RMB4,247.8 million for the same period of last year, mainly due to the decrease in sales revenue of wind power blades as compared with the same period of last year.

The gross profit of the clean energy equipment business for the period amounted to approximately RMB796.8 million, representing an increase of approximately RMB38.8 million or approximately 5.1% as compared with approximately RMB758.0 million for the same period of 2017, mainly due to the increase in the revenue and gross profit from the hydroelectric generation equipment, as well as the product structure adjustment of industrial pumps resulting to the increase in gross profit.

For the year ended 31 December 2018, the overall performance of the clean energy equipment operating segment was approximately RMB314.6 million, representing a decrease of approximately RMB10.2 million or approximately 3.1% as compared with the performance of approximately RMB324.8 million for the same period of 2017, which was mainly due to the decrease in gain on disposal of land in such operating segment.

Management's Discussion and Analysis (Continued)

HIGH-END SMART EQUIPMENT BUSINESS

For the year ended 31 December 2018, the revenue of the high-end smart equipment operating segment was approximately RMB1,599.2 million, representing a decrease of approximately RMB55.2 million or approximately 3.3% compared to approximately RMB1,654.4 million for the same period in 2017, mainly due to the exit of transmission business from the Group's business during the Period. On the contrary, the revenue of smart manufacturing business increased approximately RMB120.2 million or approximately 39.4% as compared with the same period of 2017.

During the period, the gross profit of the high-end smart equipment operating segment amounted to approximately RMB376.0 million, representing an increase of approximately RMB69.3 or approximately 22.6% compared to approximately RMB306.7 million for the same period in 2017, mainly because CNC machine tools business and smart manufacturing business were driven by new product development, market expansion and product structure adjustment.

The overall results of the high-end smart equipment operating segment for the year ended 31 December 2018 amounted to approximately RMB36.0 million, representing an increase in profit of approximately RMB239.9 million compared to the loss of approximately RMB203.9 million for the same period in 2017, mainly due to the exit of transmission business from the Group's business scope during the Period because of its loss last year.

INDUSTRIAL SERVICE BUSINESS

For the year ended 31 December 2018, the industrial service segment recorded a revenue of approximately RMB183.4 million, representing a significant decrease of approximately RMB3,207 million or approximately 94.6%, as compared with approximately RMB3,390.4 million for the same period of 2017, mainly because the Company actively terminated the low-margin foreign trade business.

The gross profit of the industrial service segment for the period amounted to approximately RMB70.7 million, representing a slight decrease of approximately RMB0.6 million or approximately 0.8% as compared with approximately RMB71.3 million for the same period of 2017.



Management's Discussion and Analysis (Continued)

Revenue from the industrial service segment for the year ended 31 December 2018 was approximately RMB39.4 million, an increase of approximately RMB5.9 million or approximately 17.6% as compared with approximately RMB33.5 million for the same period of 2017.

CASH FLOW

As at 31 December 2018, the cash and bank deposits (including restricted cash) of the Group amounted to approximately RMB2,164.7 million (31 December 2017: approximately RMB1,658.7 million), representing a significant increase of approximately RMB506.0 million or approximately 30.5%, mainly due to the increase in net cash flows generated from operating activities and gain on disposal of asset.

During the Period, the Group had a net cash inflow from operating activities of approximately RMB81.6 million (for the year ended 31 December 2017: net cash outflow of approximately RMB797.8 million), a net cash inflow from investing activities of approximately RMB902.6 million (for the year ended 31 December 2017: a net cash inflow of approximately RMB458.9 million), and a net cash outflow from financing activities of approximately RMB582.7 million (for the year ended 31 December 2017: a net cash inflow of approximately RMB119.2 million). Directors believe that the Group is financially sound and has sufficient resources to meet its operating capital needs and fund any predictable capital expenditure.

TRADE AND OTHER RECEIVABLES

As at 31 December 2018, the trade receivables and other receivables assets of the Group totaled approximately RMB3,564.8 million, representing a decrease of approximately RMB169.5 million, as compared with approximately RMB3,734.3 million as at 31 December 2017, mainly due to the repayment of the short-term borrowing of transmission business of approximately RMB394.0 million. On the contrary, trade receivables increased by approximately RMB232.7 million, mainly attributable to the wind power blades business of general segment of which the term of payment from customers was extended. Please refer to Note VI, 3.2 and Note VI, 5 to the consolidated financial statements for detailed ageing analysis of the trade and other receivables.

Management's Discussion and Analysis (Continued)

BILLS PAYABLES AND TRADE AND OTHER PAYABLES

As at 31 December 2018, the bills payables and trade payables and other payables of the Group totaled approximately RMB3,347.6 million, representing an increase of approximately RMB62.4 million compared with approximately RMB3,285.2 million as at 31 December 2017, primarily due to an increase in other payables, which was mainly due to the increase in the payables of other businesses of smart gear machine tools of high-end smart equipment segment. Please refer to Note VI, 27 and Note VI, 31 to the financial statements for detailed ageing analysis of the trade and bills payables.

ASSETS AND LIABILITIES

As at 31 December 2018, the total assets of the Group amounted to approximately RMB16,277.7 million, representing a decrease of approximately RMB13.0 million as compared with approximately RMB16,290.7 million as at 31 December 2017. Total current assets amounted to approximately RMB10,530.1 million, representing a decrease of approximately RMB14.7 million as compared with approximately RMB10,544.8 million as at 31 December 2017, accounting for approximately 64.7% of total assets. However, total non-current assets amounted to approximately RMB5,747.6 million, representing an increase of approximately RMB1.8 million as compared with approximately RMB5,745.8 million as at 31 December 2017, accounting for approximately 35.3% of total assets.

As at 31 December 2018, total liabilities of the Group amounted to approximately RMB9,048.0 million, representing a decrease of approximately RMB64.7 million as compared with approximately RMB9,112.7 million as at 31 December 2017. Total current liabilities were approximately RMB6,736.3 million, representing a decrease of approximately RMB347.1 million as compared with approximately RMB7,083.4 million as at 31 December 2017, accounting for approximately 74.5% of total liabilities. However, the total non-current liabilities were approximately RMB2,311.7 million, representing an increase of approximately RMB282.4 million as compared with approximately RMB2,029.3 million as at 31 December 2017, and accounting for approximately 25.5% of total liabilities.

As at 31 December 2018, the net current assets of the Group were approximately RMB3,793.8 million, representing an increase of approximately RMB332.4 million as compared with approximately RMB3,461.4 million as at 31 December 2017.

Management's Discussion and Analysis (Continued)

CURRENT RATIO

As at 31 December 2018, the current ratio (the ratio of current assets to current liabilities) of the Group was 1.56:1 (31 December 2017: 1.49:1).

GEARING RATIO

As at 31 December 2018, by dividing the borrowing by the total capital, the gearing ratio of the Group was 29.5% (31 December 2017: 34.0%).

INDEBTEDNESS

As at 31 December 2018, the Group had an aggregate bank and other borrowings (including bonds payable) of approximately RMB2,621.6 million, representing a decrease of approximately RMB585.2 million as compared with approximately RMB3,206.8 million as at 31 December 2017.

Borrowings repayable by the Group within one year were approximately RMB978.4 million, representing significant decrease of approximately RMB866.0 million as compared with approximately RMB1,844.4 million as at 31 December 2017. Borrowings repayable by the Group after one year (including bonds payable) were approximately RMB1,643.2 million, representing an increase of approximately RMB280.8 million as compared with approximately RMB1,362.4 million as at 31 December 2017.

SECURED ASSETS

As at 31 December 2018, approximately RMB594.3 million of the Group was deposited with the banks with pledge or restriction for use (31 December 2017: approximately RMB484.2 million). In addition, certain bank borrowings of the Group were secured by certain land use rights, properties, plant and equipment and investment properties of the Group, and other assets of the Group, which had a net book value of approximately RMB282.4 million as at 31 December 2018 (31 December 2017: approximately RMB686.9 million).

CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no significant contingent liabilities.

Management's Discussion and Analysis (Continued)

SIGNIFICANT EVENTS

Events in the Period

- (1) On 14 May 2018, the Company has decided to prepare financial statements only in accordance with the PRC Accounting Standards for Business Enterprises since 2018. The interim results of the Company for the six months ended 30 June 2018 have been prepared in accordance with the PRC Accounting Standards for Business Enterprises. 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.
- (2) On 28 June 2018, the Company convened the 2017 Annual General Meeting and agreed to engage ShineWing Certified Public Accountants (Special General Partnership) as the auditor of the Company for 2018.
- (3) The Company received a resignation letter from Mr. Xiang Hu on 5 July 2018, a supervisor and the chairman of the supervisory committee. Due to personal reasons, Mr. Xiang Hu has applied to resign from the positions as a supervisor and the chairman of the fourth supervisory committee of the Company. The resignation of Mr. Xiang Hu has not led to the number of members of the fourth session of the supervisory committee of the Company falling below the requirement of the statutory minimum number of members, and his resignation would not affect the normal operation of the supervisory committee of the Company. The resignation of Mr. Xiang Hu was immediately effective upon the delivery of his resignation letter to the supervisory committee. For details, please refer to the announcement of the Board of the Company dated 5 July 2018 as set out on the website of the Hong Kong Stock Exchange and the Company's website.
- (4) Mr. Sun Wenguang ("Mr. Sun") was appointed as a supervisor and Mr. Sun was also appointed as the chairman of the supervisory committee of the Company at the 2nd Extraordinary Meeting of 2018 of the fourth session of the supervisory committee held on 30 October 2018. Mr. Sun's term of office will take effect from 30 October 2018 to the expiration of the term of the current supervisory committee.

Management's Discussion and Analysis (Continued)

- (5) On 16 November 2018, the Company entered into a triple agreement with Chongqing Land Group and Chongqing Land Reserve Coordination Centre to slightly adjust the scope of land resumption. On the basis of the land measured at 417.86 Mu, where the final actual demarcation area is 416.75 Mu, under the original Second Land Disposal Agreement, an extra piece of land of 15.08 Mu is included. Total land area for this land resumption is 431.83 Mu. The total consideration would be approximately RMB231,649,600. For details, please refer to the announcement of the Board of the Company dated 16 November 2018 as set out on the website of the Hong Kong Stock Exchange and the Company's website.
- (6) Mr. Deng Yong ("Mr. Deng") resigned as a non-executive director and member of the Audit and Risk Management Committee of the fourth session of the Board of the Company due to work adjustment. The resignation of Mr. Deng will not lead to the appointment of a new non-executive director, nor will it result in the number of members of the fourth session of the Board of the Company to be lower than the statutory minimum number. For details, please refer to the announcement of the Board of the Company dated 27 December 2018 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

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

SUBSEQUENT EVENTS

The Group had no significant subsequent event.

CAPITAL EXPENDITURE

In 2018, the total capital expenditure of the Group was approximately RMB611.8 million, which was principally used for environmental relocation, plant expansion, improvement of production technology and equipment upgrade (2017: approximately RMB655.1 million).

Management's Discussion and Analysis (Continued)

CAPITAL COMMITMENTS

As at 31 December 2018, the Group had capital commitments of approximately RMB53.2 million (31 December 2017: approximately RMB143.3 million) in respect of fixed assets and intangible assets.

TREASURY POLICIES

The Group has adopted treasury policies, which concentrate the financial resources available to its different subsidiaries to meet the business needs of its different subsidiaries through the subsidiaries involved with financial services qualifications of the Group. For example, the Group has adopted a centralised approach in managing the funds available to subsidiaries involved, including cash, bank deposits, securities, bills and other financial instruments. These assets, such as bills and financial instruments, are managed and arranged short-term financing amongst subsidiaries with financial services qualifications of the Group through proper endorsements or transfers so that they can be fully utilized to meet payment obligations of the Group's relevant subsidiaries with minimal financing cost. The Group closely monitors the level of use and the financial guarantees given by the Group at the time of financing and the value of each of these transactions only represents an immaterial part of its total assets and undertakings.

RISK OF FOREIGN EXCHANGE

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



Management's Discussion and Analysis (Continued)

As at 31 December 2018, the bank deposits of the Group included HK dollars valued at approximately RMB0.1 million, US dollars valued at approximately RMB16.0 million, GBP valued at approximately RMB13.4 million and EUR valued at approximately RMB4.7 million (31 December 2017: HK dollars valued at approximately RMB0.1 million, US dollars valued at approximately RMB3.1 million, GBP valued at approximately RMB38.2 million, and EUR valued at approximately RMB3.2 million). Save as the aforesaid, the Group was not exposed to any significant risk of foreign exchange.

EMPLOYEES

As at 31 December 2018, the Group had a total of 9,124 employees (31 December 2017: 10,691 employees). The decrease in employee is mainly due to the exit of transmission business from the Group's business during the period. The Group will continue the upgrade of its technical talent base, foster and recruit technical and management personnel possessed with extensive professional experiences, optimise the distribution system that links with the remunerations and performance reviews of our management and employees, improve training on safety so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

Directors, Supervisors and Senior Management

The following table sets out information regarding our Directors:

Name	Age	Position
Wang Yuxiang	57	Executive Director, Chairman
Chen Ping	56	Executive Director, General Manager
Yang Quan	54	Executive Director, Vice General Manager
Huang Yong	56	Non-executive Director
Dou Bo	49	Non-executive Director
Wang Pengcheng	51	Non-executive Director
Lo Wah Wai	55	Independent Non-executive Director
Ren Xiaochang	62	Independent Non-executive Director
Jin Jingyu	53	Independent Non-executive Director
Liu Wei	54	Independent Non-executive Director

EXECUTIVE DIRECTORS

Mr. Wang Yuxiang (王玉祥), aged 57, has served as the Chairman, executive Director, chairman of the nomination committee and strategic committee of the Company since 18 June 2013. Mr. Wang was elected as the representative of The Fifth People's Congress of Chongqing Municipality and a Member of the Standing Committee of the Fifth People's Congress of Chongqing Municipality in January 2018. Mr. Wang was elected the representative of the Fifth Congress of the Chongqing Municipality of the Communist Party of China in May 2017. He joined the Parent Group and served as the chairman and Party Committee secretary since April 2013, and has also served as a director and chairman of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. since August 2013. Mr. Wang has over 30 years of experience in business and regional economic management. Mr. Wang served as the deputy director and a member of the Party Committee of Chongqing State-owned Assets Supervision and Administration Commission from June 2009 to April 2013 (and concurrently served as the Party Committee secretary of Chongqing Consultation Research Institute (重慶市諮詢研究院) from November 2011 to April 2013), the deputy director and a member of the Party group of Chongqing Economic and Information Technology Commission (重慶市經濟和信息化委員會) from March 2009 to June 2009, the deputy director and a member of the Party Group of Chongqing Economic Commission (重慶市經濟委員會) from April 2004 to March 2009 (during which he was delegated by three ministries and commissions including the Organization Department of the CPC Central Committee to take a temporary post as the deputy director of the Marketing Department of China Southern Power Grid from March to October 2006), the secretary of

Directors, Supervisors and Senior Management (Continued)

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

Ms. Chen Ping (陳萍), aged 56, is the general manager of the Company. Ms. Chen engages in merger and reorganization of enterprises, equity investment, capital operations and other works, gaining extended experience in corporate management. She was elected as a deputy in the 5th Chongqing Municipality People's Congress of the Communist Party of China in May 2017. She also served as a vice chairman and director of Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd. from October 2016 up to now. She also served as vice chairman and director of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. from August 2016 up to now. She served as a chairman of Chongqing Cummins Engine Co., Ltd. from June 2016 up to now, the chairman of Chongqing Hi-tech Red Horse Capital Management Limited (重慶高新創投紅馬資本管理有限公司) from May 2015 until now. She was the vice president and a member of the Party Committee of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. from February

Directors, Supervisors and Senior Management (Continued)

2004 to May 2016. She has been the chairman of Chongqing Machinery and Electronic Holding Group Xinbo Investment Management Co., Ltd. (重慶機電控股集團信博投資管理有限公司) from January 2016 to July 2016, the executive director (legal representative) of Chongqing Machinery and Electronic Holding Group Assets Management Co., Ltd. (重慶機電控股集團資產管理有限公司) from July 2009 to October 2014. She served as the assistant to the president of Chongqing Light Textile Holding (Group) Co., Ltd. and the manager of Chongqing Super Excellence Co., Ltd. from December 2002 to February 2004, a manager of assets operation department in Chongqing Light Textile Holding (Group) Co., Ltd. from March 2001 to December 2002, the deputy manager of assets operation department of Chongqing Light Textile Holding (Group) Co., Ltd. and president of Chongqing Longhua Printing Co., Ltd. (重慶龍華印務有限公司) from August 2000 to March 2001, the deputy section officer, section officer and assistant researcher of the enterprise management department of Chongqing Light Industry Bureau from October 1983 to August 2000. Ms. Chen is a senior economist with a Bachelor of Science after graduating with a major in biology from Yuzhou University in August 1983 and obtained a postgraduate degree in business administration from Chongqing Master College of Business Administration (重慶工商管理碩士學院) in July 2001 and a master degree in EMBA (Executive Master of Business Administration) from the school of business and economics of Chongqing University in December 2013.

Mr. Yang Quan (楊泉), aged 54, the executive Director and vice general manager of the Company, has served as a vice general manager of the Company since May 2012, and an executive director of the Company since December 2012. He has been a director of Chongqing Youyan Smelting New Material Co., Ltd. (重慶有研重冶新材料有限公司) since July 2014. He concurrently serves as a director of Chongqing Hongyan Fangda Automotive Suspension Co., Ltd. (重慶紅巖方大汽車懸架有限公司) from June 2013 up to now and a director of Precision Technology Investment and Development Co., Ltd. (精密技術投資發展有限公司) from April 2012 up to now, a director of Chongqing Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司) from December 2011 up to now, and an executive director and general manager of Chongqing Shengpu Materials Co., Ltd. (重慶盛普物資有限公司) from December 2011 up to now. Mr. Yang has over 20 years of experience in enterprise management, once served as the manager of the business management department and assistant to general manager of the Company from August 2007 to May 2012, the head of the economic operation department and head of the business management department of the securities work steering team of Chongqing Machinery and Electronics Holding (Group) Co., Ltd. (重慶機電控股(集團)公司) from March 2004 to August 2007, the party branch secretary of the foundry workshop, deputy director of the “five-initiative” reform office, secretary and deputy director of the hot plate workshop, chief of the equipment division, managing factory director, and chief economist of Chongqing No.

Directors, Supervisors and Senior Management (Continued)

2 Machine Tools Factory (重慶第二機床廠) from July 1987 to March 2004. Mr. Yang is an engineer, graduated from the College of Mechanical Engineering of Sichuan University with a bachelor's degree in foundry in July 1987, and studied for EMBA in Xiamen University from November 2011 to June 2013.

NON-EXECUTIVE DIRECTORS

Mr. Huang Yong (黃勇), aged 56, joined the Parent Group in July 1984. Since July 2007, he has been a non-executive Director of the Company. Mr. Huang has been a director and the general manager of the Parent Company since 2004 to now. Since January 2011 to now, Mr. Huang has concurrently served as the chairman of Chongqing General Aviation Industry Group Co., Ltd. (重慶通用航空產業集團有限公司). He has also served as a director of Chongqing Jin Tong Scrap Car Recycling (Group) Co., Ltd. (重慶市金通報廢汽車回收處理(集團)有限公司) since March 2014 to now. Mr. Huang has over 20 years of experience in the automobile industry. Since January 2013 to June 2016, he has concurrently served as the chairman of Enstrom Helicopter Corporation (美國恩斯特龍直升機公司). He was the general manager of Chongqing General Aviation Industry Group Co., Ltd. (重慶通用航空產業集團有限公司) from January 2011 to May 2013 and the vice chairman and general manager of Chongqing Hongyan Motor Co., Ltd from 2003 to 2004. From 2000 to 2004, Mr. Huang was the general manager and thereafter the chairman of Chongqing Heavy Vehicle Group Co., Ltd. From 1984 to 2000, he worked in Sichuan Automobile Manufacturing Plant, and from 1996 to 2000, he served as the deputy plant manager in Sichuan Automobile Manufacturing Plant. Mr. Huang is a senior engineer and a tutor of postgraduate students of Chongqing University of Technology, He graduated from Hunan University with a bachelor's degree in automobile manufacturing in 1984 and obtained his master's degree in engineering from Chongqing University in 2000.

Mr. Dou Bo (竇波), aged 49, has more than 20 years of financial management experience. Mr. Dou has served as secretary of the board and securities general manager of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) (stock code: 600939.SH) from July 2016 to now. He has been the securities general manager of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) from February 2011 to July 2017, and has been the general manager of financial assets department of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) from March 2008 to February 2011 during which he received his Master's degree in Business Administration in Chongqing University from March 2005 to December 2009. He was the chief financial officer of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from March 2007 to March 2008, was appointed as the chief accountant of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from March 2003 to March 2007,

Directors, Supervisors and Senior Management (Continued)

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

Mr. Wang Pengcheng (王鵬程), aged 51, has an MBA degree at Chongqing University. He has served as the deputy general manager of the Chongqing office of China Huarong Asset Management Co., Ltd. from August 2012 up to now and a director of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) (stock code: 600939.SH) from May 2010 up to now, and held the following positions at the Chongqing office of China Huarong Asset Management Co., Ltd.: assistant general manager from November 2010 to July 2012; senior manager of the Innovation Business Department and the Risk Compliance Department from January 2010 to November 2010; senior manager of the Operational Management Department from February 2008 to January 2010; senior manager of the General Department from July 2007 to February 2008; senior deputy manager (in charge) of the General Department from September 2006 to July 2007; senior deputy manager of the General Department from July 2000 to August 2006; and office team leader of the preparation panel from January 2000 to June 2000. He held the following positions at Chongqing branch of Industrial and Commercial Bank of China: deputy chief of organization division of Organization Department (in charge) from September 1997 to December 2000; staff member and deputy chief of the general, cadres deployment, technical cadres management, and cadres management sections of the Personnel Division from September 1992 to August 1997; and guardian, cashier, clerk, accountant, and personnel director of Hongqiezixi sub-branch (紅茄子溪分理處) from June 1990 to August 1992.

Directors, Supervisors and Senior Management (Continued)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Wah Wai (盧華威), aged 55, joined our Company in January 2008 and has been an independent non-executive Director of the Company and the chairman of the Company's Audit and Risk Management Committee since January 2008. He had more than eight years of experience in auditing and business consulting services in an international accounting firm, two years of which were spent in the United States. Mr. Lo was an independent non-executive director of Far East Pharmaceutical Technology Limited (stock code: 399.HK) in September 2004. A petition was filed on 15 September 2004 to wind up Far East Pharmaceutical Technology Limited in respect of the default of a syndicated bank loan and since then, liquidators have been appointed. Mr. Lo was not involved in the arrangement of the syndicated bank loan and his appointment was made after the said default had occurred. Mr. Lo is currently the chairman of the board of directors of BMI group. Mr. Lo is also an independent non-executive director of Tenfu (Cayman) Holdings Company Limited (stock code: 6868.HK). He is a practising member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lo graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration in 1986 and New Jersey Institute of Technology, the U.S., with a master's degree in science in 1992.

Mr. Ren Xiaochang (任曉常), aged 62, joined the Company in July 2007 and has been an independent non-executive Director of the Company and the chairman of our remuneration committee since then. Mr. Ren has over 30 years of experience in the automobile industry. Mr. Ren has been with Chongqing Research Institute of Automobile (renamed as China Automotive Engineering Research Institute Co., Ltd.(stock code: 601965.SH)) since January 1982 to December 2016 and had served as the deputy director of Car Design Department, vice chief, chief, the vice chairman, general manager (superintendent), deputy secretary to the Party Committee, and chairman of the Company. He is in charge of operational management, strategic planning, human resources and assets management, etc. Mr. Ren is also currently an independent director of China Chang'an Automobile Group Co., Ltd. (stock code:000625.SZ) in charge of matters relating to the board of directors. Mr. Ren graduated from Hunan University with a bachelor's degree in engineering in 1982 and the Management School of Wuhan University of Technology with a master's degree in business administration in 2004. Mr. Ren is a senior engineer of researcher's grade, an expert of Machinery Industrial Scientific Technology Specialist of the PRC and an expert with special allowance from the State Council.

Directors, Supervisors and Senior Management (Continued)

Mr. Jin Jingyu (靳景玉), aged 53, joined the Company in June 2012 and has served as an independent non-executive Director of the Company since June 2012. He has been serving at Chongqing Technology and Business University as the chairman of the Academic Council of the School of Finance, and professor of finance and tutor of postgraduate students since March 2009. He has served as an independent non-executive director of Bank of Chongqing Co., Ltd.* (stock code: 1963.HK) since March 2014. Mr. Jin joined the Chongqing Technology and Business University (known as Chongqing Business School before 2003) since May 1997 and served as the deputy director of the Finance and Investment Department from March 2000 to March 2001 and an associate professor and professor of finance from November 2000 to November 2005. He studied in the Mathematics Department of Henan University from September 1988 to July 1992 as an undergraduate student; studied in the University of Science and Technology of China majoring in management science from September 1992 to July 1995 and received a master's degree in engineering; studied in the Southwest Jiaotong University majoring in management science and engineering from March 2003 to January 2007 and received a doctorate degree in management. Mr. Jin held several concurrent posts as follows: from September 1997 to September 2002, a business director of the Financing Service Company (融資服務公司) and general manager of the 1st Business Department of Dapeng Securities Company Limited (大鵬證券有限責任公司); from July 2002 to June 2003, a director and secretary to the board of directors of Southwest Synthetic Pharmaceutical Co., Ltd. (西南合成製藥股份公司) (stock code: 000788.SZ); from January 2006 to March 2010, a director and secretary to the board of directors of Chongqing Wanli New Energy Co., Ltd. (stock code 600847.SH, formerly known as Chongqing Wanli Storage Batteries Co., Ltd. (重慶萬里蓄電池股份有限公司)); from June 2005 to February 2010, the chairman of Chongqing Tiandi Pharmaceutical Co., Ltd. (重慶天地藥業有限公司). Mr. Jin served as an independent director of Chongqing Financial Assets Exchange Co. Ltd. from June 2015 to July 2017. Mr. Jin is now a member of Guiding Committee on Education of Financial Majors in Universities and Colleges of Ministry of Education (教育部高等學校金融學類專業教學指導委員會), a member of the China Investment Professional Construction Committee (中國投資專業建設委員會), a member of the Enterprises Operations Branch of the Operations Research Society of China, adjunct researcher of the Research Center of the Economy of the Upper Reaches of Yangtze River (a major research center of humanities and social science of the Ministry of Education), a member of the Evaluation Committee of Professional Titles, the Teaching Steering Committee and the School of Economics of Chongqing Technology and Business University.

Directors, Supervisors and Senior Management (Continued)

Mr. Liu Wei (劉偉), aged 54, has served as an independent non-executive director of the Company since September 2014. He is currently the head, professor and PhD candidate supervisor of the Business Management Department of the School of Economics and Business Administration of Chongqing University, the vice head of Business Administration and Economics Development Research Centre of Chongqing University. He has concurrently served as an independent director of Chongqing Zheng Chuan Medicine Packaging Materials Co., Ltd. (重慶正川醫藥包裝材料股份有限公司 (stock code: 603976.SH), Chongqing Fuling Electric Power Industrial Co., Ltd. (重慶涪陵電力實業股份有限公司) (stock code: 600452.SH), and Chongqing Sanxia Paints Company Limited (重慶三峽油漆股份有限公司) (stock code: 000565.SZ), an external director of Chongqing Iron & Steel (Group) Company Limited and Chongqing Landscaping Construction Investment (Group) Company Limited (重慶園林綠化建設投資(集團)有限公司), and a member of Investment Decision-making Committee of Shanghai Zhongwei Venture Capital Fund (上海中衛創業風險投資基金). Mr. Liu served at Chongqing University since July 1990. He once served as the lecturer, associate professor and assistant to the head of department for Department of Mechanical Engineering, professor of College of Mechanical Engineering, and vice chief of the Industrial Engineering Research Institute. Mr. Liu graduated from Chongqing University with a bachelor's degree in Mining Machinery in July 1984, graduated from Chongqing University with a master's degree in Mechanics in July 1987, and graduated from Chongqing University with a doctorate degree in Mechanical Design and Theory in July 1990. He also conducted post-doctoral research at the University of Manchester Institute of Science and Technology from September 1996 to October 1997. He completed the training for independent directors of listed company by the Securities Association of China in December 2002.

SUPERVISORS

The following table sets out information regarding our Supervisory Committee:

Name	Age	Position
Sun Wenguang	52	Chairman of the Supervisory Committee
Wu Yi	45	Independent Supervisor
Huang Hui	48	Independent Supervisor
Zhang Mingzhi	55	Employee Supervisor
Xia Hua	55	Employee Supervisor

Directors, Supervisors and Senior Management (Continued)

Mr. Sun Wenguang (孫文廣), aged 52, has been serving as the chairman of the Supervisory Committee of the Company since October 2018, and the chairman of the Supervisory Committee of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. since April 2018, and has been concurrently serving as the supervisor of Chongqing General Industry (Group) Co., Ltd. since August 2018. He concurrently served as the director of Chongqing Machine Tools (Group) Co., Ltd. from July 2016 to August 2018, concurrently served as the financial controller of Chongqing Power Transformer Co., Ltd. from July 2016 to November 2017, and concurrently served as the director of Precision Technologies Group (PTG) Limited, PTG Investment Development Company Ltd. and Chongqing ABB Power Transformer Co., Ltd. from February 2017 to August 2018. He served as the chief of the Reform and Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (Chongqing Enterprise Merger and Bankruptcy Office (重慶市企業兼併破產工作辦公室)) from July 2010 to June 2016. He served as the deputy chief of the Reform and Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (No. 2 corporate supervision department (企業監管二處)) from August 2005 to July 2010, and worked as the chairman and director of Chongqing Luzuofu Equity Fund Management Co., Ltd. (重慶盧作孚股權基金管理有限公司) from March 2010 to June 2016. He served as an assistant researcher of the Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (No. 2 corporate supervision department) from March 2004 to August 2005 and as a senior staff member of the Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (No. 2 corporate supervision department) from November 2003 to March 2004. He served as a senior staff member of the No. 2 corporate department of Chongqing Municipal Finance Bureau from January 1998 to March 2003. He worked as an office clerk, clerk and senior staff member of the No. 1 corporate department of Chongqing Municipal Finance Bureau from August 1987 to January 1998. Mr. Sun is an assistant accountant. He graduated from Sichuan Provincial Fiscal School majoring in corporate and finance in July 1987 with a technical secondary school education degree and graduated with a bachelor's degree in economic management from the Correspondence School of Party School of the CPC Central Committee in December 1999, and from the MBA Institute of Chongqing University (重慶工商管理碩士學院) with a master's degree in 2009.

Ms. Wu Yi (吳怡), aged 45, has been an independent supervisor of the Company since September 2014. She is currently the director of Chongqing Bestone Law Firm (重慶百事得律師事務所), a member of Chongqing Lawyers Association and the Specially-invited Member of the fourth Committee of Chinese People's Political Consultative Conference of Chongqing. Ms. Wu once served as a lawyer of Chongqing Dongfanglianhe Law Firm (重慶東方聯合律師事務所), Chongqing Zhongzhu Law Firm (重慶中柱律師事務所) and Chongqing

Directors, Supervisors and Senior Management (Continued)

Branch of Beijing Kaiwen Law Firm (北京凱文律師事務所重慶分所) from August 1997 to April 2008. Ms. Wu studied at the School of Economic Law of Southwest University of Political Science and Law from September 1993 to July 1997 and graduated with a bachelor's degree and at the Graduate School of Southwest University of Political Science and Law from September 2003 to July 2006 and graduated with a master's degree in law. She studied at Peking University HSBC School of Business from September 2008 to July 2009 and graduated with a master's degree in finance.

Mr. Huang Hui (黃輝), aged 48, has been an independent supervisor of the Company since September 2014. He is currently a professor, a tutor of postgraduate students in the School of Accountancy, and a director of the Department of Financial Management of Chongqing Technology and Business University. Mr. Huang was once a teacher in No. 2 Senior High School in Xinxian County of Henan Province (河南省新縣第二高級中學) from September 1991 to July 1998. Since July 2002, he worked in the School of Accountancy of Chongqing Technology and Business University. Mr. Huang graduated from the Department of Physics of Luoyang Normal College with a junior degree in 1991. He graduated from the Department of Politics and Laws of Henan College of Education (河南教育學院) with a bachelor's degree in 1996. He graduated from the School of Economics and Management of Wuhan University of Technology with a master's degree in 2002. He graduated from the Management College of Huazhong University of Science and Technology with a doctorate degree in 2009. He was a visiting scholar in University of Missouri in U.S. from April to May 2010 and in the School of Economics and Management of Tsinghua University from September 2011 to July 2012. He completed his post-doctoral research in the Research Institute for Fiscal Science of the Ministry of Finance in 2013.

Mr. Zhang Mingzhi (張明智), aged 55, has been an employee supervisor of the Company since September 2015. He currently serves as the chairman and secretary of the party committee of Chongqing Machine Tools (Group) Co., Ltd. (重慶機床(集團)有限責任公司), a wholly-owned subsidiary of the Company. Mr. Zhang is a senior engineer with over 30 years of experience in the machinery manufacturing industry. From August 1983 to December 2005, he successively served positions such as the designer, deputy director of the sales division, marketing assistant to plant manager, director of the marketing division and deputy plant manager of marketing of Chongqing Machine Tools Plant Co., Ltd. (重慶機床廠). He has successively served positions such as the deputy general manager, marketing director, general manager, chairman, and secretary of the party committee of Chongqing Machine Tools (Group) Co., Ltd. since December 2005, and also concurrently served positions such as the plant manager, executive director and general manager of Chongqing No.2 Machine Tools Factory (重慶第二機床廠) from August 2006 to February 2010. Mr. Zhang graduated from Chongqing Machinery Manufacturing School (重慶機器製造學校) in July 1983,

Directors, Supervisors and Senior Management (Continued)

majoring in machinery manufacturing. He continued his studies in the Correspondence School of the Chongqing Municipal Party School (重慶市委黨校函授學院) from September 1998 to June 2001, majoring in economics and management, and in the Training Class of Enterprise Leaders in Business and Administration of Tsinghua University from September to December 2003. He studied EMBA education at Xiamen University from 2011 to 2013.

Mr. Xia Hua (夏華), aged 55, has been an employee supervisor of the Company since September 2015. He currently serves as the chairman and party secretary of Chongqing Pigeon Electric Wires & Cables Co., Ltd. (重慶鴿牌電線電纜有限公司), a subsidiary of the Company. Mr. Xia is a senior economist with over 30 years of experience in the power industry. From August 1981 to August 2000, he successively served positions such as the workshop technician, deputy workshop director, deputy head of the branch factory, office director, head of production scheduling division and deputy plant manager of Chongqing Electric Machine Factory (重慶電機廠). From August 2000 to January 2011, he successively served as the office director and department party secretary of Chongqing Machinery and Electronics Holding (Group) Co., Ltd. (重慶機電控股(集團)公司). He has been serving as the chairman and party secretary of Chongqing Pigeon Electric Wires & Cables Co., Ltd. since January 2011. Mr. Xia graduated from Chongqing Second Machinery Manufacturing School (重慶第二機械製造學校) in August 1981, majoring in machine manufacturing. In September 2006, he graduated from the MBA Institute of Chongqing University (重慶工商管理碩士學院) with an MBA degree.

SENIOR MANAGEMENT

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

Name	Age	Position
Chen Ping	56	General Manager
Yang Quan	54	Vice General Manager
Qin Shaobo	50	Vice General Manager (appointed on 28 June 2018)
Zhang Shu	50	Vice General Manager
Deng Rui	44	Secretary to the Board
Liu Zhongtang	49	Vice General Manager, Chief Financial Officer (appointed on 23 August 2018)
Kam Chun Ying, Francis	52	Qualified Accountant

Directors, Supervisors and Senior Management (Continued)

Ms. Chen Ping (陳萍), aged 56, is an executive Director and General Manager of the Company. For details regarding Ms. Chen's experience, please refer to "Executive Directors" set out above.

Mr. Yang Quan (楊泉), aged 54, is an executive Director and Vice General Manager of the Company. For details regarding Mr. Yang's experience, please refer to "Executive Directors" set out above.

Mr. Qin Shaobo (秦少波), aged 50, is a vice general manager of the Company. Mr. Qin is a senior engineer, has served as a vice general manager of the Company since June 2018; he served as the deputy secretary of the Chengkou County Committee of Chongqing from April 2015 to June 2018; he served as the standing committee member and office director of Chongqing Fengdu County Committee from February 2014 to April 2015; he served as the standing committee member of Chongqing Fengdu County Committee and the director of United Front Work Department from February 2012 to February 2014; he served as the standing committee member of Chongqing Fengdu County Committee from March 2011 to February 2012; he served as the standing committee member of Chongqing Fengdu County Committee (as a temporary post) from August 2009 to March 2011; he served as the chief of the Education and Training Division of the Chongqing Economic Commission from October 2005 to August 2009; he served as the deputy chief of High-tech Development and Industrialization Division of the Chongqing Economic Commission from February 2003 to October 2005; he served as the director of Technical Quality Department of Shenzhen North Jianshe Motorcycle Co., Ltd. of China South Industries Group from April 2002 to February 2003; he worked as the vice general manager in Shenzhen North Construction Motorcycle (Chongqing) Manufacturing Company of China South Industries Group from November 2001 to April 2002; he studied in the College of Business Administration in Chongqing University from March 1999 to March 2002 and obtained a master's degree in business administration; he served as the executive deputy director of the National Enterprise Technology Center of Chongqing Jianshe Industry Group of China South Industries Group from October 1999 to November 2001; he served as the deputy director of the Development Department No. 2 of the state-level enterprise technology center in Chongqing Jianshe Industry Group of China North Industries Corporation from July 1997 to October 1999; he was a visiting scholar at the Department of Industrial Design of Beijing Institute of Technology from September 1996 to July 1997; he worked as an engineer of Chongqing Construction Industrial (Group) Co., Ltd of China North Industries Corporation from March 1992 to September 1996; he worked as a trainee technician at the technology group in No. 22 workshop of Chongqing Construction Machinery Factory of China North Industries Corporation from July 1990 to March 1992.

Directors, Supervisors and Senior Management (Continued)

Mr. Zhang Shu (張舒), aged 50, is a vice general manager of the Company. Mr. Zhang is a senior engineer who has served as directors of many companies including Chongqing Water Turbine Works Co., Ltd., Chongqing General Industrial (Group) Co., Ltd., Chongqing Cummins Engine Co., Ltd., Chongqing Jiangbei Machinery Co., Ltd. and Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd. since July 2016; Mr. Zhang had held various positions including the manager of the planning and development department of Chongqing Machinery & Electronics Holding (Group) Co., Ltd., the manager of the foreign business department and the manager of the planning and development department of the Company from March 2014 to June 2016; he served as the deputy chief of the Department of Foreign Economics and Business, the deputy chief of Planning and Investment Department and the deputy chief (in charge) of the Industrial Department of Chemical Medicine (化工醫藥工業處) in Chongqing Economic and Information Technology Commission from May 2006 to March 2014, and worked as the head of the Coordination Department of Chongqing MDI Headquarters Office (重慶市MDI指揮部辦公室綜合協調部) in charge of daily work of the MDI Office from April 2012 to March 2014; he served as a senior staff member of the food industry department (the food industry office of the municipal government (市政府食品工業辦公室)), a senior staff member of the foreign business department, an assistant researcher of the foreign business department and the deputy chief of the foreign business department in Chongqing Economic and Information Commission from July 1999 to April 2006. He worked in Chongqing Liling Food Factory (重慶立林食品廠) from December 1992 to September 1996, and worked as a technical staff in the drink and food factory and head of Bailibao workshop of Chongqing Jinyunshan Garden Spot (重慶縉雲山園藝場) from July 1988 to December 1992. Mr. Zhang graduated from the Southwest Agricultural University with a diploma in food analysis and inspection in July 1988, and from College of Economics and Trade of Southwest Agricultural University with a master's degree of management majoring in agricultural economics management in July 1999.

Mr. Deng Rui (鄧瑞), aged 44, is the secretary to the Board of the Company. Mr. Deng has served as the director of Chongqing Pigeon Electric Wires & Cables Co. Ltd., the director of Exedy Chongqing Driving System Co., Ltd. and the director of Chongqing Pump Industry Co., Ltd. since July 2016. Mr. Deng has been working in corporate leaders and office management for a long career with extensive experience in corporate management. He served as the vice minister and minister of the Organization Department of the Party Committee (the Leader Management Department) of Chongqing Machinery and Electrics Holding (Group) Co., Ltd. from June 2012 to June 2016, and the secretary and vice director of Chongqing Machinery and Electric Holding (Group) Co., Ltd. from June 2009 to May 2012. He served as the secretary and head of office of the Company from July 2007 to August 2009, and worked as the secretary and head of the comprehensive management

Directors, Supervisors and Senior Management (Continued)

department of securities leading group (證券領導小組綜合管理部) of Chongqing Machinery & Electronics Holding (Group) Co., Ltd. from February 2006 to July 2007, and secretary of the Communist Youth League, the director of promotion division, and workshop supervisor of Chongqing Bearing Industrial Co., Ltd. (重慶軸承工業公司) from May 1998 to February 2006. Mr. Deng is a senior political scientist and graduated from Chongqing Machinery & Electric College (重慶機電工程技術學校) in bearing processing with a technical secondary school education degree in May 1998, and graduated from the Correspondence School of the Chongqing Municipal Party School (重慶市委黨校函授學院) in December 2008, majoring in economics and management with a bachelor's degree, and graduated from Xiamen University, majoring in international economy and trade with a bachelor's degree in January 2013. He graduated from the EMBA Professional Graduate Program in the School of Management of Xiamen University in December 2014.

Ms. Liu Zhongtang (劉忠堂), aged 49, is a vice general manager and the chief financial officer of the Company. Ms. Liu is a senior accountant and has served as a Vice General Manager and the chief financial officer of the Company since August 2018. She served as the chairman (legal representative), general manager and deputy secretary to the Party Committee of Chongqing General Industrial (Group) Co., Ltd. from May 2017 to August 2018, and served as the chairman (legal representative) and general manager of Chongqing General Industrial (Group) Co., Ltd. from August 2015 to May 2017. She has been trained at the Party School of the Municipal Party Committee from 1 March 2017 to 31 March 2017. She served as the general manager of Chongqing General Industrial (Group) Co., Ltd. from September 2013 to August 2015, and the chief financial officer of Chongqing General Industrial (Group) Co., Ltd. from February 2006 to September 2013. She studied in the MBA Institute of Chongqing University (重慶工商管理碩士學院) from September 2007 to June 2010 and gained a master's degree. She served as the financial controller of Chongqing Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司) from June 2002 to February 2006. She studied at the Open University of China majoring in finance and accounting from July 2002 to September 2005. She served as the deputy chief accountant and director of Finance Department of Chongqing Gas Compressor Factory from January 2001 to June 2002; she served as the deputy director of Finance Department (in charge) of Chongqing Gas Compressor Factory from October 1997 to January 2001; she served as an accounting officer of Finance Department of Chongqing Gas Compressor Factory from April 1993 to October 1997; she worked as an accountant of Sichuan Coal First Construction Company (四川煤炭第一建安公司) July 1990 to April 1993. She studied at Chongqing Coal Industry School majoring in accounting from September 1988 to July 1990.

Directors, Supervisors and Senior Management (Continued)

Mr. Kam Chun Ying, Francis (甘俊英), aged 52, has been appointed as the qualified accountant of our Company since February 2008. He has served as the chief risk officer of Precision Technologies Group (PTG) Limited of UK since July 2013. Mr. Kam was the company secretary of Xinming China Holdings Limited (a company listed on the Main Board of the Stock Exchange, Stock Code: 02699.HK) in July 2016 and served as the chief investment officer in January 2017. Prior to joining the Company, Mr. Kam was the financial controller of TFH Management Limited, and was responsible for finance operations and corporate compliance in both the private and listed companies within the group. Between August 1986 and April 1989, Mr. Kam worked for Deloitte Touche Tohmatsu, previously known as Deloitte Haskins Sells, as a senior account assistant. He has over 20 years of experience in corporate and finance management. He has been a member of the Hong Kong Institute of Certified Public Accountants since June 1996 and a fellow of the Chartered Association of Certified Accountants since June 2001. Mr. Kam graduated from Heriot-Watt University in the United Kingdom in November 2004 with a master's degree in business administration.

Report of the Board of Directors

The Board is pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL BUSINESSES

The Group is principally engaged in designing, manufacturing and sales of clean energy equipment, high-end smart manufacturing equipment and industrial services. The principal businesses of its major subsidiaries are set out in Note VIII.1 to the consolidated financial statements.

RESULTS REVIEW

The results of the Group for the year ended 31 December 2018 are set out in the consolidated income statement in this annual report on pages 156 to 158. The business performance regarding the Group required by Schedule 5 to the Hong Kong Companies Ordinance, can be found in the “Chairman’s Statement” set out on pages 7 to 19 and “Management Discussion and Analysis” set out on pages 20 to 38. An indication of likely future developments is set out in “Chairman’s Statement” on pages 14 to 18. The part of contents on “Chairman’s Statement” and “Management Discussion and Analysis” forms part of this “Report of the Board of Directors”.

COMPLIANCE WITH LAWS AND REGULATIONS

Due to the nature of the business of the Group, the Directors are of the opinion that no specific laws and regulations related to environmental protection has significant impact on the operations of the Group. Environmental policies and performance of the Group are set out in “Environmental, Social and Governance Report” on pages 110 to 133.

RELATION WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

Remuneration packages are generally structured with reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Apart from salary payments, there are other staff benefits including pension, social insurance and performance related bonus. The Group strived to maintain fair and co-operating relationship with the suppliers, and there is no major supplier that has significant influence on the operations. Details of the above are set out in “Environmental, Social and Governance Report”.

Report of the Board of Directors (Continued)

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

(2) Economic risk adversely affects the Group's profitability

The Group is dependent on the regional economic conditions in which the Group is operated. The uncertainty of global economy, the possibility of interest rates hike in the US and slowing down of economic growth in Mainland China would adversely affect the Group's profitability.

Report of the Board of Directors (Continued)

The Group reviews and optimizes its asset portfolio to ensure that it is sufficiently cost effective and efficient. The risk of adverse economic conditions is managed by ensuring proper monitoring of the business performance, and constant assessment of economic conditions and the appropriateness of the prevailing investment and business strategy.

(3) Risk of Foreign Exchange

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

(4) Risk of Interest Rate

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

(5) Uncertainties in Financial Market

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

Report of the Board of Directors (Continued)

(6) Uncertainties in Environmental Policies

The Group's production and operation is one of the key monitoring industries in the national environmental protection policy. It is subject to a number of environmental laws and regulations concerning air, water quality, waste disposal, energy consumption, public health and safety, and is subject to inspection by the relevant national environmental protection authorities. The Company's current environmental indicators have reached national standards. However, if the national environmental protection policy is adjusted and the environmental protection standards are further improved, higher environmental protection requirements will be imposed on the Company, which will increase the Company's environmental protection input, and thus may adversely affect the Company's operating performance. In regard to environmental risk management, as the Group is in an initial learning stage, it is difficult to predict the uncertainties of policy and environmental changes, and the Group seeks to minimise potential adverse effects on its environmental performance. An analysis of the current policies, measures and indicators implemented by the Company on environmental policies is set out in "Environmental, Social and Governance Report".

FINAL DIVIDEND

The Company considers stable and sustainable returns to shareholders of the Company ("Shareholders") to be our goal.

Subject to compliance with applicable laws, rules, regulations and the Articles of Association, in deciding whether to propose any dividend payout, the Board will take into account, among other things, the financial results, the earnings, losses and distributable reserves, the operations and liquidity requirements, the debt ratio and possible effects on the credit lines, and the current and future development plans of the Company.

The Board will review the dividend policy from time to time and reserves its right in its sole and absolute discretion to update, amend, modify and/or cancel the dividend policy. There can be no assurance that dividends will be paid in any particular amount for any given period.

Report of the Board of Directors (Continued)

The Board has recommended the payment of a final dividend of RMB0.04 per share (tax inclusive) for the year ended 31 December 2018 (for the year ended 31 December 2017: RMB0.03 per share (tax inclusive)), which is calculated based on the total share capital of 3,684,640,154 shares for the year ended 31 December 2018, totaling RMB147,385,606.16 (totaling RMB110,539,204.62 for the year ended 31 December 2017). Subject to approval by shareholders at the forthcoming Annual General Meeting to be convened on 26 June 2019, the proposed final dividend will be paid on 31 July 2019 to shareholders whose names appear on the Register of Members of the Company on 8 July 2019 (the “Record Date”).

In order to ascertain the entitlements of the shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Wednesday, 3 July 2019 to Monday, 8 July 2019 (both days inclusive), during which no transfer of shares will be registered. All transfer documents accompanied by share certificates of the shareholders of the Company must be lodged with our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 2 July 2019.

WITHHOLDING OF ENTERPRISE INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS

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

Report of the Board of Directors (Continued)

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

If any resident enterprise (as defined in the EIT Law) whose name appears on the H Share Register of Members which is duly incorporated in the PRC or under the laws of a foreign country (or a territory) but with a PRC-based de facto management body does not wish to have the 10% enterprise income tax to be withheld by the Company, it should lodge all transfers with and submit a legal opinion issued by a PRC certified lawyer (with affixation of common seal of the law firm thereto) that establishes its resident enterprise status to the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 2 July 2019. Any natural person investor whose H shares are registered in the name of any such non-individual shareholders and who does not wish to have any enterprise income tax to be withheld by the Company may consider transferring the legal title of the relevant H shares into his or her own name and lodging all relevant transfer instruments accompanied by the H share certificates with the Company's H Share Registrars for registration no later than 4:30 p.m. on 2 July 2019. Shareholders are recommended to consult their tax advisors regarding tax issues in respect of the ownership and disposal of H shares in the PRC and Hong Kong and other tax effects.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements of the shareholders to attend and vote in the Annual General Meeting, the register of members of the Company will be closed from Monday, 27 May 2019 to Wednesday, 26 June 2019 (both days inclusive), during which no transfer of shares will be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 24 May 2019.

Report of the Board of Directors (Continued)

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2018, equity attributable to the shareholders of the Company amounted to approximately RMB6,808.9 million (31 December 2017: approximately RMB6,777.7 million), representing an increase of approximately RMB31.2 million or approximately 0.46%. During this Period, the Group's working capital was mainly cash inflow from operating and investing activities. As at 31 December 2018, the Group's gearing ratio (calculated as borrowings divided by total capital, total capital comprises equity attributable to shareholders of the Company and borrowings as shown in the consolidated balance sheets) was approximately 29.5% (31 December 2017: approximately 34.0%). The Group's current ratio (being the current assets as a percentage of current liabilities) was approximately 1.56:1 (31 December 2017: approximately 1.49:1).

As at 31 December 2018, cash, bank balances and time deposits (including restricted cash) were approximately RMB2,164.7 million, indicating a stable financial position (31 December 2017: approximately RMB1,658.7 million).

FINANCIAL HIGHLIGHTS

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

Report of the Board of Directors (Continued)

INVESTMENT PROPERTIES, REAL PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group invested approximately RMB611.8 million in acquisition of non-current assets, such as real property, plant and equipment, etc. for business expansion (for the year ended 31 December 2017: approximately RMB655.1 million). Details of the changes in investment property, properties, plant and equipment of the Group during the year are set out in Note VI, 16, VI, 17 and VI, 19 to the consolidated financial statements.

SHARE CAPITAL

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

There was no change in the share capital of the Company as at 31 December 2018, details of which are set out in Note VI, 41 to the consolidated financial statements.

Report of the Board of Directors (Continued)

BONDS

Details of the changes in bonds of the Group during the year under review are set out in Note VI, 36 to the consolidated financial statements.

RESERVES

Details of the changes in other reserves of the Group during the year under review are set out in Note VI, 43 to the consolidated financial statements.

CHARITY DONATIONS

During the Period, the Group's charity donation amounted to approximately RMB40,000 (for the year ended 31 December 2017: approximately RMB0).

MAJOR CUSTOMERS AND SUPPLIERS

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

Ming Yang Smart Energy Group., Ltd. (明陽智慧能源集團股份公司)	3.0%
Chongqing Haikang Weishi Technology Co., Ltd. * (重慶海康威視科技有限公司)	2.2%
Haizhuang Wind Power Co., Ltd. of China Shipbuilding Industry Corporation (中國船舶重工集團海裝風電股份有限公司)	1.4%
Jiangyin Yuanjing Investment Co., Ltd. (江陰遠景投資有限公司)	1.2%
Phalakhu Khola (EPC) project in Nepal	1.1%
Total amount of the top five customers	<u>8.8%</u>

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

Report of the Board of Directors (Continued)

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

Chinalco Kunming Copper Co., Ltd. (中鋁昆明銅業有限公司)	13.5%
Yunnan Copper Industry Co, Ltd (雲南銅業股份有限公司)	4.1%
Jinchuan Group Wire and Cable Co., Ltd. (金川集團電線電纜有限公司)	3.5%
Yicheng New Material Technology (Shanghai) Co., Ltd. (奕成新材料科技(上海)有限公司)	1.4%
Techstorm Advanced Materials Co., Ltd (道生天合材料科技(上海)有限公司)	1.2%
Total amount of the top five suppliers	<u>23.7%</u>

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

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

COMPETITION AND CONFLICTS OF INTEREST

For the year ended 31 December 2018, the non-competition agreement entered into between Chongqing Machinery and Electronics Holding (Group) Co., Ltd., the Parent Company, and the Company remained effective. Please refer to the Prospectus for details.

Report of the Board of Directors (Continued)

DIRECTORS AND SUPERVISORS

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

Executive Directors

	Date of appointment
Wang Yuxiang	On 18 June 2013
Chen Ping	On 28 June 2016
Yang Quan	On 8 December 2015

Non-executive Directors

Huang Yong	On 27 July 2007
Dou Bo	On 27 November 2017
Wang Pengcheng	On 28 June 2018

Independent non-executive Directors

Lo Wah Wai	On 10 January 2008
Ren Xiaochang	On 27 July 2007
Jin Jingyu	On 18 June 2012
Liu Wei	On 29 September 2014

SUPERVISORS

Sun Wenguang	On 30 October 2018
Wu Yi	On 29 September 2014
Huang Hui	On 29 September 2014
Zhang Mingzhi	On 18 September 2015
Xia Hua	On 18 September 2015

Report of the Board of Directors (Continued)

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTOR'S SERVICE CONTRACTS

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

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

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

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

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of Directors, Supervisors and senior management of the Company are set out on pages 39 to 53 of this annual report.

DIRECTOR'S REMUNERATION

The remuneration of the Directors of the Company are proposed by the Remuneration Committee, considered by the Board and approved by the Annual General Meeting. Other remunerations are determined by the Remuneration Committee based on the position and responsibilities of each Director and the operating results of the Group. Please refer to Note XII, (V) to the consolidated financial statements set out on pages 450 to 453 of this annual report.

Report of the Board of Directors (Continued)

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS AND CONNECTED TRANSACTIONS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the year ended 31 December 2018, none of the Group and its subsidiaries purchased, sold or redeemed any listed securities of the Company.

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

As of 31 December 2018, none of the Directors, chief executive or Supervisors of the Company had any interests or short positions in the shares, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or chief executive are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND BONDS

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

Report of the Board of Directors (Continued)

SIGNIFICANT LITIGATION

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

SIGNIFICANT EVENTS

Please refer to pages 35 to 36 of this annual report.

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

For the year ended 31 December 2018, so far as the Directors of the Company are aware, the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

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

Name of shareholders	Number of shares	Stock category	Status	Notes	Percentage	Percentage	Percentage
					of total issued domestic shares (%)	of total issued H shares (%)	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
	36,528,000	H shares	Beneficial owner	(1)	-	3.32 (L)	0.99
Chongqing Yufu Assets Management (Group) Co., Ltd	232,132,514	Domestic shares	Beneficial owner	(1)	8.98 (L)	-	6.30
Chongqing Construction Engineering Group Co., Ltd.	232,132,514	Domestic shares	Beneficial owner	(2)	8.98 (L)	-	6.30
China Huarong Asset Management Co., Ltd.	195,962,467	Domestic shares	Beneficial owner	(3)	7.58 (L)	-	5.32
Chongqing State-owned Assets Supervision and Administration Commission	2,388,490,217	Domestic shares	Controlled corporation interest	(1)	92.42 (L)	-	64.82
	36,528,000	H shares	Beneficial owner	(1)	-	3.32 (L)	0.99
Ministry of Finance of the PRC	195,962,467	Domestic shares	Controlled corporation interest	(3)	7.58 (L)	-	5.32

(L) means long position

Report of the Board of Directors (Continued)

H shares of RMB1.00 each of the Company

Name of shareholders	Number of shares	Status	Notes	Percentage	Percentage
				of total issued H shares (%)	of total issued shares (%)
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000 (L) 0 (P)	Storekeeper		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)	Corporate interest under the control of major 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) means long position

(S) means short position

(P) means lending pool

Notes:

- (1) As Chongqing Machinery and Electronics Holding (Group) Co., Ltd. and Chongqing Yufu Assets Management (Group) Co., Ltd. were wholly owned by Chongqing State-Owned Assets Supervision and Administration Commission (重慶市國有資產監督管理委員會), Chongqing State-Owned Assets Supervision and Administration Commission is deemed to be interested in 1,924,225,189 domestic shares and 11,652,000 H shares as well as 232,132,514 domestic shares of the Company held by the two companies.
- (2) Chongqing Construction Engineering Group Co., Ltd. is held as to 76.53% by Chongqing State-Owned Assets Supervision and Administration Commission (重慶市國有資產監督管理委員會) through its wholly owned Chongqing Construction Investment Holding Co., Ltd. (重慶建工投資控股有限責任公司). Therefore, Chongqing State-Owned Assets Supervision and Administration Commission is deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Engineering Group Co., Ltd.

Report of the Board of Directors (Continued)

- (3) The Ministry of Finance of the PRC directly holds 63.36% of the shares of China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司) and indirectly holds 4.22% of the shares through China Life Insurance (Group) Company, a wholly-owned subsidiary of it. Therefore, the Ministry of Finance of the PRC is deemed to be interested in 195,962,467 domestic shares of the Company held by China Huarong Asset Management Co., Ltd.
- (4) The Bank of New York Mellon Corporation holds 100% interests in The Bank of New York Mellon (formerly known as “The Bank of New York”), which holds 87,276,000 of H shares of the Company. The interest in 87,276,000 H shares relates to the same block of shares in the Company and includes a lending pool of 87,276,000 of H shares of the Company.

Save as disclosed above, the Directors of the Company are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2018.

CONNECTED TRANSACTIONS

During the Period, the Company has no connected transactions.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2018, the summary of the connected party transactions is set out in the notes to the consolidated financial statements, where a majority of the transactions constituted continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules.

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

Report of the Board of Directors (Continued)

Master Sales Agreement

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

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

On 20 April 2018, the Company and the Parent Company entered into the Master Sales Supplemental Agreement, proposing to increase the annual caps of 2018 and 2019 by RMB170 million and RMB170 million from RMB180 million and RMB190 million, respectively. The sales annual caps of 2018 and 2019 after adjustment approved at the annual general meeting dated 28 June 2018 were set at RMB350 million and RMB360 million, respectively.

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

- (i) The quoted prices in the market through the industry website or enquiry (including the website of Alibaba (www.1688.com)) with at least two independent third parties in the market (i.e. supplier (except the Company and its subsidiaries) in the same or similar products in the same area in daily operations on normal commercial terms to the independent third party for the price);
- (ii) If there is no market price determined by an independent third party, the transaction price between the Group with the independent third party;
- (iii) If none of the above is applicable, the cost plus a percentage mark-up (tax-inclusive) which is not less than 10%(i.e. price = cost x (1 + percentage mark-up)), whereas the 10% mark-up is determined based on the average gross margin of the Group in the past three years, except that the percentage mark-up for raw materials procured by Shengpu and sold to the Parent Group will be 1%, being the handling fee of the Group.

Report of the Board of Directors (Continued)

For the year ended 31 December 2018, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB296.5 million (for the year ended 31 December 2017: approximately RMB117.9 million).

Master Supplies Agreement

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

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

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

- (i) The quoted prices through the industry website or enquiry with at least two independent third party market (i.e. the supplier (except the Parent Company and its contacts) in the price of the same or similar products in the same area in daily operations on normal commercial terms to provide to the independent third party);
- (ii) If there is no market price determined by an independent third party, the transaction price between the Group with the independent third party;
- (iii) If none of the above is not applicable, cost plus a percentage mark-up (tax-inclusive), which will not exceed 10% (i.e. price = cost x (1 + percentage mark-up)).

Report of the Board of Directors (Continued)

For the year ended 31 December 2018, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB74.7 million (for the year ended 31 December 2017: approximately RMB40.3 million).

Master Leasing Agreement

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

The Parent Group leases land and buildings to the Group as the Group’s offices, production facilities, workshops and staff quarters. Accordingly, the annual cap of the lease for each of the two years ended 31 December 2018 and 2019 approved at the Board Meeting dated 29 March 2016 was set at RMB45 million, respectively.

For the year ended 31 December 2018, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB17.9 million (for the year ended 31 December 2017: approximately RMB24.4 million).

FINANCIAL SERVICES FRAMEWORK AGREEMENT

(I) Parent Group Financial Services Framework Agreement

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

Report of the Board of Directors (Continued)

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

Loan services

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

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

Guarantee services

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

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

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

Report of the Board of Directors (Continued)

For the year ended 31 December 2018, pursuant to the Financial Services Framework Agreement, the daily maximum limit amount in respect of the loan services provided by the Finance Company to the Parent Group was approximately RMB1,288.24 million, the transaction amount in respect of guarantee services was approximately RMB0 million and the transaction amount of other financial services was approximately RMB0.3 million (for the year ended 31 December 2017: the daily maximum limit amount in respect of loan services was approximately RMB1,351.9 million, the transaction amount in respect of guarantee services was approximately RMB0 million and the transaction amount of other financial services was approximately RMB1.5 million).

(II) Group Financial Services Framework Agreement

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

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

Report of the Board of Directors (Continued)

Deposit services

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

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

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

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

For the year ended 31 December 2018, pursuant to the Financial Services Framework Agreement, the daily maximum limit amount in respect of deposit services provided by the Finance Company to the Group was approximately RMB1,796.2 million and the other financial services was approximately RMB0.9 million (for the year ended 31 December 2017: the daily maximum limit amount in respect of deposit services was approximately RMB1,504.8 million and other financial services was approximately RMB4.7 million).



Report of the Board of Directors (Continued)

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

- (i) fair and reasonable in respect of the aforementioned proposed annual caps;
- (ii) entered into in the ordinary and usual course of business of the Group;
- (iii) on normal commercial terms or on terms no less favourable than terms available to or from (as the case may be) independent third parties; and
- (iv) in accordance with the relevant agreements governing them and on terms that are fair and reasonable and in the interests of the shareholders as a whole.

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

- (a) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.
- (b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

Report of the Board of Directors (Continued)

- (c) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.
- (d) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

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

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

For the purpose of continuing connected transactions, the Company has complied with the disclosure requirements of the Hong Kong Listing Rules from time to time, and the value and the transaction terms of the transactions for the year ended 31 December 2018 have been determined in accordance with the pricing policies and guidelines set out in the Hong Kong Stock Exchange's Guidance Letter HKEx- GL73-14.

PRE-EMPTIVE RIGHTS

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



Report of the Board of Directors (Continued)

BOARD COMMITTEES

The Board of the Company has established Audit and Risk Management Committee, Remuneration Committee, Nomination Committee and Strategic Committee (“Board Committees”). Details of the Board Committees are set out in the section of Corporate Governance Report on pages 88 to 93 of this annual report.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2018, the Group had a total of 9,124 employees (31 December 2017: 10,691 employees). The decrease in employee is mainly due to the exit of transmission business from the Group’s business during the period. Their salaries were determined based on market trends and their performance. Welfare benefits included insurance, pension schemes, etc., which were strictly executed in accordance with national regulations.

Remunerations of the Directors of the Company were determined by the Remuneration Committee, taking into consideration the operating results of the Company and comparable market statistics. Please refer to the Report of the Board of Directors set out on page 65 in this annual report.

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

POST BALANCE SHEET DATE EVENTS

After the balance sheet date, the Group had no any subsequent events.

PUBLIC FLOAT

For the year ended 31 December 2018, the Company had 1,100,187,470 H shares of which Chongqing Machinery and Electronics Holding (Group) Co., Ltd. held 11,652,000 H shares in its total share capital of 3,684,640,154 shares. Therefore, public shareholding was 29.54%, indicating a sufficient public float throughout the year.

Report of the Board of Directors (Continued)

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution as at 31 December 2018 was RMB2,708,521,621.

AUDITORS

As approved by the Company at the 2017 Annual General Meeting, the Company has appointed ShineWing Certified Public Accountants LLP as the auditor for the year ended 31 December 2018. ShineWing Certified Public Accountants LLP has performed audit on the Group's consolidated financial statements prepared in accordance with the PRC Financial Reporting Standards.

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

The annual results announcement has been published on the Company's website (<http://www.chinacqme.com>) and the Stock Exchange's website. The annual report will also be available on the Company's and the Stock Exchange's websites on or around 26 April 2019 and will be dispatched to the shareholders of the Company thereafter according to the means they choose to receive communications.

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

Chongqing, the PRC
20 March 2019

Report of the Supervisory Committee

Dear Shareholders:

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

During the reporting period, the Supervisory Committee conducted supervision closely focusing on the annual business objectives and development strategies of the Company in accordance with the Rules of Procedures of the Supervisory Committee of the Company. In order to improve the effectiveness of supervision, the supervision conducted by the Supervisory Committee was based on the practical conditions of the Company, and the comprehensive and concrete supervision was effectively implemented through strengthening the collaboration with the internal audit department and interacting with the supervisory committees of subsidiaries. During the year, one of the supervisors was changed, and the new chairman of the Supervisory Committee was appointed and approved by the general meeting of shareholders in accordance with the provisions of the Company Law and the Articles of Association. During the year, the Supervisory Committee concentrated on conducting annual intensive inspections, specialized inspections on overseas investment, funding enterprises control, “Three Importance and One Greatness” special inspections, bidding and “three reductions” (i.e. reduction of costs, reduction of accounts receivable and inventory and reduction of liabilities). In respect of daily supervision, it reviewed the interim results and annual financial accounts, financial budget and profit distribution plans of the Company as well as participated in the review of the auditor’s report and provided constructive advice through convening four special meetings of Supervisory Committee, attending two general meetings, sitting in ten Board meetings and conducting on-site inspections for relevant matters. The supervision procedures of the Supervisory Committee were effective and standardized, and the supervision and inspection results were effectively utilized.

Report of the Supervisory Committee (Continued)

With respect to the work of the Company in 2018, the Supervisory Committee has the following views:

- The Supervisory Committee has supervised the operating activities of the Company and with a view that the Company has already established a more thorough internal control system and a corresponding internal control management structure, and has actively and consciously implemented and improved this system and structure.
- The Supervisory Committee has examined details of the implementation of financial management system and the financial reports of the Company. It confirms that the financial budget report, annual report and interim report are true and reliable and the auditing opinions presented by the auditors engaged by the Company are objective and fair.
- The Supervisory Committee has inspected the connected transactions of the Company and is of a view that the significant connected transactions arising from the Company's operation during the reporting period are fair, impartial and compliant without damaging the interests of other shareholders and the Company.
- The Supervisory Committee has supervised duty fulfillment of the Directors and management of the Company and is of a view that the Directors, the general manager and other senior management members have exercised rights granted by shareholders and the Board and discharged their duties in strict compliance with the principle of diligence and good faith. The Committee is not aware of any abuse of authority which impairs the interests of the Company's shareholders and the legitimate rights of the Company's employees as of the date of this report.

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

Report of the Supervisory Committee (Continued)

The Supervisory Committee is satisfied with the business activities conducted by the Company and the economic efficiency achieved in 2018, and is confident in the development prospect of the Company.

The Supervisory Committee has duly reviewed and approved the report of the Board, audited financial report and other proposals to be proposed by the Board at the 2018 Annual General Meeting.

By Order of the Supervisory Committee

Mr. Sun Wenguang

Chairman of the Supervisory Committee

Chongqing, the PRC
20 March 2019

Corporate Governance Report

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2018 in compliance with the code provisions under the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Individual confirmation has been obtained from all Directors to confirm compliance with the requirements under the Model Code during the year ended 31 December 2018.

THE BOARD

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



Corporate Governance Report (Continued)

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

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

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

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

The Company has arranged appropriate director and senior officer liability insurance for Directors and senior officers.

The Board of the Company consists of 10 Directors, including 3 executive Directors, 3 non-executive Directors and 4 independent non-executive Directors.

Corporate Governance Report (Continued)

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

BOARD DIVERSITY POLICY

The Company has a Board Diversity Policy which recognizes and embraces the benefits of a diversity of Board members. It endeavors to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge.

DIRECTOR NOMINATION POLICY

This policy was formulated by the nomination committee of the Board of Directors (the "Nomination Committee") in accordance with paragraph 7.1(b) of the terms of reference of the Nomination Committee on 19 March 2019, aiming to set out the key selection criteria and principles adopted by Nomination Committee when making any relevant recommendation as follows:



Corporate Governance Report (Continued)

Selection Criteria

The Nomination Committee shall consider the following factors, which are not exhaustive and the Board has discretion if it considers appropriate, in assessing the suitability of the proposed candidate regarding the appointment of directors or re-appointment of any existing Board member(s):–

- (a) Reputation for integrity;
- (b) Accomplishment, experience and reputation in the business and industry;
- (c) Commitment in respect of sufficient time, interest and attention to the businesses of the Company and its subsidiaries;
- (d) Considering diversity in all aspects with reference to the Board Diversity Policy of the Company (adopted and amended from time to time by the Board), including but not limited to gender, age, cultural/educational and professional background, race, professional experience, independence, skills, knowledge and length of service;
- (e) in case of a candidate for an independent non-executive director of the Company, to assess: (i) the independence of such candidate with reference to, among other things, the independence criteria as set out in Rule 3.13 of the Listing Rules; and (ii) the guidance and requirements relating to independent non-executive directors as set out in Code Provision A.5.5 of Appendix 14 to the Listing Rules and in the “Guidance for Boards and Directors” published by The Stock Exchange of Hong Kong Limited; and
- (f) Any other relevant factors as may be determined by the Nomination Committee or the Board from time to time as appropriate.

Corporate Governance Report (Continued)

Nomination Procedures

The nomination procedures to select and recommend candidates for the Directors of Company could be summarised as follows:

- (a) The chairman of the Nomination Committee will, upon his/her own motion or receipt of a nomination from a Board member (as the case may be), convene a meeting of the Nomination Committee or circulate a resolution in writing to the members of the Nomination Committee to consider the same in accordance with the terms of reference.
- (b) For filling a casual vacancy to the Board or as an addition to the Board, the Nomination Committee will conduct the relevant selection process (coupled with the relevant selection criteria) against the nominated candidate and make recommendations to the Board for consideration, and the Board will then make a decision as to whether the nominated candidate shall be eligible to be appointed as a director of the Company.
- (c) For re-appointing a director of the Company:

The Nomination Committee will conduct the relevant selection process and selection criteria against the director proposed to be re-appointed and make recommendations to the Board for consideration, and the Board will then make a decision as to whether the director shall be eligible to be re-appointed as a director of the Company; and

If the director proposed to be re-appointed or re-elected due to retirement by rotation under the Company's Articles of Association is an independent non-executive director of the Company who has served the Board for more than 9 years, the Nomination Committee shall also assess whether the director has remained independent in the context of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time (the "Listing Rules") and should be re-elected at the next general meeting of the Company and make recommendations to the Board for consideration. The Board will then make a decision as to whether the director has remained independent in the context of the Listing Rules, and if so, recommend the proposed re-appointment/re-election of the director to the Company's shareholders for consideration at the next general meeting of the Company. According to Code Provision A.4.3 of Appendix 14 to the Listing Rules, the Company's circular relating to the proposed re-appointment of such director shall include the reasons why the Board believes that the director is still independent and should be re-elected.

Corporate Governance Report (Continued)

Information from Candidate

The Nomination Committee will ask the recommended candidates to provide the necessary personal information in the form specified and the Nomination Committee may request the candidate to provide additional information and documents, if considered necessary.

ATTENDANCE OF DIRECTORS TO GENERAL MEETING

From 1 January 2018 to 31 December 2018, the Company held two general meetings.

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

Name of Director	Position	Number of meetings attended/total number of meetings held
Wang Yuxiang	Executive Director, Chairman	1/2
Chen Ping	Executive Director	2/2
Yang Quan	Executive Director	2/2
Huang Yong	Non-executive Director	2/2
Deng Yong	Non-executive Director (resigned on 27 December 2018)	2/2
Dou Bo	Non-executive Director	2/2
He Xiaoyan	Non-executive Director (resigned on 28 June 2018)	1/2
Wang Pengcheng	Non-executive Director	1/2
Lo Wah Wai	Independent Non-executive Director	2/2
Ren Xiaochang	Independent Non-executive Director	2/2
Jin Jingyu	Independent Non-executive Director	2/2
Liu Wei	Independent Non-executive Director	2/2

Corporate Governance Report (Continued)

ATTENDANCE OF DIRECTORS TO BOARD MEETING

From 1 January 2018 to 31 December 2018, the Company held ten board meetings.

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

Name of Director	Position	Number of meetings attended/total number of meetings held
Wang Yuxiang	Executive Director, Chairman	10/10
Chen Ping	Executive Directors	10/10
Yang Quan	Executive Directors	10/10
Huang Yong	Non-executive Director	10/10
Deng Yong	Non-executive Director (resigned on 27 December 2018)	10/10
Dou Bo	Non-executive Director	10/10
He Xiaoyan	Non-executive Director (resigned on 28 June 2018)	3/10
Wang Pengcheng	Non-executive Director (appointed on 28 June 2018)	7/10
Lo Wah Wai	Independent Non-executive Director	10/10
Ren Xiaochang	Independent Non-executive Director	10/10
Jin Jingyu	Independent Non-executive Director	10/10
Liu Wei	Independent Non-executive Director	10/10

Biographical details of Directors are set out on pages 39 to 46 of this annual report.

Corporate Governance Report (Continued)

OFFICE TERM OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

REMUNERATION COMMITTEE

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

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

Corporate Governance Report (Continued)

The Remuneration Committee convened one meeting during the year and the attendance record is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Ren Xiaochang (<i>Chairman</i>)	Independent Non-executive Director	1/1
Lo Wah Wai	Independent Non-executive Director	1/1
Jin Jingyu	Independent Non-executive Director	1/1
Huang Yong	Non-executive Director	1/1

NOMINATION COMMITTEE

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

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

Corporate Governance Report (Continued)

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The Nomination Committee would review the implementation of the Board diversity policy in achieving the objectives set for the benefits of the Company.

As of 31 December 2018, the Company did not convene any Remuneration Committee's meeting.

AUDIT AND RISK MANAGEMENT COMMITTEE

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

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

Name of Director	Position	Number of meetings attended/total number of meetings held
Lo Wah Wai (<i>Chairman</i>)	Independent Non-executive Director	3/3
Jin Jingyu	Independent Non-executive Director	3/3
Liu Wei	Independent Non-executive Director	3/3
Deng Yong	Non-executive Director	3/3

(resigned on 27 December 2018)

Corporate Governance Report (Continued)

During the year, the Audit and Risk Management Committee approved the 2017 Consolidated Financial Report audited by PricewaterhouseCoopers and the 2018 Condensed Consolidated Interim Financial Report of the Company audited by ShineWing Certified Public Accountants (Special General Partnership), considered and discussed the accounting policies as set out in the financial reports and the Company's financial position and internal control with external auditors, qualified accountants and the management of the Company.

STRATEGIC COMMITTEE

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

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

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

Corporate Governance Report (Continued)

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises five supervisors, namely Mr. Sun Wenguang, Ms. Wu Yi, Mr. Huang Hui, Mr. Zhang Mingzhi and Mr. Xia Hua. During the Period, Mr. Sun Wenguang is appointed as the chairman of the supervisors. To safeguard the interests of the shareholders, the Company's Supervisory Committee is responsible for the supervision of the Company's financial activities and duty fulfillment of the Board of Directors, its members and senior management. In 2018, the Supervisory Committee has reviewed the legality of the Company's financial situation and business, and through convening the meetings of the Supervisory Committee and attending the Board meetings, general meetings and other important meetings as well as establishing archives, etc., conducted the due diligence on senior management personnel. The Supervisory Committee carefully and thoroughly performs their duties according to the principle of prudence.

The Supervisory Committee held four meetings during the year, the attendance to which is as follows:

Name of Supervisor	Position	Number of meetings attended/total number of meetings held
Sun Wenguang	Chairman of the Supervisory Committee (appointed on 30 October 2018)	1/4
Wu Yi	Independent Supervisor	4/4
Huang Hui	Independent Supervisor	4/4
Zhang Mingzhi	Employee Supervisor	3/4
Xia Hua	Employee Supervisor	4/4

Corporate Governance Report (Continued)

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

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

ACCOUNTABILITY AND AUDIT

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

The Company has appointed ShineWing Certified Public Accountants (Special General Partnership) as the auditor of the Company. The fees for the services provided by the above auditor to the Group for the year ended 31 December 2018 amounted to approximately RMB3.0 million (for PricewaterhouseCoopers and PricewaterhouseCoopers ZhongTian LLP in 2017: approximately RMB3.5 million).

Corporate Governance Report (Continued)

GENERAL MEETINGS

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

RIGHTS OF SHAREHOLDERS

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

Corporate Governance Report (Continued)

CALLING AN EXTRAORDINARY GENERAL MEETING

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

- (1) Two or more shareholders jointly holding 10% or more of the voting shares relating to a proposed extraordinary general meeting or class meeting may request the Board to convene such meeting by signing and submitting one or more written requests with the same format and contents in which the matters for consideration at the meeting shall be set out clearly. The Board shall proceed to convene the extraordinary general meeting or the class meeting as soon as possible after receiving the aforesaid written request. For the purpose of the preceding requirement relating to the number of voting shares held, such number shall be calculated on the basis of the number of relevant voting shares held on the date of submission of such written request.
- (2) If the Board fails to issue a notice of such meeting within 30 days from the date of the receipt of the written request, the shareholders submitting such request may require the Supervisory Committee to convene an extraordinary general meeting or a class meeting pursuant to the requirement in the above subparagraph (1). If the Supervisory Committee fails to convene and preside over an extraordinary general meeting or a class meeting according to law within 5 days from the date of the receipt of the written request, the shareholders submitting such request and holding over 10% of the Company's shares more than 90 consecutive days individually or shareholders together may convene such a meeting by themselves within 4 months from the date of receipt of the request by the Board, following the procedure for convening such meeting by the Board as much as possible.

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

Corporate Governance Report (Continued)

Procedures to Put Forward Enquiries

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

1. copy of the Articles of Association upon payment of the costs thereof;
2. the right to inspect and copy, subject to payment of reasonable charge:
 - (1) all parts of the register of shareholders;
 - (2) personal particulars of the Directors, supervisors, general managers and other senior management members of the Company, including:
 - a) present and former forename and surnames and any aliases;
 - b) principal address (domicile);
 - c) nationality;
 - d) occupation and all other part-time occupation and positions;
 - e) identification documents and their number.
 - (3) status of the share capital of the Company;
 - (4) reports showing the total nominal value and number of shares repurchased by the Company since the end of the last financial year, the highest and the lowest prices paid and the aggregate amount paid by the Company in respect of each class of its shares repurchased;

Corporate Governance Report (Continued)

- (5) minutes of the general meetings as well as resolutions passed at the meetings of the Board and the Supervisory Committee;
- (6) receipts of debentures of the Company;
- (7) financial statements.

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

Procedures to Put Forward Motions at General Meeting

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

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

- (1) Free of conflicts with the provisions of laws and administrative regulations, and fall into the business scope of the Company and the terms of reference of the general meeting;
- (2) With definite topics to discuss and specific matters to resolve;
- (3) Submitted in writing or served to the Board.

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

Corporate Governance Report (Continued)

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

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

The Company has established a specific department responsible for handling investor relations, and maintaining an on-going and open communication with investors. The Company strictly controls the procedures of information disclosure and insider trading. The Company held a total of 19 meetings with 21 investment and financial institutions or investors in various ways including road shows in Hong Kong and interim results of Shenzhen Roadshow, investor presentations, on-site meetings and telephone interviews. The effective communication with investors strengthened the Group's relationship with investors and allowed them to have a better understanding and enhanced confidence in operations and developments of the Group. In 2018, the Company strengthened the communications and promotions with a number of media including China Industry News, Hong Kong Wen Wei Po, Chongqing Daily, etc. To strengthen the relationship between the Company and investors, and improve the transparency of corporate operations, the Company promoted its development strategy and promising outlook by means of website, publicity pamphlet, image building videos, etc., to draw continuous attention from the public and investors on the growth of the Company.

Corporate Governance Report (Continued)

TRAINING OF DIRECTOR

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

Training of Directors is recorded as follows:

Name of Director	Training content	Attendance
Wang Yuxiang	Function training for new directors	✓
Chen Ping	Function training for new directors	✓
Yang Quan	Function training for new directors	✓
Huang Yong	Function training for new directors	✓
Deng Yong	Function training for new directors (resigned on 27 December 2018)	✓
Dou Bo	Function training for new directors	✓
He Xiaoyan	Function training for new directors (resigned on 28 June 2018)	✓
Wang Pengcheng	Function training for new directors (appointed on 28 June 2018)	✓
Lo Wah Wai	Function training for new directors	✓
Ren Xiaochang	Function training for new directors	✓
Jin Jingyu	Function training for new directors	✓
Liu Wei	Function training for new directors	✓

Risk and Internal Control and Governance Report

POLICIES AND GOALS

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

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

The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit and Risk Management Committee. During the year ended 31 December 2018, the Audit and Risk Management Committee (on behalf of the Board) oversee management in the design, implementation and monitoring of the risk management and internal control systems.

MAIN FEATURES OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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

The Board

- Maintains and reviews the effectiveness of internal control and risks management systems under the assistance of the Audit and Risk Management Committee, and measures the nature and extent of risks it is likely to take in achieving the strategic objectives;
- Ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems; and
- Oversees management in the design, implementation and monitoring of the risk management and internal control systems.

Risk and Internal Control and Governance Report (Continued)

Audit and Risk Management Committee

- Assists the Board to perform its responsibilities of risk management and internal control;
- Oversees the Group's risk management and internal control systems on an ongoing basis;
- Reviews the effectiveness of the Group's risk management and internal control systems at least annually, and such review should cover all material controls including financial, operational and compliance control;
- Evaluates the effectiveness of the internal control system of the Company, including the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations, and adequacy of resources, staff qualifications and experience, training programmes and adequacy of budget of the Company's internal audit department, risk control and legal affairs department and finance department; and
- Considers major findings on risk management and internal control matters, and reports and makes recommendations to the Board.

Management

- Designs, implements and maintains appropriate and effective risk management and internal control systems;
- Identifies, evaluates and manages the risks that may potentially impact the major processes of the operations and such new risks arising from the business development from time to time;
- Monitors risks and takes measures to mitigate risks in day-to-day operations;
- Gives prompt responses to, and follow up the findings on risk management and internal control matters raised by the internal audit team or the external risk management and internal control review adviser; and
- Provides confirmation to the Board and Risk Management Committee on the effectiveness of the risk management and internal control systems.

Risk and Internal Control and Governance Report (Continued)

Internal Audit Team and Risk Management Team

- Reviews the adequacy and effectiveness of the Group's risk management and internal control systems;
- Evaluates the efficiency of economic operation, continuously inspects business activities and management behaviours, identifies business risks and defects in internal control, formulates regular audit plans to determine the focus and frequency of audit;
- Reports to the Audit and Risk Management Committee the findings of the review and makes recommendations to the Board and management to improve the material systems deficiencies or control weaknesses identified;
- Investigates the risks of significant decision-making projects, continuously refines the policies and standards for the control environment based on the internal control framework and comprehensive risk management framework established in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO") to ensure the effective prevention and control of risks; and
- Assesses the Group's internal control system against the five elements of control environment, risk assessment, control activities, information and communication, and monitoring. The approach, identification, findings, analysis and results of these annual reviews have been reported to the Audit and Risk Management Committee and the Board.

PROCESS USED TO IDENTIFY, EVALUATE AND MANAGE SIGNIFICANT RISKS

As a part of routines and the risk management and internal control systems, executive Directors and senior management shall hear at least once a quarter the work reporting of each department, to understand the operating condition of the Group in time, and the senior management of the subsidiaries shall also report to the executive Directors the material progress of its business, financial and operation performance on a regular basis.

Risk and Internal Control and Governance Report (Continued)

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

Risk Identification

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

Risk Assessment

- Assesses the risks identified by using the assessment criteria developed by the management; and
- Considers the impact of risks on the business and the likelihood of their occurrence.

Risk Response

- Prioritises the risks by comparing the results of the risk assessment;
- Refines and broadens the early warning indicators; and
- Determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk Monitoring and Reporting

- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control processes are in place;
- Revises the risk management strategies and internal control processes in case of any significant change of situation; and
- Reports the results of risk monitoring to the management and the Board regularly.



Risk and Internal Control and Governance Report (Continued)

RISK MANAGEMENT, INTERNAL CONTROL AND AUDIT FUNCTIONS

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

Risk Management

Risks on major decision-making projects of the Group were assessed through adopting assessment via various hierarchies such as the business department, risk control and legal affairs department, external legal advisors and the management, so as to ensure effective prevention and control of risks. The risk and legal audit works were reinforced for three key aspects such as rules and policies, economic contracts and major decisions. During the year, a total of 102 copies of contracts were reviewed.

For the supervision on overseas subsidiaries, the Chief Risk Officer (CRO) of the Company was appointed to the PTG UK, who is responsible for the establishment of risk management and internal control system and execution of assessment, establishment and supervision of the internal control process and system, monitoring operational activities deficiencies and business risks. The Chief Risk Officer will, based on different management key points, identify and assess potential risks from perspective of finance, operation, legal, quality and human resources, specifically assess the effectiveness of internal control and risk management of plants and management in the United Kingdom and USA, and issue the interim and annual Risk Management Reports with respect to the risk management practices of PTG UK reported to its Board semiyearly and annually.

Risk and Internal Control and Governance Report (Continued)

Internal Control

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

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



Risk and Internal Control and Governance Report (Continued)

Internal Audit

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

During the Period, the internal audit department strived to “manage assets” through asset audit and financial audit, “manage compliance” through inspection and investigation, “manage personnel” through economic responsibility audit, “manage matters” through project audit, “manage risk” through effectiveness assessment and strengthened the special and daily supervision functions of the Supervisory Committee. The Company executed 116 supervision projects in aggregate, of which, 10 engineering auditing construction projects, 21 financial auditing projects and 23 economic responsibility auditing projects. The amount audited totaled RMB7.5 billion, 370 proposals were adopted and the amount of construction projects upon auditing deducted by RMB79.81 million. The audit work plan approved by the Board of the Company was completed, which fully exerted the effect of the audit in the third line of defense of risk prevention of the Company. It firstly accomplished the post assessment of investment projects and financial management audit of newly-restructured subsidiaries, and provided 180 audit comments for major construction projects, intensified the effort in audit review and rectification works.

The Board considers that risk management and internal control procedures of the Group are sufficient to satisfy the current demands on business environment of the Company, and there is no finding that causes the Board to believe risk management and internal control systems of the Group are insufficient.

Risk and Internal Control and Governance Report (Continued)

INFORMATION DISCLOSURE POLICY

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

- Designated reporting channels from different operations informing any potential inside information to designated departments;
- Designated persons and departments to determine further escalation and disclosure as required; and
- Designated persons authorised to act as spokespersons and respond to external enquiries.



Environmental, Social and Governance Report

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

FEEDBACK ON THE REPORT

We have always believed that the valuable opinions of our stakeholders are the basis for our continuous improvement. If you have any comments or suggestions on the report and our sustainable development, please write to us at Room 1406, No.60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC, or send Email to us at: ob@chinacqme.com.

COMMUNICATION WITH STAKEHOLDERS

The Group is committed to continuing operations while balancing the interests of its various stakeholders, including employees, investors and shareholders, customers, suppliers, the government and the local communities in which the Group operates. Our daily communication with stakeholders in the following ways gives us the opportunity to gain valuable advice and suggestions from our stakeholders on sustainable performance and future strategies.

Stakeholders	Communication Channels
Employees	<ul style="list-style-type: none">• Meeting• Training• Staff activities• Social media
Investors and shareholders	<ul style="list-style-type: none">• Shareholders meeting• Annual reports, announcements and circulars• on-site meeting• Telephone interviews
Customers	<ul style="list-style-type: none">• Direct communication• Social media• E-mail• Telephone
Suppliers	<ul style="list-style-type: none">• Direct communication• On-site inspection• Telephone• Meeting
Government	<ul style="list-style-type: none">• Reports and submissions in accordance with regulatory requirements• Annual reports, announcements and circulars• Telephone• E-mail
Communities	<ul style="list-style-type: none">• Group's website• Mass media

Environmental, Social and Governance Report

GROUP PHILOSOPHY

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

ENVIRONMENT

Against the background of deteriorating environmental issues and the transformation and upgrading of traditional manufacturing industries, the Group understands that as a part of the industry, we should take the initiative to assume more environmental responsibilities. The Group adheres to the production principle of “saving energy and reducing emissions” and is committed to building a resource-saving and environmentally-friendly enterprise. In strict compliance with national environmental regulations, the Group advances technological innovations, enhances resource utilization efficiency and promotes energy conservation and emission reduction in its production and development, to explore on an approach featuring low consumption, low emission and high output. During the year ended 31 December 2018, the Group’s pass rate regarding major pollutant emission indicators and hazardous waste disposal rate reached 100%. All newly constructed, upgrade and expansion projects were in strict compliance with the national environmental requirements on “simultaneous design, construction and commissioning” as scheduled.



Environmental, Social and Governance Report (Continued)

Emissions

The Group resolutely eliminated outdated production capacity, implemented upgrading and renovation on major production equipment in strict compliance with national laws and regulations such as the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) and the Comprehensive Work Program for Energy Saving and Emission Reduction in the 13th Five-Year Plan Period (《十三五節能減排綜合工作方案》). Besides, the Group raised the level of energy utilization, and energy consumption per unit of major products has exceeded the national standard, maintaining an advanced standard in the industry.

The Group is principally engaged in manufacturing machinery equipment and parts, without large quantity of direct emission of waste gas, greenhouse gas, wastewater and other hazardous wastes. The emission mainly comprises solid metal scraps from the machining process. The sewage treatment system of the Group is in place and under the on-line real time monitoring by government, with all emissions up to the standard. The Group also takes initiatives for full recycling of waste materials to reduce the environmental impact. During the year ended 31 December 2018, the Group generated approximately 9,015 tonnes of metal scraps during operation, which were disposed through public auction with total disposal proceeds of approximately RMB24.7 million. The hazardous wastes produced by the Group mainly composed of waste oil and waste oil wrapping materials, in a total of about 216.752 tonnes, which were collected by qualified professional recycling company for the innocuous treatment.

Greenhouse Gas Emissions

Summary of Greenhouse Gas Emissions Category	Quality of greenhouse gas (Unit: t)	CO₂ equivalent of greenhouse gas (Unit: tCO₂e)
CO ₂ emissions from the burning of fossil fuels	18,853.14	18,853.14
CO ₂ emissions produced by the electric power under net purchase	<u>118,726.74</u>	<u>118,726.74</u>
Total greenhouse gas emissions of the enterprise (tCO ₂ e)	<u><u>137,579.88</u></u>	<u><u>137,579.88</u></u>

Environmental, Social and Governance Report (Continued)

During the reporting period, the greenhouse gas emissions of the Group were 137,579.88 tCO₂e, and the annual emission intensity was 0.1678 tCO₂e for each RMB10,000 operating revenue. The Group adopted measures such as technological transformation of production equipment, reduction of energy consumption and implementation of energy conservation and emission reduction to reduce greenhouse gas emissions.

Resource Utilization

Responding to the government's call on environment protection and energy saving, the Group has accelerated the elimination and scrapping equipment with high energy consumption. Meanwhile, our new plants are constructed in full compliance with environmental standards, including the design with new energy-efficient equipment and the wide use of green offices based on paperless technology. Based on the contracting energy management with the subsidiary Chongqing Pigeon Electric Wires & Cables Co., Ltd. (重慶鴿牌電線電纜有限公司) on a trial basis, the Group has carried out comprehensive energy-saving research against other subsidiaries, to encourage the staff to effectively utilize energy and to achieve energy saving and consumption reducing. Through the optimization, modification and recycling of its critical points with large energy consumption including waste heat, residual pressure and lighting, the rate of emission in terms of standard coal, CO₂, SO₂ and dust will be reduced. For the year ended 31 December 2018, the Group's comprehensive energy consumption per RMB10,000 value addition decreased by approximately 5% year-on-year. Implementation of contract energy management in the year of 2018 will be continued in the selected companies with conditions.

Resource consumption amount of the Group:

Resource categories	The measuring unit	The total consumption	Consumption per RMB ten thousand
Electric power	Thousand KWH	124,778.5	0.24
Natural gas	Cubic meters	5,936,500	11.23
Gasoline	Ton	337.19	0.0006
Diesel	Ton	1,608.35	0.0030
Water	Ton	2,364,107.70	4.474
Packaging materials	Ton	8,152.1423	0.0154

Environmental, Social and Governance Report (Continued)

Environmental Protection

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

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

The Group also actively develops environmentally-friendly and energy-efficient products businesses to fulfill its responsibility in environmental protection. Firstly, the Group attaches importance to noise control and monitors and controls the influence of noise pollution on employees' health and the surrounding environment according to the national noise management standards. We optimize the layout of the production lines and reduce the noise hazards through measures such as physical isolation, green shelter and occupational protection. Secondly, the Group manufactured wind power rotor blades of approximately 614MW in 2018, representing annual power generation of 1,161,074 thousand KWH, decreasing by approximately 54% compared with that in 2017. The Group has introduced a series of products in the field of nuclear power to participate in the construction of nuclear power, including G3 nuclear secondary charging pump and G3 nuclear power refrigeration units and actively participates in the construction of nuclear power and development of clean energy. Treatment of municipal sewage has been in the testing phase, with sewage treatment of approximately 630,000 cubic meters in 2018, to achieve continuous recycling of resources.

Environmental, Social and Governance Report (Continued)

SOCIETY

EMPLOYMENT AND LABOUR ROUTINES

The Group embraces the concept of “paying respect to the dedicated, utilizing the competent, fostering the aspiring and incentivising the innovative” for talents, seeking to provide a safe and sound working environment for employees and cultivating talents experienced in technology and management. We improve the remuneration system and design career paths, regularly evaluate the performance of employees to ensure that employees can be promoted in a fair and equitable environment. Meanwhile, by maintaining smooth communication channels, caring about employees’ lives and paying attention to their thoughts, we expect to establish a comprehensive incentive system based on physical, mental, emotional and growth motivations to carry forward a harmonious and stable employment relationship. The Group fully safeguards the rights of its employees, respects employees’ differences, provides a safe and harmonious working environment for each and every employee, and cohesively pursues the realization of employees’ solidarity and sense of belonging through human resources policies, employee benefits, vocational training and related activities. Together we pursue the core values of the Group.

Regulatory Compliance

We strictly comply with the laws and regulations relating to employment, such as the Labor Law of the PRC, the Labor Contract Law of the PRC, Law of the PRC on Prevention and Control of Occupational Diseases and the Social Insurance Law of the PRC. In 2018, the Group is also not aware of any material non-compliance with the laws and regulations relating to employment.

Employees

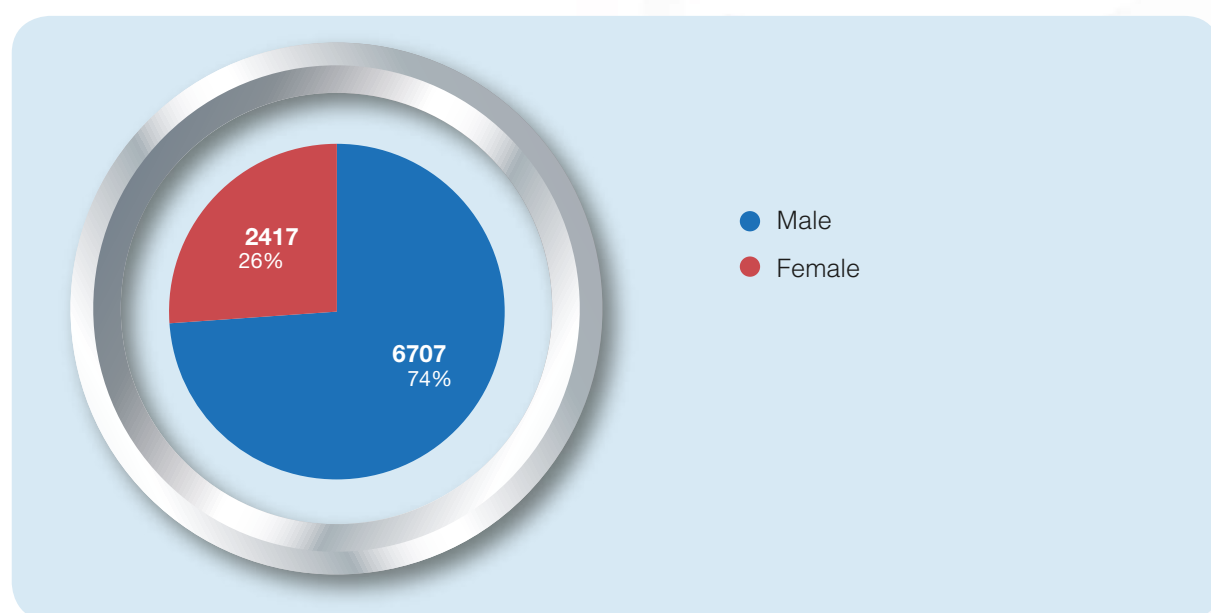
The Group regulates the incentive and constraint mechanism, revises and perfects the Management Measures on Sound Compensation Practices (《薪酬管理實施辦法》) and the Examination Method on Operation Results (《經營業績考核辦法》), guiding the Group’s reform in respect of motivation, efficiency and quality. The Group revises and perfects the policy of employee’s compensation and performance appraisal at the headquarter level of the Group, improving the Group’s performance appraisal and compensation allocation system.

Environmental, Social and Governance Report (Continued)

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

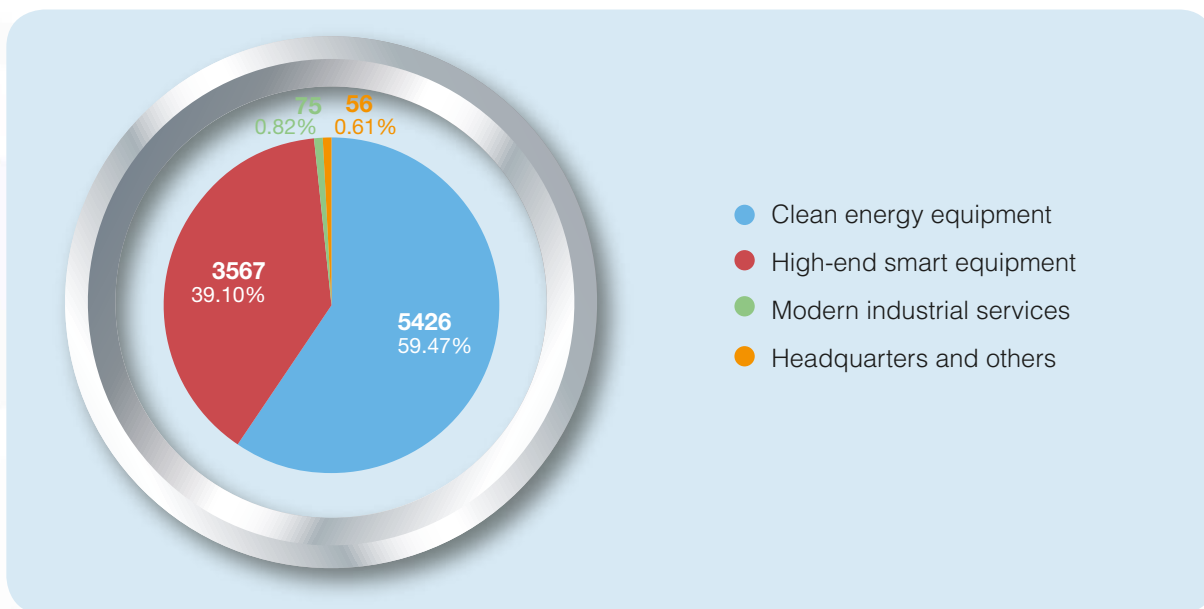
As of 31 December 2018, the Group had 9,124 dedicated employees with a more reasonable mixture of ages and specialties. The composition of the Group's employees by different criteria is set out as follows.

Employees by Gender

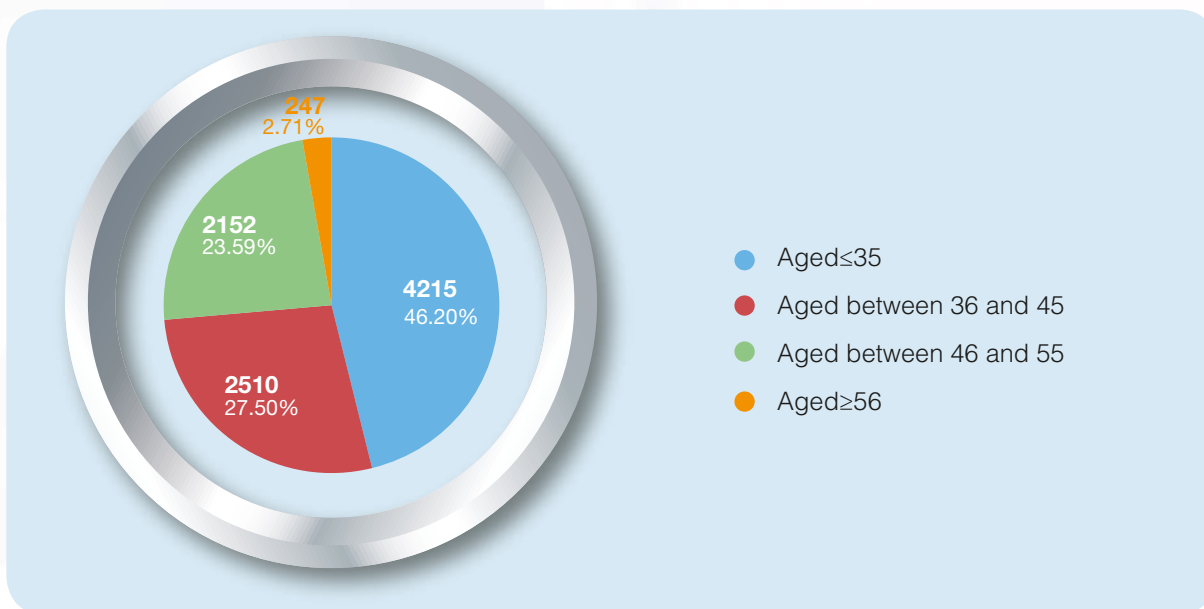


Environmental, Social and Governance Report (Continued)

Employees by Business Segment

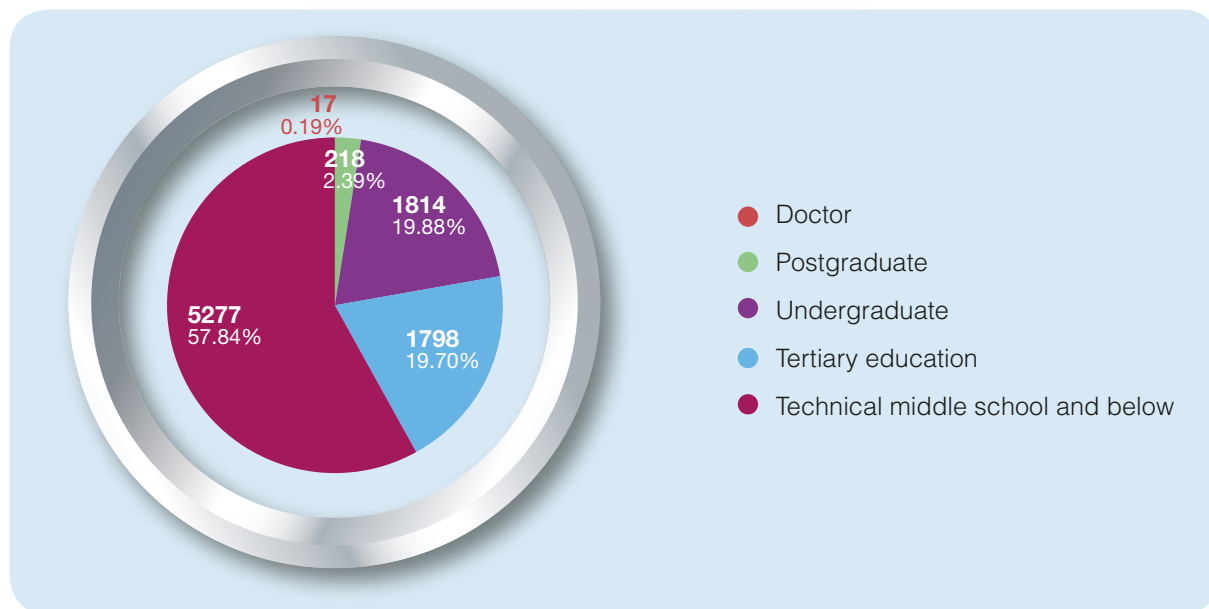


Employees by Age

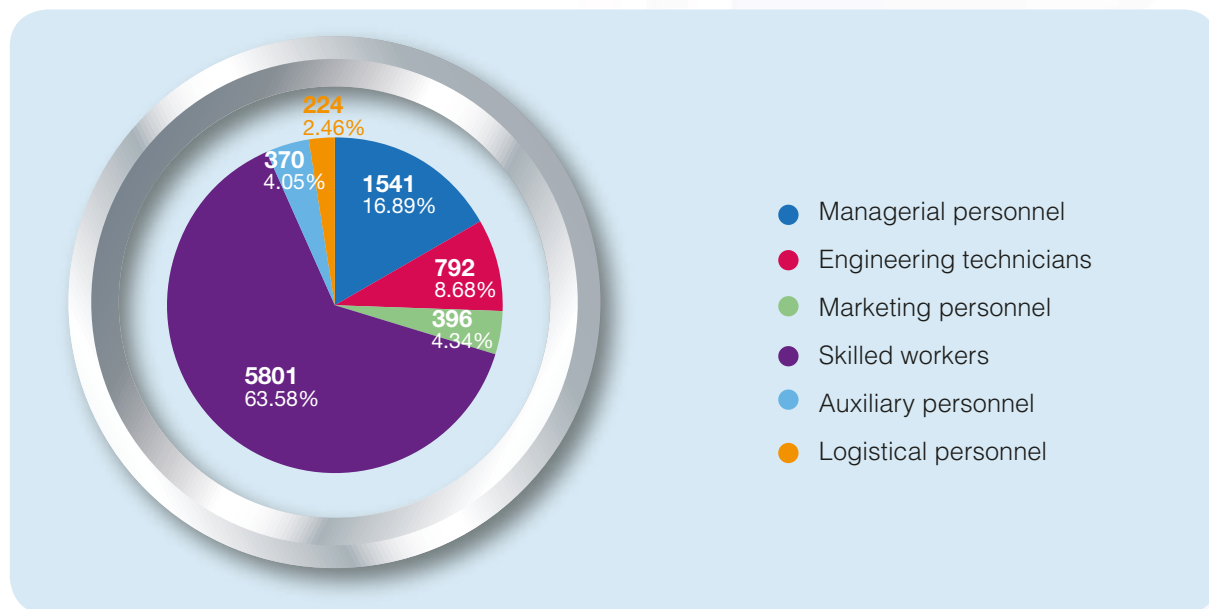


Environmental, Social and Governance Report (Continued)

Employees by Education



Employees by Specialty



Environmental, Social and Governance Report (Continued)

Health and Safety

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

We provide employees with safety training and occupational risk assessment to enhance the employees' awareness and reduce the probability of accidents. Workers involved in construction projects are required to participate in mandatory health and safety training covering all matters involved in different stages of the project, including safe cranes operation, aerial work, manual operations, safety management and site management. Employees at each business segment are furnished with dust masks, safety glasses, helmets, protective clothing and other special labour supplies by the Group depending on the nature of their work to effectively improve individual protection. Work-related injury insurance and regular health checks also cover each employee to relieve their concerns. For the year ended 31 December 2018, the Group had no work-related death or serious injury, and the work-related minor injury rate was 0.0092%, generally below the control target of 2%. The rectification rate of identified safety hazards was 99.25%, and zero additional patient of occupational disease was recorded in the year. Since the Group adopted the rotation and serialization system, it not only met the employees' need of active treatment during the work-related injuries, but also enabled the normal production and operation of the enterprise.

Development and Training

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



Environmental, Social and Governance Report (Continued)

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

Subject	Training content
Quality management training	Improving strategies regarding smart quality management in the full life cycle; containment strategies regarding quality management during on-site quality control – QC application of quality mega data; comprehensive quality management at the phase of product designing – product designing covering manufacturing, installation and costs.
Analysis and specialized practice training on mid- and long-term incentive policy of state-owned enterprises	Analysis on mid- and long-term incentive policy; practice and case sharing of design of mid- and long-term incentive and constraint policies.
Creating a well-performed team	Contents including differences between the characters of the management and leadership, the core of performance management and nine features of the well-performed team.



Quality training

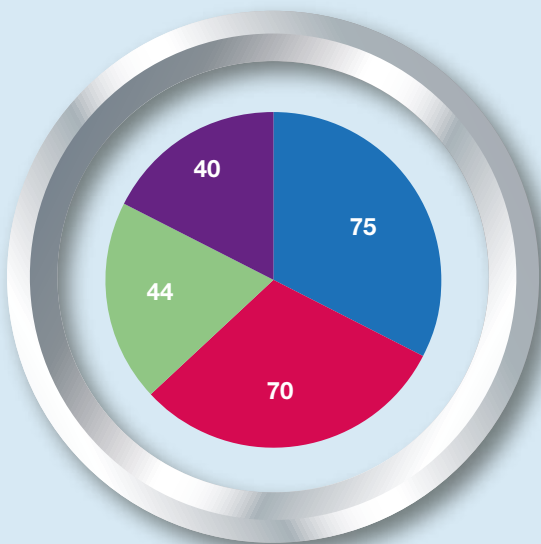
Environmental, Social and Governance Report (Continued)



Analysis and specialized practice training on mid- and long-term incentive policy of state-owned enterprises

During the Period, the Group held a total of 950 training sessions primarily covering business skills, expertise, lean manufacturing, corporate culture, employee safety and health, with an accumulated 15,600 persons participating and about 43 training hours per person on average.

Trained employees by level of senior, middle and junior level



- Senior management
- Middle management
- Junior personnel
- Skill operators

Environmental, Social and Governance Report (Continued)

Labour Standards

The Group strictly observes the Labour Law of the PRC, the Labour Contract Law of the PRC and the laws, regulations and policies against child labour or forced labour, to insist on regulating employment according to the law, protect employees' rights and interests under the laws and creates an impartial and legitimate workplace with due respect to human rights. Labour protection measures are in place for female employees in menstruation, pregnancy, maternity and lactation periods, and any work involving women at the fourth-level physical intensity as specified in national regulations or other prohibited work is prohibited. With well-established procedures in key areas such as employment and recruitment, we ensure compliance throughout the employment process and eliminate use of child labour in practices. Forced labour is prevented and the implementation of labour protection system is supervised by the labour union. During the year ended 31 December 2018, the Group did not involve any violation of standards, rules and regulations on child labour and forced labour.

Effectiveness of Human Resources

As of 31 December 2018, the Group continued to offer job opportunities to the public and recruited a total of more than 320 persons. To give better play to human resources and fulfill its social responsibility, the Group has established a human resources management system and operational mechanism catering to knowledge economy, market economy, social responsibility and the Group's development strategy. The Group developed the career paths for its employees, implemented 'dual management' to introduce and cultivate talents, and provided an incentive of approximately RMB1.6 million for the project innovation team. Differentiated remuneration policies were set up to further motivate employees, and a team of management, technology and skilled talents with proven competency has been established to provide strong talent and intelligence supports to our strategic goal.

The Group has 17 employees forming a team to participate in the "Skills Competition of CNC Lathe Workers, Assembly Technicians, Maintenance Electricians and Welders in Chongqing Metallurgical Industry" (重慶市機械冶金行業數控車工、裝配鉗工、維修電工、焊工技能大賽) sponsored by Chongqing Trade Union Council, and 2 of them won the first individual prizes, 6 won the second individual prizes and 9 won the third individual prizes.

Environmental, Social and Governance Report (Continued)



Picture of Skills Competition

Environmental, Social and Governance Report (Continued)



Environmental, Social and Governance Report (Continued)

Operational Practices

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

Corporate Governance

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

Return to Shareholders

The Company holds analyst meetings, online conferences, road shows and other activities regularly or for major events, to enhance communication with investors and prospective investors; prepare statistics and analysis of the number, composition and change of investors and prospective investors and collect their opinions or suggestions; establish and maintain sound public relations with stock exchanges, industry associations, media, other listed companies and relevant institutions; and monitor online media to timely detect false reports on the Company and safeguard the Company's positive public image. A scientific dividend distribution model has been established with a view to the Company's sustainable development and return to shareholders. Since the Company's listing in June 2008 up to the end of 2018, the Company has distributed dividends totaling approximately RMB1.548 billion (totalling RMB107 million in 2017 (after tax)), providing an attractive return to its long-term shareholders through the secondary market.



Environmental, Social and Governance Report (Continued)

Supply chain management

The Group is always open to mutual benefit through collaboration with upstream and downstream players in the industry chain. The Group adheres to open, fair and transparent criteria in selecting suppliers, selects material suppliers according to the bidding rules of each company, including evaluating suppliers every year in terms of price, quality, cost, delivery and after-sales service, and insist the dual-sourcing management to establish a supply chain platform with core competitiveness and vitality. In the procurement of raw materials, the Group deeply implemented green procurement, giving priority to the use of products with low-carbon, environmentally-friendly and low-level environmental damage. In the selection of energy sources, the Group purchased clean energy and vigorously promoted the use of low-grade energy, municipal solid waste, material energy and other non-fossil energy. For daily office supplies and other consumer goods, we try to choose the products with simple packaging that can be easily recycled. In the meantime, the Group continues to assist suppliers in upgrading management and technologies, seeking to consolidate and optimize the sustainable supply chain system for mutual growth with our suppliers. The Group has established a centralised bidding and procurement platform for bulk materials including steel products and bearings. The centralised procurements for the latest 3 years amounted to approximately RMB2.69 billion, representing a direct cost reduction of approximately RMB32.05 million.

The Group strictly pursues product quality and strictly uses high-quality raw material suppliers. We perform bidding management, conduct extensive screening and comparison, check and incorporate the process and result of bidding and tendering, and ensure bidding fairness and equity. As of 31 December 2018, the total number of suppliers of the Group is 1,574, among which there are 3 foreign suppliers and 1,571 domestic suppliers; approximately 521 suppliers are from the eastern China, approximately 789 suppliers from the middle China and approximately 264 suppliers from the western China.

Product liability

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

Environmental, Social and Governance Report (Continued)

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

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



Environmental, Social and Governance Report (Continued)

In respect of services and complaints, the Group has established pre-sales consultation, sales reception and after-sales service system. When we receive customer complaints or inquiries, our staff will deal with them promptly, and the results will be reported to customers immediately. The Group sets up the principle of customer service first and tries its best to avoid legal proceedings. The Group requires that for whatever kind of complaints, regardless of the seriousness of the circumstances, the assignees shall apologize to customers and express their respect to customers. For the year ended 31 December 2018, the Group did not recall any products for safety and health reasons.

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

Intellectual Property

The Group attaches particular importance to maintenance and protection of intellectual property rights, and has entered into strategic partnership with the Intellectual Property Office of Chongqing Municipality to promote the enhancement of enterprise patent level. In 2017, the Group obtained 406 authorized patents, including 29 authorized invention patents, and expanded its patent pool to 2,381 patents, including 172 invention patents. The Intellectual Property Office of Chongqing Municipality collaborates with the public security bureau, the authorities in regard to quality and technical supervision, commerce and industry and other relevant authorities to crack down on counterfeits infringing the Group's rights. These intellectual property protection initiatives greatly assist the Group in consolidating market share and maintaining a fair market competition environment.

Environmental, Social and Governance Report (Continued)

Information Security

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

Anti-corruption and Internal Control

The Group attaches great importance to its responsibility in anti-corruption in order to maintain a fair and positive business environment. The Group has formulated the Code of Ethics of Employees under which employees are required to abstain from accepting or offering any money, gift and hospitality that might affect their business decision or independent judgment, or exploiting their positions against the Company's interests. The Anti-Fraud Procedures and Control System is also established to prevent falsification, concealment of truth, fraudulence and other illegal behaviors by insiders or outsiders involved in the Group's activities which might infringe interests of the State, the Company or other parties. In addition to an internal audit system in place to monitor and review all employees as to their compliance with anti-corruption laws and regulations, the Group has established whistle-blowing system and procedures, including a special email address and hotline to accept whistle-blowing reports. Whistle-blowers of verified cases will be rewarded accordingly. As to 31 December 2018, the Group did not identify any corruption or bribe-taking case.



Environmental, Social and Governance Report (Continued)

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

Pursuant to the Basic Rules on Internal Control of Enterprises jointly promulgated by five ministries and commissions including the Ministry of Finance and the Code on Corporate Governance Practices for Listed Companies on the Hong Kong Stock Exchange, the Group has established a sound the internal control system. Through the evaluation and inspection on the operation of the internal control system of the Company and its subsidiaries, as well as the continuous tracking and monitoring of improvement on internal control system, the effectiveness of internal control system has been promoted. In 2018, evaluation or improvement has been conducted on the effectiveness of the internal control system for the Company, and its subsidiaries including Chongqing General, Chongqing Machine Tools and Chongqing Pump as well as the improvement on internal control system has been tracked and monitored for enterprises including Chongqing Pump, Chongqing Gas Compressor and Chongqing Water Turbine.

The Group has established an effective legal risk prevention and treatment framework comprising the Contract Management System and the Management Measures on Legal Affairs. Legal review mechanism has been established for rules and regulations, economic contracts, and material decisions. In 2018, the Group reviewed 98 contracts; and quarterly reporting mechanism of significant legal risks has been established to resolve the legal risks in a timely manner.

Environmental, Social and Governance Report (Continued)

Connecting with the Communities

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



The picture shows that on 18 March 2018, the Young Group of Pigeon Company's youths formed a volunteer team, together with "Zhishan • Chongqing New Sunshine Volunteers (至善•重慶新陽光義工)", to conduct a charity volunteer activity titled "Embrace the Children of the Stars (擁抱星星的孩子)" which provides care to autistic children at "Leyi Integrated Kindergarten" in Ge Le Shan.

Environmental, Social and Governance Report (Continued)



The picture shows that on 12 March 2018, the CCYL Committee of Pigeon Company and the Youth League of the Electrical Department of its subsidiary, in response to the development concept of “lucid waters and lush mountains are invaluable assets”, organised the “Youth Commando”, and spent two days for building an electrician’s green garden.

Environmental, Social and Governance Report (Continued)



The picture shows that on 30 March 2018, the 56th “Learning from Lei Feng Day”, the young staff from Pegion Company participated in the environmental volunteer activity titled “Beauty Jialing - CQMEHG’s Youth in Action” along the river side of Fengqituo community, Dazhulin organised by the CCYL Committee of CQMEHG.

Independent Auditor's Report

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

1. OPINION

We have audited the accompanying financial statements of Chongqing Machinery & Electric Co., Ltd (the "Company"), which comprise the consolidated and the Company's balance sheet as at 31 December 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 the year then ended and related notes to financial statements.

In our opinion, the accompanying financial statements of the Company present fairly, in all material respects, the consolidated and the Company's financial position as at 31 December 2018, the consolidated and the Company's results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

2. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing for Chinese Certified Public Accountants. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the Code of Ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities of the code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit.

Independent Auditor's Report (Continued)



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

Key Audit Matters

Responding measures

1. Provision for bad debts of Notes Receivable and Accounts Receivable

As of 31 December 2018, as stated in Note VI.3 of the Company, the book value of Note receivables and Accounts receivable is 3,765,346,019.73 RMB and the provision for bad debt is 457,849,305.43 RMB.

The main audit procedures we have implemented are as follows:

- Evaluate and test on the management and credit risk assessment of notes receivable and accounts receivable, as well as the design of identification policies and operational effectiveness;

Independent Auditor's Report (Continued)

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Key Audit Matters

Responding measures

1. Provision for bad debts of Notes Receivable and Accounts Receivable (continued)

The Company measures the provision for Accounts receivable based on the Group's policy of recognizes the expected credit losses of accounts receivable. As this need the Management to assess and identify whether the accounts receivable has credit impairments, if the re-estimation result is different from the existing estimate and the difference has a significant influence on the financial statements, therefore we consider provision for bad debts of notes receivable and accounts receivable as a key audit matter.

– We review the historical credit loss experience data and the rationality of key assumptions used by the Management to calculate the expected credit loss rate which is the assume default loss rate (it represents the possibility of final default of various types of debt), and combine the debtor's historical credit situation, historical default evidence and default ratio, and the changes in the debtor's financial credit status observed during the current period to determine whether the credit risk of notes receivable and accounts receivable has increased significantly. Then, we can evaluate the reasonableness of credit risk assessment and identification of notes receivable and accounts receivable by the Management;

Independent Auditor's Report (Continued)



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Key Audit Matters

Responding measures

1. Provision for bad debts of Notes Receivable and Accounts Receivable (continued)

- Obtain the expected credit loss model of notes receivable and accounts receivable of the Company, check the Management's assumptions and calculation process of expected credit losses, and analyze whether the basis for the provision for bad debts of notes receivable and accounts receivable is sufficient and reasonable. Recalculate whether the amount of bad debts is accurate;
- Evaluate notes receivable and accounts receivable by analyzing the aging and customer credit status of the Company and send confirmation letter for notes receivable and accounts receivable and inspect the payment received in the subsequent period and evaluate the reasonableness of the provision for bad debts of notes receivable and accounts receivable;

Independent Auditor's Report (Continued)

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Key Audit Matters

Responding measures

1. Provision for bad debts of Notes Receivable and Accounts Receivable (continued)

- Evaluate whether the accounting treatment of the notes receivable and accounts receivable for the provision of bad debts by the Management and the presentation and disclosure of relevant information in the financial statements are appropriate.

Independent Auditor's Report (Continued)



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Key Audit Matters

Responding measures

2. Provision for decline in value of inventories


As of December 31, 2018, as stated in Note VI.6 of the Company's Consolidated Financial Statements, the book value of inventories was 1,949,892,938.13 RMB, and the provision for decline in value of inventories was 157,655,591.37 RMB. It has a significant impact on the financial statements.

Inventories are measured at the lower of cost and net realisable value. The net realisable value of finished goods is determined by the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs necessary to make the sale and relevant taxes. When determining the estimated selling price the Management used significant judgments and predicted the future market trends by considering the historical market price. Since this issue involves material amounts and the Management, we consider provision for decline in value of inventories depreciation as a key audit matter.

The main audit procedures we have implemented are as follows:

- Evaluate the design and implementation of internal control related to the Company's provision for decline in value of inventories.
- Supervise the stocktaking of the Company and checks the quantity, status and the expiration date of the inventories.
- Combine the aging and expiration date of the Company's inventories, conducts an analytical review of the long-age inventories to analysis the reasonableness of provision for decline in value of inventories.

Independent Auditor's Report (Continued)

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Key Audit Matters

Responding measures

2. Provision for decline in value of inventories (continued)

- Obtain the calculation table of provision for decline in value of inventories of the Company; perform the inventory impairment test; check whether it is executed in accordance with the relevant accounting policies of the Company; exam the current period movement of provision for decline in value of inventories recognized in the previous years; and analyze whether the provision for decline in value of inventories is sufficient;
- Choose samples from the sales order after the current accounting period, and compare the selling price with the estimated selling price;
- Evaluate whether the accounting treatment of provision for decline in value of inventories by the Management and the presentation and disclosure of relevant information in the financial statements are appropriate.

Independent Auditor's Report (Continued)



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Key Audit Matters

Responding measures

3. Revenue recognition


In 2018, as stated in Note VI.46 of the Company's Consolidated Financial Statements, the total revenue is 5,284,317,532.90 RMB.

Revenue recognition has a significant impact on net profit. Revenue recognition has inherent risks, whether the revenue is complete and accurate records in the appropriate accounting period, there is a risk of material misstatement. Therefore, we consider revenue recognition as a key audit matter.

The main audit procedures we have implemented are as follows:

- Perform an internal control test related to sales and collection cycles of the Company to analyze and check the validity of the internal control of the company's revenue recognition.
- Obtain the agreement signed between the Company and the customer to check the key terms, for example, shipping and acceptance, payment and settlement policies, etc. Understand the company's judgment which has a significant impact on the timing and amount of revenue recognition, including methods for determining the progress of the implementation and adoption of the method. Estimate the reasonableness of the method used to calculate the variable price of the transaction price, the price of the transaction, and the measurement of the amount of money expected to be refunded to the customer.

Independent Auditor's Report (Continued)

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Key Audit Matters

Responding measures

3. Revenue recognition (continued)

- Perform an analytical review process to evaluate the reasonableness of sales revenue and gross profit changes, combined the industry development which the Company operates in.
- Differentiate product and sales types, and choose samples separately. Select material sample to check revenue by checking relevant supporting documents, including accounting voucher, sales records, contracts, sales invoices, shipping documents, receipts and receiving records to verify the authenticity and accuracy of revenue recognition.

Independent Auditor's Report (Continued)



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Key Audit Matters

Responding measures

3. Revenue recognition (continued)

- Evaluate the sales revenue is recorded in the appropriate accounting period by performing a cut-off test on sales revenue before and after the balance sheet date.
- Evaluate whether the accounting treatment of revenue recognition by the Company's Management and the presentation and disclosure of relevant information in the financial statements is appropriate.

Independent Auditor's Report (Continued)

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4. OTHER INFORMATION

The management of Chongqing Machinery & Electric Co., Ltd (hereinafter referred to as the "Management") is responsible for the other information. The other information comprises the information included in the Company's 2018 annual report, but does not include the financial statements and our auditor's report thereon.

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

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

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

Independent Auditor's Report (Continued)



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5. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The Management is responsible for the preparation of the financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation; and designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible to overseeing the Company's financial reporting process.

Independent Auditor's Report (Continued)

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6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

During the course of audit in accordance with auditing standards, we exercise professional judgment and maintain professional skepticism. We also carry out the following works:

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

Independent Auditor's Report (Continued)



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

- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- (4) Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements in accordance with the auditing standards or, if such disclosures are inadequate, we shall modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and also whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Independent Auditor's Report (Continued)

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

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

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

China, Beijing

20 March 2019

Consolidated Balance Sheet

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Notes	31 December 2018	31 December 2017
Current assets			
Cash and cash equivalents	VI 1	2,164,670,306.18	1,658,694,663.00
Financial assets held for sale	VI 2	5,124,292.21	–
Notes receivable and Accounts receivable	VI 3	3,765,346,019.73	3,883,314,352.00
Including: Notes receivable	VI 3.1	1,128,945,186.86	1,479,630,312.00
Accounts receivable	VI 3.2	2,636,400,832.87	2,403,684,040.00
Prepayments	VI 4	264,987,827.45	434,915,529.00
Other receivables	VI 5	928,431,789.73	1,330,585,629.00
Including: Interests receivable	VI 5.1	20,538,197.57	19,416,374.00
Dividends receivable	VI 5.2	383,447,758.44	260,528,433.00
Loans and advances to customers	VI 11(1)	1,115,437,102.20	1,007,178,150.00
Inventories	VI 6	1,949,892,938.13	2,040,955,563.00
Contractual assets	VI 7.1	249,077,553.98	–
Held-for-sale assets	VI 8	6,039,285.98	–
Non-current assets due within one year	VI 9	–	1,138,300.00
Other current assets	VI 10	81,059,064.90	188,049,577.00
Total current assets		<u>10,530,066,180.49</u>	<u>10,544,831,763.00</u>

Consolidated Balance Sheet (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Notes	31 December 2018	31 December 2017
Non-current assets			
Loans and advances to customers		38,880,000.00	37,894,354.00
Available for sale financial assets	VI 11(2)	–	–
Long-term receivables	VI 13	33,200,000.00	91,669,620.00
Long-term equity investments	VI 14	1,009,154,785.28	1,046,677,545.00
Other equity instruments investment	VI 15	46,693,061.00	–
Investment properties	VI 16	83,609,256.52	164,020,540.00
Property, plant and equipment	VI 17	3,224,720,949.14	2,866,356,781.00
Construction in progress	VI 18	171,249,276.77	418,264,301.00
Intangible assets	VI 19	617,595,163.06	615,280,100.00
Development expenditures	VI 20	29,927,674.79	7,138,672.00
Goodwill	VI 21	143,312,435.00	143,312,435.00
Long-term deferred expenses	VI 22	224,093,001.19	203,065,942.00
Deferred tax assets	VI 23	103,686,673.46	68,505,568.00
Other non-current assets	VI 24	21,495,341.97	83,655,571.00
Total non-current assets		5,747,617,618.18	5,745,841,429.00
Total assets		16,277,683,798.67	16,290,673,192.00

Consolidated Balance Sheet (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Notes	31 December 2018	31 December 2017
Current liabilities			
Short-term loans	VI 26	911,696,617.94	1,669,889,955.00
Deposits from banks and other financial institutions	VI 33	1,334,738,381.17	877,057,450.00
Notes payable and accounts payable	VI 27	2,748,376,442.76	2,759,082,239.00
Receipts in advance	VI 28	–	677,552,844.00
Contractual liabilities	VI 7.2	685,648,864.72	–
Employee benefits payables	VI 29	63,635,374.54	57,693,334.00
Taxes and levies payables	VI 30	220,974,568.70	221,341,231.00
Other payables	VI 31	599,204,267.53	526,130,340.00
Including: interests payable	VI 31.1	13,156,812.78	11,250,751.00
dividends payable	VI 31.2	27,519,691.51	30,077,325.00
Non-current liabilities due within one year	VI 32	170,826,135.24	294,663,555.00
Other current liabilities	VI 34	1,176,168.16	–
Total current liabilities		6,736,276,820.76	7,083,410,948.00
Non-current liabilities			
Long-term loans	VI 35	843,184,922.99	562,411,906.00
Bonds payable	VI 36	799,143,854.22	797,674,683.00
Including: preferred shares		–	–
perpetual bond		–	–
Long-term payables	VI 37	147,696,759.15	211,496,663.00
Long-term employee benefits payable	VI 38	16,294,000.00	15,968,000.00
Provisions	VI 39	20,617,240.24	–
Deferred revenue	VI 40	405,298,663.38	383,378,140.00
Deferred tax liabilities	VI 23	79,509,594.57	58,346,309.00
Other non-current liabilities		–	–
Total non-current liabilities		2,311,745,034.55	2,029,275,701.00
Total liabilities		9,048,021,855.31	9,112,686,649.00

Consolidated Balance Sheet (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Notes	31 December 2018	31 December 2017
Shareholder's equity			
Share capital	VI 41	3,684,640,154.00	3,684,640,154.00
Capital reserves	VI 42	50,311,968.20	49,744,935.00
Other comprehensive income	VI 43	31,052,427.09	27,977,334.00
Surplus reserves	VI 44	334,373,473.12	297,517,132.00
Retained earnings	VI 45	2,708,521,621.81	2,717,844,150.00
Total equity attributable to shareholders of the Company		<u>6,808,899,644.22</u>	<u>6,777,723,705.00</u>
Non-controlling interests		<u>420,762,299.14</u>	<u>400,262,838.00</u>
Total shareholder's equity		<u>7,229,661,943.36</u>	<u>7,177,986,543.00</u>
Total liabilities and shareholder's equity		<u>16,277,683,798.67</u>	<u>16,290,673,192.00</u>

Legal Representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Balance Sheet of the Company

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Notes	As at 31 December 2018	
		31 December 2018	31 December 2017
Current assets:			
Cash and cash equivalents		1,215,530,735.02	1,051,013,030.00
Other receivables	XVIII 1	1,434,961,752.73	1,994,281,937.00
Including: Interests receivable	XVIII 1(1)	52,085,559.19	40,221,072.00
Dividends receivable	XVIII 1(2)	383,447,758.44	260,528,433.00
Other current assets		3,309,478.99	156,197,977.00
Total current assets		<u>2,653,801,966.74</u>	<u>3,201,492,944.00</u>
Non-current assets			
Available for sale financial assets		—	—
Long-term receivables		246,100,000.00	256,000,000.00
Long-term equity investments	XVIII 2	4,558,366,763.45	4,626,938,596.00
Other equity instruments investment		46,693,061.00	—
Property, plant and equipment		41,000,530.92	31,246,276.00
Construction in progress		4,480,970.09	4,480,970.00
Intangible assets		19,187,060.87	20,016,439.00
Goodwill		293,943.72	293,946.00
Total non-current assets		<u>4,916,122,330.05</u>	<u>4,938,976,227.00</u>
Total assets		<u>7,569,924,296.79</u>	<u>8,140,469,171.00</u>

Balance Sheet of the Company (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Notes	As at 31 December 2018	
		31 December 2018	31 December 2017
Current liabilities			
Short-term loans		280,000,000.00	1,266,000,000.00
Employee benefits payables		1,887,413.85	1,320,614.00
Taxes and levies payables		123,232.06	191,446.00
Other payables		62,986,536.29	60,628,414.00
Including: interests payable		9,261,300.00	9,261,300.00
dividends payable		-	-
Non-current liabilities due within one year		53,500,000.00	2,400,000.00
Total current liabilities		398,497,182.20	1,330,540,474.00
Non-current liabilities			
Long-term loans		316,100,000.00	179,600,000.00
Bonds payable		799,143,854.22	797,674,683.00
Including: preferred shares		-	-
perpetual bond		-	-
Long-term payables		-	-
Long-term employee benefits payables		-	-
Provisions		-	-
Deferred revenue		-	-
Deferred tax liabilities		8,367,050.00	9,060,378.00
Other non-current liabilities		-	-
Total non-current liabilities		1,123,610,904.22	986,335,061.00
Total liabilities		1,522,108,086.42	2,316,875,535.00

Balance Sheet of the Company (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Notes	As at 31 December 2018	
		31 December 2018	31 December 2017
Shareholder's equity			
Share capital		3,684,640,154.00	3,684,640,154.00
Capital reserves		140,716,900.00	140,716,900.00
Other comprehensive income		616,640.00	2,696,625.00
Surplus reserves		348,748,849.03	346,387,469.00
Retained earnings		1,873,093,667.34	1,649,152,488.00
Total shareholder's equity		<u>6,047,816,210.37</u>	<u>5,823,593,636.00</u>
Total liabilities and shareholder's equity		<u>7,569,924,296.79</u>	<u>8,140,469,171.00</u>

Legal Representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Consolidated Income Statement

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Notes	For the year 2018	
		For the year 2018	For the year 2017
1. Total operating revenue		5,284,317,532.90	9,292,602,679.67
Including: Operating revenue	VI 46	5,215,368,816.23	9,217,378,658.00
Interest income	VI 46	68,548,323.06	73,763,913.67
Transaction fees and commission income	VI 46	400,393.61	1,460,108.00
2. Total operating cost		5,380,384,782.98	9,584,897,503.00
Including: Operating cost	VI 46	4,029,037,198.67	8,146,143,025.00
Interest expenses	VI 46	9,317,288.09	10,380,310.00
Transaction cost and commission fees	VI 46	118,839.98	81,550.00
Business taxes and surcharges	VI 47	63,485,555.23	60,847,167.00
Selling and distribution expenses	VI 48	298,156,677.80	282,134,154.00
Administrative expenses	VI 49	513,983,557.96	673,214,052.00
Research and development expenses	VI 50	240,974,839.39	198,720,426.00
Financial expenses	VI 51	128,937,348.85	99,848,642.00
Including: Interest expenses	VI 51	160,792,293.33	113,181,092.00
Interest income	VI 51	38,473,948.90	17,728,904.00
Loss on impairment of assets	VI 52	76,668,574.02	113,528,177.00
Impairment loss on credit	VI 53	19,704,902.99	–
Add: Others	VI 57	133,621,128.92	59,020,629.00
Gain arising from the changes in fair value (Loss listed with “–”)	VI 54	(109,704.27)	–
Investment income (Loss listed with “–”)	VI 55	418,925,355.40	472,783,898.00
Including: income from investments in associates and joint ventures	VI 55	369,941,950.32	360,840,184.00
Gain on disposal of assets (Loss listed with “–”)	VI 56	100,360,500.73	240,368,367.00

Consolidated Income Statement (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Notes	For the year 2018	
		For the year 2018	For the year 2017
3. Operating profit (Loss listed with “-”)		556,730,030.70	479,878,070.67
Add: Non-operating income	VI 58	15,877,488.95	9,028,694.00
Less: Non-operating expenses	VI 59	16,935,459.00	20,434,479.00
4. Total profit (Loss listed with “-”)		555,672,060.65	468,472,285.67
Less: Income tax expenses	VI 60	60,500,227.64	102,453,392.00
5. Net profit (Net loss listed with “-”)		495,171,833.01	366,018,893.67
Including: the net profit realized by the merged party before merger through business combination under common control		—	969,952.00
(1) Classification by continuing or discontinued operation		495,171,833.01	366,018,893.67
Net profit attributable to continuing operation (Net loss listed with “-”)		495,171,833.01	366,018,893.67
Net profit attributable to discontinued operation (Net loss listed with “-”)		—	—
(2) Classification by ownership		495,171,833.01	366,018,893.67
Net profit attributable to shareholders of the controlling company		444,060,837.38	316,644,903.00
Net profit attributable to non-controlling interests		51,110,995.63	49,373,990.67

Consolidated Income Statement (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Notes	For the year 2018	
		For the year 2018	For the year 2017
6. Net other comprehensive income after tax	VI 43	5,514,177.09	13,800,713.00
Net other comprehensive income after tax attributable to shareholders of the Company	VI 43	5,155,078.09	13,800,713.00
(1) Other comprehensive incomes that cannot be reclassified into profit or loss	VI 43	1,384,451.00	7,135,569.00
Including: 1. Changes from recalculation of defined benefit plan	VI 43	1,384,451.00	7,135,569.00
(2) Other comprehensive income that can be reclassified into profit or loss	VI 43	3,770,627.09	6,665,144.00
Including: 1. Gain or loss from fair value changes of available-for-sale financial assets	VI 43	475,865.00	(1,092,435.00)
2. Share of other comprehensive income of investee company under equity method that can be reclassified as profit or loss	VI 43	(1,658,986.00)	1,295,008.00
3. Effective portion of net investment hedging gains and losses	VI 43	4,234,206.34	4,635,332.00
4. Translation differences of financial statements in foreign currencies	VI 43	719,541.75	1,827,239.00
Net other comprehensive income after tax attributable to non-controlling interests	VI 43	359,099.00	–
7. Total comprehensive income		500,686,010.10	379,819,606.67
Total comprehensive income attributable to shareholders of the Company		449,215,915.47	330,445,616.00
Total comprehensive income attributable to non-controlling interests		51,470,094.63	49,373,990.67
8. Earnings per share			
Basic earnings per share		0.12	0.09
Diluted earnings per share		0.12	0.09

Legal Representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Income Statement of the Company

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Notes	For the year 2018	
		For the year 2018	For the year 2017
1. Total operating revenue	XVIII 3	2,247,005.78	–
Less: Operating cost	XVIII 3	–	–
Business taxes and surcharges		629,481.47	382,518.00
Administrative expenses		43,868,142.60	39,493,622.00
Financial expenses		16,030,766.46	2,007,883.00
Including: Interest expenses		86,587,848.78	74,199,730.08
Interest income		74,769,054.57	70,800,175.88
Impairment loss on credit		3,644,517.34	–
Add: Others		875,434.19	–
Investment income (Loss listed with “–”)	XVIII 4	435,654,044.70	287,131,237.00
Including: income from investments in associates and joint ventures	XVIII 4	365,625,074.86	294,727,306.00
2. Operating profit (Loss listed with “–”)		374,603,576.80	245,247,214.00
Add: Non-operating income		8,708.56	–
Less: Non-operating expenses		6,048,873.70	36,792,276.00
3. Total profit (Loss listed with “–”)		368,563,411.66	208,454,938.00
Less: Income tax expenses		–	–
4. Net profit (Net loss listed with “–”)		368,563,411.66	208,454,938.00
Net profit attributable to continuing operation (Net loss listed with “–”)		368,563,411.66	208,454,938.00
Net profit attributable to discontinued operation (Net loss listed with “–”)		–	–

Income Statement of the Company (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Notes	For the year 2018	
		For the year 2018	For the year 2017
5. Net other comprehensive income after tax		(2,079,985.00)	2,696,625.00
(1) Other comprehensive income that can not be reclassified into profit or loss		-	-
(2) Other comprehensive income that can be reclassified as profit or loss		(2,079,985.00)	2,696,625.00
1. Other comprehensive income that can be reclassified into profit or loss under equity method		-	616,640.00
2. Changes in fair value of financial assets held for sale		(2,079,985.00)	2,079,985.00
6. Total comprehensive income		<u>366,483,426.66</u>	<u>211,151,563.00</u>

Legal Representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Consolidated Statement of Changes in Equity

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Equity attributable to the equity holders of the controlling Company											Total equity	
	For the year 2018												
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained earnings		Non-controlling interests
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	400,282,838.00	7,177,986,543.00
Add: Changes in accounting policies	-	-	-	-	-	-	(2,079,985.00)	-	-	-	(305,543,321.33)	(6,339,889.26)	(313,963,195.59)
Correction of prior-period errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2018	3,684,640,154.00	-	-	-	49,744,935.00	-	25,897,349.00	-	297,517,132.00	-	2,412,300,828.67	393,922,948.74	6,884,023,347.41
3. Increase/Decrease for the year (Decrease listed with "-")	-	-	-	-	567,033.20	-	5,155,078.09	-	36,856,941.12	-	296,220,793.14	26,839,350.40	365,638,995.95
(1) Total comprehensive income	-	-	-	-	-	-	5,155,078.09	-	-	-	444,660,837.39	51,110,995.62	500,326,911.10
(2) Capital contribution and reduction from shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Common stock capital contribution from shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Capital contribution from holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-

Consolidated Statement of Changes in Equity (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	For the year 2018											Total equity
	For the year 2018											
	Equity attributable to the equity holders of the controlling Company											
Share capital	Other equity instruments				Capital reserves	Less:			General risk provision	Retained earnings	Non-controlling interests	Total equity
	Share capital	Preferred shares	Perpetual bond	Others		treasury shares	comprehensive income	Other income				
3. Equity increase from Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit appropriations	-	-	-	-	-	36,866,341.12	-	-	(147,840,044.25)	(22,721,152.03)	(133,704,855.16)	-
1. Appropriation to statutory reserve	-	-	-	-	-	36,866,341.12	-	-	(36,866,341.12)	-	-	-
2. Appropriation to staff bonus and welfare	-	-	-	-	-	-	-	-	(444,498.51)	-	(444,498.51)	-
3. Appropriation to shareholders	-	-	-	-	-	-	-	-	(110,539,204.62)	(22,721,152.03)	(133,260,356.65)	-
4. Increment in capital by non-controlling interest shareholders	-	-	-	-	-	-	-	-	-	-	-	-
5. Others	-	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer of capital reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer of surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves transfer to make up for losses	-	-	-	-	-	-	-	-	-	-	-	-

Consolidated Statement of Changes in Equity (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	For the year 2018											Total equity
	Equity attributable to the equity holders of the controlling Company											
	Other equity instruments			Less:		Other comprehensive income						
Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	treasury shares	comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained earnings	Non-controlling interests	
4. Transfer changes of defined benefit plan to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
5. Transfer other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation	-	-	-	-	-	-	-	-	-	-	-	-
2. Used	-	-	-	-	-	-	-	-	-	-	-	-
(6) Business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-
(7) Others	-	-	-	-	-	-	-	-	-	-	(1,550,499.19)	(983,459.99)
4. Balance at 31 Dec 2018	3,694,640,154.00	-	-	-	50,311,968.20	-	31,052,427.09	334,373,473.12	-	2,708,521,621.81	420,762,299.14	7,229,661,943.36

Legal Representative: _____ Person in charge of accounting function: _____
 Person in charge of accounting department: _____

Consolidated Statement of Changes in Equity (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	For the year 2018										For the year 2017																
	Equity attributable to the equity holders of the controlling Company										Equity attributable to the equity holders of the controlling Company																
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained earnings	Non-controlling interests	Total equity	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained earnings	Non-controlling interests	Total equity	
1. Balance at 31 December 2016	3,684,640,154.00	-	-	-	166,143,834.00	-	14,176,021.00	-	332,505,407.00	-	2,551,313,941.00	580,596,859.00	7,319,375,816.00	-	-	-	-	-	-	14,176,021.00	-	332,505,407.00	-	2,551,313,941.00	580,596,859.00	7,319,375,816.00	
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Correction of prior-period errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2. Balance at 1 January 2017	3,684,640,154.00	-	-	-	166,143,834.00	-	14,176,021.00	-	332,505,407.00	-	2,551,313,941.00	580,596,859.00	7,319,375,816.00	-	-	-	-	-	-	13,800,713.00	-	(34,988,275.00)	-	166,530,293.00	(180,333,021.00)	(141,389,273.00)	
3. Increase/Decrease for the year (Decrease listed with "-")	-	-	-	-	(106,398,899.00)	-	13,800,713.00	-	(34,988,275.00)	-	166,530,293.00	49,373,991.00	379,819,607.00	-	-	-	-	-	-	13,800,713.00	-	(34,988,275.00)	-	316,644,903.00	49,373,991.00	379,819,607.00	
(1) Total comprehensive income	-	-	-	-	-	-	13,800,713.00	-	-	-	166,530,293.00	49,373,991.00	379,819,607.00	-	-	-	-	-	-	13,800,713.00	-	(34,988,275.00)	-	316,644,903.00	49,373,991.00	379,819,607.00	
(2) Capital contribution and reduction from shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Common stock capital contribution from shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Capital contribution from holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Consolidated Statement of Changes in Equity (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	For the year 2018										Total equity			
	For the year 2017													
	Equity attributable to the equity holders of the controlling Company													
	Other equity instruments					Less:					Total equity			
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	treasury shares	comprehensive income	Other	Special reserves	Surplus reserves		General risk provision	Retained earnings	Non-controlling interests
3. Equity increase from Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit appropriations	-	-	-	-	20,845,494.00	-	-	-	-	-	-	(150,114,684.00)	(98,538,444.00)	(227,867,644.00)
1. Appropriation to statutory reserve	-	-	-	-	20,845,494.00	-	-	-	-	-	-	(20,845,494.00)	-	-
2. Appropriation to staff bonus and welfare	-	-	-	-	-	-	-	-	-	-	-	(306,794.00)	-	(306,794.00)
3. Appropriation to shareholders	-	-	-	-	-	-	-	-	-	-	-	(128,962,406.00)	(103,958,444.00)	(232,920,850.00)
4. Increment in capital by non-controlling interest shareholders	-	-	-	-	-	-	-	-	-	-	-	-	5,360,000.00	5,360,000.00
5. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer of capital reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer of surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves transfer to make up for losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Transfer changes of defined benefit plan to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Consolidated Statement of Changes in Equity (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	For the year 2018											Total equity
	For the year 2017											
	Equity attributable to the equity holders of the controlling Company											
Share capital	Other equity instruments			Capital reserves	Less:			Special reserves	Surplus reserves	General risk provision	Retained earnings	Non-controlling interests
	Preferred shares	Perpetual bond	Others		treasury shares	Other comprehensive income	Others					
5. Transfer other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation	-	-	-	-	-	-	-	-	-	-	-	-
2. Used	-	-	-	-	-	-	-	-	-	-	-	-
(6) Business combination under common control	-	-	-	-	(103,078,398.00)	-	-	-	(44,030,102.00)	-	-	(147,108,500.00)
(7) Others	-	-	-	-	(3,320,501.00)	-	-	-	(11,803,667.00)	-	(131,108,588.00)	(146,232,736.00)
4. Balance at 31 Dec 2017	3,684,640,154.00	-	-	49,744,935.00	-	27,977,334.00	-	297,517,102.00	-	2,717,944,150.00	400,262,838.00	7,177,966,543.00

Legal Representative: Person in charge of accounting function: Person in charge of accounting department:

Statement of Changes in Equity of the Company

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	For the year 2018										Total equity
	Other equity instruments					Less:					
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	
1. Balance at 31 December 2017	3,684,640,154.00	-	-	-	140,716,900.00	-	2,696,625.00	-	346,387,469.00	1,649,152,488.00	5,823,593,636.00
Add: Changes in accounting policies	-	-	-	-	-	-	(2,079,985.00)	-	-	2,773,313.00	693,328.00
Correction of prior-period errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2018	3,684,640,154.00	-	-	-	140,716,900.00	-	616,640.00	-	346,387,469.00	1,651,925,801.00	5,824,286,964.00
3. Increase/Decrease for the year (Decrease listed with "-")	-	-	-	-	-	-	-	-	2,361,380.03	221,167,866.34	223,529,246.37
(1) Total comprehensive income	-	-	-	-	-	-	-	-	-	368,563,411.66	368,563,411.66
(2) Capital contribution and reduction from shareholders	-	-	-	-	-	-	-	-	-	-	-
1. Common stock capital contribution from shareholders	-	-	-	-	-	-	-	-	-	-	-
2. Capital contribution from holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Equity increase from Share-based payments	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit appropriations	-	-	-	-	-	-	-	-	36,856,341.03	(147,395,545.32)	(110,539,204.29)
1. Appropriation to statutory reserve	-	-	-	-	-	-	-	-	36,856,341.03	(96,856,341.03)	-
2. Appropriation to shareholders	-	-	-	-	-	-	-	-	-	(110,539,204.29)	(110,539,204.29)
3. Others	-	-	-	-	-	-	-	-	-	-	-

Statement of Changes in Equity of the Company (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	For the year 2018										Total equity	
	Other equity instruments					Less:						
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	treasury shares	comprehensive income	Special reserves	Surplus reserves	Retained earning		
(4) Transfer	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer of capital reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer of surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves transfer to make up for losses	-	-	-	-	-	-	-	-	-	-	-	-
4. Transfer changes of defined benefit plan to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
5. Transfer other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation	-	-	-	-	-	-	-	-	-	-	-	-
2. Used	-	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	(34,494,961.00)	-	-	(34,494,961.00)
4. Balance at 31 Dec 2018	3,684,640,154.00	-	-	-	140,716,900.00	-	616,640.00	-	346,748,849.03	1,873,093,667.34	-	6,047,816,210.37

Legal Representative: Person in charge of accounting function: Person in charge of accounting department:

Statement of Changes in Equity of the Company (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	For the year 2018										Total equity
	For the year 2017										
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	
1. Balance at 31 December 2016	3,684,640,154.00	-	-	-	137,875,036.00	-	-	-	325,541,975.00	1,590,505,450.00	5,738,582,617.00
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Correction of prior-period errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2017	3,684,640,154.00	-	-	-	137,875,036.00	-	-	-	325,541,975.00	1,590,505,450.00	5,738,582,617.00
3. Increase/Decrease for the year (Decrease listed with "-")	-	-	-	-	2,841,862.00	-	2,686,625.00	-	20,845,494.00	58,647,038.00	85,031,019.00
(1) Total comprehensive income	-	-	-	-	-	-	2,686,625.00	-	-	208,454,938.00	211,151,563.00
(2) Capital contribution and reduction from shareholders	-	-	-	-	-	-	-	-	-	-	-
1. Common stock capital contribution from shareholders	-	-	-	-	-	-	-	-	-	-	-
2. Capital contribution from holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Equity increase from Share-based payments	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit appropriations	-	-	-	-	-	-	-	-	20,845,494.00	(149,807,900.00)	(128,962,406.00)
1. Appropriation to statutory reserve	-	-	-	-	-	-	-	-	20,845,494.00	(20,845,494.00)	-
2. Appropriation to shareholders	-	-	-	-	-	-	-	-	-	(128,962,406.00)	(128,962,406.00)
3. Others	-	-	-	-	-	-	-	-	-	-	-

Statement of Changes in Equity of the Company (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	For the year 2018										Total equity	
	For the year 2017											
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings		
(4) Transfer	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer of capital reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer of surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves transfer to make up for losses	-	-	-	-	-	-	-	-	-	-	-	-
4. Transfer changes of defined benefit plan to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
5. Transfer other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation	-	-	-	-	-	-	-	-	-	-	-	-
2. Used	-	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	2,841,862.00	-	-	-	-	-	-	2,841,862.00
4. Balance at 31 Dec 2017	3,664,640,154.00	-	-	-	140,716,800.00	-	2,636,825.00	-	346,387,469.00	1,649,152,488.00	-	5,823,533,636.00

Legal Representative:

Person in charge of accounting function:

Person in charge of accounting department:

Consolidated Statement of Cash Flow

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Notes	For the year 2018	
		For the year 2018	For the year 2017
1. Cash flows from operating activities			
Cash received from sales of goods and rendering of services		5,323,456,455.98	9,088,996,685.00
Net increase in customer deposits and interbank deposits		427,680,931.17	–
Net decrease in loans and advances to customers		–	106,298,892.00
Net increase in central bank payments		10,000,000.00	–
Net increase in and interbank payments		30,000,000.00	–
Cash received from interest, surcharges and commission fee		83,252,825.45	78,392,698.00
Cash received from tax refund		32,838,560.49	–
Cash received relating to other operating activities		531,538,013.11	28,860,689.00
Sub-total of cash inflows from operating activities		<u>6,438,766,786.20</u>	<u>9,302,548,964.00</u>
Cash paid for goods and services		4,384,588,756.25	8,168,238,079.00
Net decrease in customer deposits and interbank deposits		–	222,952,695.00
Net increase in loans and advances to customers		102,560,214.54	–
Net increase in central bank and interbank payments		12,329,593.95	(34,160,331.00)
Cash paid for interest, surcharges and commission fee		8,528,897.62	–
Cash paid to and on behalf of employees		875,830,676.03	933,551,287.00
Payments of taxes and surcharges		367,491,397.93	258,683,810.00
Cash paid relating to other operating activities		605,794,412.50	551,131,450.00
Sub-total of cash outflows from operating activities		<u>6,357,123,948.82</u>	<u>10,100,396,990.00</u>
Net cash flows from operating activities		<u>81,642,837.38</u>	<u>(797,848,026.00)</u>

Consolidated Statement of Cash Flow (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Notes	For the year 2018	
		For the year 2018	For the year 2017
2. Cash flows from investment activities			
Cash received from return of investments		150,000,001.00	219,527,258.00
Cash received from investments income		263,263,119.20	337,003,490.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		425,389,449.20	295,744,271.00
Net cash received from disposal of subsidiaries and other business units		—	318,760,500.00
Cash received relating to other investing activities		428,307,039.39	67,647,430.00
Sub-total of cash inflows from investing activities		1,266,959,608.79	1,238,682,949.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets		276,188,941.05	476,592,572.00
Cash paid for investments		40,000,000.00	156,058,193.00
Net cash paid to acquire subsidiaries and other business units		—	147,108,500.00
Cash paid relating to other investing activities		48,194,021.94	—
Sub-total of cash outflow from investing activities		364,382,962.99	779,759,265.00
Net cash flows from investing activities		902,576,645.80	458,923,684.00

Consolidated Statement of Cash Flow (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	Notes	For the year 2018	
		For the year 2018	For the year 2017
3. Cash flows from financing activities			
Cash received from investments		-	-
Including: cash received by subsidiaries from investment of non-controlling interests		-	-
Cash received from loans granted		1,903,601,200.00	2,083,528,402.00
Cash received relating to other financing activities		340,256,690.38	144,405,831.00
Sub-total of cash inflows from financing activities		<u>2,243,857,890.38</u>	<u>2,227,934,233.00</u>
Cash paid for repayment of borrowings		2,464,674,400.00	1,553,346,897.00
Cash paid for dividends, profits or payments of interests		276,973,008.62	376,698,207.00
Including: dividends and profits paid to non-controlling interests by subsidiaries		-	100,933,342.00
Cash paid relating to other financing activities		84,915,416.50	178,675,901.00
Sub-total of cash outflows from financing activities		<u>2,826,562,825.12</u>	<u>2,108,721,005.00</u>
Net cash flows from financing activities		<u>(582,704,934.74)</u>	<u>119,213,228.00</u>
4. Effects of changes in exchange rate on cash and cash equivalents		<u>(5,710,451.38)</u>	<u>1,310,289.00</u>
5. Net increase in cash and cash equivalents		395,804,097.06	(218,400,825.00)
Add: opening balance of cash and cash equivalents		<u>1,174,539,298.00</u>	<u>1,392,940,123.00</u>
6. Balance of cash and cash equivalents at the end of this period	VI, 1	<u>1,570,343,395.06</u>	<u>1,174,539,298.00</u>

Legal Representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Cash Flow Statement of the Company

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	For the year 2018	
	For the year 2018	For the year 2017
1. Cash flows from operating activities		
Cash received from sales of goods and rendering of services	-	-
Cash received from tax refund	-	-
Cash received relating to other operating activities	27,086,676.44	690,962.00
Sub-total of cash inflows from operating activities	27,086,676.44	690,962.00
Cash paid for goods and services	-	-
Cash paid to and on behalf of employees	19,799,466.65	18,068,362.00
Payments of taxes and surcharges	693,231.90	2,459,630.00
Cash paid relating to other operating activities	23,206,643.54	21,194,695.00
Sub-total of cash outflows from operating activities	43,699,342.09	41,722,687.00
Net cash flows from operating activities	(16,612,665.65)	(41,031,725.00)
2. Cash flows from investment activities		
Cash received from return of investments	150,000,001.00	168,899,971.00
Cash received from investments income	325,891,841.36	506,014,118.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	-	-
Net cash received from disposal of subsidiaries and other business units	-	305,011,150.00
Cash received relating to other investing activities	2,503,099,025.79	416,607,179.00
Sub-total of cash inflows from investing activities	2,978,990,868.15	1,396,532,418.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets	984,953.00	439,226.00
Cash paid for investments	23,000,000.00	169,408,191.00
Net cash paid to acquire subsidiaries and other business units	-	147,108,500.00
Cash paid relating to other investing activities	1,775,500,000.00	1,179,041,075.00
Sub-total of cash outflow from investing activities	1,799,484,953.00	1,495,996,992.00
Net cash flows from investing activities	1,179,505,915.15	-99,464,574.00

Cash Flow Statement of the Company (Continued)

Prepared by: Chongqing Machinery & Electric Co., Ltd. Unit: RMB

Item	For the year 2018	
	For the year 2018	For the year 2017
3. Cash flows from financing activities		
Cash received from loans granted	1,050,000,000.00	1,266,000,000.00
Cash received relating to other financing activities	—	31,746,333.00
Sub-total of cash inflows from financing activities	1,050,000,000.00	1,297,746,333.00
Cash paid for repayment of borrowings	1,848,400,000.00	620,172,328.00
Cash paid for dividends, profits or payments of interests	193,795,244.37	204,161,964.00
Cash paid relating to other financing activities	47,865,666.03	143,210,293.00
Sub-total of cash outflows from financing activities	2,090,060,910.40	967,544,585.00
Net cash flows from financing activities	(1,040,060,910.40)	330,201,748.00
4. Effects of changes in exchange rate on cash and cash equivalents	(446,717.50)	585,991.00
5. Net increase in cash and cash equivalents	122,385,621.60	190,291,440.00
Add: opening balance of cash and cash equivalents	970,196,461.00	779,905,021.00
6. Balance of cash and cash equivalents at the end of this period	1,092,582,082.60	970,196,461.00

Legal Representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Notes to the Consolidated Financial Statements

From 31 December 2017 to 31 December 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 RMB2,679,740,154 (RMB1 per share).

On 13 June 2008, the Group publicly issued 1,004,900,000 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 RMB3,684,640,154.

Registered capital of the Company was RMB3,684,640,154 for the year ended 31 December 2018.

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 20 March 2019.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The scope of consolidated financial statements of the Group includes 42 companies such as Chongqing General Industry (Group) Co., Ltd., Chongqing Pigeon Electric Wires & Cables Co., Ltd. (“Pigeon Wires”) and Chongqing Water Turbine Works Co., Ltd.. Two wholly owned subsidiary companies, Chongqing Huahao Smelting Co., Ltd., and PTG Advanced Developments Ltd., were reduced due to cancellation of the companies compared with the previous year.

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 of the Group have been prepared on a going concern basis and based on transactions and events actually incurred, in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance, Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 – General Rules on Financial Reporting (revised) and other related regulations issued by the China Securities Regulatory Commission, Hong Kong “Company Ordinance” and the related disclosure requirements of the “Listing Rules” on the Stock Exchange of Hong Kong, and based on the accounting policies and accounting estimates set out in “IV Principal accounting policies and accounting estimates” of this notes.

(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.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Specific accounting policies and accounting estimates are formulated by the Group based on actual manufacturing and operating characteristics including business cycle, recognition and measurement of provision for bad debts of accounts receivable, inventory cost flow assumptions, measurement of net realizable value of inventory, classification and depreciation method of fixed assets, amortization of intangible assets, capitalization of Research and Development expenses, recognition and measurement of revenue, etc.

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.

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).

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

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

As the merging party, assets acquired and liabilities obtained by the Group through a business combination under common control shall be measured at their carrying amounts of the combined party in the ultimate controlling party's consolidated financial statements at the consolidation date. The differences between the carrying amount of the net assets acquired and the carrying amount of the consideration paid should be adjusted in the capital reserve. If capital reserve is not sufficient for offsetting, the retained earnings shall be adjusted.

The identifiable assets, liabilities and contingent liability as considerations are measured by the Group at their fair values at acquisition date. Consolidation cost is the sum of fair value of cash paid or non-cash assets paid to get control of acquiree, liabilities issued or assumed, equity securities issued and all other direct costs during business combination (for those business combination achieved in stages, the consolidation cost equals to the sum of each transaction). The excess of consolidation cost over the fair value of net identifiable assets of the acquiree shall be recognised as goodwill. It should reassess the fair value of all identifiable assets achieved through business consolidation, liabilities or contingent liabilities, non-cash assets or equity securities issued if the consolidation cost is less than the fair value of net identifiable assets. After reassess, if the consolidation cost is still less than the the fair value of net identifiable assets of the acquiree, the excess shall be recognised into non-operating income.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

6. Preparation of Consolidated Financial Statements

The consolidated financial statements included all subsidiaries and special purpose entities that the Company has effective control.

When preparing the consolidated financial statements, if the subsidiary's accounting policies or accounting period is not consistent with the Group, the financial statement of the subsidiaries shall be adjusted.

All major internal transactions, current balances and unrealized profits within the scope of the merger shall be offset at the time of preparation of the consolidated statements. The share of the owner's equity of a subsidiary that does not belong to the parent company and the current net profit and loss, other comprehensive income and the share of the total comprehensive income that belongs to the minority shareholders' equity shall be listed as Minority interests, Non-controlling interest and Other comprehensive income attributable to Non-controlling interest and total comprehensive income attributable to non-controlling interest in the consolidated financial statements.

For the subsidiaries consolidated under common control, its operating results and cash flows shall be included in the consolidated financial statements from the beginning of the consolidated period. When preparing comparative consolidated financial statements, adjust the related items of prior year's financial statements. The reporting subject formed after the merger is always present since the time when the ultimate controlling party began to control.

For the subsidiary acquired through the business combination not under common control, operating results and cash flows should be included in the consolidated financial statements from the date on which control is transferred to the Group. When preparing consolidated financial statements, it shall adjust the financial statements of subsidiary company on the basis of the fair values of the identifiable assets, liabilities and contingent liabilities determined on the acquisition date.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

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

The Group partially disposes the long-term equity investments in subsidiaries without losing of control. In the consolidated financial statements, the difference between the disposal price and disposal of long-term equity investments shall be subject to the share of net assets that the subsidiaries continue to calculate from the date of purchase or the date of combination shall adjust capital premium or equity premium. If the capital is not sufficient for offsetting, the retained earnings shall be adjusted.

When disposing part of the equity investment and lose control of the entity, when preparing the consolidated financial statements, the Group shall re-measure the fair value of the remaining equity investment subsequent to the disposal at the date when the Group lost control. The sum of the disposal consideration amount and the fair value of the remaining equity investment less the difference between the share of the net assets that the original subsidiary from the acquisition date or the combination date, the difference is recorded in the loss of control investment income in the current period and write down the goodwill. Other comprehensive income related to the equity investment of the original subsidiaries shall be transferred to investment profit and loss in the current period when the control was lost.

The Group disposes of the equity investment in the subsidiary through multiple transactions until it loses control. When several transactions related to the disposal of equity investment in a subsidiary until the control over the subsidiary is lost belong to transactions in a basket, each of which is accounted for as disposal of a subsidiary with a transaction until the control over a subsidiary is lost; however, the different between the amount of disposal prior to the loss of control and the net assets of a subsidiary attributable to the disposal investment shall be recognized as other comprehensive income in consolidated financial statements and transferred to profit or loss at the time when the control is lost.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

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

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

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.

7. Cash and Cash Equivalents

Cash in the Group's cash flows statement represents cash on hand and deposits that can be readily draw on demand. Cash equivalents in the cash flow statement represent short-term (3 months or less), and highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

8. Foreign currency transactions and translation of financial statements denominated in foreign currency

(1) Foreign currency transactions

Foreign currency transactions are translated into RMB at the spot exchange rate of the transaction dates. On balance sheet date, foreign currency monetary items are translated into RMB at the spot exchange rate of balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets.

(2) Translation of foreign currency financial statements

Asset and liability items in the balance sheet of foreign operations are translated at the spot exchange rates at the balance sheet date; equity items other than undistributed profits are translated at the spot exchange rates at the date of the transactions. Income and expense items in the income statements are translated at the spot exchange rate at the date of the transactions. The foreign currency statement translation difference arising from the above conversion shall be listed in other comprehensive income item. The impact of the foreign currency translation on the cash is presented in the cash flow statement separately.

Notes to the Consolidated Financial Statements *(Continued)*

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(All amounts are presented in RMB except otherwise stated)

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, recognition basis and measurement 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.

The Group classifies the financial assets into financial assets as subsequently 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. Such financial asset is measured initially at its fair value, the relating transaction costs shall be recognized into the initial amount of the financial asset, and is subsequently measured at amortized cost. Except for the case that the financial asset is designated for hedging project, gain or loss arising from derecognition, impairment or amortization for the difference between the initial amount and the amount due using the effective interest method are recorded in current profit or loss.

Notes to the Consolidated Financial Statements *(Continued)*

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

9. Financial assets and financial liabilities *(continued)*

(1) Financial assets *(continued)*

1) *Classification, recognition basis and measurement of financial assets (continued)*

The Group classifies the financial assets into financial assets 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. Such financial asset is measured initially at its fair value, and the relating transaction costs shall be recognized into the initial amount of the financial asset. Gain or loss incurred by financial assets measured at fair value through other comprehensive income excepting the case that the financial asset is designated for hedging project 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. When the financial asset is derecognized, accumulated gains or losses previously recognized in other comprehensive income shall be transferred to current profit or loss from other comprehensive income.

Notes to the Consolidated Financial Statements *(Continued)*

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(All amounts are presented in RMB except otherwise stated)

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

9. Financial assets and financial liabilities *(continued)*

(1) Financial assets *(continued)*

1) *Classification, recognition basis and measurement of financial assets (continued)*

The Group recognized interest revenue according to effective interest rate method. Interest revenue is calculated by multiplying the gross carrying amount of financial assets by the effective interest rate, but except the following conditions: a) for the financial assets purchased or originated with impairment loss, the interest income is calculated and determined according to the amortized cost of the financial assets and the effective interest rate adjusted by credit from initial recognition; b) for the financial assets purchased or originated without impairment loss, but impaired in subsequent period, the interest income is calculated and determined according to the amortized cost of the financial assets and the effective interest rate in the subsequent period.

The Group designated the investment of equity instruments not held for trading as financial assets measured at fair value through other comprehensive income. Once the designation has been made, it cannot be cancelled. The investment of equity instruments not held for trading designated by the Group measured at fair value through other comprehensive income is measured initially at its fair value, the relating transaction costs shall be recognized into the initial amount of the financial asset; except for the dividends gain (excluding the cost recovery of investment) is recognized in current profit or loss, other related gain and loss (including foreign exchange profit or loss) are all recognized in other comprehensive income, and cannot be transferred into current profit or loss subsequently.

Notes to the Consolidated Financial Statements *(Continued)*

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(All amounts are presented in RMB except otherwise stated)

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

9. Financial assets and financial liabilities *(continued)*

(1) Financial assets *(continued)*

1) *Classification, recognition basis and measurement of financial assets (continued)*

In addition to the financial assets classified above as financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income, the Group classifies others as financial assets measured at fair value through current profit or loss. Such financial asset is measured initially at fair value, and the relating transaction costs shall be recognized into current profit or loss. The gain or loss of such financial assets shall be recognized in current profit or loss.

The financial asset constituted by contingent consideration through a business combination not under common control by the Group is classified into financial asset measured at fair value through current profit or loss.

At the time of initial recognition, in order to eliminate or significantly reduce accounting mismatch, the Group designated the following financial assets as financial assets measured at fair value through current profit or loss.

Notes to the Consolidated Financial Statements *(Continued)*

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

9. Financial assets and financial liabilities *(continued)*

(1) Financial assets *(continued)*

2) Recognition basis and measurement of transferring 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.

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).

Notes to the Consolidated Financial Statements *(Continued)*

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(All amounts are presented in RMB except otherwise stated)

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

9. Financial assets and financial liabilities *(continued)*

(2) Financial liabilities

1) *Classification, recognition basis and measurement of financial liabilities*

The group classifies the financial liabilities upon initial recognition as financial liabilities measured at fair value through profit or loss and other financial liabilities.

Financial liabilities measured at fair value through profit or loss, including financial liabilities held for trading and those designated as measured at fair value through profit or loss upon initial recognition, (relevant classification basis is disclosed according to the classification basis of financial assets), are measured subsequently at fair value, and profits or losses resulting from changes in fair value and dividends and interest expense related to financial liabilities are recognized in current profits and losses.

Other financial liabilities, (specific disclosure of financial liabilities according to actual situation), are subsequently measured at amortized cost using effective interest method. 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. (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).

Notes to the Consolidated Financial Statements *(Continued)*

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(All amounts are presented in RMB except otherwise stated)

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

9. Financial assets and financial liabilities *(continued)*

(2) Financial liabilities *(continued)*

*1) Classification, recognition basis and measurement of financial liabilities *(continued)**

The financial liability constituted by contingent consideration confirmed by the buyer through a business combination not under common control by the Group is measured at fair value through current profit or loss.

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 Group 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. When the Group performed substantive changes 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.

Notes to the Consolidated Financial Statements *(Continued)*

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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 assets and financial liabilities

The Group measures the fair value of financial assets and financial liabilities at the prices in principal market, or in the absence of a principal market, measures the fair value at the prices in the most advantageous market, and use valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. The input value used in fair value measurement is divided into three levels: the first level of input value is the unadjusted quotation of the same assets and liabilities that can be obtained on the measurement day in the active market; the second level of input value is the direct or indirect observable input value of related assets and liabilities in addition to the first level input value; the third level of input value is the unobservable input level of related assets and liabilities. The Group prefers the first level of input values, and uses the third level of input values at last. Investment of other equity instruments uses the first level of input values. The level of fair value measurement results is determined by the lowest level of input values which are of great significance to fair value measurement as a whole.

The Group measures the investment of equity instruments at fair value. But in limited cases, if the short-term information used to determine fair value is insufficient, or if the possible estimated amount of fair value is widely distributed, and the cost represents the best estimate of fair value in the range, the cost can represent its proper estimate of fair value in the range of distribution.

Notes to the Consolidated Financial Statements *(Continued)*

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(All amounts are presented in RMB except otherwise stated)

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

9. Financial assets and financial liabilities *(continued)*

(4) Elimination between financial assets and financial liabilities

The financial assets and liabilities of the Group are shown separately in the balance sheet and are not offset by each other. However, when the following conditions are met at the same time, the net amount offset shall be shown in the balance sheet: a) the Group has a statutory right to set off the recognized amount, and the statutory right is currently enforceable. b) the Group intends to settle its financial assets and liabilities in net amount, or liquidate the financial assets and settle the financial liabilities at the same time.

Notes to the Consolidated Financial Statements *(Continued)*

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

9. Financial assets and financial liabilities *(continued)*

(5) Difference between financial liabilities and equity instruments and relevant measurement

The Group distinguishes between financial liabilities and equity instruments in accordance with the following principles: (1) If the Group cannot unconditionally avoid fulfilling a contractual obligation by delivering cash or other financial assets, the contractual obligation meets the definition of financial liability. Although some financial instruments do not explicitly contain terms and conditions for the obligation to deliver cash or other financial assets, they may indirectly form contractual obligations through other terms and conditions. (2) If a financial instrument is to be settled with the Group's own equity instruments, it is necessary to consider whether the Group's own equity instruments used to settle the instrument are to be used as a substitute for cash or other financial assets, or to enable the holder of the instrument to take residual equity in the assets after the issuer deducts all liabilities. If the former is the case, the instrument is the issuer's financial liabilities. If the latter is the case, the instrument is the issuer's equity instrument. In some cases, a financial instrument contract sets that the group shall use or use its own equity instruments to settle the financial instrument, in which the amount of contractual rights or obligations is equal to the number of its own equity instruments available or to be delivered multiplied by the fair value at the time of settlement, whether the amount of the contractual rights or obligations is fixed or changes totally or partially based on the division of this set variables other than the market price of the group's own equity instruments (such as interest rates, the price of a commodity or the price of a financial instrument), the contract is classified as financial liabilities.

Notes to the Consolidated Financial Statements *(Continued)*

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

9. Financial assets and financial liabilities *(continued)*

(5) Difference between financial liabilities and equity instruments and relevant measurement *(continued)*

In classifying financial instruments (or their components) in the consolidated statements, the Group takes into account all terms and conditions reached between the members of the Group and the holders of financial instruments. If the group as a whole assumes the obligation to deliver cash, other financial assets or settle accounts in other ways that result in the instrument becoming a financial liability, the instrument should be classified as a financial liability.

Where financial instruments or their components are financial liabilities, the relevant interest, dividends (or stock bonus), gains or losses, as well as gains or losses arising from redemption or refinancing, shall be included in the profits and losses of the current period.

Where a financial instrument or its components belong to an equity instrument, when it is issued (including refinancing), repurchased, sold or cancelled, the Group shall account as a change of equity, and shall not recognize the change of the fair value of the equity instrument.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

10. Notes receivable and accounts receivable

The determination method and accounting treatment method of anticipated credit loss of notes receivable and accounts receivable.

The Group shall always measures its loss preparation in accordance with the amount equivalent to the anticipated credit loss during the whole life period for the accounts receivable formed by the transactions regulated by the CAS 14 – Revenue and excluding significant financing elements.

The judgment of whether credit risk has increased significantly since the initial confirmation. The Group judges whether the credit risk of financial instruments has increased significantly by comparing the default probability of financial instruments in the expected duration determined at the initial confirmation and the default probability of financial instruments in the expected duration determined at the balance sheet date. However, if the Group determines that the financial instrument has only a low credit risk on the balance sheet date, it can be assumed that the credit risk of the financial instrument has not increased significantly since the initial confirmation. Usually, if the delay exceeds 30 days, the credit risk of financial instruments has increased significantly. Unless the Group is able to obtain reasonable and valid information without unnecessary additional costs or efforts, proving that credit risk has not increased significantly since the initial confirmation even if the overdue period exceeds 30 days. In determining whether credit risk has increased significantly since the initial confirmation, the Group considers reasonable and valid information, including prospective information that can be obtained without unnecessary additional costs or efforts.

Notes to the Consolidated Financial Statements *(Continued)*

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

10. Notes receivable and accounts receivable *(continued)*

Prospective information considered by the Group includes:

- Major financial difficulties occur to the issuer or debtor;
- Breach of contract by the debtor, such as overdue payment of interest or principal, breach of contract, etc;
- The creditor gives the debtor concessions under no other circumstances for economic or contractual considerations related to the debtor's financial difficulties;
- The debtor is likely to go bankrupt or undergo other financial restructuring;
- Financial difficulties of issuer or debtor lead to the disappearance of active market of financial assets;
- Buying or generating a financial asset at a substantial discount reflects the fact that credit losses occur.

Assessment based on portfolio: For notes receivable and accounts receivable, the Group cannot obtain sufficient evidence of significant increase in credit risk at a reasonable cost at a single instrument level, but it is feasible to assess whether the increase in credit risk is significant on the basis of portfolio. Therefore, the Group shall divide the notes receivable into groups and evaluate the increase in credit risk based on groups according to the type of financial instruments, credit risk rating, type of collateral, initial recognition date and the remaining contract period. The Group shall divide the accounts receivable into groups and evaluate the increase in credit risk based on groups according to the type of financial instruments, credit risk rating, type of collateral, initial recognition date and the remaining contract period.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

10. Notes receivable and accounts receivable *(continued)*

Expected credit loss measurement: Expected credit loss refers to the weighted average value of credit loss of financial instruments weighted by the risk of default. Credit loss is the difference between the cash flow of all contracts discounted according to the original real interest rate and the expected cash flow of all contracts receivable according to the contract, which refers to the present value of all cash shortages.

The Group calculates the expected credit loss of notes receivable and accounts receivable on the balance sheet date. If the expected credit loss is greater than the current book value of the provision for impairment of accounts receivable and notes receivable, the Group recognizes the difference as the loss of impairment of notes receivable and accounts receivable, and debits the “loss of credit impairment” and credits the “provision for bad debts”. On the contrary, the Group recognizes the difference as impairment gains and records the opposite.

Where the group actually incurs credit losses and finds that the relevant receivables and accounts receivable cannot be recovered, and is approved for cancellation, it shall debit “provision for bad debts” and credit “notes receivable” or “accounts receivable” according to the approved amount of write-off. If the amount of write-off is greater than the loss provision already calculated, it shall debit “credit impairment loss”.

Notes to the Consolidated Financial Statements *(Continued)*

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

11. Other receivables

The determination method and accounting treatment method of anticipated credit loss of other receivables.

The Group measures the provision for loss of other receivables in accordance with the following circumstances: a. If the credit risk has not increased significantly since the initial confirmation, the Group shall measure the loss preparation according to the amount of anticipated credit losses in the next 12 months. b. Financial assets whose credit risk has increased significantly since the initial confirmation, the Group measures the loss provision in the amount equivalent to the expected credit loss of the financial instrument during its entire life cycle. c. When purchasing or originating financial assets that have suffered credit impairment, the Group shall measure the loss provision in the amount equivalent to the expected credit loss during the whole life period.

Portfolio-based assessment: For other receivables, the Group is unable to obtain sufficient evidence of a significant increase in credit risk at a reasonable cost at a single instrument level, and it is feasible to assess whether a significant increase in credit risk is achieved on the basis of a portfolio. Therefore, other receivable is characterized by types of financial instrument, credit risk ratings, collateral types, initial confirmation date and residual contract duration to evaluate whether credit risk increases significantly on the basis of portfolio.

Expected credit loss measurement: Expected credit loss refers to the weighted average value of credit loss of financial instruments weighted by the risk of default. Credit loss is the difference between the cash flow of all contracts discounted according to the original real interest rate and the expected cash flow of all contracts receivable according to the contract, which refers to the present value of all cash shortages.

Notes to the Consolidated Financial Statements *(Continued)*

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

11. Other receivables *(continued)*

The Group shall calculate the expected credit loss of other receivables on the balance sheet date. If the expected credit loss is greater than the current book value of impairment provision of other receivables, the Group recognizes the difference as impairment loss of other receivables, debits “credit impairment loss” and credits “bad debt provision”. On the contrary, the Group recognizes the difference as impairment gains and records the opposite.

If the group actually incurs credit losses and finds that other receivables cannot be recovered, and is approved for write-off, it shall debit “bad debts preparation” and credit “other receivables” according to the approved amount of write-off. If the amount of write-off is greater than the loss provision already calculated, it shall debit “credit impairment loss” according to the different amount.

12. Inventories

The Group’s inventories include but not limited to the raw materials, packaging material, low-value consumption goods, unfinished products, and merchandise inventories.

Perpetual inventory system is adopted by the Group. Inventory is valued at actual cost when acquired. Weighted average method and individual valuation method are used to determine the actual cost of the inventory used or issued. Low-value consumption goods are amortized at one time when they are used.

Net realizable value of merchandise inventory, unfinished products and materials held for sale is the estimated selling price in the ordinary course of business less the applicable variable selling expenses and related taxes. Net realizable value of material inventory held for production is the estimated selling price of the products less estimated costs of completion, applicable variable selling expenses and related taxes.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

13. Contractual assets

(1) Recognition method and standards of contractual assets

Contractual assets refer to the Group's right (depends on factors other than passage of time) to collect costs from customers in exchange for goods or services transferred by the Group. If the Group sells two clearly distinguishable goods to its customers, it has the right to collect payment for one of the goods delivered, but the collection depends on the delivery of another commodity, the Group regards the right to collect payment as a contractual asset.

(2) Method of determining expected credit loss of contractual assets and accounting treatment

Method of determining expected credit loss of contractual assets, please refers to 10. relevant description of Notes receivable and accounts receivable.

Accounting Treatment: The Group calculates the expected credit loss of contract assets on the balance sheet date. If the expected credit loss is greater than the book value of the current provision for impairment of contract assets, the Group recognizes the difference as impairment losses, and debits the "loss of credit impairment" and credits the "provision for impairment of contractual assets". On the contrary, the Group recognizes the difference as impairment gains and records the opposite.

If the Group actually incurs credit losses and finds that the relevant contractual assets cannot be recovered, and is approved to write off, it shall debit the "provision for impairment of contractual assets" and credit the "contractual assets" according to the approved amount of write-off. If the amount of write-off is greater than the loss provision already calculated, it shall debit "loss of credit impairment" according to the different amount.

Notes to the Consolidated Financial Statements *(Continued)*

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

14. Contractual costs

(1) Method for determining the amount of assets related to contractual costs

The Group's assets related to contractual costs include contract performance costs and contract acquisition costs.

The cost of contract performance, that is, the cost incurred by the Group for the performance of the contract, does not fall within the scope of other enterprise accounting standards and meets the following conditions at the same time, is recognized as an asset as the cost of contract performance: the cost is directly related to a current or expected contract, including direct labor, direct materials, manufacturing costs (or similar costs), costs and other costs incurred solely as a result of the contract and is clearly undertaken by the customer. The cost increases the Group's resources for future performance obligations; the cost is expected to be recovered.

The acquisition cost of a contract, is the incremental cost expected to be recovered by the Group in order to obtain the contract, and is recognized as an asset as the acquisition cost of the contract; if the amortization period of the asset does not exceed one year, the profits and losses of the current period shall be included in the occurrence of the asset. Incremental cost refers to the cost (such as sales commission) that will not occur if the group does not obtain a contract. Expenditures incurred by the Group for the purpose of obtaining a contract other than the incremental costs expected to be recovered (e.g. travel expenses incurred regardless of whether the contract was acquired) are recorded in the current profits and losses at the time of occurrence, except those clearly undertaken by the customer.

Notes to the Consolidated Financial Statements *(Continued)*

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(All amounts are presented in RMB except otherwise stated)

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

14. Contractual costs *(continued)*

(2) Amortization of assets related to contractual costs

The Group's assets related to contract costs shall be amortized on the same basis as the commodity income recognition related to the assets, and shall be included in the current profits and losses.

(3) Impairment of assets related to contractual costs

In determining impairment losses of assets related to contract costs, the Group first determines impairment losses in accordance with other relevant enterprise accounting standards and other assets related to the contract; then determines impairment losses in accordance with their book value higher than the residual consideration expected by the Group for the transfer of commodities related to the asset and estimates the costs to be incurred for the transfer of the related commodities. If the difference between the two items exceeds the allowance for impairment, the provision for impairment shall be calculated and the impairment loss of assets shall be considered.

After the factors of impairment in the previous period have changed, and the above-mentioned balance is higher than the book value of the asset, the provision for asset impairment which was originally calculated shall be transferred back to the current profit and loss, but the book value of the asset after the transfer shall not exceed the book value of the asset on the transfer date assumed that the provision for asset impairment is not included.

Notes to the Consolidated Financial Statements *(Continued)*

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

15. Long-term equity investment

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

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

If the Group holds, directly or indirectly (e.g. through subsidiaries) more than 20% but lower than 50% of the voting power of the investee, it is presumed that the entity has significant influence. If the Group holds, directly or indirectly (e.g. Through subsidiaries) less than 20% of the voting power of the investee, the representation on the board of directors or equivalent governing body of the investee, or participation in financial and operation policy-making process, or the material transaction between the entity and the investee, or expedition of management personnel, or the provision of essential technical information will be considered.

A subsidiary company of the Group is the entity that controls the invested unit. 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. If the book value of the net assets of the merged party is negative on the date of merger, the cost of long-term equity investment shall be fixed at zero.

Notes to the Consolidated Financial Statements *(Continued)*

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(All amounts are presented in RMB except otherwise stated)

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

15. Long-term equity investment *(continued)*

If a company acquires the equity of the invested entity under common control step by step through multiple transactions and eventually forms a merger, it shall supplement the method of dealing with the long-term equity investment disclosed in the financial statements of the parent company during the reporting period of acquiring the control right. For example, the investee's equity is acquired step by step under common control through multiple transactions, and eventually the enterprise merges, which belongs to a package transaction. The Group will treat all transactions as a control transaction. If it does not belong to the package transaction, the initial investment cost of the long-term equity investment shall be the share of the net assets of the merged party in the book value of the final controlling party's consolidated financial statements on the date of merger. The capital reserve is adjusted by the difference between the initial investment cost and the book value of the long-term equity investment before the merger, plus the sum of the book value of the new share payment on the merger day, and if the capital reserve is insufficient to be reduced, the retained earnings shall be reduced.

The initial investment cost is the actual acquisition cost if the long-term equity investment is acquired through a business combination not under common control.

Notes to the Consolidated Financial Statements *(Continued)*

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

15. Long-term equity investment *(continued)*

If a company acquires the equity of the invested entity not under common control step by step through multiple transactions and eventually forms a merger, it shall supplement the method of dealing with the cost of long-term equity investment disclosed in the financial statements of the parent company during the reporting period of acquiring the control right. For example, the investee's shares are acquired step by step through multiple transactions, and eventually a merger of enterprises is formed, which belongs to a package transaction, the Group will treat all transactions as a control transaction. If the transaction does not belong to the package transaction, the initial investment cost shall be accounted for according to the book value of the original equity investment and the sum of the additional investment cost. If the equity held is accounted for by equity method before the acquisition date, the other comprehensive income accounted by the original equity method will not be adjusted temporarily, and when dealing with the investment, the same basis as the assets or liabilities directly disposed of by the invested entity shall be adopted for accounting treatment. If the equity held prior to the purchase date is accounted for at fair value in the financial assets available for sale, the cumulative changes in fair value originally included in other comprehensive gains are transferred to the current investment gains and losses on the consolidation date.

In addition to the above-mentioned long-term equity investments obtained through enterprise mergers, long-term equity investments obtained by paying cash shall be regarded as investment costs according to the purchase price actually paid; long-term equity investments obtained by issuing equity securities shall be regarded as investment costs according to the fair value of issuing equity securities; long-term equity investments invested by investors shall be regarded as investment costs in accordance with investment contracts or agreements.

Notes to the Consolidated Financial Statements *(Continued)*

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

15. Long-term equity investment *(continued)*

The Group adopts cost method to account for subsidiary investment and equity method to account for joint venture and joint venture investment.

The book value of the cost of long-term equity investment which based on cost method in subsequent measurement will increase according to the fair value of the cost paid by the additional investment and the related transaction costs when additional investment is made. The cash dividend or profit declared by the invested entity shall be recognized as the current investment income according to the amount taken.

The book value of long-term equity investment which uses equity method in subsequent measurement will increase or decrease accordingly with the change of owner's equity of other invested units. Among them, when confirming the share of the net profit and loss of the invested unit, based on the fair value of the identifiable assets of the invested unit at the time of acquiring the investment, and in accordance with the accounting policies and accounting period of the group, and offsetting the internal transaction gains and losses occurring between the joint venture and the joint venture, which belong to the invested enterprise according to the share-holding ratio, the net value of the invested unit shall be calculated. Profit is confirmed after adjustment.

When the long-term equity investment is disposed, the difference between its book value and the actual price obtained shall be included in the current investment income. If a long-term equity investment calculated by the equity method is included in the owner's rights and interests due to other changes in the owner's rights and interests other than net profit and loss of the invested entity, the portion originally included in the owner's rights and interests shall be transferred to the current investment profit and loss according to the corresponding proportion when disposing of the investment.

Notes to the Consolidated Financial Statements *(Continued)*

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

15. Long-term equity investment *(continued)*

If the joint control or significant influence on the invested unit is lost due to the disposal of part of the equity investment, the residual equity after disposal shall be accounted for financial assets available for sale. The difference between the fair value and book value of the remaining equity on the date of the loss of joint control or significant influence shall be included in the current profits and losses. The other comprehensive income of the original equity investment confirmed by the equity method shall be accounted for on the same basis as the assets or liabilities directly disposed of by the invested entity when the equity method is terminated.

If the disposal of part of the long-term equity investment loses control over the invested entity, the residual equity after disposal can exercise joint control or exert significant influence on the invested entity, the balance between the book value of the disposal equity and the disposal consideration shall be accounted for as the investment income, and the residual equity shall be accounted for by the equity method after disposal. If the residual equity cannot exert joint control or exert significant influence on the invested unit, it shall be accounted for according to the relevant provisions of the financial assets available for sale. The difference between the book value of the disposal equity and the book value of the disposal equity shall be included in the investment income. The difference between the fair value of the residual equity on the day of losing control and the book value shall be included in the current investment profit and loss.

If the transaction from step-by-step disposal to the loss of controlling rights does not belong to the package of transaction, each transaction is accounted for separately. In a “package transaction”, transactions are treated as a transaction to dispose of subsidiaries and lose control rights. However, before the loss of control rights, the difference between the disposal price of each transaction and the book value of the long-term equity investment corresponding to the disposed equity is recognized as other comprehensive income, and when the control rights are lost, it will be transferred to current profits and losses of losing control rights.

Notes to the Consolidated Financial Statements *(Continued)*

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

16. 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.

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	0.00-5.00	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.

Notes to the Consolidated Financial Statements *(Continued)*

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

16. Investment properties *(continued)*

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.

17. Property, plant and equipment

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

Property, plant and equipment comprise buildings, machineries, transportations, office and electrical equipments, etc. The property, plant, and equipment of the Group refers to tangible assets held for the production of commodities, the provision of labor services, leasing or operation and management for a period of more than one year.

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 expenditure 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.

Notes to the Consolidated Financial Statements *(Continued)*

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

17. 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	3.00-5.00	1.90-4.75
2	Machinery equipments	7-28 years	5.00	3.39-13.57
3	Transportations	6-12 years	5.00	7.92-15.83
4	Office equipments	3-14 years	5.00	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.

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

17. 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.

Notes to the Consolidated Financial Statements *(Continued)*

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

18. Construction in progress

When construction in progress reaches the predetermined usable state, it should be transferred to fixed asset according to the estimated value regards to budget, cost and actual construction cost, and be depreciated from the next month. After the completion of final accounts, the difference of the original value of fixed assets will be adjusted.

19. Borrowing cost

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.

The actual interest costs incurred by the funds borrowed specifically less the interest earned by the unused part deposited in the bank or any income earned on the temporary investment shall be capitalized; 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.

Notes to the Consolidated Financial Statements *(Continued)*

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

20. 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) Categories of intangible assets

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 a fixed 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 the 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.

Notes to the Consolidated Financial Statements *(Continued)*

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

20. Intangible assets *(continued)*

(1) Categories of intangible assets *(continued)*

4) Software

Software licenses are capitalized by 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 a 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 will compensate for the difference, which is shown as financial assets while the Group recognize the revenue.

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 an intangible asset while recognizing the revenue.

Notes to the Consolidated Financial Statements *(Continued)*

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

20. Intangible assets *(continued)*

(1) Categories of 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) *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 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 the following criteria are fulfilled:

Notes to the Consolidated Financial Statements *(Continued)*

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

20. Intangible assets *(continued)*

(1) Categories of intangible assets *(continued)*

*6) Research and development *(continued)**

- (a) It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (b) Management intends to complete the intangible asset to use or sell it;
- (c) It can be demonstrated how the intangible asset will generate probable future economic benefits;
- (d) Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- (e) The expenditure attributable to the intangible asset during its development can be reliably measured.

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 development 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.

Notes to the Consolidated Financial Statements *(Continued)*

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

20. Intangible assets *(continued)*

(2) 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.

(3) 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.

21. Impairment of long-term assets

At the end of each reporting period, long-term equity investments, investment property carried at cost, property, plant and equipment, construction in progress, intangible assets with definite useful lives are assessed for impairment by the Group when there is any indication that an asset may be impaired. Goodwill and intangible assets with indefinite useful lives shall be assessed for impairment at the end of each reporting period no matter there is any indication for impairment or not.

The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The recoverable amount should be determined for an individual asset. If it is not possible to determine the recoverable amount for an individual asset, the recoverable amount shall be determined for cash-generating units in which the asset included. The identification of an asset's cash-generating unit shall be based on whether the main cash inflows generated by the asset's cash-generating unit are independent of the cash inflows from other assets or cash-generating units. When the recoverable amount of an asset or a cash-generating unit is less than its carrying amount, the carrying amount shall be written down to its recoverable amount. The reduction shall be recognised as the current profit or loss, and the corresponding provision for impairment of assets is also recognised.

Notes to the Consolidated Financial Statements *(Continued)*

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

21. Impairment of long-term assets *(continued)*

When testing the impairment of relevant cash-generating units or groups of cash-generating units containing goodwill, if there are signs of impairment of cash-generating units or groups of cash-generating units related to goodwill, the impairment test of cash-generating units or cash-generating units without goodwill is carried out first, and the recoverable amount is calculated to confirm the corresponding impairment loss. Then the impairment test is carried out on the cash-generating units or groups of cash-generating units containing goodwill, and the carrying amount and the recoverable amount are compared. If the recoverable amount is lower than the carrying amount, 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.

22. 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 the units-of-production method based on estimated times for which they can be used over the benefit period.

Notes to the Consolidated Financial Statements *(Continued)*

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

23. Contract liabilities

A contract liability reflects the Group's obligation to transfer goods to a customer when the Group has received consideration or an amount of consideration is due from the customer. If the customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers goods to the customer, the Group shall recognize the contract liability based on the amount of consideration received or receivable when the payment is made or the payment is due (whichever is earlier).

24. 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.

Notes to the Consolidated Financial Statements *(Continued)*

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

24. Employee benefits *(continued)*

Post-employment benefit schemes are classified as defined contribution plans and defined benefit plans. 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 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 have the obligation to pay their basic pension. The payment made according to the policy when employee renders 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.

Termination benefits are the compensations made to employees when the Group terminates the employment relationship with employees prior to the expiration 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.

Notes to the Consolidated Financial Statements *(Continued)*

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

24. Employee benefits *(continued)*

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 the 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 in the profit and loss in the current period.

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

25. Provision

Present obligations arising as a result of a past event (such as warranty, onerous contract, etc.) are recognized as provision when the performance of such obligations is likely to result in the outflow of economic benefits and the amount can be estimated reliably.

The amount recognized as a provision is the best estimate of the expenditure required to perform the present obligation. Lots of factors, such as risks and uncertainties that surround the underlying events and the 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.

Notes to the Consolidated Financial Statements *(Continued)*

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

25. Provision *(continued)*

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.

26. Revenue recognition and measurement

The Group's operating revenue mainly includes sales revenue of goods, revenue of providing services, revenue of EPC construction contract, interest income, revenue of leasing contract, etc.

(1) Revenue recognition

The Group shall recognize revenue when the Group satisfies the performance obligation of the contract, that is, the customer obtains control of relevant goods or services. Control of a good or service refers to the ability to direct the use of the good or service, and obtain substantially all of the benefits from the goods or services.

When the contract contains two or more performance obligations, on the inception of the contract, the transaction price is allocated to each separate performance obligation in proportion to the stand-alone price of the promised goods or services, and the revenue is recognized according to the transaction price allocated to each performance obligation.

Notes to the Consolidated Financial Statements *(Continued)*

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

26. Revenue recognition and measurement *(continued)*

(1) Revenue recognition *(continued)*

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The transaction price confirmed by the Group does not exceed the amount that is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. An entity shall recognize a refund liability if the entity expects to refund some or all of the consideration to the customer which is not included in the transaction price. Where there is significant financing component in the contract, the Group shall determine the transaction price on the basis of the amount payable in cash when the customer assumes control of the goods or services. The difference between the transaction price and the contract consideration shall be amortized by the effective interest rate method during the contract period. The Group shall not take into account the existence of a significant financing component in the contract if the Group expects, at contract inception, that the period between when the customer acquires the control of a promised good or service and when the customer pays for that good or service will be one year or less.

The Group satisfies a performance obligation over time, if one of the following criteria is met; otherwise, it satisfies a performance obligation at a point in time: (1) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; (2) the customer can control the asset which is created by the Group's performance; (3) the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date during the whole contact period.

Notes to the Consolidated Financial Statements *(Continued)*

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

26. Revenue recognition and measurement *(continued)*

(1) Revenue recognition *(continued)*

For a performance obligation satisfied over time, the Group shall recognize revenue over time by measuring the process towards complete satisfaction of the performance obligation. If the Group cannot be able to reasonably measure the progress towards complete satisfaction of a performance obligation and the costs incurred by the Group can be expected to be compensated, the revenue shall be recognized according to the costs incurred until such time that it can reasonably measure the process towards complete satisfaction of the performance obligation.

For a performance obligation satisfied at a point in time, the Group shall recognize revenue when the customer obtains control of relevant goods or services. In judging whether customers obtain control of promised goods or services, the Group considers the following indications: (1) the Group has a present right to the payment for the goods or services; (2) the Group has transferred the legal title of the goods to customers; (3) the Group has transferred physical possession of the goods to customers; (4) the group has transferred the significant risks and rewards of the ownership to the customers; (5) customers have accepted the goods or services.

Notes to the Consolidated Financial Statements *(Continued)*

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

26. Revenue recognition and measurement *(continued)*

(2) Specific accounting policies related to the Group's main revenue-generating activities are described below:

(a) Sales contracts

Sales contracts between the Group and its customers usually contain only the performance obligation to transfer goods. The Group usually takes into account the following factors and identifies revenue at the time when the customer accepts the goods: the present right to the payment for the goods; the transfer of the significant risks and rewards in the ownership of commodities; the transfer of legal ownership of commodities; the transfer of physical possession of the goods, and the acceptance of goods by customers.

(b) Service contracts

Services contracts between the Group and its customers usually include performance obligations such as technical services, product after-sales maintenance services, etc. Because the Group's customers simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, and the Group has an enforceable right to payment for performance completed to date during the whole contact period, the Group will recognize it as a performance obligation satisfied over time and recognize revenue according to the progress of performance, except that the progress of performance cannot be reasonably determined. The Group determines the progress of service delivery according to the input method. If the costs incurred by the Group can be expected to be compensated, the revenue shall be recognized according to the costs incurred until such time that it can reasonably measure the process towards complete satisfaction of the performance obligation.

Notes to the Consolidated Financial Statements *(Continued)*

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

26. Revenue recognition and measurement *(continued)*

(2) Specific accounting policies related to the Group's main revenue-generating activities are described below: *(continued)*

(c) Construction contract – hydropower station EPC general contract

EPC refers to the whole process or several stages of contracting for the design, procurement, construction and trial operation of hydropower station construction projects entrusted by the owner in accordance with the contract agreement. Construction content usually includes pre-design of hydropower station, production and purchase of professional equipment and materials, construction, technical training and so on. Since customers can control the power plant project system designed, manufactured and installed as the Group performs, and the Group has an enforceable right to payment for performance completed to date during the whole contact period, the Group regards it as a performance obligation satisfied over time, and recognizes revenue according to the progress of performance, except that the progress of performance cannot be reasonably measured. The Group determines the progress of service delivery according to the input method. If the costs incurred by the Group can be expected to be compensated, the revenue shall be recognized according to the costs incurred until such time that it can reasonably measure the process towards complete satisfaction of the performance obligation.

Notes to the Consolidated Financial Statements *(Continued)*

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

26. Revenue recognition and measurement *(continued)*

(2) Specific accounting policies related to the Group's main revenue-generating activities are described below: *(continued)*

(d) Principal/Agent

For the Group, after acquiring control of the goods from a third party, it transfers them to customers or integrates the purchased goods with other goods into a portfolio of output through the provision of significant services. The Group has the right to decide the price of the goods or services it trades independently, that is, it can control the goods or services before transferring them to customers. Therefore, the Group is the main principal, and revenue is recognized by the total consideration received or receivable. Otherwise, the Group, as an agent, shall recognize revenue in the amount of any fee or commission to which it expects to be entitled. The amount shall be determined by deducting the net amount payable to other interested parties from the total amount of consideration received or receivable, or by the established amount or proportion of commission.

(e) Interest income

It is calculated and determined according to the time when other people use the Group's monetary fund and the actual interest rate.

(f) Rental income

The rental income of operating lease is recognized by the straight line method during each period of the lease term, and the contingent rental is included in the profits and losses of the current period when it actually occurs.

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

27. Government grants

The Group's government grants include tax return, financial subsidies etc.

The Group's government grants include government grants related to assets and government grants related to income. 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. If the subsidies are not specified in the government documents, the Group judges them according to the above distinction principle. If it is difficult to distinguish, the whole is classified as government grants related to income.

If the government grants are monetary assets, it shall be measured according to the amount actually received. For the government grants allocated according to the fixed quota standard, or for the end of the year, when there is conclusive evidence that it meets the relevant conditions stipulated by the financial support policy and is expected to receive the financial support funds, it shall be measured according to the amount receivable. If the government grants are 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 related to assets shall be recognized as deferred income and amortized to profits or losses of the current period using the straight-line method within the useful life of the relevant assets.

If the relevant assets are sold, transferred, scrapped or damaged before the end of their useful life, the balance of related deferred income that has not been allocated shall be transferred to the profits and losses of the current period of asset disposal.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

27. Government grants *(continued)*

Government grants related to income, as compensation for costs and expenses in subsequent periods, are recognised as deferred income and shall be recorded in profit or loss over the period in which the relevant costs or losses are recognized. The government grants related to daily activities shall be recognized in other income or offset the relevant costs and expenses according to the essence of economic business. Those that are not related to daily activities shall be recognized in non-operating income and expenses.

If the Group obtains the policy-based preferential loan discount, it shall distinguish between the cases where the finance allocates the discount funds to the lending bank and that the finance allocates the discount funds directly to the Group. The accounting treatment shall be carried out according to the following principles:

- (1) If the finance allocates the discount funds to the lending bank and the lending bank provides loans to the Group at the policy-based preferential interest rate, the group shall use the amount actually received as the entry value of the loan, and then calculate the relevant borrowing costs according to the borrowing principal and the policy preferential interest rate (or use the fair value of the loan as the entry value of the loan and calculate the borrowing costs according to the effective interest method. The difference between the amount actually received and the fair value of the loan is recognized as deferred income. The deferred income is amortized by the effective interest method during the duration of the loan, and the related borrowing costs are reduced.)
- (2) The finance will directly allocate the discount funds to the Group, which will deduct the related borrowing costs from the corresponding discount.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

27. Government grants *(continued)*

If the government grants confirmed by the Group needs to be returned, the accounting treatment shall be conducted in accordance with the following provisions in the current period in which it needs to be returned:

- 1) Adjust the book value of assets if the book value of the relevant assets is written off at the time of initial confirmation.
- 2) If there are related deferred incomes, the carrying amount of related deferred income shall be deducted and the excess part shall be included in the current profits and losses.
- 3) If it belongs to other circumstances, it shall be directly included in the profits and losses of the current period.

28. 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 the 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 temporary taxable 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.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

28. 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.

29. Lease

The Group's leasing business include finance leases and operating leases.

When the Group is the lessee of finance leases, at commencement of the lease term, the lower of the fair value of the leased assets and the present value of the minimum lease payments is regarded as the entry value of the fixed assets, the minimum lease payment is regarded as the entry value of long-term payables, and the difference between the two is recorded as the unrecognized financing charges.

The Group's rental as an operating lease lessee is included in the cost of related assets or current profits and losses in a straight line method during each period of the lease period.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

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

30. Held-for-sale assets

- (1) 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) its sale must be highly probable, that is, a decision has been made on a sales plan and a firm commitment has been obtained, and the sales are expected to be completed within one year. The relevant provisions require the approval of the relevant authorities or regulatory authorities before they can be sold. Before the Group classifies non-current assets or disposal groups as held-for-sale assets for the first time, the Group measures the book value of all assets and liabilities in non-current assets or disposal groups in accordance with relevant accounting standards. When the Group initially measurement or re-measurement is made on the balance sheet date, and the carrying amount of the non-current assets or disposal group holding for sale is higher than the fair value less cost to sell, the carrying amount shall be written down to the fair value less cost to sell. The amount written down is recognized as the loss of impairment of assets which is included in current profits and losses, and the corresponding provision for impairment of held-for-sale assets is also recognised.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

30. Held-for-sale assets *(continued)*

- (2) If the non-current assets or disposal group acquired exclusively for resale by the Group meets the requirement that the sale is expected to be completed within one year on the acquisition date, and is likely to meet other conditions for the classification of held-for-sale assets within a short period (usually within three months), it shall be classified as held-for-sale assets on the acquisition date. In the initial measurement, the initial measurement amount and the fair value less costs to sell is compared and measured at a lower level under the condition that is not classified as held-for-sale assets. Except for the non-current assets or disposal groups acquired in the merger of enterprises, the difference resulting from the net amount of the non-current assets or disposal groups after deducting the costs to sell from the fair value shall be taken as the initial measurement amount, and shall be included in the current profits and losses.
- (3) If the Group loses control of subsidiaries due to the sale of its investment in subsidiaries or other reasons, whether or not the Group retains part of its equity investment after the sale, when the investment in subsidiaries to be sold meets the requirements for the classification of held-for-sale assets, the investment of subsidiaries shall be divided into held-for-sale assets as a whole in the individual financial statements of the parent company, and all assets and liabilities of the subsidiaries shall be listed as held-for-sale in the consolidated financial statements.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

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

30. Held-for-sale assets *(continued)*

- (4) If the net amount of the non-current assets classified as held for sale on the subsequent balance sheet date increases, the amount previously written down shall be restored and shall be reversed within the amount of the impairment loss of the assets recognized after being classified as hold-for-sale assets. The reversed amount shall be included in the current profits and loss. Losses of impairment of assets recognized before the classification of held-for-sale assets shall be not reversed.
- (5) For the amount of loss of impairment of assets confirmed by the disposal group classified as held for sale, the carrying amount of goodwill in the disposal group shall be offset first, and then the carrying amount of non-current assets shall be offset pro rata on the basis.

If the net amount of the disposal group classified as held for sale on the subsequent balance sheet date increases, the amount previously written down shall be restored and shall be reversed within the amount of the impairment loss of the assets recognized by non-current assets applicable to relevant measurement provisions after being classified as hold-for-sale assets. The reversed amount shall be included in the current profits and loss. The carrying amount of the goodwill that has been written down and the losses of impairment of non-current assets recognized before they are classified as held-for-sale assets shall be not reversed.

The subsequent reversals of the impairment losses recognized by the disposal group classified as held for sale shall increase the carrying amount of non-current assets in the disposal group in proportion according to the proportion of the carrying amount of the non-current assets except goodwill in the disposal group.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

30. Held-for-sale assets *(continued)*

- (6) The non-current assets classified as held for sale or non-current assets in the disposal group are not depreciated or amortised. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to recognise.
- (7) When the non-current asset or the disposal group classified as held for sale ceases to meet the conditions for the classification of held for sale and ceases to be further classified as held for sale or ceases to be included in a disposal group classified as held for sale, it shall be measured at the lower of: a) its carrying amount before the non-current asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or impairment that would have been recognised had the non-current asset or disposal group not been classified as held for sale; b) its recoverable amount.
- (8) When terminating the confirmation of non-current assets or disposal group classified as held for sale, the unrecognized gains or losses shall be included in the current profits and losses.

31. 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.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

32. 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 the operating segment.

Operating segment refers 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.

33. 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.

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 the 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.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

34. 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.

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.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

34. Critical accounting estimates and judgments *(continued)*

(2) Impairment of financial assets

The group uses the expected credit loss model to evaluate the impairment of financial instruments. The application of the anticipated credit loss model requires significant judgments and estimates. All reasonable and evidence-based information, including forward-looking information, should be taken into account. In making such judgments and estimates, the Group infers the expected changes in the debtor's credit risk based on historical repayment data combined with economic policies, macroeconomic indicators, industry risks and other factors.

The difference between the actual results and the original estimates will affect the carrying amount of financial assets and the provision or reversal for bad debts of financial assets during the estimated period of change.

(3) Impairment of non-financial assets

(a) 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 (Notes IV(21)).

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.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

34. Critical accounting estimates and judgments *(continued)*

(3) Impairment of non-financial assets *(continued)*

(a) Provision of impairment on goodwill (continued)

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.

(b) Impairment of long-term assets

Long-term assets are reviewed for impairment annually according to the accounting policy of the Group. 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.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

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

34. Critical accounting estimates and judgments *(continued)*

(3) Impairment of non-financial assets *(continued)*

*(b) Impairment of long-term assets *(continued)**

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) 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.

(5) Defined benefit plan

The management of the Group determines the net liabilities of the defined benefit plan based on the present value of the defined benefit obligation minus the fair value of the planned assets calculated by the model. The calculation of the present value of the defined benefit obligation includes a number of assumptions, including the benefit period and the discount rate. If future events are inconsistent with these assumptions, they may lead to significant adjustments to the net liabilities of the defined benefit plan set on the balance sheet date.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

35. Changes in critical accounting policies and estimates

(1) Changes in critical accounting policies

The Ministry of Finance issued “CAS 22 – Financial Instruments: Recognition and Measurement (Revised in 2017)” (Caikuai [2017] No. 7), “CAS 23 – Transfer of Financial Assets (Revised in 2017)” (Caikuai [2017] No. 8), “CAS 24 – Hedging Accounting (Revised in 2017)” (Caikuai [2017] No. 9) respectively on March 31 2017. It issued “CAS 37 – Financial Instruments: Presentation (Revised in 2017)” (Caikuai [2017] No. 14) (hereinafter referred to as “New Financial Instruments Standards”) on 2 May 2017, “CAS 14 – Revenue (Revised in 2017)” (Caikuai [2017] No. 22) (hereinafter referred to as “New Revenue Standards”) on 5 July 2017, and “General Enterprise Financial Statement Format Notice” (Caikuai [2018] No. 15) (hereinafter referred to as “caikuai No. 15”). As for the public company listed both inside and outside the PRC and the 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 the board of directors and approved that the Group would apply the above “New Financial Instruments Standards” “New Revenue Standards” “caikuai No. 15” commencing from 1 January 2018 as required by the Ministry of Finance.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

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

35. Changes in critical accounting policies and estimates *(continued)*

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

1) The impact of New Revenue Standards

The Group reassesses the recognition and measurement, accounting and presentation of its main contract revenue in accordance with the New Revenue Standards. After the Group reviews its revenue sources and customer contractual processes to assess the impact of the New Revenue Standards on financial statements, the majority of the Group's revenue is from sales of goods, and the timing of revenue recognition is when control of goods is transferred to customers. Adoption of New Revenue Standards has no significant impact on the presentation of the Group's financial statements.

According to the New Revenue Standards, the Group has chosen to adjust only the cumulative impact of contracts not completed on 1 January 2018. The cumulative impact amount first implemented adjusts the undistributed profits and other related items in the financial statements at the beginning of the first execution period (i.e. 1 January 2018) and the financial statements for 2017 are not adjusted. On 1 January 2018, the undistributed profit at the beginning of the period is reduced by was 109,378,793.65 yuan due to the change of income policy.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

35. Changes in critical accounting policies and estimates *(continued)*

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

2) *The impact of new financial instruments standards*

Under the New Financial Instrument Standards, the classification and measurement methods of financial assets have been changed. Financial assets are divided into three categories: measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss. Enterprises need to consider their own business model, as well as the contractual cash flow characteristics of the financial assets for the above classification. Equity investments need to be measured at fair value through profit or loss, but when initially recognized, they can be measured at fair value through other comprehensive income (gains or losses at disposal cannot be turned back to gains and losses, but dividends are included in gains and losses), and the choice is irrevocable.

The New Financial Instrument Standards requires that the measurement of impairment of financial assets be changed from the incurred loss model to the expected credit loss model.

The Group has made convergence adjustments in accordance with the requirements of the New Financial Instruments Standards: the Group does not make adjustments in respect of inconsistencies between the previous comparative financial statements data and the requirements of the Financial Instruments Standards. The difference between the original carrying value of financial instruments and the new carrying value of New Financial Instruments Standards is included in undistributed profits or other comprehensive income on 1 January 2018.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

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

35. Changes in critical accounting policies and estimates *(continued)*

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

2) *The impact of new financial instruments standards (continued)*

The financial assets of the Group are classified according to the New Financial Instrument Standards. The available-for-sale financial assets measured by fair value are reclassified to transactional financial assets. The changes in the original fair value are included in other comprehensive income amounts and adjusted to gains and losses arising from changes in fair value. At the same time, the undistributed profits at the beginning of the period increase 2,773,313.00 yuan.

After evaluation and testing, on 1 January 2018, provisions for asset impairment of 1 January 2018 increased by 218,785,681.09 yuan due to the change of impairment model. Among them, provisions for bad debts of notes receivable increased by 48,808,594.37 yuan, provisions for bad debts of accounts receivable increased by 87,708,548.83 yuan, provisions for impairment of prepayments increased by 4,102,500.00 yuan, the provisions for impairment of other receivables increased by 28,657,485.05 yuan, the provisions for impairment of contract assets increased by 49,508,552.84 yuan; after adding up deferred income tax assets of 13,507,951.15 yuan, undistributed profit at the beginning of the period decreased by 205,277,729.94 yuan, of which the owner's equity attributed to the parent company decreased by 198,937,840.68 yuan and the minority shareholder's equity decreased by 6,339,889.26 yuan.

The main impact of the changes in accounting policies caused by the above New Revenue Standards and New Financial Instruments Standards on the Group's financial statements as at 1 January 2018 is as follows:

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

35. Changes in critical accounting policies and estimates *(continued)*

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

2) The impact of new financial instruments standards *(continued)*

A. Consolidated financial statements:

Items	Carrying amount applying original standards 31 Dec 2017	Reclassification		Recalculation		Carrying amount applying new standards 1 Jan 2018
		The effect of New Revenue Standards (Note 1)	The effect of New Financial Instruments Standards (Note 2)	The effect of New Revenue Standards (Note 3)	The effect of New Financial Instruments Standards (Note 4)	
Financial assets held for sale	—	—	152,773,313.00	—	—	152,773,313.00
Notes receivable	1,479,630,312.00	—	—	—	(48,808,594.37)	1,430,821,717.63
Accounts receivable	2,403,684,040.00	—	—	(51,386,374.28)	(87,708,548.83)	2,284,589,116.89
Prepayments	434,915,529.00	—	—	—	(4,102,500.00)	430,813,029.00
Other receivables	1,050,640,822.00	—	—	—	(28,657,485.05)	1,021,983,336.95
Inventory	2,040,955,563.00	(195,511,456.37)	—	(1,959,770.42)	—	1,843,484,336.21
Contractual assets	—	195,511,456.37	—	—	(49,508,552.84)	146,002,903.53
Other current assets	188,049,577.00	—	(152,773,313.00)	—	—	35,276,264.00
Deferred income tax assets	68,505,568.00	—	—	—	13,507,951.15	82,013,519.15
Receipts in advance	677,552,844.00	(733,585,492.95)	—	56,032,648.95	—	—
Contractual liabilities	—	733,585,492.95	—	—	—	733,585,492.95
Deferred income tax liabilities	58,346,309.00	—	(693,328.00)	—	—	57,652,981.00
Other comprehensive income	27,977,334.00	—	(2,079,985.00)	—	—	25,897,349.00
Total equity attributable to shareholders of the Company	2,717,844,150.00	—	2,773,313.00	(109,378,793.65)	(198,937,840.68)	2,412,300,828.67
Non-controlling interest	400,262,838.00	—	—	—	(6,339,889.26)	393,922,948.74
Total shareholder's equity	7,177,986,543.00	—	693,328.00	(109,378,793.65)	(205,277,729.94)	6,864,023,347.41

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

35. Changes in critical accounting policies and estimates *(continued)*

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

2) *The impact of new financial instruments standards (continued)*

A. Consolidated financial statements: *(continued)*

Note 1: On 1 January 2018, in accordance with the requirements of the New Revenue Standards, the Group reclassified the relevant receipts in advance for the sale of goods into contract liabilities and inventory into contract assets.

Note 2: On 1 January 2018, other current assets/available-for-sale financial assets of RMB152,773,313.00 were reclassified to transactional financial assets, which were financial assets at fair value through profits or losses previously. According to the New Financial Instrument Standards, the Group classified them as financial assets measured at fair value through profits and losses. Accumulated fair value changes calculated at fair value over the previous period RMB2,773,313.00 was transferred from other comprehensive income to undistributed profits at the beginning of the transition period.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

35. Changes in critical accounting policies and estimates *(continued)*

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

2) *The impact of new financial instruments standards (continued)*

A. Consolidated financial statements: *(continued)*

Note 3: On 1 January 2018, in accordance with the requirements of the New Revenue Standards, the Group assessed the contracts that had not been completed on the first execution date to identify the performance obligations contained in the contracts. For the promise of transferring goods or services to customers in some contracts, the assessment fails to meet the conditions of the separate performance obligation stipulated in the New Revenue Standards, and cannot be separately distinguished from other goods or services promised in the contract. It should be regarded as a performance obligation and recognize revenue when the customer acquires control over the relevant goods. And for the variable consideration in the contract, the Group confirms the best estimate of the variable consideration according to the expected value or the most likely amount. The balance sheet and undistributed profits at the beginning of the period should be adjusted according to the New Revenue Standards.

Note 4: In accordance with the New Financial Instruments Standards, the measurement of impairment of financial assets has changed from the incurred loss model to the expected credit loss model from 1 January 2018.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

35. Changes in critical accounting policies and estimates (continued)

(1) Changes in critical accounting policies (continued)

2) The impact of new financial instruments standards (continued)

B. Financial statements of parent company

Items	Carrying amount applying original standards 31 December 2017	Reclassification		Recalculation		Carrying amount applying new standards 1 January 2018
		Effect of New Revenue Standards	Effect of New Financial Instruments Standards (Note 1)	Effect of New Revenue Standards	Effect of New Financial Instruments Standards	
Financial assets held for sale	—	—	152,773,313.00	—	—	152,773,313.00
Other current assets	156,197,977.00	—	(152,773,313.00)	—	—	3,424,664.00
Deferred income tax liabilities	9,060,378.00	—	(693,328.00)	—	—	8,367,050.00
Other comprehensive income	2,696,625.00	—	(2,079,985.00)	—	—	616,640.00
Retained earnings	1,649,152,488.00	—	2,773,313.00	—	—	1,651,925,801.00
Total shareholder's equity	5,823,593,636.00	—	693,328.00	—	—	5,824,286,964.00

Notes 1: On 1 January 2018, other current assets/available-for-sale financial assets of RMB152,773,313.00 were reclassified to transactional financial assets, which were financial assets at fair value through profits or losses previously. According to the New Financial Instrument Standards, the Group classified them as financial assets measured at fair value through profits and losses. Accumulated fair value changes calculated at fair value over the previous period RMB2,773,313.00 was transferred from other comprehensive income to undistributed profits at the beginning of the transition period.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

35. Changes in critical accounting policies and estimates *(continued)*

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

3) *Financial statement reporting adjustment*

In accordance with the requirements of “General Enterprise Financial Statement Format Notice” (Caikuai [2018] No. 15), in addition to the presentation changes arising from the implementation of the above New Financial Instrument Standards and New Revenue Standards, the Group merges “notes receivable” and “accounts receivable” into new “notes receivable and accounts receivable”, “dividends receivable” and “interest receivable” into “other receivable”, “notes payable” and “accounts payable” into new “notes payable and accounts payable”, and “special payables” into “long-term payables”. It also splits “research and development expenses” from “administrative expenses” in the income statement, and “interest expenses” and “interest income” from financial expenses items.

The retrospective adjustment caused by the change in accounting policy has the following major impacts on the balance sheet as at 31 December 2017:

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

35. Changes in critical accounting policies and estimates *(continued)*

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

3) Financial statement reporting adjustment *(continued)*

A. Consolidated Balance Sheet and Corporate Balance Sheet items affected on 31 December 2017:

1. Consolidated Balance Sheet:

Items	Ending balance before accounting policy change	Reclassification	Ending Balance after Accounting Policy Change
Notes receivable	1,479,630,312.00	-1,479,630,312.00	—
Accounts receivable	2,403,684,040.00	-2,403,684,040.00	—
Notes and accounts receivable	—	3,883,314,352.00	3,883,314,352.00
Interest receivable	19,416,374.00	-19,416,374.00	—
Dividends receivable	260,528,433.00	-260,528,433.00	—
Other receivables	1,050,640,822.00	279,944,807.00	1,330,585,629.00
Notes payable	809,054,101.00	-809,054,101.00	—
Accounts payable	1,950,028,138.00	-1,950,028,138.00	—
Notes and accounts payable	—	2,759,082,239.00	2,759,082,239.00
Interest payable	11,250,751.00	-11,250,751.00	—
Dividends payable	30,077,325.00	-30,077,325.00	—
Other payables	484,802,264.00	41,328,076.00	526,130,340.00
Long-term payables	207,600,793.00	3,895,870.00	211,496,663.00
Special payables	3,895,870.00	-3,895,870.00	—

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

35. Changes in critical accounting policies and estimates *(continued)*

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

3) Financial statement reporting adjustment *(continued)*

A. Consolidated Balance Sheet and Corporate Balance Sheet items affected on 31 December 2017: *(continued)*

2. Balance sheet of the parent company:

Items	Ending balance before accounting policy change	Reclassification	Ending Balance after Accounting Policy Change
Interest receivable	40,221,072.00	(40,221,072.00)	—
Dividends receivable	260,528,433.00	(260,528,433.00)	—
Other receivables	1,693,532,432.00	300,749,505.00	1,994,281,937.00
Interest payable	9,261,300.00	(9,261,300.00)	—
Dividends payable	—	—	—
Other payables	51,367,114.00	9,261,300.00	60,628,414.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

35. Changes in critical accounting policies and estimates (continued)

(1) Changes in critical accounting policies (continued)

3) Financial statement reporting adjustment (continued)

B. The retrospective adjustment caused by the changes of the above accounting policies has the following main impacts on the profit statement for the year 2017:

1. Consolidated income statement:

Items	Ending balance before accounting policy change	Reclassification	Ending Balance after Accounting Policy Change
Administrative expenses	871,934,478.00	(198,720,426.00)	673,214,052.00
Research and development expenses	—	198,720,426.00	198,720,426.00

2. The above changes in the general enterprise financial statement format have no significant impact on the parent company's income statement.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

35. Changes in critical accounting policies and estimates (continued)

(1) Changes in critical accounting policies (continued)

4) The first implementation of the new income standard, the new financial instrument standard and the new financial statement format adjustment of the financial statement related items are as follows:

1. Consolidated financial statements

Item	31 December 2017 *	1 January 2018 *	Adjustment
Current assets:	—	—	—
Cash and cash equivalents	1,658,694,663.00	1,658,694,663.00	—
Financial assets held for sale	N/A	152,773,313.00	(152,773,313.00)
Financial assets measured at fair value through profit or loss	—	N/A	—
Notes receivable and accounts receivable	3,883,314,352.00	3,695,410,834.52	187,903,517.48
Including: Notes receivable	1,479,630,312.00	1,430,821,717.63	48,808,594.37
Accounts receivable	2,403,684,040.00	2,264,589,116.89	139,094,923.11
Prepayments	434,915,529.00	430,813,029.00	4,102,500.00
Other receivables	1,330,585,629.00	1,301,928,143.95	28,657,485.05
Including: Other receivables	1,050,640,822.00	1,021,983,336.95	28,657,485.05
Interest receivables	19,416,374.00	19,416,374.00	—
Dividend receivable	260,528,433.00	260,528,433.00	—
Loans and advances to customers	1,007,178,150.00	1,007,178,150.00	—
Inventory	2,040,955,563.00	1,843,484,336.21	197,471,226.79
Contractual assets	N/A	146,002,903.53	(146,002,903.53)
Non-current assets due within one year	1,138,300.00	1,138,300.00	—
Other current assets	188,049,577.00	35,276,264.00	152,773,313.00
Total current assets:	10,544,831,763.00	10,272,699,937.21	272,131,825.79

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

35. Changes in critical accounting policies and estimates (continued)

(1) Changes in critical accounting policies (continued)

- 4) The first implementation of the new income standard, the new financial instrument standard and the new financial statement format adjustment of the financial statement related items are as follows: (continued)

1. Consolidated financial statements (continued)

Item	31 December 2017 *	1 January 2018 *	Adjustment
Non-current assets:	—	—	—
Loans and advances to customers	37,894,354.00	37,894,354.00	—
Debt investment	N/A	—	—
Financial assets available for sale	—	N/A	—
Other debt investment	N/A	—	—
Held to maturity investments	—	N/A	—
Long-term receivable	91,669,620.00	91,669,620.00	—
Long-term equity investment	1,046,677,545.00	1,046,677,545.00	—
Other equity instruments investment	N/A	—	—
Non-current financial assets	N/A	—	—
Investment properties	164,020,540.00	164,020,540.00	—
Property, plant and equipment	2,866,356,781.00	2,866,356,781.00	—
Construction in progress	418,264,301.00	418,264,301.00	—
Intangible assets	615,280,100.00	615,280,100.00	—
Development expenditures	7,138,672.00	7,138,672.00	—
Goodwill	143,312,435.00	143,312,435.00	—
Long-term deferred expenses	203,065,942.00	203,065,942.00	—
Deferred tax assets	68,505,568.00	82,013,519.15	(13,507,951.15)
Other non-current assets	83,655,571.00	83,655,571.00	—
Total non-current assets	5,745,841,429.00	5,759,349,380.15	(13,507,951.15)
Total assets	16,290,673,192.00	16,032,049,317.36	258,623,874.64

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

35. Changes in critical accounting policies and estimates *(continued)*

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

4) *The first implementation of the new income standard, the new financial instrument standard and the new financial statement format adjustment of the financial statement related items are as follows: (continued)*

1. Consolidated financial statements *(continued)*

Item	31 December 2017 *	1 January 2018 *	Adjustment
Current liability	—	—	—
Short-term loans	1,669,889,955.00	1,669,889,955.00	—
Deposits from banks and other financial institutions	877,057,450.00	877,057,450.00	—
Financial liability held for sale	N/A	—	—
Financial liabilities measured at fair value through profit or loss	—	N/A	—
Notes payable and accounts payable	2,759,082,239.00	2,759,082,239.00	—
Receipts in advance	677,552,844.00	—	677,552,844.00
Contractual liabilities	N/A	733,585,492.95	(733,585,492.95)
Employee benefits payables	57,693,334.00	57,693,334.00	—
Taxes and levies payables	221,341,231.00	221,341,231.00	—
Other payables	526,130,340.00	526,130,340.00	—
Including: Other payables	11,250,751.00	11,250,751.00	—
Dividend payable	30,077,325.00	30,077,325.00	—
Non-current liabilities due within one year	294,663,555.00	294,663,555.00	—
Total current liabilities	7,083,410,948.00	7,139,443,596.95	(56,032,648.95)

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

35. Changes in critical accounting policies and estimates (continued)

(1) Changes in critical accounting policies (continued)

- 4) The first implementation of the new income standard, the new financial instrument standard and the new financial statement format adjustment of the financial statement related items are as follows: (continued)

1. Consolidated financial statements (continued)

Item	31 December 2017 *	1 January 2018 *	Adjustment
Non-current liabilities:	—	—	—
Long-term loans	562,411,906.00	562,411,906.00	—
Bonds payable	797,674,683.00	797,674,683.00	—
Long-term payables	211,496,663.00	211,496,663.00	—
Long-term employee benefits payable	15,968,000.00	15,968,000.00	—
Deferred revenue	383,378,140.00	383,378,140.00	—
Deferred tax liabilities	58,346,309.00	57,652,981.00	693,328.00
Total non-current liabilities	<u>2,029,275,701.00</u>	<u>2,028,582,373.00</u>	<u>693,328.00</u>
Total liabilities	<u>9,112,686,649.00</u>	<u>9,168,025,969.95</u>	<u>(55,339,320.95)</u>

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

35. Changes in critical accounting policies and estimates *(continued)*

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

4) *The first implementation of the new income standard, the new financial instrument standard and the new financial statement format adjustment of the financial statement related items are as follows: (continued)*

1. Consolidated financial statements *(continued)*

Item	31 December 2017 *	1 January 2018 *	Adjustment
Shareholder's equity	—	—	—
Share capital	3,684,640,154.00	3,684,640,154.00	—
Capital reserves	49,744,935.00	49,744,935.00	—
Less: Treasury stock	—	—	—
Other comprehensive income	27,977,334.00	25,897,349.00	2,079,985.00
Surplus reserves	297,517,132.00	297,517,132.00	—
Retained earnings	2,717,844,150.00	2,412,300,828.67	305,543,321.33
Total equity attributable to shareholders of the Company	6,777,723,705.00	6,470,100,398.67	307,623,306.33
Non-controlling interests	400,262,838.00	393,922,948.74	6,339,889.26
Total shareholder's equity	7,177,986,543.00	6,864,023,347.41	313,963,195.59
Total liabilities and shareholder's equity	16,290,673,192.00	16,032,049,317.36	258,623,874.64

* Except for the above-mentioned items that need to be adjusted, the balances of other related items in the financial statements on December 31, 2017 and January 1, 2018 are the same.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

35. Changes in critical accounting policies and estimates (continued)

(1) Changes in critical accounting policies (continued)

- 4) The first implementation of the new income standard, the new financial instrument standard and the new financial statement format adjustment of the financial statement related items are as follows: (continued)

2. Balance sheet of the parent company

Item	31 December 2017 *	1 January 2018 *	Adjustment
Current assets:	—	—	—
Cash and cash equivalents	1,051,013,030.00	1,051,013,030.00	—
Financial assets held for sale	N/A	152,773,313.00	(152,773,313.00)
Financial assets measured at fair value through profit or loss	—	N/A	—
Notes receivable and accounts receivable	1,994,281,937.00	1,994,281,937.00	—
Including: Notes receivable	40,221,072.00	40,221,072.00	—
Accounts receivable	260,528,433.00	260,528,433.00	—
Contractual assets	N/A	—	—
Other current assets	156,197,977.00	3,424,664.00	152,773,313.00
Total current assets	3,201,492,944.00	3,201,492,944.00	—

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

35. Changes in critical accounting policies and estimates *(continued)*

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

- 4) *The first implementation of the new income standard, the new financial instrument standard and the new financial statement format adjustment of the financial statement related items are as follows: (continued)*

2. Balance sheet of the parent company *(continued)*

Item	31 December 2017 *	1 January 2018 *	Adjustment
Non-current assets:	—	—	—
Debt investment	N/A	—	—
Financial assets held for sale	—	N/A	—
Other debt investment	N/A	—	—
Held to maturity investments	—	N/A	—
Long-term receivable	256,000,000.00	256,000,000.00	—
Long-term equity investment	4,626,938,596.00	4,626,938,596.00	—
Other equity instrument investment	N/A	—	—
Other non-current financial assets	N/A	—	—
Property, plant and equipment	31,246,276.00	31,246,276.00	—
Construction in progress	4,480,970.00	4,480,970.00	—
Intangible assets	20,016,439.00	20,016,439.00	—
Goodwill	293,946.00	293,946.00	—
Non-current assets	<u>4,938,976,227.00</u>	<u>4,938,976,227.00</u>	—
Total assets	<u>8,140,469,171.00</u>	<u>8,140,469,171.00</u>	—

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

35. Changes in critical accounting policies and estimates *(continued)*

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

- 4) *The first implementation of the new income standard, the new financial instrument standard and the new financial statement format adjustment of the financial statement related items are as follows: (continued)*

2. Balance sheet of the parent company *(continued)*

Item	31 December 2017 *	1 January 2018 *	Adjustment
Current liabilities	—	—	—
Short-term loans	1,266,000,000.00	1,266,000,000.00	—
Financial liabilities held for sale	N/A	—	—
Financial liabilities measured at fair value through profit or loss	—	N/A	—
Contractual liabilities	N/A	—	—
Employee benefits payables	1,320,614.00	1,320,614.00	—
Taxes and levies payables	191,446.00	191,446.00	—
Other payables	60,628,414.00	60,628,414.00	—
Including: interest payable	9,261,300.00	9,261,300.00	—
Dividend payable	—	—	—
Non-current liability due within one year	2,400,000.00	2,400,000.00	—
Current liabilities:	1,330,540,474.00	1,330,540,474.00	—

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

35. Changes in critical accounting policies and estimates *(continued)*

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

- 4) *The first implementation of the new income standard, the new financial instrument standard and the new financial statement format adjustment of the financial statement related items are as follows: (continued)*

2. Balance sheet of the parent company *(continued)*

Item	31 December 2017 *	1 January 2018 *	Adjustment
Non-current liabilities:	—	—	—
Long-term loans	179,600,000.00	179,600,000.00	—
Bonds payable	797,674,683.00	797,674,683.00	—
Deferred tax liabilities	9,060,378.00	8,367,050.00	693,328.00
Non-current liabilities	986,335,061.00	985,641,733.00	693,328.00
Total liabilities	2,316,875,535.00	2,316,182,207.00	693,328.00
Shareholder's equity:	—	—	—
Share capital	3,684,640,154.00	3,684,640,154.00	—
Capital reserves	140,716,900.00	140,716,900.00	—
Other comprehensive income	2,696,625.00	616,640.00	2,079,985.00
Surplus reserve	346,387,469.00	346,387,469.00	—
Retained earnings	1,649,152,488.00	1,651,925,801.00	(2,773,313.00)
Total shareholder's equity	5,823,593,636.00	5,824,286,964.00	(693,328.00)
Total liabilities and shareholder's equity	8,140,469,171.00	8,140,469,171.00	—

* Except for the above-mentioned items that need to be adjusted, the balances of other related items in the financial statements on December 31, 2017 and January 1, 2018 are the same.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

35. Changes in critical accounting policies and estimates (continued)

- (2) Except for the above disclosure, there are no significant changes in accounting estimates in the current period.
- (3) There are no major adjustments of prior accounting errors in the current period.

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%
Profit tax in Hong Kong	—	16.5%
Profit tax for other regions/countries	—	15.2%, 20%, 34%, 39%

Note: According to the document (Cai Shui [2018] No. 32) jointly issued by the Ministry of Finance and the State Administration of Taxation on 4 April 2018, VAT on sales or imported goods originally applicable to 17% and 11% will be adjusted to 16% and 10% respectively from 1 May 2018.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

V. TAXATION (CONTINUED)

1. Main categories of tax and corresponding tax rate (continued)

Explanation of taxpayers of different enterprise income tax rates:

Taxpayers	Income tax rate
Chongqing Water Turbine Works Co., Ltd	15%
Jilin Chong Tong Chengfei New Material Co., Ltd (including its subsidiaries)	15%
Chongqing General Industry (Group) Co., Ltd	15%
Precision Technologies Group (PTG) Limited.	20%
Precision Technologies Group (US) Limited	34%
Holroyd Precision Ltd.	39%
PTG Heavy Industries Ltd.	20%
Milnrow Investments Ltd.	20%
Precision Components Ltd.	20%
PTG Advanced Developments Ltd.	20%
PTG Deutschland GmbH	15.2%
PTG Investment Development Company Ltd.	16.5%
Xinjiang Fubaotian Cotton-picking Service Co., Ltd.	Exemption
Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd.	15%
Chongqing Mengxun Electronic & Technology Co., Ltd	15%
Chongqing Pigeon Electric Wires & Cables Co., Ltd.	15%
Chongqing Pigeon Electric Materials Co., Ltd	15%
Chongqing CAFF Automotive Breaking & Steering System Co., Ltd.	15%
Chongqing Pump Industry Co., Ltd	15%
Chongqing Gas Compressor Factory Co., Ltd.	15%
Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd.	15%
Chongqing Shunchang General Electric Equipment Co., Ltd	15%
Chongqing Chongtong Wide Wisdom Air Conditioning Equipment Co., Ltd.	15%

Except for the above, the income tax rates of all enterprises in the Group are 25%.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

V. TAXATION *(CONTINUED)*

2. Tax preference

1) VAT tax preferences

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.

2) Income tax preference

According to the relevant tax preferential policies of the state for high-tech enterprises, qualified high-tech enterprises can enjoy preferential policies of enterprise income tax and pay enterprise income tax at a reduced rate of 15%.

The following companies in this Group enjoy a preferential tax rate of 15% in this period because they have obtained the Certificate of High-tech Enterprises, including Chongqing General Industry (Group) Co.,Ltd (certificate of high-tech enterprises No. GR201751100440), Jilin Chongtong Chengfei New Material Co., Ltd. (certificate of high-tech enterprises No. GF201522000016), Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd. (certificate of high-tech enterprises No. GR201751100272), Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd. (The qualifications of high-tech enterprises have been announced and the certificates are still being processed).

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

V. TAXATION *(CONTINUED)*

2. Tax preference *(continued)*

2) Income tax preference *(continued)*

Except for the above enterprises, 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 were 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 the corporate income tax preference on July 12, 2016.

The Group’s subsidiaries in United Kingdom, including Precision Technologies Group (PTG) Limited. (“PTG Group”), Holroyd 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%).

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

V. TAXATION *(CONTINUED)*

2. Tax preference *(continued)*

2) Income 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 2016: 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 2016: 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.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise stated, among the following disclosed data in the financial statements, “Beginning balance” refers to the amount on 1 January, 2018 (Adjust for the first time apply the new income guidelines, new financial instruments standards and new financial statement format, in addition to the items that need to be adjusted, the balances of other items in the financial statements have the same figure as 31 December 2017 and 1 January 2018, the details refer to this notes IV.35 (1)) and “Ending balance” refers to the amount on 31 December, 2018. “Current period” refers to the period from 1 January 2018 to 31 December 2018. “Last period” refers to the period from 1 January 2017 to 31 December 2017. All amounts are presented in RMB except otherwise stated.

1. Cash and Cash Equivalents

Items	Ending balance	Beginning balance
Cash in hand	879,802.59	815,653.00
Cash at bank	1,569,463,592.47	1,173,723,645.00
Balance of cash and equivalents	1,570,343,395.06	1,174,539,298.00
Restricted cash	594,326,911.12	484,155,365.00
Total	2,164,670,306.18	1,658,694,663.00
Including: cash deposited abroad	13,349,574.40	44,881,223.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

1. Cash and Cash Equivalents (continued)

Restricted cash at the end of the period

Items	Ending balance
Deposits for bank acceptance bills	213,929,827.43
Deposits for letters of credit	3,615,533.68
Performance bond	19,193,896.56
Deposit pledged as collateral	188,594,307.57
Statutory reserve	157,873,516.68
Guarantee deposit	11,119,829.20
Total	<u>594,326,911.12</u>

2. Financial Assets held for sale

(1) Classification of financial assets for sales

Items	31 December 2018	1 January 2018	31 December 2017
Financial assets held for sales	5,124,292.21	—	—
Thereinto: Stock investment of			
Iron and Steel Co., Ltd	123,356.84	—	—
Others	5,000,935.37	152,773,313.00	—
Total	<u>5,124,292.21</u>	<u>152,773,313.00</u>	<u>—</u>

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

2. Financial Assets held for sale *(continued)*

(2) Analysis of transactional financial assets

Items	31 December 2018	1 January 2018	31 December 2017
Listed	—	—	—
China (except the Hong Kong)	123,356.84	—	—
Unlisted	—	—	—
China (except the Hong Kong)	5,000,935.37	152,773,313.00	—
Total	5,124,292.21	152,773,313.00	—

3. Notes receivable and accounts receivable

Items	31 December 2018	1 January 2018	31 December 2017
Notes receivable	1,171,862,121.56	1,479,630,312.00	1,479,630,312.00
Accounts receivable	3,051,333,203.60	2,670,293,078.72	2,721,679,453.00
Less: provision for bad debts	457,849,305.43	454,512,556.20	317,995,413.00
Total	3,765,346,019.73	3,695,410,834.52	3,883,314,352.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

3. Notes receivable and accounts receivable (continued)

3.1 Notes receivable

(1) Classification of notes receivable

Items	31 December 2018	1 January 2018	31 December 2017
Bank acceptance bills	653,826,131.34	508,819,135.00	508,819,135.00
Commercial acceptance bills	518,035,990.22	970,811,177.00	970,811,177.00
Less: provision for bad debts	42,916,934.70	48,808,594.37	—
Total	1,128,945,186.86	1,430,821,717.63	1,479,630,312.00

Notes: The aging of ending balances of notes receivable are all within one year.

(2) Notes receivable that have been pledged

Items	The pledge amount in ending balance
Bank acceptance bills	242,805,600.09
Total	242,805,600.09

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

3. Notes receivable and accounts receivable *(continued)*

3.1 Notes receivable *(continued)*

(3) *Notes receivable that endorsed or discounted and undue on 31 December 2018*

Items	Derecognized amount	Recognized amount
Bank acceptance bills	1,346,078,011.10	—
Total	1,346,078,011.10	—

(4) *Notes receivable that is transferred to an account receivable because the drawer has failed to perform his contra*

Items	The amount to account receivable
Commercial acceptance bills	62,424,800.00
Total	62,424,800.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

3. Notes receivable and accounts receivable (continued)

3.1 Notes receivable (continued)

(5) Provision for bad debts of notes receivable that are accrued, collected or transferred back in the current year

Items	Beginning balance	The impact of changes in the new financial instrument standards	The balance in the new financial instrument standards at 1 January 2018	accrued	Change amount collected or transferred back	Resale of write off	Ending balance
Provision for bad debts of notes receivable	—	48,808,594.37	48,808,594.37	(5,891,659.67)	—	—	42,916,934.70
Total	—	48,808,594.37	48,808,594.37	(5,891,659.67)	—	—	42,916,934.70

(6) Notes receivable without actual write-off this year

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

3. Notes receivable and accounts receivable *(continued)*

3.2 Accounts receivable

(1) *The age of accounts receivable are classified as follows according to the invoice date*

Aging	31 December 2018	1 January 2018	31 December 2017
Within 1 year	1,975,549,541.44	1,739,031,478.72	1,790,417,853.00
Including: within six months	1,484,483,137.08	1,416,583,625.73	1,416,583,625.73
six months to a year	491,066,404.36	322,447,852.99	373,834,227.27
1-2 years	501,533,984.36	491,819,091.00	491,819,091.00
2-3 years	248,308,042.65	137,712,101.00	137,712,101.00
3-4 years	75,482,077.06	88,920,034.00	88,920,034.00
4-5 years	60,226,423.16	60,633,668.00	60,633,668.00
Over 5 years	190,233,134.93	152,176,706.00	152,176,706.00
Total	<u>3,051,333,203.60</u>	<u>2,670,293,078.72</u>	<u>2,721,679,453.00</u>
Less: provision for bad debts	414,932,370.73	405,703,961.83	317,995,413.00
Carrying amount	<u>2,636,400,832.87</u>	<u>2,264,589,116.89</u>	<u>2,403,684,040.00</u>

Note: the group's income is mainly generated through the sale of goods, provision of technology and related services and construction engineering business and is settled in accordance with the terms specified in the relevant transaction contracts. The relevant quality guarantee deposit is normally due within one to two years after the completion of the construction works. Accounts receivable do not bear interest.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

3. Notes receivable and accounts receivable (continued)

3.2 Accounts receivable (continued)

(2) The account receivable that is a single major item and a single provision for bad debt

Name	Book Balance	Provision for bad debts	Excepted credit loss rate (%)	Reason
Chongqing Jiangbei machinery Co., Ltd	23,211,989.05	23,211,989.05	100.00	Not expected to be recoverable
Dongfang Electric Corporation	11,150,019.24	11,150,019.24	100.00	Not expected to be recoverable
Sichuan Huarun Yazui River Hydropower Development Co., Ltd	9,617,493.68	9,617,493.68	100.00	The beginning of the account receivable that is surplus by project settlement is adjusted through the financial instrument standards change, the payment is overdue for a long time
Chongqing huahao smelting Co. LTD	9,413,799.49	9,413,799.49	100.00	Not expected to be recoverable
Norvell (tianjin) energy equipment co. LTD	5,350,000.00	5,350,000.00	100.00	Not expected to be recoverable
Karamay youlong technology service Co. LTD	4,980,000.00	4,980,000.00	100.00	Not expected to be recoverable

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

3. Notes receivable and accounts receivable *(continued)*

3.2 Accounts receivable *(continued)*

(2) *The account receivable that is a single major item and a single provision for bad debt (continued)*

Name	Book Balance	Provision for bad debts	Excepted credit loss rate (%)	Reason
Shanghai zhongtong air conditioning refrigeration equipment co. LTD	4,652,004.71	4,652,004.71	100.00	Not expected to be recoverable
Shanxi Compressed Natural Gas Group Co., Ltd	3,713,600.00	3,713,600.00	100.00	Not expected to be recoverable
Morgan Technologies	3,635,346.55	3,635,346.55	100.00	Not expected to be recoverable
Chongqing quanhai machinery co. LTD	2,941,756.50	2,941,756.50	100.00	Not expected to be recoverable
Others	278,583,225.92	89,242,913.26		Not expected to be recoverable or fully recoverable
Total	<u>357,249,235.14</u>	<u>167,908,922.48</u>		

Until December 31, 2018, the group believes that the related party balance in accounts receivable can be recovered basically, the quality assurance of metal is temporarily deducted the quality guarantee deposit that has not reached the agreed collection date, The customers with good credit belong to the enterprises with government background, large central enterprises or good payback in recent years, the group believes that this part of the receivable can be recovered, there is no significant expected credit loss risk, so no provision for bad debts.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

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

3. Notes receivable and accounts receivable (continued)

3.2 Accounts receivable (continued)

(3) Provision for bad debts that are accrued, collected or transferred back in the current year

Items	Beginning balance	The impact of changes in the new financial instrument standards	The balance under the new financial instrument standards at 1 January 2018	Accrued	Change amount Collected or transferred back	Resale of write off	Ending balance
Provision for bad debts of account receivable	317,995,413.00	87,708,548.83	405,703,961.83	9,678,629.97	1,200.00	449,021.07	414,932,370.73
Total	317,995,413.00	87,708,548.83	405,703,961.83	9,678,629.97	1,200.00	449,021.07	414,932,370.73

(4) The account receivable that is actually write off in the current year

Item	Write off amount
The accounts receivable actually written off	200,000.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

3. Notes receivable and accounts receivable (continued)

3.2 Accounts receivable (continued)

(4) The account receivable that is actually write off in the current year (continued)

The significant of account receivable that is actually write off:

Name	Nature	Write off amount	Reason	Procedure	Whether the payment is generated by related transactions
Chongqing jicheng Automotive Electronics Corporation., Ltd	loan	200,000.00	Deduction due to quality problem	The meeting of general managers	No
Total	—	200,000.00	—	—	—

(5) No account receivable that are terminated the recognition due to the transfer of financial assets in current year

(6) No assets and liabilities have been formed due to the transfer and continuing involvement of account receivable

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

3. Notes receivable and accounts receivable (continued)

3.2 Accounts receivable (continued)

(7) Top five debtors of account receivable

Name of debtors	Ending balance	Aging	Percentage (%)	provision for bad debts	No settlement reason
Minyang Smart energy Group Co., Ltd	146,649,029.34	Within 1 year	4.81	2,979,030.81	Scroll to payment
Taiyuan Heavy Industry Co., Ltd	85,553,000.00	Within 1 year, 1-2 years, more than 5 years	2.8	8,022,153.00	Temporary shortage of funds
China Shipbuilding Heavy Industry Group Offshore Wind Power Co. LTD	74,027,287.96	Within 1 year, 2-3 years	2.43	2,543,081.59	Scroll to payment
Jiangyin Prospect Investment Co. LTD	69,152,429.29	Within 1 year	2.27	1,383,048.59	Scroll to payment
Beijing Wanyuan Industry Co. LTD	66,874,800.00	1-2 years, 2-3 years	2.19	5,588,780.00	Temporary shortage of funds
Total	442,256,546.59	—	—	20,516,093.99	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

4. Prepayments

(1) Aging analysis

Aging	31 December 2018	1 January 2018	31 December 2017
Within 1 year	221,776,260.83	409,943,716.68	409,943,716.68
1-2 years	26,431,176.83	11,730,675.00	11,730,675.00
2-3 years	4,743,971.56	5,709,647.00	5,709,647.00
More than 3 years	14,204,492.91	9,711,531.00	9,711,531.00
Total	<u>267,155,902.13</u>	<u>437,095,569.68</u>	<u>437,095,569.68</u>
Less: provision for diminution in value	2,168,074.68	6,282,540.68	2,180,040.68
Net value	<u>264,987,827.45</u>	<u>430,813,029.00</u>	<u>434,915,529.00</u>

Note: Until December 31 2018, the age of prepayments that is more than one year is 45,379,641.30 yuan (December 31 2017: 27,151,853.00 yuan). These prepayments are mainly for prepayment for materials because the supply cycle is long and the materials have been put into storage without checking.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

4. Prepayments (continued)

(2) The major prepayments aged over 1 year

Name of debtors	Ending balance	Aging	No settlement reason
Chongqing Construction Engineering Group Corporation Limited	6,027,750.88	Within 1 year, 1-2 years	Uninvoiced
Anhui Yingliu Huoshan Foundry Group Co. LTD	5,193,612.30	Within 1 year, 1-2 years	Undue
Liaoning Anshan Mine Construction Corporation	2,210,430.00	Within 1 year, 1-2 years	Undue
Qingdao Liding Automation Equipment Co. LTD	1,832,700.00	Within 1 year, 1-2 years	Uninvoiced
Yingkou High and Middle Pressure Valve General Factory Co. LTD	1,615,000.00	Within 1 year, 1-2 years, 2-3 years	Undue
Total	16,879,493.18	—	—

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

4. Prepayments *(continued)*

(3) Top five debtors

Name of debtors	Ending balance	Aging	Percentage (%)	No settlement reason
Xi'an Bowa Industry Automation Equipment Co., Ltd	14,397,984.44	Within 1 year	5.39	Shipped but the invoice have not arrived
Siemens Ltd.	6,907,696.55	Within 1 year	2.59	Shipped but the invoice have not arrived
Fanuc Corporation	6,685,988.80	Within 1 year	2.50	Shipped but the invoice have not arrived
Chinalco Kunming Copper Co., Ltd	6,169,447.96	Within 1 year	2.31	Not yet shipped
GSK CNC Equipment Co., Ltd	6,062,783.19	Within 1 year	2.27	Not yet shipped
Total	40,223,900.94	—	15.06	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

4. Prepayments (continued)

(4) Provision for bad debts that are accrued, collected or transferred back in the current year

Items	31 December 2017	The impact of changes in the new financial instrument standards	The balance at in the new financial instrument standards 1 January 2018	Change amount collected or transferred back accrued	Change amount collected or transferred back	Resale of write off	31 December 2018
Provision for bad debts of prepayment	2,180,040.68	4,102,500.00	6,282,540.68	(4,114,466.00)	—	—	2,168,074.68
Total	2,180,040.68	4,102,500.00	6,282,540.68	(4,114,466.00)	—	—	2,168,074.68

5. Other receivables

Items	31 December 2018	1 January 2018	31 December 2017
Dividend receivable	20,538,197.57	19,416,374.00	19,416,374.00
Interest receivable	383,447,758.44	260,528,433.00	260,528,433.00
Other receivables	620,673,475.17	1,103,823,790.00	1,103,823,790.00
Less: provision for bad debts	96,227,641.45	81,840,453.05	53,182,968.00
Total	928,431,789.73	1,301,928,143.95	1,330,585,629.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

5. Other receivables *(continued)*

5.1 Accounts receivable

(1) *The classification of interest receivable*

Items	31 December 2018	1 January 2018	31 December 2017
Related party borrowings	18,390,117.23	17,089,647.00	17,089,647.00
Loan issued	2,148,080.34	2,161,727.00	2,161,727.00
Due from banks or other financial institutes	—	165,000.00	165,000.00
Total	<u>20,538,197.57</u>	<u>19,416,374.00</u>	<u>19,416,374.00</u>

(2) *No overdue interest in ending balance*

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

5. Other receivables (continued)

5.2 Dividend receivable

(1) The classification of dividend receivable

Investees	31 December 2018	1 January 2018	31 December 2017
Chongqing Cummins Engine Co., Ltd. (CQ Cummins)	378,631,655.04	253,495,662.00	253,495,662.00
Chongqing Hongyan Fangda Automotive Suspension Co., Ltd. ("Hongyan")	4,816,103.40	4,916,566.00	4,916,566.00
Exedy Chongqing Driving System Co., Ltd. ("Exedy")	—	1,760,373.00	1,760,373.00
Chongqing Youyan Smelting New Material Co., Ltd. ("Chongqing Youyan")	—	355,832.00	355,832.00
Total	383,447,758.44	260,528,433.00	260,528,433.00

(2) The major dividend receivable aged over 1 year

Item (or investee)	Ending balance	Aging	The reason for not receiving	Whether the impairment occurs and its judgment basis
Chongqing Hongyan Fangda Automotive Suspension Co., Ltd.	4,816,103.40	1-2 years, 2-3 years, more than 3 year	No payment	Normal operation of the enterprise
Total	4,816,103.40	—	—	—

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

5. Other receivables *(continued)*

5.3 Other receivables

(1) Aging analysis

Aging	31 December 2018	1 January 2018	31 December 2017
Within 1 year	483,098,434.32	833,336,553.00	833,336,553.00
1-2 years	67,220,910.30	98,401,403.00	98,401,403.00
2-3 years	10,730,019.07	113,304,974.00	113,304,974.00
3-4 years	6,556,378.48	8,838,886.00	8,838,886.00
4-5 years	3,125,759.00	6,457,541.00	6,457,541.00
Over 5 years	49,941,974.00	43,484,433.00	43,484,433.00
Total	<u>620,673,475.17</u>	<u>1,103,823,790.00</u>	<u>1,103,823,790.00</u>
Less: Provision for impairment	96,227,641.45	81,840,453.05	53,182,968.00
Net carrying amount	<u>524,445,833.72</u>	<u>1,021,983,336.95</u>	<u>1,050,640,822.00</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

5. Other receivables (continued)

5.3 Other receivables (continued)

(2) The nature of other receivable is listed below

Nature	31 December 2018	1 January 2018	31 December 2017
Imprest fund	45,008,575.55	35,861,304.00	35,861,304.00
Advance payments to third party companies	71,123,714.37	58,138,327.00	58,138,327.00
Deposit Receivable	34,470,011.74	71,667,516.00	71,667,516.00
The related companies of other receivable	138,750,801.83	423,394,968.00	423,394,968.00
Housing repair fund	23,135,900.48	23,806,131.00	23,806,131.00
Land disposal receivable	85,032,555.39	408,565,270.00	408,565,270.00
Financial lease receivable	—	71,590,900.00	71,590,900.00
Large group receivable	37,789,608.64	—	—
Receivable from bank of China for pledged notes	19,824,500.00	—	—
Others	44,134,374.78	10,799,374.00	10,799,374.00
Collection and payment on agency basis	121,403,432.39	—	—
Total	620,673,475.17	1,103,823,790.00	1,103,823,790.00
Less: provision for diminution in value	96,227,641.45	81,840,453.05	53,182,968.00
Net carrying amount	524,445,833.72	1,021,983,336.95	1,050,640,822.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

5. Other receivables *(continued)*

5.3 Other receivables *(continued)*

(3) *Provision for bad debts that are accrued, collected or transferred back in the current year*

Items	31 December 2017	The impact of changes in the new financial instrument standards	The balance in the new financial instrument standards at 1 January 2018	accrued	Change amount collected or transferred back	Resale of write off	31 December 2018
Provision for bad debts of other receivable	53,182,968.00	28,657,485.05	81,840,453.05	14,387,188.40	—	—	96,227,641.45
Total	<u>53,182,968.00</u>	<u>28,657,485.05</u>	<u>81,840,453.05</u>	<u>14,387,188.40</u>	<u>—</u>	<u>—</u>	<u>96,227,641.45</u>

(4) *No other receivable that is actually write off in the current year*

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

5. Other receivables (continued)

5.3 Other receivables (continued)

(5) Top five debtors of other receivable

Name of debtors	Nature	Ending Balance	Aging	Percentage	Provision for bad debts amount	No settlement reason
Chongqing Land Group Co., Ltd	Land disposal fund	57,431,500.00	Within 1 year; 1-2 years	9.25	—	Undue
Chongqing central China compressor plant	Advance payment fund	14,532,908.51	Within 1 year	2.34	—	Group no settlement
Chongqing machine tool accessories factory	Advance payment fund	11,614,820.48	2-3 years, 3-4 years, 4-5 years, more than 5 years	1.87	—	Advance payment for large group
KAPP Werkzeugmaschinen GmbH	Advance payment fund	10,176,691.36	Within 1 year	1.64	—	Undue
Chongqing Gangtian Property Co., Ltd.	Advance payment fund Purchase of property	9,680,000.00	Over 5 years	1.56	9,680,000.00	All of the amount is not expected to be recovered, and it has been fully accrued for bad debts.
Total		103,435,920.35			9,680,000.00	

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

5. Other receivables *(continued)*

5.3 Other receivables *(continued)*

- (6) No other receivable that are terminated the recognition due to the transfer of financial assets in current year
- (7) No assets and liabilities have been formed due to the transfer and continuing involvement of other receivable
- (8) The ending balance of staff imprest fund is RMB45,008,575.55, it is mainly borrowed by the sale staff, the amount of accumulated impairment provision is RMB25,990,322.49, and the provision for diminution in value in current year is RMB7,316,586.31.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

6. Inventory

(1) Classification of inventory

Items	31 December 2018		
	Gross carrying amount	Provision for impairment	Net carrying amount
Raw materials	387,843,140.68	35,468,228.47	352,374,912.21
Work in progress	661,281,164.01	63,308,544.28	597,972,619.73
Finished goods	1,032,146,297.81	58,878,818.62	973,267,479.19
Low value consumables	26,277,927.00	—	26,277,927.00
Total	2,107,548,529.50	157,655,591.37	1,949,892,938.13

Items	1 January 2018		
	Gross carrying amount	Provision for impairment	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	443,893,502.21	—	443,893,502.21
Total	1,921,965,101.21	78,480,765.00	1,843,484,336.21

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

6. Inventory (continued)

(1) Classification of inventory (continued)

Items	31 December 2017		
	Gross carrying amount	Provision for impairment	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

(2) Provision of impairment that are accrued, collected or transferred back in the current year

Item	Beginning balance	Increase		Decrease		Ending balance
		Accrued	Other	Collected or Transferred Back	Other transfer	
Raw materials	25,327,789.00	10,697,706.80	—	557,267.33	—	35,468,228.47
Work in progress	34,185,872.00	29,122,672.28	—	—	—	63,308,544.28
Finished goods	18,967,104.00	36,848,194.94	3,063,519.68	—	—	58,878,818.62
Total	78,480,765.00	76,668,574.02	3,063,519.68	557,267.33	—	157,655,591.37

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

6. Inventory (continued)

(3) Provision of impairment of inventory

Item	The determine basic of net realizable value	The reasons of collected and transferred back
Raw materials	The balance between the net realize value and the book value of raw materials	The price of the final product rose, provision for impairment is transferred back
Finished goods	The balance between the net realize value and the book value of finished good	The net realizable value of finished good with provision impairment for inventory in previous year is increased

7. Contractual assets and liabilities

7.1 Contractual assets

(1) The situation of contractual assets

Item	31 December 2018		
	Gross carrying amount	Provision for impairment	Net carrying amount
Contractual Assets	298,586,106.82	49,508,552.84	249,077,553.98
Including: building contract	298,586,106.82	49,508,552.84	249,077,553.98

Item	1 January 2018		
	Gross carrying amount	Provision for impairment	Net carrying amount
Contractual Assets	195,511,456.37	49,508,552.84	146,002,903.53
Including: building contract	195,511,456.37	49,508,552.84	146,002,903.53

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

7. Contractual assets and liabilities (continued)

7.1 Contractual assets (continued)

(1) The situation of contractual assets (continued)

The information of completed but unsettled assets arising from construction contract

Accumulated incurred costs	Accumulated incurred gross profit/loss	Anticipate loss	The settlement amount of the project	Total
325,117,006.33	62,437,519.36	49,508,552.84	88,968,418.87	249,077,553.98

(2) The significant amount changes and reasons of net carrying amount of contractual assets

Item	Change amount	Reason
Nam Ngiep 2A Hydropower Project in Lao PDR EPC Project (NONGHAI GROUP LTD)	5,682,962.24	Input increase
Nam Ngiep 2B Hydropower Project in Lao PDR EPC Project (NONGHAI GROUP LTD)	(13,855,619.74)	Settlement of Project
Nantey Hydropower Project in Lao PDR EPC Project (Pensa Road Bridge Construction Co. LTD)	(1,999,158.84)	Settlement of Project
Phalakhlu Khola (EPC) Project in Nepal	57,901,963.60	On-schedule input, but it has not yet been settled
Lanta Hydropower Project in Nepal (Multi Energy Development Pvt. Ltd)	13,986,920.00	On-schedule input, but it has not yet been settled
Khimti-2 Hydropower Project EPC Project (National Energy Co., Ltd)	41,357,583.19	On-schedule input, but it has not yet been settled
Total	103,074,650.45	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

7. Contractual assets and liabilities (continued)

7.1 Contractual assets (continued)

(3) Provision of impairment that are accrued, collected or transferred back in the current year

Item	31 December 2017	The impact of changes in the new financial instrument standards	The balance in the new financial instrument standards at 1 January 2018	Accrued	Collected	Transferred Back	31 December 2018
Contractual Assets	—	49,508,552.84	49,508,552.84	—	—	—	49,508,552.84
Total	—	49,508,552.84	49,508,552.84	—	—	—	49,508,552.84

7.2 Contractual liabilities

(1) The situation of contractual liabilities

Items	31 December 2018	1 January 2018	31 December 2017
Contractual Liabilities	685,648,864.72	733,585,492.95	—
Including: building contract	14,366,297.45	4,203,120.52	—

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

7. Contractual assets and liabilities *(continued)*

7.2 Contractual liabilities *(continued)*

(2) *The major contractual liabilities over 1 year*

Items	Ending Balance	The reasons for collected and transferred back
Beijing Jingcheng New Energy Co., Ltd	16,803,000.00	No pick up the goods
Laos Southern Europe River Seven Level Hydropower Station (China Power Construction Overseas Investment Group Co. LTD)	9,816,000.00	In progress
Xilin Guole Sunite Alkali Co. Ltd	8,420,000.00	Contract not completed
Beijing Office of Tangshan Shougang Baoye Iron and Steel Co. LTD	6,610,000.00	Undue
Chongqing Construction Engineering Real Estate Development Group Co. Ltd	6,466,584.48	Contract not completed
Beijing Sanju Green Energy Technology Co. Ltd	5,250,000.00	Contract not completed
Nanning Oasis Chemical Co. Ltd	5,202,660.00	Contract not completed
Guizhou Jiayan Water Control Project and The Northwest Water Supply Project of Qianjiang River Power 1 Level (Guizhou Water Resources Investment (group) Co. LTD)	5,181,821.00	In progress
Pingshan County Jingye plate co. LTD	4,291,833.00	Undue
Mengnahe Three-Stage Power Station in Yingjiang County, Yunnan Province (Yunnan Province Xingyun Co., Ltd)	4,249,280.00	In progress
Total	<u>72,291,178.48</u>	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

7. Contractual assets and liabilities (continued)

7.2 Contractual liabilities (continued)

(3) Top five debtors of contractual liabilities

Item	Ending Balance	Aging	Reasons for unsettlement
Hegang Leting Iron and Steel Co. Ltd	22,200,000.00	Within 1 year	Not yet shipped
Nanjing Nanrui Jibao Engineering Technology Co. Ltd	17,758,361.00	Within 1 year	Not yet shipped
Erzhong (Deyang) Heavy Equipment Co., Ltd.	15,651,637.62	Within 1 year	Not yet shipped
Laos Selalong hydro-generator set of the first-level power station project (Yunnan Nengtou United Foreign Trade Co. Ltd)	14,791,167.92	Within 1 year	Not yet shipped
Fujian Fuhua Tianchen Gas Co., Ltd	10,470,000.00	Within 1 year	Contract not completed
Total	80,871,166.54	—	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

8. Assets held for sale

Item	Ending Balance	Beginning Balance
Assets held for sale	6,039,285.98	—
Including: Land	872,237.63	—
Building	4,750,180.52	—
Machinery equipment	359,700.70	—
Office equipment	57,167.13	—

Note: In order to cooperate with municipal construction, Chongqing Water Pump Industry Co., Ltd., approved by the board of directors and signed the “land and above-ground construction compensation agreement” with Chongqing Yongchuan Land and Housing expropriation center and Chongqing Yongchuan Huixin construction engineering co., LTD on 23 November 2018. The agreement stipulates that the company shall liquidate and deliver the expropriated assets to the expropriator no later than 120 days after the signed date of the agreement. The total amount of compensation from the levying party is RMB67,999,787.16. The company’s assets subject to expropriation as agreed include land, do not include fixed assets and inventories. The original value of the land involved is RMB13,262,296.32. Accumulated amortization has reached RMB12,390,058.69 as of 31 December 2018. The book value is RMB872,237.63. The original value of fixed assets is RMB14,417,392.08. As of 31 December 2018, accumulated depreciation has reached RMB9,250,343.73, and the book value is RMB5,167,048.35.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

9. Non-current assets due within one year

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

10. Other current assets

Items	31 December 2018	1 January 2018	31 December 2017
Available-for-sale financial assets	—	—	152,773,313.00
Unused deductible VAT	77,303,185.19	30,333,752.96	30,333,752.96
Prepaid tax	3,513,765.43	3,493,250.78	3,493,250.78
Deferred expenses	242,114.28	1,449,260.26	1,449,260.26
Total	81,059,064.90	35,276,264.00	188,049,577.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

11. Loans and advances to customers

(1) Loans and advances to customers aged within one year

1) *Classification of loans and advances to customers based on individual or corporation*

Items	Ending balance	Beginning balance
Loans and advances to corporations	—	—
– Loans	1,075,850,000.00	974,836,560.00
– Discount	73,239,939.63	60,374,547.00
Total	1,149,089,939.63	1,035,211,107.00
Less: Provision for impairment	33,652,837.43	28,032,957.00
Including: Provision for expected credit basis	33,652,837.43	—
Provision on portfolio basis	—	28,032,957.00
Carrying amount	1,115,437,102.20	1,007,178,150.00

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

Industry	Ending balance	Proportion (%)	Beginning balance	Proportion (%)
Manufacturing industry	1,149,089,939.63	100.00	1,035,211,107.00	100.00
Total	1,149,089,939.63	100.00	1,035,211,107.00	100.00
Less: provision for impairment	33,652,837.43	—	28,032,957.00	—
Including: Provision for expected credit basis	33,652,837.43	—	—	—
Provision on portfolio basis	—	—	28,032,957.00	—
Carrying amount	1,115,437,102.20	—	1,007,178,150.00	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

11. Loans and advances to customers (continued)

(1) Loans and advances to customers aged within one year (continued)

3) Classification of loans and advances to customers based on location

Area	Ending balance	Proportion (%)	Beginning balance	Proportion (%)
Southwest	1,149,089,939.63	100.00	1,035,211,107.00	100.00
Total	1,149,089,939.63	100.00	1,035,211,107.00	100.00
Less: provision for impairment	33,652,837.43	—	28,032,957.00	—
Including: Provision for expected credit basis	33,652,837.43	—	—	—
Provision on portfolio basis	—	—	28,032,957.00	—
Carrying amount	<u>1,115,437,102.20</u>	<u>—</u>	<u>1,007,178,150.00</u>	<u>—</u>

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

11. Loans and advances to customers *(continued)*

(1) Loans and advances to customers aged within one year *(continued)*

4) *Classification of loans and advances to customers based on type of security*

Items	Ending balance	Beginning balance
Unsecured loan	653,450,000.00	125,536,560.00
Guaranteed loan	235,139,939.63	767,800,000.00
Collateral loan	260,500,000.00	141,874,547.00
Mortgaged loan	139,500,000.00	75,000,000.00
Pledged loan	121,000,000.00	66,874,547.00
Total	1,149,089,939.63	1,035,211,107.00
Less: provision for impairment	33,652,837.43	28,032,957.00
Including: Provision for expected credit basis	33,652,837.43	—
Provision on portfolio basis	—	28,032,957.00
Carrying amount	1,115,437,102.20	1,007,178,150.00

5) *The beginning balance and ending balance of the group are no overdue loans.*

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

11. Loans and advances to customers (continued)

(1) Loans and advances to customers aged within one year (continued)

- 6) Provision of impairment that are accrued, collected or transferred back in the current year

Item	Amount this year		Amount last year	
	Single item	expected credit loss	Single item	Portfolio
Beginning balance	—	28,032,957.00	—	18,052,080.00
Accrued in current year	—	5,619,880.43	—	9,980,877.00
Ending balance	—	33,652,837.43	—	28,032,957.00

(2) Loans and advances to customers aged over one year

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

Items	Ending balance	Beginning balance
Loans and advances to corporations	40,000,000.00	38,989,025.00
– Loans	40,000,000.00	38,989,025.00
Total	40,000,000.00	38,989,025.00
Less: Provision for impairment	1,120,000.00	1,094,671.00
Including: Provision for expected credit basis	1,120,000.00	—
Provision on portfolio basis	—	1,094,671.00
Carrying amount	38,880,000.00	37,894,354.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

11. Loans and advances to customers (continued)

(2) Loans and advances to customers aged over one year (continued)

2) Classification of loans and advances to customers based on industry

Industry	Ending balance	Proportion (%)	Beginning balance	Proportion (%)
Manufacturing industry	40,000,000.00	100.00	38,989,025.00	100.00
Total	40,000,000.00	—	38,989,025.00	—
Less: provision for impairment	1,120,000.00	—	1,094,671.00	—
Including: Provision for expected credit basis	1,120,000.00	—	—	—
Provision on portfolio basis	—	—	1,094,671.00	—
Carrying amount	38,880,000.00	—	37,894,354.00	—

3) Classification of loans and advances to customers based on location

Area	Ending balance	Proportion (%)	Beginning balance	Proportion (%)
Southwest	40,000,000.00	100.00	38,989,025.00	100.00
Total	40,000,000.00	100.00	38,989,025.00	100.00
Less: provision for impairment	1,120,000.00	—	1,094,671.00	—
Including: Provision for expected credit basis	1,120,000.00	—	—	—
Provision on portfolio basis	—	—	1,094,671.00	—
Carrying amount	38,880,000.00	—	37,894,354.00	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
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VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Loans and advances to customers (continued)

(2) Loans and advances to customers aged over one year (continued)

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

Items	Ending balance	Beginning balance
Guaranteed loan	40,000,000.00	38,989,025.00
Total	40,000,000.00	38,989,025.00
Less: provision for impairment	1,120,000.00	1,094,671.00
Including: Provision for expected credit basis	1,120,000.00	—
Provision on portfolio basis	—	1,094,671.00
Carrying amount	<u>38,880,000.00</u>	<u>37,894,354.00</u>

5) The beginning balance and ending balance of the group are no overdue loans

6) Provision of impairment that are accrued, collected or transferred back in the current year

Item	Amount this year		Amount last year	
	Single item	Expected credit loss	Single item	Portfolio item
Beginning balance	—	1,094,671.00	—	659,835.00
Accrued in current year	—	25,329.00	—	434,836.00
Ending balance	<u>—</u>	<u>1,120,000.00</u>	<u>—</u>	<u>1,094,671.00</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
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VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Available for sale financial assets

(1) Available for sale financial assets

Item	31 December 2018			1 January 2018			31 December 2017		
	Gross carrying amount	Provision for impairment	Net carrying amount	Gross carrying amount	Provision for impairment	Net carrying amount	Gross carrying amount	Provision for impairment	Net carrying amount
Equity instruments available for sale									
– Measured at fair value	–	–	–	–	–	–	152,773,313.00	–	152,773,313.00
– Measured at cost	–	–	–	–	–	–	2,939,493.00	2,939,493.00	–
Subtotal	–	–	–	–	–	–	155,712,806.00	2,939,493.00	152,773,313.00
Less: Financial assets available for sale listed as other current assets	–	–	–	–	–	–	152,773,313.00	–	152,773,313.00
Book value	–	–	–	–	–	–	2,939,493.00	2,939,493.00	–

(2) The analysis of available for sale financial assets

1) The available for sale financial assets measured at fair value

Item	31 December 2018	1 January 2018	31 December 2017
Equity instruments available for sale			
– Fair value	–	–	152,773,313.00
– Cost	–	–	150,000,000.00
– Accumulative in other comprehensive	–	–	2,773,313.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

12. Available for sale financial assets (continued)

(2) The analysis of available for sale financial assets (continued)

2) The available for sale financial assets measured at fair value

Item	31 December 2018	1 January 2018	31 December 2017	Percentage
Equity instruments available for sale-Cost	—	—	2,939,493.00	—
– Yunnan Yingjiang River Nebula Co. Ltd	—	—	1,356,000.00	10%
– Chongqing Yongkang Pump Co. LTD	—	—	600,000.00	15%
– Other	—	—	983,493.00	—
Less: provision for impairment	—	—	2,939,493.00	—
Net amount of available-for-sale equity instrument	—	—	—	—

(3) Provision of impairment of available for sale financial assets

Item	Beginning balance	The impact of changes in the new financial instrument standards	The balance in the new financial instrument standards at 1 January 2018	Accrued	Decrease	Ending balance
Provision of impairment of saleable financial assets measured at cost	2,939,493.00	(2,939,493.00)	—	—	—	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
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VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Long-term receivable

(1) Situation of Long-term Receivable

Items	Ending balance			Beginning balance		
	Gross carrying amount	Provision for impairment	Net carrying amount	Gross carrying amount	Provision for impairment	Net carrying amount
Long-term receivables from related parties (Please refer to Note)	33,200,000.00	—	33,200,000.00	91,000,000.00	—	91,000,000.00
Lease security deposit	—	—	—	669,620.00	—	669,620.00
Total	33,200,000.00	—	33,200,000.00	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. The due date as follow: RMB17,500,000 will be due on 10 January 2020, RMB8,700,000 will be due on 10 July 2020, RMB7,000,000 will be due on 10 January 2021.

Notes to the Consolidated Financial Statements (Continued)

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

14. Long-term equity investment

Name of investee	Accounting method	Percentage of shareholdings	Voting rights	Cost of investment	Beginning balance	Increase or Decrease in investment	Investment gain or loss recognized under equity method	Increase or decrease Adjustment of other comprehensive income	Cash dividend declared	Decrease	Ending balance
Joint ventures											
Joint ventures	Equity method	50.00	50.00	370,189,551.00	348,023,204.00	—	315,455,871.59	—	302,582,956.35	—	360,896,119.24
Subtotal	Equity method	—	—	370,189,551.00	348,023,204.00	—	315,455,871.59	—	302,582,956.35	—	360,896,119.24
Associates											
Chongqing ABB Power Transformer Co., Ltd. ("Chongqing ABB")	Equity method	—	—	—	—	—	—	—	—	—	—
(refer to Note 1)	Equity method	37.80	37.80	236,651,166.00	298,625,219.00	—	27,280,400.76	—	77,650,013.00	—	246,255,606.76
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	(46,687,500.00)	618,793.88	—	—	(30,910,152.12)	—
Chongqing Yongtong Gas Co., Ltd.	Equity method	20.00	20.00	4,000,000.00	335,438.00	—	—	—	—	—	335,438.00
Hongyan (refer to Note 2)	Equity method	44.00	42.86	51,306,166.00	113,146,768.00	—	10,259,380.77	—	—	—	123,406,148.77

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

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

14. Long-term equity investment (continued)

Name of investee	Accounting method	Percentage of shareholdings	Voting rights	Cost of investment	Beginning balance	Increase or decrease in investment	Investment gain or loss recognized under equity method	Increase or decrease of other comprehensive income	Cash dividend declared	Decrease	Ending
											balance
Eexdy (refer to Note 2)	Equity method	27.00	33.33	16,880,157.00	78,241,557.00	—	5,412,929.93	—	3,864,570.09	1,760,373.00	78,029,543.84
Krorr-Bren se Systems for Commercial											
Vehicles (Chongqing) Ltd.	Equity method	34.00	34.00	44,231,369.00	42,606,938.00	—	6,866,212.03	—	—	—	49,475,150.03
Chongqing Youyan	Equity method	41.50	41.50	33,200,000.00	39,150,730.00	(33,200,000.00)	1,914,836.39	—	975,250.00	6,890,316.39	—
Chongqing Jiangbei Machinery											
(refer to Note 2)	Equity method	41.00	20.00	57,933,968.00	58,166,434.00	—	846,098.44	—	—	—	59,014,532.44
WPG Company in Italy	Equity method	35.00	35.00	6,086,193.00	2,414,655.00	—	-2,414,655.00	—	—	—	—
Chongqing Shenjian Automotive Drive											
Part Co., Ltd	Equity method	35.00	35.00	50,808,049.00	50,808,048.00	35,000,000.00	3,934,198.20	—	—	—	89,742,246.20
Subtotal				547,756,568.00	698,654,341.00	(44,887,500.00)	54,722,195.40	—	82,469,833.09	(22,259,462.73)	646,236,666.04
Total				917,946,119.00	1,046,677,545.00	(44,887,500.00)	370,176,066.99	—	365,072,789.44	(22,259,462.73)	1,009,154,785.28

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
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VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

14. Long-term equity investment *(continued)*

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 31 Oct 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.

Note 3: On 14 November 2018, Chongqing Machinery & Electric Co., Ltd approval the consent which Chongqing General Industry (Group) Co., Ltd transfers its 10% equity of Chongqing Midea General Refrigeration Equipment Co., Ltd (Chongqing Electromechanical Control and Development [2018] no. 186). The approval illustrates that 10% equity of Chongqing Midea General Refrigeration Equipment Co., Ltd which Chongqing General Industry (Group) Co., Ltd hold will be public listed and transferred in Chongqing Equity Exchange Group Co., LTD, the listed price shall not be lower than the estimated value of RMB6,128.65 million. Finally, it is listed and transferred by Chongqing Assets and Equity Exchange Group Co., Ltd and the price is 6,712.28 million.

Note 4: The forth board meeting of the group is convened on 7 September 2018, the meeting approval and agree that the group would acquire 7.26% equity of Grinm Advanced Materials (Beijing) Co., Ltd (hereinafter referred to as "Beijing youyan") by exchanging the 41.5% equity of Chongqing Youyan. On 17 October 2018, Chongqing Machinery & Electric Co., Ltd issued an agree approval reply to the group on this matter.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

15. Other equity instruments investment

Item	Shareholdings' percentage	Gross carrying amount	Ending balance		Investment Reasons
			Gross carrying amount	Gross carrying amount	
Grinm Advanced Materials (Beijing) Co., Ltd	7.26	46,693,061.00	—	46,693,061.00	Long-term holding for strategic purposes
Yunnan Yingjiang River Nebula Co. Ltd	10.00	1,356,000.00	1,356,000.00	—	—
Chongqing Yongkang Pump Co. LTD	15.00	600,000.00	600,000.00	—	—
Other	—	983,493.00	983,493.00	—	—
Total	—	49,632,554.00	2,939,493.00	46,693,061.00	—

Note: On 30 September 2018, Grinm Advanced Materials (Beijing) Co., Ltd (target company), Beijing Taige Mining Investment Co., Ltd (investor 1), Beijing Huading New Cornerstone Equity Investment Fund (investor 2), Chongqing Machinery & Electric Co., Ltd (investor 3) signed "the capital increase agreement of Grinm Advanced Materials (Beijing) Co., Ltd ", The agreement stipulates that the 41.5% equity of Chongqing Youyan (estimated value was 4,669.3061 million) which the Chongqing Machinery & Electric Co., Ltd hold can be exchanged 7.26% equity of Grinm Advanced Materials (Beijing) Co., Ltd. The company's management believe that there is no significant difference between the estimated value and fair value at the end of period.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

16. Investment property

(1) Investment property at cost measurement model

Item	Buildings and land-use rights	Total
I. Gross carrying amount	—	—
1. Beginning balance	202,925,610.00	202,925,610.00
2. Increase	—	—
3. Decrease	77,876,922.27	77,876,922.27
(1) Transferred to Property, Plant and Equipment	77,876,922.27	77,876,922.27
4. Ending balance	<u>125,048,687.73</u>	<u>125,048,687.73</u>
II. Accumulated depreciation and amortization	—	—
1. Beginning balance	38,905,070.00	38,905,070.00
2. Increase	4,527,499.34	4,527,499.34
(1) Depreciation and amortization	4,527,499.34	4,527,499.34
3. Decrease	1,993,138.13	1,993,138.13
(1) Transferred to Property, Plant and Equipment	1,993,138.13	1,993,138.13
4. Ending balance	<u>41,439,431.21</u>	<u>41,439,431.21</u>
III. Ending balance	—	—
1. Ending balance	83,609,256.52	83,609,256.52
2. Beginning balance	<u>164,020,540.00</u>	<u>164,020,540.00</u>

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

16. Investment property *(continued)*

(1) Investment property at cost measurement model *(continued)*

Note: In October 2015, Chongqing Unication Electronic Technology Co., Ltd (a subsidiary of group) and Chongqing South District Government signed "Supporting The Construction Of Phase II Project of Unication Industrial Park Agreement". The agreement stipulates that, after the completion of the project, Chongqing Unication Electronic Technology company will provide the whole company to the government of Chongqing south district government for the investment attraction of electronic information industry, which will be used free of charge for 43 months. On 28 November 2018, Chongqing Unication Electronic Technology Co., Ltd (a subsidiary of group) obtained a supplementary statement of "Supporting The Construction Of Phase II Project of Unication Industrial Park Agreement" from Chongqing South District Government. The supplementary statement claims that the Unication company entrusts the second phase of the plant to the Chongqing South District Government. With help of the investment attraction platform of the Chongqing South District Government, the company will introduce high-end customers in the electronics industry. During the introduction and early cultivation period, the company will not charge rental from the customers. Chongqing Unication Electronic Technology Co., Ltd will not rent out the property of the second phase in recent period, therefore it will be presented as Property, plant and equipment.

- (1) Until 31 December 2018, the group has no investment property without a certificate of title.
- (2) Until 31 December 2018, there is no significant impairment in the group's investment property and no accrued is made for related impairment.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

17. Property, plant and equipment

Item	Ending balance	Beginning balance
Property, Plant and Equipment	3,224,463,549.03	2,866,356,781.00
Disposal of Property, Plant and Equipment	257,400.11	—
Total	<u>3,224,720,949.14</u>	<u>2,866,356,781.00</u>

(1) Property, plant and equipment

Item	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	268,272,342.54	291,090,995.18	3,248,525.97	6,793,441.64	569,405,305.33
(1)Purchase	3,526,257.42	30,206,396.02	3,248,525.97	6,793,441.64	43,774,621.05
(2)Transfer from construction in process	178,251,381.16	260,884,599.16	—	—	439,135,980.32
(3)Transfer from investment property	77,876,922.27	—	—	—	77,876,922.27
(4)To settle debt with assets	8,288,518.80	—	—	—	8,288,518.80
(5)Others	329,262.89	—	—	—	329,262.89
3. Decrease	8,769,513.35	84,857,486.72	5,413,855.09	1,476,980.18	100,517,835.34
(1) Disposal	8,769,513.35	84,857,486.72	5,413,855.09	1,476,980.18	100,517,835.34
4. Ending balance	<u>2,517,406,397.19</u>	<u>1,670,160,182.46</u>	<u>59,976,844.88</u>	<u>62,800,415.46</u>	<u>4,310,343,839.99</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

17. Property, plant and equipment (continued)

(1) Property, plant and equipment (continued)

Item	Buildings	Machinery equipment	Transportation	Office equipments	Total
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	65,420,038.56	114,048,317.87	3,875,256.69	4,507,519.15	187,851,132.27
(1) Depreciation and amortization	58,487,984.70	114,048,317.87	3,875,256.69	4,507,519.15	180,919,078.41
(2) Transfer from investment property	1,993,138.13	—	—	—	1,993,138.13
(3) To settle debt with assets	4,938,915.73	—	—	—	4,938,915.73
3. Decrease	4,902,995.55	65,792,149.55	5,376,313.68	998,971.53	77,070,430.31
(1) Disposal	4,902,995.55	65,792,149.55	5,376,313.68	998,971.53	77,070,430.31
4. Ending balance	<u>300,626,972.01</u>	<u>701,723,819.04</u>	<u>42,960,600.01</u>	<u>36,529,787.62</u>	<u>1,081,841,178.68</u>
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	<u>—</u>	<u>3,927,136.86</u>	<u>—</u>	<u>111,975.42</u>	<u>4,039,112.28</u>
IV. Net carrying amount	—	—	—	—	—
1. Ending balance	2,216,779,425.18	964,509,226.56	17,016,244.87	26,158,652.42	3,224,463,549.03
2. Beginning balance	<u>2,017,793,639.00</u>	<u>806,531,886.42</u>	<u>17,680,517.00</u>	<u>24,350,738.58</u>	<u>2,866,356,781.00</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
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VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Property, plant and equipment (continued)

(1) Property, plant and equipment (continued)

Note: Until 31 December 2018, the original value of the fixed assets that have been fully depreciated and are still in use is RMB135,607,356.27.

(2) Temporarily idle property, plant and equipment

Item	Gross carrying amount	Accumulated depreciation	Provision for impairment	Net carrying amount
Machinery equipment	17,269,023.79	10,294,732.59	3,927,136.86	3,047,154.34
Total	17,269,023.79	10,294,732.59	3,927,136.86	3,047,154.34

(3) Property, plant and equipment under finance lease

Item	Gross carrying amount	Accumulated depreciation	Provision for impairment	Net carrying amount
Machinery equipment	387,362,133.87	18,434,965.67	—	368,927,168.20
Total	387,362,133.87	18,434,965.67	—	368,927,168.20

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
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VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

17. Property, plant and equipment *(continued)*

(4) Property, plant and equipment is leased under operation lease

Item	Net carrying amount
Building	83,609,256.52
Total	83,609,256.52

(5) The property, plant and equipment without certificate of title

Item	Net carrying amount	Reason
Building	599,558,121.89	In process

(6) Restriction on property, plant and equipment

Please refer to VI.63 for details.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
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VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Construction in progress

(1) The situation of construction in progress

Item	Ending balance			Beginning balance		
	Gross carrying amount	Provision for impairment	Net carrying amount	Gross carrying amount	Provision for impairment	Net carrying amount
Relocation project of Yinhe Forging & Founding	2,248,617.05	—	2,248,617.05	17,033,603.00	—	17,033,603.00
Chongtong ChengFei Jiangsu Rudong project	4,634,739.94	—	4,634,739.94	60,265,048.00	—	60,265,048.00
Xinjiang Cotton picker project of Fu Baotian	74,635,444.79	—	74,635,444.79	74,622,864.00	—	74,622,864.00
Environmental-friendly relocation project of Water Turbine Works	—	—	—	207,345,858.00	—	207,345,858.00
Environmental-friendly relocation project of Tool Factory	290,993.03	—	290,993.03	259,492.00	—	259,492.00
Chongtong Touping Laboratory Machinery industrialization base construction project of Machinery Manufacture	1,652,159.67	—	1,652,159.67	—	—	—
Intelligent manufacturing project Hikvision	163,516.92	—	163,516.92	3,178,694.54	—	3,178,694.54
General Machinery equipments	193,597.25	—	193,597.25	3,271,413.68	—	3,271,413.68
Others	4,037,870.44	—	4,037,870.44	13,729,977.71	—	13,729,977.71
	56,508,581.85	2,557,627.00	53,950,954.85	16,588,797.07	6,213,930.00	10,374,867.07
Total	173,806,903.77	2,557,627.00	171,249,276.77	424,478,231.00	6,213,930.00	418,264,301.00

Notes to the Consolidated Financial Statements (Continued)

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

18. Construction in progress (continued)

(2) The situation of construction in progress

Project Name	Budgeted amount	Beginning Balance	Increase	Decrease		Ending Balance
				Transfer into property, plant and equipment	Other Decrease	
Relocation project of Yinhe Forging & Founding	165,000,000.00	17,033,603.00	15,667,083.84	30,452,069.79	—	2,248,617.05
Chongtong ChengFei Jiangsu Rudong project	249,370,000.00	60,265,048.00	51,588,843.09	81,595,926.65	25,623,224.50	4,634,739.94
Xinjiang Cotton picker project of Fu Baotian	74,622,864.00	74,622,864.00	12,580.79	—	—	74,635,444.79
Environmental-friendly relocation project of Water Turbine Works	850,000,000.00	207,345,858.00	5,300,188.62	212,646,046.62	—	—
Environmental-friendly relocation project of Tool Factory	165,000,000.00	259,492.00	9,055,865.91	9,024,364.88	—	290,993.03
Chongtong Touping Laboratory	50,000,000.00	28,182,483.00	1,788,814.36	—	529,914.53	29,441,382.83
Machinery industrialization base construction project of Machinery Manufacture	1,500,000,000.00	—	64,260,783.70	60,303,108.23	2,305,515.80	1,652,159.67
Intelligent manufacturing project	—	3,178,694.54	131,793.41	3,146,971.03	—	163,516.92
Hikvision	—	3,271,413.68	6,913,488.41	9,991,304.84	—	193,597.25
General Machinery equipments	—	13,729,977.71	32,902,038.12	15,530,965.89	27,063,179.50	4,037,870.44
Total	—	407,889,433.93	187,621,480.25	422,690,757.93	55,521,834.33	117,298,321.92

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
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VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Construction in progress (continued)

(2) The situation of construction in progress (continued)

Project Name	The ratio of input to budget (%)	Project Progress (%)	Capitalized aggregate amount of borrowing costs	Capitalized amount of borrowing costs in current year	Capital Source
Relocation project of Yinhe Forging & Founding	100.00	100.00	11,348,679.00	—	Parent company borrowing
Chongtong ChengFei Jiangsu Rudong project	68.00	68.00	5,606,133.00	—	Self-collected fund and bank's borrowing
Xinjiang Cotton picker project of Fu Baotian	100.00	100.00	4,933,580.00	—	Self-collected fund and bank's borrowing
Environmental-friendly relocation project of Water Turbine Works	100.00	100.00	35,285,814.00	—	bank's borrowing
Environmental-friendly relocation project of Tool Factory	100.00	100.00	6,832,696.00	—	Self-collected fund and bank's borrowing
Chongtong Touping Laboratory	59.00	59.00	—	—	Self-collected fund
Machinery industrialization base construction project of Machinery Manufacture	100.00	100.00	56,435,373.00	—	Self-collected fund and bank's borrowing
Intelligent manufacturing project	—	—	—	—	Self-collected fund
Hikvision	—	—	—	—	Self-collected fund
General Machinery equipments	—	—	—	—	Self-collected fund
Total	—	—	120,442,275.00	—	—

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

19. Intangible assets

(1) The situation of 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	32,463,861.86	1,361,283.15	8,533,355.58	—	—	—	—	42,358,500.59
(1) Purchase	32,463,861.86	1,361,283.15	5,500,000.00	—	—	—	—	39,325,145.01
(2) other	—	—	3,033,355.58	—	—	—	—	3,033,355.58
3. Decrease	7,203,453.51	—	—	—	—	—	—	7,203,453.51
(1) Disposal	7,203,453.51	—	—	—	—	—	—	7,203,453.51
4. Ending balance	577,840,695.35	27,472,137.15	91,048,845.58	12,256,200.00	55,044,064.00	68,257,380.00	10,940,392.00	842,859,714.08
II. Accumulated depreciation and amortization								
1. Beginning balance	95,224,701.00	19,523,393.00	24,047,959.00	—	31,873,845.00	10,814,277.00	10,940,392.00	192,424,567.00
2. Increase	14,824,642.38	3,822,201.67	8,296,006.82	—	4,494,211.63	3,361,688.00	—	34,798,750.50
(1) Depreciation and amortization	14,824,642.38	3,822,201.67	8,296,006.82	—	4,494,211.63	3,361,688.00	—	34,798,750.50
3. Decrease	1,907,952.53	50,813.95	—	—	—	—	—	1,958,766.48
(1) Disposal	1,907,952.53	50,813.95	—	—	—	—	—	1,958,766.48
4. Ending balance	108,141,390.85	23,294,780.72	32,343,965.82	—	36,368,056.63	14,175,965.00	10,940,392.00	225,264,551.02

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

19. Intangible assets (continued)

(1) The situation of intangible assets (continued)

Items	Land-use rights	Software	Technical know-how	Brand	Customer relationships	Franchise rights	Others	Total
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	469,699,304.50	4,177,356.43	58,704,879.76	12,256,200.00	18,676,007.37	54,081,415.00	—	617,595,163.06
2. Beginning balance	457,355,586.00	6,587,461.00	58,467,531.00	12,256,200.00	23,170,219.00	57,443,103.00	—	615,280,100.00

Note: The restriction on intangible assets is detailed in VI.63.

(2) Until 31 December 2018, the Group has no land-use right without a certificate of title.

Notes to the Consolidated Financial Statements (Continued)

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

20. Development expenditure

Item	Beginning Balance	Increase		Decrease Recognized in profit or loss	Ending Balance
		Internal development expenditure	Other		
Wind blade technology of General	7,138,672.00	—	21,065,500.90	—	28,204,172.90
CNC of automotive power key parts processing technology development and application of Research Institute	—	1,001,052.77	—	—	1,001,052.77
Others	—	23,767,325.33	—	23,044,876.21	722,449.12
Total	7,138,672.00	24,768,378.10	21,065,500.90	23,044,876.21	29,927,674.79

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

21. Goodwill

(1) Original value 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
Less: provision of impairment	—	—	—	—
Net value of goodwill	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.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

21. Goodwill (continued)

(2) Impairment

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

Cash-generating units/Groups of cash-generating units	Ending balance	Beginning balance
PTG six entities	15,368,000.00	15,368,000.00
CAFF	127,650,489.00	127,650,489.00
Power Transformer	293,946.00	293,946.00
Total	143,312,435.00	143,312,435.00

The recoverable amount of 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.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

21. Goodwill (continued)

(2) Impairment (continued)

Major assumptions for discounted cash flow method:

Items	Current period		Last period	
	CAFF	PTG six entities	CAFF	PTG six entities
Growth rate	1%	2%	1%	0%
Gross profit rate	16%-18%	47.59%-50.68%	16%-18%	44%-46%
Discount rate	15%	11.6%-11.8%	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.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

22. Long-term deferred expenses

Item	Beginning	Increase	Amortization	Other decrease	Ending balance
Improvement of leased Property, Plant and Equipment	(1,260,819.00)	2,165,240.10	221,160.19	—	683,260.91
Mold	168,526,798.54	84,683,977.31	29,802,190.51	11,951,779.80	211,456,805.54
Lease fee	42,355,865.00	72,025.45	26,678,211.22	—	15,749,679.23
Other	—	3,786,947.14	1,027,789.09	—	2,759,158.05
Subtotal	209,621,844.54	90,708,190.00	46,016,844.00	23,664,286.81	230,648,903.73
Decrease: Provision for impairment	6,555,902.54	—	—	—	6,555,902.54
Total	203,065,942.00	—	—	—	224,093,001.19

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

23. Deferred tax assets and deferred tax liabilities

(1) Deferred tax assets and deferred tax liabilities

Item	31 December 2018	
	Deferred tax assets (Deferred tax liabilities)	Deductible temporary differences (Deductible tax losses)
I. Deferred tax assets	103,686,673.46	646,468,148.91
Provision for impairment	63,887,668.91	401,372,659.22
Deductible tax loss	20,394,413.43	122,896,939.27
Deferred revenue	11,317,639.04	75,450,926.85
Retirement and termination benefit	2,184,750.00	15,613,800.00
Accrued expenses	3,248,386.76	21,655,911.71
Others	<u>2,653,815.32</u>	<u>9,477,911.86</u>
II. Deferred tax liabilities	79,509,594.57	344,389,402.63
Gain or loss from fair value changes of available-for-sale financial assets	—	—
Temporary tax free income	58,951,859.49	257,104,697.72
Appreciation of assets valuation	<u>20,557,735.08</u>	<u>87,284,704.91</u>

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

23. Deferred tax assets and deferred tax liabilities *(continued)*

(1) Deferred tax assets and deferred tax liabilities *(continued)*

Item	1 January 2018	
	Deferred tax assets (Deferred tax liabilities)	Deductible temporary differences (Deductible tax losses)
I. Deferred tax assets	82,013,519.15	494,468,139.67
Provision for impairment	60,790,663.15	385,120,126.67
Deductible tax loss	4,123,700.00	20,974,331.00
Deferred revenue	13,675,527.00	66,661,365.00
Retirement and termination benefit	330,585.00	2,203,907.00
Accrued expenses	<u>3,093,044.00</u>	<u>19,508,410.00</u>
II. Deferred tax liabilities	57,652,981.00	210,710,920.00
Temporary tax free income	38,559,856.00	129,654,953.00
Appreciation of assets valuation	<u>19,093,125.00</u>	<u>81,055,967.00</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

23. Deferred tax assets and deferred tax liabilities (continued)

(1) Deferred tax assets and deferred tax liabilities (continued)

Item	31 December 2017	
	Deferred tax assets (Deferred tax liabilities)	Deductible temporary differences (Deductible tax losses)
I. Deferred tax assets	68,505,568.00	404,415,132.00
Provision for impairment	47,282,712.00	295,067,119.00
Deductible tax loss	4,123,700.00	20,974,331.00
Deferred revenue	13,675,527.00	66,661,365.00
Retirement and termination benefit	330,585.00	2,203,907.00
Accrued expenses	<u>3,093,044.00</u>	<u>19,508,410.00</u>
II. Deferred tax liabilities	58,346,309.00	213,484,233.00
Gain or loss from fair value changes of available-for-sale financial assets	693,328.00	2,773,313.00
Temporary tax free income	38,559,856.00	129,654,953.00
Appreciation of assets valuation	<u>19,093,125.00</u>	<u>81,055,967.00</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

23. Deferred tax assets and deferred tax liabilities (continued)

(2) Unrecognized deferred tax assets

Items	31 December 2018	1 January 2018	31 December 2017
Deductible temporary differences	91,937,793.43	95,941,343.00	95,941,343.00
Deductible tax losses	868,490,802.07	832,486,562.00	832,486,562.00
Total	<u>960,428,595.50</u>	<u>928,427,905.00</u>	<u>928,427,905.00</u>

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

Year	31 December 2018	1 January 2018	31 December 2017
2018	47,947,095.80	17,584,495.00	17,584,495.00
2019	55,112,121.57	102,469,561.00	102,469,561.00
2020	67,285,911.46	146,084,351.00	146,084,351.00
2021	87,862,494.16	110,125,431.00	110,125,431.00
2022	414,207,369.63	409,628,492.00	409,628,492.00
2023	196,075,809.45	—	—
Total	<u>868,490,802.07</u>	<u>785,892,330.00</u>	<u>785,892,330.00</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

24. Other non-current assets

Items	Ending balance	Beginning balance
Prepayment for equipment and engineering	16,347,747.56	30,401,819.00
Prepayment for mold	3,534,951.11	—
Prepayment for land-use right	642,616.00	47,161,963.00
Foreclosed homes	970,027.30	2,988,129.00
Others	—	3,103,660.00
Total	21,495,341.97	83,655,571.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

25. Provision for assets impairment

Item	Beginning Balance	The impact of changes in the new financial instrument standards	The impact of changes in the new report format	Ending balance in the new standards
Provision for bad debts	402,486,049.68	218,785,681.09	—	621,271,730.77
Note receivable	—	48,808,594.37	—	48,808,594.37
Account receivable	317,995,413.00	87,708,548.83	—	405,703,961.83
Prepayment	2,180,040.68	4,102,500.00	—	6,282,540.68
Other receivable	53,182,968.00	28,657,485.05	—	81,840,453.05
Contractual assets	—	49,508,552.84	—	49,508,552.84
Provision for impairment loss of Loans and Advances	29,127,628.00	—	—	29,127,628.00
Including: Provision for impairment loss of circulating fund within 1 year	28,032,957.00	—	—	28,032,957.00
Provision for impairment loss of medium and long term loan	1,094,671.00	—	—	1,094,671.00
Provision of impairment of inventory	78,480,765.00	—	—	78,480,765.00
Provision for impairment loss of financial assets held for sale	2,939,493.00	(2,939,493.00)	—	—
Other equity investment	—	2,939,493.00	—	2,939,493.00
Provision for impairment loss of Property, Plant and Equipment	4,039,112.28	—	—	4,039,112.28
Provision for impairment loss of construction in progress	6,213,930.00	—	—	6,213,930.00
Provision for impairment loss of long-term deferred expense	6,555,902.54	—	—	6,555,902.54
Total	500,715,252.50	218,785,681.09	—	719,500,933.59

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

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

25. Provision for assets impairment (continued)

Item	Ending	Increase	Decrease		Ending balance	
	balance in new standards	Accrued	Other increase	Collected Transferred back		
Provision for bad debts	621,271,730.77	19,704,902.13	—	1,200.00	449,021.07	640,526,411.83
Note receivable	48,808,594.37	(5,891,659.67)	—	—	—	42,916,934.70
Account receivable	405,703,961.83	9,678,629.97	—	1,200.00	449,021.07	414,932,370.73
Prepayment	6,282,540.68	(4,114,466.00)	—	—	—	2,168,074.68
Other receivable	81,840,453.05	14,387,188.40	—	—	—	96,227,641.45
Contractual assets	49,508,552.84	—	—	—	—	49,508,552.84
Provision for impairment loss of						
Loans and Advances	29,127,628.00	5,645,209.43	—	—	—	34,772,837.43
Including: Provision for impairment						
loss of circulating						
fund within 1 year	28,032,957.00	5,619,880.43	—	—	—	33,652,837.43
Provision for impairment loss of						
medium and long term loan	1,094,671.00	25,329.00	—	—	—	1,120,000.00
Provision of impairment of						
inventory	78,480,765.00	76,668,574.02	3,063,519.68	557,267.33	—	157,655,591.37
Provision for impairment loss of						
financial assets held for sale	—	—	—	—	—	—
Other equity investment	2,939,493.00	—	—	—	—	2,939,493.00
Provision for impairment loss of						
property, plant and equipment	4,039,112.28	—	—	—	—	4,039,112.28
Provision for impairment loss of						
construction in progress	6,213,930.00	—	—	—	3,656,303.00	2,557,627.00
Provision for impairment loss of						
long-term deferred expense	6,555,902.54	—	—	—	—	6,555,902.54
Total	719,500,933.59	96,373,476.15	3,063,519.68	558,467.33	4,105,324.07	814,274,138.02

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

26. Short-term loans

(1) The category of short-term loans

Category	Ending balance	Beginning balance
Pledged loans	—	16,250,000.00
Mortgage loans	40,000,000.00	—
Guaranteed loans	202,609,958.69	—
Unsecured loans	669,086,659.25	1,653,639,955.00
Total	911,696,617.94	1,669,889,955.00

(2) At the end of period, there is no overdue short-term loan.

27. Accounts payable and notes payable

Items	Ending balance	Beginning balance
Notes payable	1,225,850,904.13	809,054,101.00
Accounts payable	1,522,525,538.63	1,950,028,138.00
Total	2,748,376,442.76	2,759,082,239.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

27.1 Notes payable

Category	Ending balance	Beginning balance
Bank acceptance bills	1,167,818,806.34	795,147,671.00
Commercial acceptance bills	58,032,097.79	13,906,430.00
Total	1,225,850,904.13	809,054,101.00

The aging of the Group's ending notes payable is within one year.

27.2 Accounts payable

(1) The types of account payable

Item	Ending Balance	Beginning Balance
Material payable	1,503,865,255.06	1,939,974,935.00
Freight payable	4,846,297.25	—
Equipment payable	934,085.69	—
Others	12,879,900.63	10,053,203.00
Total	1,522,525,538.63	1,950,028,138.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
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VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

27.2 Accounts payable *(continued)*

(2) The aging analysis of account payable according to its invoice date as follows

Aging	Ending Balance	Beginning Balance
Within 1 year	1,064,233,897.57	1,632,271,110.00
1-2 years	288,524,128.11	168,659,028.00
2-3 years	62,241,745.33	87,494,000.00
More than 3 years	107,525,767.62	61,604,000.00
Total	<u>1,522,525,538.63</u>	<u>1,950,028,138.00</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

27.2 Accounts payable (continued)

(3) Major accounts payable over 1 year

Name	Ending Balance	Unpayment and untransferred reasons
Chongqing Zhonghuan Construction Co., Ltd.	27,984,085.66	Not completed
Bazhou Wuhaote Electric Power Tubing Co., Ltd.	19,734,560.99	Scroll to payment
Chongqing Honghai Lizhi Electromechanical Device Co., Ltd.	15,042,285.00	Scroll to payment
Zhenghong Road Bridge Construction Co., Ltd	13,487,830.65	Not completed
Hangzhou Steam Turbine Co., Ltd	11,754,433.00	Scroll to payment
Beijing Consen Automation Control Co., Ltd	11,462,413.80	Scroll to payment
Chongqing Auto Scrap (Group) Co., Ltd	5,047,785.00	Subordinate unit not pay
Wolong Electronic Nanyang Explosion Protection Group Co., Ltd	4,888,438.53	Scroll to payment
Haerbin Hajing Bearing Co., Ltd	4,293,133.95	No settlement
Chongqing Kangbaishi Electromechanical Equipment Co. Ltd	3,539,378.84	No settlement
Total	<u>117,234,345.42</u>	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
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VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27.2 Accounts payable (continued)

(4) Top Five Creditors

Name of Creditors	Ending Balance	Aging	Unsettlement Reasons
RM Investment Company Pvt.Ltd	44,860,390.50	Within 1 year	Unsettlement
Chongqing Zhonghuan Construction Co., Ltd.	27,984,085.66	1-2 year, More than 3 year	Not completed
Drala Holdings AG	22,317,625.83	Within 1 year	Unsettlement
Bazhou Wuhaote Electric Power Tubing Co., Ltd.	19,734,560.99	Within 1 year, 1-2 year	Unsettlement
Sichuan Dingxin Construction Engineering Co., Ltd	15,274,999.80	Within 1 year	Unsettlement
Total	130,171,662.78	—	—

28. Receipts in advance

Items	31 December 2018	1 January 2018	31 December 2018
Advances on sales	—	—	659,470,990.00
Settled but not completed projects	—	—	18,081,854.00
Total	—	—	677,552,844.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018

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

29. 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	843,184,456.70	836,330,494.69	57,501,895.01
Demission benefits – set up a defined contribution plan	3,943,392.00	81,205,501.23	81,316,395.68	3,832,497.55
Demission welfare	2,188,000.00	17,209,533.43	17,904,075.89	1,493,457.54
Others	914,009.00	—	106,484.56	807,524.44
Total	57,693,334.00	941,599,491.36	935,657,450.82	63,635,374.54

Notes to the Consolidated Financial Statements (Continued)

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

29. Employee benefits payables (continued)

(2) Short-term employee benefits

Item	Beginning Balance	Increase	Decrease	Ending Balance
Salaries, bonuses, allowances and subsidies	16,400,797.17	690,293,540.70	684,129,057.64	22,565,280.23
Staff welfare	1,548,047.39	50,982,386.84	50,714,910.36	1,815,523.87
Social insurance	1,083,341.62	61,689,429.19	61,499,168.92	1,273,601.89
Including: Medical insurance	1,049,569.10	48,624,316.15	48,439,145.84	1,234,739.41
Injury Insurance	22,998.05	4,979,768.36	4,987,177.80	15,588.61
Maternity insurance	10,774.47	366,000.93	353,501.53	23,273.87
Others	—	7,719,343.75	7,719,343.75	—
Housing fund	842,556.88	29,516,128.03	29,861,734.60	496,950.31
Labor union fee and employee education fee	30,776,589.94	10,702,971.94	10,125,623.17	31,353,938.71
Other short-term benefits	(3,400.00)	—	—	(3,400.00)
Total	50,647,933.00	843,184,456.70	836,330,494.69	57,501,895.01

Notes to the Consolidated Financial Statements (Continued)

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(All amounts are presented in RMB except otherwise stated)

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

29. Employee benefits payables (continued)

(3) Defined contribution plan

The group participates in the social insurance program established by government. Under the program, the group will deposit the relevant expense to the scheme in accordance with the relevant provisions for the local government. In addition to the above deposit fees, the group shall not undertake any further payment obligation. The corresponding expenditure is recorded into the current profit and loss or the cost of related assets when it is incurred.

Items	Beginning balance	Increase	Decrease	Ending balance
Basic endowment insurance	3,163,086.00	79,141,200.41	79,233,356.04	3,070,930.37
Unemployment insurance	<u>780,306.00</u>	<u>2,064,300.82</u>	<u>2,083,039.64</u>	761,567.18
Total	<u><u>3,943,392.00</u></u>	<u><u>81,205,501.23</u></u>	<u><u>81,316,395.68</u></u>	<u><u>3,832,497.55</u></u>

Note: The defined contribution plan of the group for this year including management expense RMB19,624,533.16, sale expense RMB6,134,831.11, research and development expense RMB8,478,075.08, totaling RMB34,237,439.35.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

30. Taxes and levies payables

Item	Ending Balance	Beginning Balance
Enterprise income tax	134,982,412.55	124,285,739.00
Value-added tax	79,755,394.16	89,565,416.00
City maintenance and construction tax	1,797,469.28	1,714,343.00
City land use tax	149,904.89	149,905.00
Real estate tax	777,333.57	578,104.90
Real estate tax	547,750.84	860,623.74
Others	2,964,303.41	4,187,099.36
Total	220,974,568.70	221,341,231.00

At the end of period, the tax payable includes HK income tax payable (0 yuan).

31. Other payables

Items	Ending balance	Beginning balance
Interest payable	13,156,812.78	11,250,751.00
Dividends payable	27,519,691.51	30,077,325.00
Other payables	558,527,763.24	484,802,264.00
Total	599,204,267.53	526,130,340.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

31.1 Interest payable

(1) Classification of interest payable

Items	Ending balance	Beginning balance
Interest payable on corporate bonds	9,261,300.00	9,261,300.00
Interests payable on short-term loans	1,821,232.74	338,324.00
Interests payable on deposit absorption	2,074,280.04	1,651,127.00
Total	13,156,812.78	11,250,751.00

- (2) As of 31 December 2018, the Company has no overdue and unpaid interest.

31.2 Dividends payable

Company name	Ending balance	Beginning balance
Non-controlling shareholders of Jilin Chongtong Chengfei	—	5,418,355.00
Non-controlling shareholders of Chongqing Unication Electronic Technology	2,810,755.00	2,100,000.00
Non-controlling shareholders Pigeon Wire	24,708,936.51	22,558,970.00
Total	27,519,691.51	30,077,325.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

31.3 Other payables

(1) Classification of other payables by nature

Nature of Payables	Ending balance	Beginning balance
Payables to third parties	7,982,985.82	3,100,000.00
Staff housing fund payable	6,927,906.53	6,001,412.00
Purchase of Engineering equipment	185,158,508.99	270,307,805.00
Deposits and risk fund	59,658,666.52	43,068,049.00
Auditing fee	1,384,000.00	1,902,500.00
Sales commission	—	423,785.00
Payable to other related parties	34,309,829.34	43,300,416.00
Demolition	7,433,979.40	15,291,331.00
Staff payable	10,943,921.55	34,584,268.00
Transportation fee	9,322,878.96	2,101,883.00
Maintenance of housing and equipment	14,617,373.62	2,231,810.00
Payable on behalf of others	137,056,981.30	—
Estimated maintenance fees	—	16,587,851.00
Bill pledge collection	10,431,400.32	—
Others	73,299,330.89	45,901,154.00
Total	558,527,763.24	484,802,264.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

31.3 Other payables (continued)

(2) Major other payables over one year

Company name	Ending balance	Reason
CQMEHG	20,168,565.23	Land transferring fee
Risk mortgage fee	4,639,161.67	Undue
CQMEHG Asset Management Co. Ltd.	2,347,588.38	—
CQMEHG	2,000,000.00	Corporate bonds guarantee fee
CQMEHG Asset Management Co. Ltd. – special funds (Binjiang district)	1,994,663.87	—
None whole set of house selling payment of 2006 year	1,890,912.20	The housing fund-raising
Maintenance fee	1,797,002.20	Not in accounting period
CQMEHG Asset Management Co. Ltd. – house selling payment	1,655,739.20	—
Chongqing Yunxin Mechanical and electrical asset technology Co. Ltd.	1,554,220.03	No invoice
Others-plant relocation fee	1,291,331.39	Deposit
Total	39,339,184.17	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

31.3 Other payables (continued)

(3) Top 5 of ending balance of payable companies

Company name	Ending balance	Aging	Reason
CQMEHG	23,733,765.23	Within 1 year; 1-2 year; 2-3 years; 3-4 years	Related party not settled
CQMEHG Asset Management Co. Ltd.	18,314,575.08	Over 5 years	Related party not settled
Chongqing the third construction group Limited Co., Ltd.	10,608,830.54	Within 1 year	—
Jiangsu Nantong the third construction group Limited Co., Ltd.	10,296,081.80	1-2 year	Project not yet completed
Tianjin Dewei coating Chemical Co., Ltd.	6,100,000.00	1-2 year	Material fee
Total	69,053,252.65	—	—

32. Non-current liabilities due within one year

Items	Ending balance	Beginning balance
Long-term Loans due within one year	66,722,382.85	174,466,466.00
Long-term payables due within one year	75,991,637.84	77,828,780.00
Deferred revenue due within one year	26,245,489.55	42,368,309.00
Other long-term liabilities due within one year	1,866,625.00	—
Total	170,826,135.24	294,663,555.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

33. Deposits from banks and other financial institution

Items	Ending balance	Beginning balance
Deposits in corporate saving account	1,124,346,132.17	693,135,277.00
Fixed deposits (including notice deposits) within one year	190,000,000.00	169,094,800.00
Deposit pledged as collateral	20,392,249.00	14,827,373.00
Total	1,334,738,381.17	877,057,450.00

34. Other current liabilities

(1) Classification of other current liabilities

Items	Ending balance	Beginning balance
Warranty and guarantees for repair, replacement and compensation	1,176,168.16	—
Total	1,176,168.16	—

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

35. Long-term loans

(1) Classification of long-term loans

Items	Ending balance	Beginning balance
Guaranteed loans	463,595,400.00	179,600,000.00
Mortgage loans	302,589,522.99	315,811,906.00
Unsecured loans	77,000,000.00	67,000,000.00
Total	843,184,922.99	562,411,906.00

Above loans need be repaid in following period:

Items	Ending balance	Beginning balance
Within 1 year	66,722,382.85	174,466,466.00
1 year after balance sheet date, but no more than 2 years	89,889,522.99	26,728,564.27
2 years after balance sheet date, but no more than 5 years	608,295,400.00	279,683,341.73
5 years after balance sheet date	145,000,000.00	256,000,000.00
Less: Current liabilities due within one year	66,722,382.85	174,466,466.00
Total amount under non-current liabilities	843,184,922.99	562,411,906.00

Note: On 31 December 2018, long-term loan interest rate of the Company is from 1.2% to 4.998% (31 December 2017: 1.2% to 5%).

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

36. Bonds payable

(1) Classification of bonds payable

Items	Ending balance	Beginning balance
16 CQ Machine Tools bonds par value	800,000,000.00	800,000,000.00
Unrecognized financing charges	856,145.78	2,325,317.00
Total	799,143,854.22	797,674,683.00

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%.

(2) Bonds payable analysis:

Classifications of bonds	Ending balance	Beginning balance
16 CQ Machine Tools bonds par value	800,000,000.00	800,000,000.00
Total	800,000,000.00	800,000,000.00
Above the carrying value of bonds need be repaid in following period:	—	—
2 years after balance sheet date, but no more than 5 years	800,000,000.00	800,000,000.00
Total amount under non-current liabilities	800,000,000.00	800,000,000.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

36. Bonds payable (continued)

(3) Movements of bonds payable

Name of the bond	Par value	Issue date	Maturity of bond	Issuing value	Beginning balance
16 CQ Machine Tools bonds		September 29			
par value	800,000,000.00	2016	5 years	800,000,000.00	797,674,683.00
Total	<u>800,000,000.00</u>	<u>—</u>	<u>—</u>	<u>800,000,000.00</u>	<u>797,674,683.00</u>

Name of the bond	Issuing amount in current period	Provision for interest as per par value	Repaid amount in current period	Amortization of overflow discount	Ending balance
16 CQ Machine Tools bonds					
par value	—	34,240,000.00	—	(1,469,171.22)	799,143,854.22
Total	<u>—</u>	<u>34,240,000.00</u>	<u>—</u>	<u>(1,469,171.22)</u>	<u>799,143,854.22</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

37. Long-term payables

Items	Ending balance	Beginning balance
Long-term payables	145,701,759.15	207,600,793.00
Special payables	1,995,000.00	3,895,870.00
Total	147,696,759.15	211,496,663.00

37.1 Long-term payables

(1) Classification of long-term payable

Items	Ending balance	Beginning balance
Finance lease payable	141,946,600.86	207,600,793.00
Others	3,755,158.29	—
Total	145,701,759.15	207,600,793.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

37.1 Long-term payables (continued)

(2) Long-term payables analysis:

Items	Ending balance	Beginning balance
Finance lease payable	217,938,238.70	285,429,573.00
Others	3,755,158.29	—
Total	221,693,396.99	285,429,573.00
Above carrying value of long-term payables need be repaid in following period:		
Within 1 year	75,991,637.84	77,828,780.00
1 year after balance sheet date, but no more than 2 years	45,474,486.42	52,446,493.54
2 years after balance sheet date, but no more than 5 years	100,227,272.73	154,962,299.46
5 years after balance sheet date	—	192,000.00
Less: Current liabilities due within one year	75,991,637.84	77,828,780.00
Total amount under non-current liabilities	145,701,759.15	207,600,793.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

37.2 Special payables

Items	Beginning balance	Increase	Decrease	Ending balance	Reason
Special payables on national project	3,895,870.00	—	1,900,870.00	1,995,000.00	—
Total	3,895,870.00	—	1,900,870.00	1,995,000.00	—

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 31 December 2018 is RMB1,995,000.00 (31 December 2017: RMB3,895,870), which will be used for the localization projects of major equipment approved by the state respectively.

38. Long-term employee benefits payables

(1) Classification of long-term employee benefits payable

Items	Ending balance	Beginning balance
Post-employment benefits payable	17,460,000.00	16,673,000.00
Termination benefits payable	386,000.00	1,484,000.00
Less: Amounts paid within 1 year	1,552,000.00	2,189,000.00
Total	16,294,000.00	15,968,000.00

Note: Post-employment benefits and termination benefits that will be paid within one year is listed in Long-term Employee Benefits Payable.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

38. Long-term employee benefits payables (continued)

(2) Actuary assumption

Some employees of the Company have already retired early. At balance sheet date, the actuary assumption for post-employment benefits and termination benefits is as follows:

Items	Ending balance	Beginning balance
Discount rate (original separated employees benefits/new express Termination benefits)	3.25%/2.5%	4%/3.75%
Salary increasing rate	5%	5%-9.5%

Post-employment benefits and termination benefits included in current gains and losses are as follows:

Items	Current period	Last period
Administrative expenses	(1,170,332.54)	32,518,000.00
Financial expenses	752,000.00	—

39. Provisions

Items	Ending balance	Beginning balance
Product quality assurance	8,001,242.71	—
Loss on repair, replacement and compensation	12,615,997.53	—
Total	20,617,240.24	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
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VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. Deferred revenue

(1) Classification of deferred revenue

Item	Beginning Balance	Increase in this year		Decrease in this year			Ending Balance
		Government grant received	Other increase	Amortisation in this year	Amount that has been reclassified to due within 1 year	Other decrease	
Government subsidies – Relocation	215,568,022.00	—	15,334,609.05	13,923,423.53	14,110,270.80	9,945,550.50	192,923,386.22
Government subsidies – Government Grant	106,560,650.63	66,046,005.51	58,847,100.26	41,032,270.20	12,270,250.66	—	178,151,235.54
Unrealized income of sale and lease back	1,728,777.00	—	(546,145.89)	41,561.69	(135,031.91)	—	1,276,101.33
Deferred rental income	25,108,696.00	—	9,130,434.78	—	—	34,239,130.78	—
Proceeds of land disposal	34,411,994.37	—	—	1,464,054.08	—	—	32,947,940.29
Total	383,378,140.00	66,046,005.51	82,765,998.20	56,461,309.50	26,245,489.55	44,184,681.28	405,298,663.38

Notes to the Consolidated Financial Statements (Continued)

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

40. Deferred revenue (continued)

(2) Government grants projects

Government subsidies projects	Beginning Balance	Increase in this year	Other increase	Amount recorded in other income in this year	Amount that has been reclassified to due within 1 year	Other decrease	Ending Balance
General relocation compensation	205,622,471.50	—	15,334,609.05	13,923,423.53	14,110,270.80	—	192,923,386.22
Relocation compensation of Pigeon Electric Wires & Cables	9,945,550.50	—	—	—	—	9,945,550.50	—
Plant construction subsidy fund	9,193,955.22	—	34,239,130.78	1,477,799.04	1,476,042.41	—	40,479,244.55
Intelligent manufacturing project	6,831,356.85	10,000,000.00	2,209,063.00	1,443,374.17	1,551,724.14	—	16,045,321.54
Chongqing Finance Bureau (High efficiency hydropower Equipment Technology Development Research Center and Demonstration Base Construction Project)	12,430,000.00	—	—	—	—	—	12,430,000.00
Project subsidy fund	631,880.00	19,600,000.00	75,885.04	6,614,720.00	2,400,000.00	—	11,293,045.04
Defense military production capacity construction project subsidy	8,000,000.00	14,090,000.00	—	—	—	—	22,090,000.00
Wind power project subsidy	10,725,891.51	—	—	1,349,688.23	464,300.00	—	8,911,903.28
Government Support Testing Center Project	—	5,000,000.00	—	—	—	—	5,000,000.00
Innovation Technology Award	9,426,190.10	940,000.00	—	613,571.43	962,200.00	—	8,790,418.67
Technical transformation project subsidy	6,429,884.79	2,760,000.00	—	1,006,403.68	1,006,403.66	—	7,177,077.45
2018 turbine chiller test bench Key Technology and Equipment	—	3,920,000.00	—	281,785.00	—	—	3,638,215.00
Industrialization of CNC Precision and High-efficiency Shaving Machine	4,904,166.76	—	—	571,428.57	451,100.00	—	3,881,638.19
Other government grants	37,987,325.40	9,736,005.51	22,323,021.44	27,673,500.08	3,958,480.45	—	38,414,371.82
Total	322,128,672.63	66,046,005.51	74,181,709.31	54,955,693.73	26,380,521.46	9,945,550.50	371,074,621.76

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018

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

41. Share capital

Items	Beginning balance	Changes in current period (+ or -)				Subtotal	Ending balance
		Issue new shares	Share donation	Reserved funds converted into shares	Others		
Restricted shares - state-owned legal person shareholdings	-	-	-	-	-	-	-
COMEHG	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 Yulu 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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
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VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

42. 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	9,061,503.00	8,494,469.80	65,478,679.20
Total	49,744,935.00	9,061,503.00	8,494,469.80	50,311,968.20

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
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VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43. Other Comprehensive Income

Items	31 December 2017	Effects by New Financial Instruments Guidelines	Balance under New Financial Instruments Guidelines	Pre-tax amount	Less: Reclassifications of previous other comprehensive income to profit or loss	Current period		31 December 2018	
						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	2,051,235.29	—	307,665.29	1,384,451.00	359,099.00	14,174,820.00
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 Gain or loss from fair value changes of available-for-sale financial assets Effective portion of hedging gain or loss on net investment Translation differences of financial statements in foreign currencies	12,790,369.00	(2,079,985.00)	13,106,980.00	6,310,665.69	1,183,121.00	173,795.60	4,953,745.09	—	14,174,820.00
	15,186,965.00	(2,079,985.00)	13,106,980.00	6,310,665.69	1,183,121.00	173,795.60	4,953,745.09	—	16,877,607.09
	2,275,625.00	—	2,275,625.00	1,951,748.24	1,658,986.00	292,762.24	—	—	616,639.00
	1,604,120.00	(2,079,985.00)	(475,865.00)	(594,830.64)	(475,865.00)	(118,965.64)	—	—	—
	(8,715,772.00)	—	(8,715,772.00)	4,234,206.34	—	—	4,234,206.34	—	(4,481,565.66)
	20,022,992.00	—	20,022,992.00	719,541.75	—	—	719,541.75	—	20,742,533.75
Total other comprehensive income	27,977,334.00	(2,079,985.00)	25,897,349.00	8,361,900.98	1,183,121.00	481,481.89	6,338,195.09	359,099.00	31,052,427.09

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

43. Other Comprehensive Income *(continued)*

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 31 December 2018, the fair value of the loan was approximately RMB79,002,874.34. The exchange gain arising from translating the borrowings into the corresponding functional currency on 31 December 2018 is RMB4,234,206.34, recognized in other comprehensive income.

44. Surplus Reserves

Item	Beginning balance	Increase	Decrease	Ending balance
Statutory surplus reserves	297,517,132.00	36,856,341.12	—	334,373,473.12
Total	297,517,132.00	36,856,341.12	—	334,373,473.12

Note: Complying with the Company Law of the PRC and Association of the Company, statutory surplus reserves is accounted for 10% of annual net profit and not allowed to withdraw when statutory surplus reserves is accumulated to no less than 50% of share capital. Approved statutory surplus reserves are available to cover the deficit or increase equity capital. As per 10% of net profit of the Company in 2008 year, the statutory surplus reserves accounted is RMB36,856,341.12 (2017 year: RMB20,845,494.00).

Notes to the Consolidated Financial Statements (Continued)

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

45. 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	(305,543,321.33)	—
Including: Retroactive adjustment due to adoption of revised CAS	(305,543,321.33)	—
Beginning balance of current year	2,412,300,828.67	2,551,313,941.00
Add: Net profit attributable to shareholders of the Company	444,060,837.38	316,644,903.00
Less: Appropriation to statutory reserve	36,856,341.12	20,845,494.00
Appropriation to staff bonus and welfare	444,498.50	306,794.00
Declared ordinary share dividends	110,539,204.62	128,962,406.00
Ending Balance	<u>2,708,521,621.81</u>	<u>2,717,844,150.00</u>

Note: According to 2017 shareholder annual general meeting of the Company held on 28 June 2018, the meeting deliberated and approved the Company 2017 annual profit distribution scheme of RMB0.03 per share (including tax), total dividend of RMB110,539,204.62 on the basis of issued 3,684,640,154 shares.

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

46. Operating Revenue & Operating Cost

(1) Operating revenue & operating cost

Items	Current period		Last period	
	Revenue	Cost	Revenue	Cost
Main operations	5,120,680,778.79	3,981,403,724.34	8,578,218,489.00	7,550,593,192.00
Other operations	94,688,037.44	47,633,474.33	639,160,169.00	595,549,833.00
Interest	68,548,323.06	9,317,288.09	73,763,913.67	10,380,310.00
Transaction fees and commission income	400,393.61	118,839.98	1,460,108.00	81,550.00
Total	<u>5,284,317,532.90</u>	<u>4,038,473,326.74</u>	<u>9,292,602,679.67</u>	<u>8,156,604,885.00</u>

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.

Notes to the Consolidated Financial Statements (Continued)

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(All amounts are presented in RMB except otherwise stated)

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

46. Operating Revenue & Operating Cost (continued)

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

Items	Current period		Last period	
	Revenue	Cost	Revenue	Cost
High-end intelligent equipment business	1,554,276,462.55	1,197,167,985.44	1,399,061,010.01	1,118,351,973.35
Industrial services	214,442,571.61	200,545,493.67	4,368,137,105.34	4,354,403,163.62
Clean energy equipment business	3,451,987,658.69	2,683,804,279.33	3,740,143,180.67	2,997,439,934.25
Less: elimination between segments	100,025,914.06	100,114,034.10	929,122,807.02	919,601,879.22
Total	5,120,680,778.79	3,981,403,724.34	8,578,218,489.00	7,550,593,192.00

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

(3) Breakdown of revenue

Items	Current period	Last period
Recognized at a certain point in time	4,968,612,399.53	8,578,218,489.00
Recognized over time	152,068,379.26	—
Total	5,120,680,778.79	8,578,218,489.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

46. Operating Revenue & Operating Cost (continued)

(4) Other operating revenue and operating cost:

Items	Current period		Last period	
	Revenue	Cost	Revenue	Cost
Rental income	20,469,583.24	6,238,741.88	17,750,929.00	4,841,927.00
Sold material	36,002,749.52	17,054,605.71	573,394,213.00	559,574,307.00
Evaporative cooling installation	—	—	22,812,192.00	20,472,297.00
Others	38,215,704.68	24,340,126.74	25,202,835.00	10,661,302.00
Total	94,688,037.44	47,633,474.33	639,160,169.00	595,549,833.00

(5) Interest income & interest expense

Items	Current period	Last period
Interest income	68,548,323.06	73,763,913.67
Including: Deposits in other banks or financial institutes	14,280,318.66	22,032,061.67
Deposits in central bank	2,647,332.13	2,426,141.00
Offer loans & advances	51,620,672.27	49,305,711.00
Interest expense	9,317,288.09	10,380,310.00
Including: Absorbing deposit	9,317,288.09	10,380,310.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

47. Business taxes and surcharges

Items	Current period	Last period
Housing property tax	17,745,930.23	14,190,331.00
Land use tax	15,799,221.50	20,756,270.00
Urban maintenance and construction tax	13,441,516.13	11,265,977.00
Educational surcharge	9,606,231.04	7,930,590.00
Stamp duty	5,567,612.79	6,201,569.00
Others	1,325,043.54	502,430.00
Total	63,485,555.23	60,847,167.00

48. Selling and Distribution Expenses

Items	Current period	Last period
Transportation expense	78,162,691.75	62,898,173.00
Employee benefits	60,587,671.96	59,412,241.00
Traveling expenses	60,406,589.32	51,382,192.00
“3-Aspect-Warranty” fee	20,906,156.65	33,410,509.00
After-sale service fee	17,226,637.88	13,647,018.00
Advertising expense	10,262,208.08	13,500,826.00
Business entertainment fee	5,061,250.87	9,290,797.00
General office expenses	4,016,705.05	3,851,711.48
Depreciation expenses	998,932.10	926,648.87
Rental fee	784,793.14	689,657.24
Others	39,743,041.00	33,124,380.41
Total	298,156,677.80	282,134,154.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

49. Administrative expenses

Items	Current period	Last period
Employee benefits	304,687,683.46	400,409,304.00
Depreciation expenses	38,495,573.97	66,373,559.72
Amortization of intangible assets	17,732,601.86	12,214,041.28
Rental fee	17,082,538.97	27,646,084.00
Consulting fee	17,187,564.74	12,875,148.00
Repair charges	11,817,943.44	17,861,969.00
General office expenses	11,343,083.48	8,197,879.00
Insurance expenses	10,981,975.45	9,142,904.65
Traveling expenses	7,175,755.96	10,033,860.00
Business entertainment fee	6,263,947.85	7,036,097.00
Amortization of long-term deferred expenses	31,215.08	50,432.44
Transportation fee	1,333,313.94	2,981,703.05
Others	69,850,359.76	98,391,069.86
Total	513,983,557.96	673,214,052.00

Note: Current consulting fee includes 2018 annual financial statements auditing fee RMB2,264,150.94 and interim financial statement reviewing fee RMB566,037.74.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

50. Research and Development Expenses

Items	Current period	Last period
Employee benefits	117,566,507.15	92,522,424.88
Material fee	60,633,343.08	65,652,316.85
Depreciation expenses	8,385,829.95	9,108,300.63
Design fee	5,738,778.99	844,758.87
Consulting fee	3,388,265.55	2,263,339.64
Traveling expenses	3,332,926.86	2,252,006.30
Amortization of intangible assets	3,296,937.92	2,845,411.42
Business entertainment fee	290,879.05	8,786.00
General office expenses	1,309,995.27	874,613.75
Others	37,031,375.57	22,348,467.66
Total	240,974,839.39	198,720,426.00

51. Financial Expenses

Items	Current period	Last period
Interest expenditure	185,191,000.86	156,512,148.00
Less: Capitalized interest	24,398,707.53	33,916,852.00
Government grants	—	9,414,204.00
Interest expense	160,792,293.33	113,181,092.00
Less: interest income	38,473,948.90	17,728,904.00
Add: Exchange loss	(385,989.60)	(2,434,516.00)
Add: Other expenditure	7,309,967.53	6,830,970.00
Less: Finance discount	304,973.51	—
Total	128,937,348.85	99,848,642.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

52. Loss on Impairment of Assets

Items	Current period	Last period
Bad debts loss	—	70,662,653.00
Impairment loss on inventory	<u>76,668,574.02</u>	<u>42,865,524.00</u>
Total	<u>76,668,574.02</u>	<u>113,528,177.00</u>

53. Impairment loss on credit

Items	Current period	Last period
Bad debts loss	<u>14,059,692.70</u>	—
Impairment loss on loans and advances	<u>5,645,210.29</u>	—
Total	<u>19,704,902.99</u>	<u>—</u>

54. Gain and loss arising from the changes in fair value

Item	Current period	Last period
Financial assets at fair value through profit or loss	<u>(109,704.27)</u>	—
Total	<u>(109,704.27)</u>	<u>—</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

55. Investment Income

Items	Current period	Last period
Investment income from long-term equity investments under equity method	369,941,950.32	360,840,184.00
Investment income from disposals of long-term equity investments	48,530,857.59	106,783,008.00
Investment income from available-for-sale financial assets during holding period	—	200,779.00
Investment income from disposals of available-for-sale financial assets	536,755.49	4,959,927.00
Others	(84,208.00)	—
Total	418,925,355.40	472,783,898.00

Note 1: On 14 November 2018, CQMEHG issued the approval (CQMEH [2018] No. 186) regarding Chongqing General Industry (Group) Co. Ltd. listed transferring 10% of Chongqing Midea General Refrigeration Equipment Co. Ltd. shares. The approval agreed that Chongqing General Industry (Group) Co. Ltd. that holds 10% of Chongqing Midea General Refrigeration Equipment Co. Ltd. shares open list at Chongqing Assets and Equity Exchange Holding Group Co. Ltd., with trading value no less than valuation of RMB 6,128.65 million. At Chongqing Assets and Equity Exchange Holding Group Co. Ltd., 10% of Midea General shares selling price is RMB 6,712.28 million. The Company recognized equity investment income of RMB42,283,946.40 from disposals of Midea General shares.

Note 2: On 7 September 2018, the Company held the fourth board meeting that agreed the Company to use 41.5% of Chongqing Youyan shares to increase capital and exchange shares for Youyan Powder New Material (Beijing) Co. Ltd. (short for "Beijing Youyan") to acquire 7.26% of Beijing Youyan shares. On 17 October 2018, CQCMHG issued approval to the Company. The Company recognized equity investment income of RMB6,246,911.19 from disposals of Chongqing Youyan shares.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

56. 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	100,360,500.73	240,368,367.00	100,360,500.73
Including: Gains on disposals of property, plant and equipment	52,450,246.50	15,826,463.00	52,450,246.50
Gains on disposals of intangible assets	47,910,254.23	224,541,904.00	47,910,254.23
Total	100,360,500.73	240,368,367.00	100,360,500.73

57. Other Income

Items	Current period	Last period
Innovative development project grants	47,000,000.00	—
Renovation and transformation project grants	28,621,504.61	33,249,771.00
Relocation grants	15,063,571.87	14,678,747.00
Other grants	11,652,409.38	—
Digital workshop of new model for core components manufacturing of over-height impact type hydroturbine	7,000,000.00	—
R&D grants	6,555,900.00	—
Tax returns	4,647,019.63	1,375,884.00
Stable subsidy	1,103,542.12	1,245,930.00
Others	11,977,181.31	8,470,297.00
Total	133,621,128.92	59,020,629.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

58. Non-operating Income

(1) Non-operating income details:

Items	Current period	Last period	Amount recorded in extraordinary profit and loss
Debt restructuring	4,605,898.05	1,288,593.00	4,605,898.05
Penalty incomes, default fine and compensation	3,812,547.03	—	3,812,547.03
Government grants	2,664,347.68	2,218,716.00	2,664,347.68
Others	4,794,696.19	5,521,385.00	4,794,696.19
Total	<u>15,877,488.95</u>	<u>9,028,694.00</u>	<u>15,877,488.95</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

58. Non-operating Income (continued)

(2) Government grants details:

Items	Current period	Last period	Source	Related with asset/revenue
Shapingba District Financial grants	2,216,297.68	—	Shapingba District Finance Bureau	Revenue
Government reward	355,600.00	—	Jiangjin District Finance Bureau, Liangzhou District Industry and Information Bureau	Revenue
Other grants	42,450.00	—	Jiangjin District Finance Bureau, Liangzhou District Industry and Information Bureau, Jinjiang district Finance Bureau	Revenue
Intellectual Property Office grants	50,000.00	—	Notice issued by Chongqing Finance Bureau CQCJ [2018] No. 58 regarding special fund budget for the first intellectual property in 2018	Revenue
Others	—	2,218,716.00	—	—
Total	2,664,347.68	2,218,716.00	—	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

59. Non-operating Expenses

Items	Current period	Last period	Amount recorded in extraordinary profit and loss
Debt restructuring	3,314,140.14	2,409,567.00	3,314,140.14
Donation expenditure for Commonwealth	40,000.00	—	40,000.00
Relocation loss	—	15,302,047.00	—
Loss from rejection and damage of non-current assets	8,506,043.95	—	8,506,043.95
Penalty and overdue fine	3,306,129.52	642,499.00	3,306,129.52
Others	1,769,145.39	2,080,366.00	1,769,145.39
Total	16,935,459.00	20,434,479.00	16,935,459.00

60. Income Tax Expense

(1) Income tax expense

Items	Current period	Last period
Current income tax calculated according to tax law and relevant provision	55,218,500.88	136,912,412.00
– China	54,951,347.03	136,912,412.00
– United Kingdom	267,153.85	—
Deferred income tax	5,281,726.76	(34,459,020.00)
– China	3,560,043.02	(34,459,020.00)
– United Kingdom	1,721,683.74	—
Total	60,500,227.64	102,453,392.00

Note: Because the Company has no taxable income in HK, there is no income tax from HK in the current period.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

61. Other Comprehensive Income

Please refer to VI. 43 Other Comprehensive Income for details.

62. Cash Flow Statement

(1) Receive or pay other cash related with operating, investment and financing activities

a) Cash received relating to other operating activities

Items	Current period	Last period
Received government grants	121,963,101.53	27,484,805.00
Tax returns	—	1,375,884.00
Collection and payment funds	240,950,368.47	—
Guarantee fee	16,590,617.52	—
Interest income	36,289,709.51	—
Loans	35,000,000.00	—
Others	80,744,216.08	—
Total	531,538,013.11	28,860,689.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

62. Cash Flow Statement (continued)

(1) Receive or pay other cash related with operating, investment and financing activities (continued)

b) Cash paid relating to other operating activities

Items	Current period	Last period
Increased restricted cash and cash equivalent	110,171,546.12	110,684,268.00
Period expenses by cash	439,307,732.39	440,447,182.00
Returned deposit	5,264,371.55	—
Collection and payment funds	40,383,641.43	—
Others	10,667,121.01	—
Total	605,794,412.50	551,131,450.00

c) Cash received relating to investment activities

Items	Current period	Last period
Interest income	2,184,239.39	15,735,344.00
Withdrawing funds	359,000,000.00	—
Government grants related with assets	—	51,912,086.00
Funds for selling Midea General	67,122,800.00	—
Total	428,307,039.39	67,647,430.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
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VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

62. Cash Flow Statement (continued)

(1) Receive or pay other cash related with operating, investment and financing activities (continued)

d) Cash paid relating to investment activities

Items	Current period	Last period
Supply funds to the related party	33,923,650.00	—
Prepay land deposit	14,270,371.94	—
Total	48,194,021.94	—

e) Cash received relating to financing activities

Items	Current period	Last period
Non-controlling shareholders capital injection	—	5,360,000.00
Receive from financial lease	—	139,045,831.00
Bills discounted	340,256,690.38	—
Total	340,256,690.38	144,405,831.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

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

62. Cash Flow Statement (continued)

(1) Receive or pay other cash related with operating, investment and financing activities (continued)

f) Cash paid relating to financing activities

Items	Current period	Last period
Purchase non-controlling stocks	—	142,068,452.00
Pay for financial lease	37,037,717.80	36,607,449.00
Guarantee commitment fee	5,980,000.00	—
Increased restricted cash and cash equivalent	41,885,666.03	—
Others	12,032.67	—
Total	84,915,416.50	178,675,901.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

62. Cash Flow Statement *(continued)*

(2) 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	495,171,833.01	366,018,894.00
Add: Provisions for asset impairment	76,668,574.02	113,528,177.00
Add: Impairment loss on credit	19,704,902.99	—
Depreciation of property, plant and equipment, depletion of oil and gas assets, depreciation of productive biological assets	180,919,078.41	205,386,505.00
Amortization of investment property	4,527,499.34	3,373,355.00
Amortization of intangible assets	34,798,750.50	28,227,363.00
Amortization of long-term deferred expenses	46,016,844.00	52,568,947.00
Losses on disposal of property, plant and equipment, intangible assets and other long-term assets (gain listed as “—”)	(91,854,456.78)	(240,368,367.00)
Losses on retirement of property, plant and equipment (gain listed as “—”)	—	—
Gains or losses on changes in fair value (gain listed as “—”)	109,704.27	—
Financing expenses (gain listed as “—”)	169,034,583.90	93,017,672.00
Investment losses (gain listed as “—”)	(418,925,355.40)	(472,783,898.00)
Decrease in deferred tax assets (increase listed as “—”)	(11,537,993.46)	—
Increase in deferred tax liabilities (decrease listed as “—”)	(2,479,826.43)	(34,459,020.00)
Decrease in inventories (increase listed as “—”)	11,887,798.50	(315,661,553.00)
Decrease in contractual assets (increase listed as “—”)	(298,586,106.82)	—
Decrease in operating receivables (increase listed as “—”)	(562,745,117.25)	(1,527,102,489.00)
Increase in operating payables (decrease listed as “—”)	(256,716,740.14)	930,406,388.00
Increase in contractual liabilities (decrease listed as “—”)	685,648,864.72	—
Others	—	—
Net cash flows from operating activities	81,642,837.38	(797,848,026.00)

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

62. Cash Flow Statement (continued)

(2) Supplementary information to the consolidated cash flow statement (continued)

Items	Current period	Last period
2. Significant non-cash investing and financing activities:		
Property, plant and equipment acquired under bill receivable endorsement	—	29,055,717.00
3. Changes in cash and cash equivalents:		
Ending balance of cash	1,570,343,395.06	1,174,539,298.00
Less: Beginning balance of cash	1,174,539,298.00	1,392,940,123.00
Add: Ending balance of cash equivalents	—	—
Less: Beginning balance of cash equivalents	—	—
Net increase in cash and cash equivalents	395,804,097.06	(218,400,825.00)

(3) Cash and cash equivalents

Items	Ending balance	Beginning balance
Cash	1,570,343,395.06	1,174,539,298.00
Including: Cash in hand	879,802.59	815,653.00
Bank deposits available for use on demand	1,569,463,592.47	1,173,723,645.00
Cash equivalents	—	—
Including: Bond investment due within three months	—	—
Ending balance of cash and cash equivalents	1,570,343,395.06	1,174,539,298.00
Including: Restricted cash and cash equivalent in parent company or subsidiaries of the Company	—	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

63. Restricted Assets of Ownership

Items	Ending balance of net carrying amount	Reason
Cash and cash equivalent	590,268,488.45	Deposits for bank acceptance bills, Statutory reserve And Deposit pledged as collateral, etc.
Buildings	148,398,276.85	Note 1
Land-use rights	134,000,618.49	Note 2

Note 1: Jiangsu Chengfei, a subsidiary of the Group, mortgage sits its first phase plant to Dongru sub-branch of Bank of Jiangsu to obtain the loan with amount of 40,000,000.00 RMB and the bank acceptance bill amount of 30,000,000.00 RMB (the loan term is from 8 Jun 2018 to 7 Jun 2019, and the contract interest rate is 5.0025%);

Note 2: The subsidiary of the Company Machine Tools Group raises a loan of RMB295,000,000.00 in Jiangsu Bank Dongru Branch (final maturity: 2015.3.10-2023.2.15, 2% above the benchmark interest rate). Machine Tools Group mortgages the plot located in Nan'an district Nanpingzutun Chayuan-Lujiao C section No. C15/1-03 to Agricultural Bank of China Yubei Branch.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
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VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

64. Foreign currency monetary items

(1) Foreign currency monetary items

Report items	Currency	Foreign currency balance	Ending balance Exchange rate	CNY balance
Cash and Cash				
Equivalents —		—	—	34,155,002.27
	USD	2,335,888.63	6.8632	16,031,670.85
	EUR	595,481.92	7.8473	4,672,925.27
	GBP	1,541,427.85	8.6762	13,373,736.31
	HKD	87,502.67	0.8762	76,669.84
Accounts receivable —		2,335,888.63	6.8632	16,031,670.85
	USD	595,481.92	7.8473	4,672,925.27
	EUR	1,541,427.85	8.6762	13,373,736.31
	GBP	87,502.67	0.8762	76,669.84
Prepayments —		—	—	19,039,277.56
	GBP	1,940,600.35	8.6762	16,837,036.76
	JPY	35,584,869.20	0.06189	2,202,240.80
Short-term loan —		—	—	116,674,400.00
	USD	17,000,000.00	6.8632	116,674,400.00
Advances —		—	—	68,463,932.82
	GBP	6,756,824.44	8.6762	58,623,560.21
	USD	1,404,328.93	6.8632	9,638,190.29
	EUR	25,764.57	7.8473	202,182.32
Accounts payable —		—	—	95,523,391.69
	EUR	1,763,338.80	7.8473	13,837,448.57
	USD	5,644,207.01	6.8632	38,737,321.55
	GBP	4,950,165.00	8.6762	42,948,621.57
Other Payables —		—	—	128,618,490.76
	GBP	14,824,288.37	8.6762	128,618,490.76
Other receivables —		—	—	114,371,659.07
	GBP	13,182,229.44	8.6762	114,371,659.07
Long-term loans		—	—	147,495,400.00
	GBP	17,000,000.00	8.6762	147,495,400.00

Notes to the Consolidated Financial Statements *(Continued)*

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VII. CHANGES IN CONSOLIDATION SCOPE

1. Business Combination not under Common Control

None.

2. Business Combination under Common Control

None.

3. Companies that are not longer included in the scope of consolidation

Company name	Reason	Shareholding ratio (%)	Net asset at disposal date	Net profit at disposal date
Chongqing Huahao Smelting Co., Ltd.	Dissolved	100.00	—	17,660,867.76
PTG Advanced Developments Ltd	Dissolved	100.00	—	—

Notes to the Consolidated Financial Statements (Continued)

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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)		Acquisition method
					Direct	Indirect	
1	Chongqing CAFF Automotive Braking & Steering System Co., Ltd. ("CAFF")	Yubei district, Chongqing	Yubei district, Chongqing	Manufacturing of vehicle parts and components	100.00	—	Invest
2	Chongqing Huahao Smelting Co. Ltd.	Qijiang district, Chongqing	Qijiang district, Chongqing	Manufacturing and selling of nonferrous metals and alloy, etc.	100.00	—	Invest
3	Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd.	Northern new district, Chongqing	Northern new district, Chongqing	Manufacturing of industry products	100.00	—	Business combinations under common control
3.1	Chongqing Unication 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	—	Invest
4.1	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	Invest
4.2	Fu Baotian Cotton picking services Co., Ltd.	Tacheng district, Xinjiang	Tacheng district, Xinjiang	Service of cotton picking	500.00	51.00	Invest

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 (%)		Acquisition method
						Direct	Indirect	
4.3	Chongqing Tool Factory Co., Ltd.	Jiangjin district, Chongqing	Jiangjin district, Chongqing	Manufacturing of cutting tools for gear-cutting machines	6,000.00	—	100.00	Invest
4.4	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	Invest
4.5	Chongqing Yinhe Forging & Founding Co., Ltd.	Jiangjin district, Chongqing	Jiangjin district, Chongqing	Manufacturing of foundry goods	1,870.40	—	100.00	Invest
4.6	Chongqing Shengong Machinery Manufacture Co., Ltd.	Nan'an district, Chongqing	Nan'an district, Chongqing	Manufacturing of machinery tools	110.00	—	100.00	Invest
4.7	Chongqing Holroyd Precision Rotors Manufacturing Co., Ltd.	Nan'an district, Chongqing	Nan'an district, Chongqing	Design, manufacture and selling screw	4,000.00	—	100.00	Business combination not under common control
5	(PTG) Limited	United Kingdom	United Kingdom	Shell company	GBP20 million	100.00	—	Business combination not under common control
5.1	Precision Components Ltd.	United Kingdom	United Kingdom	Production of screw	GBP 1	—	100.00	Business combination not under common control

Notes to the Consolidated Financial Statements (Continued)

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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 (%)		Acquisition method
						Direct	Indirect	
5.2	PTG Heavy Industries Ltd.	United Kingdom	United Kingdom	Design and manufacture of machine tools	GBP 2	—	100.00	Business combination not under common control
5.3	Milnrow Investments Ltd.	United Kingdom	United Kingdom	Leasing of properties	GBP 198	—	100.00	Business combination not under common control
5.4	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	PTG Deutschland GmbH	Germany	Germany	Selling of machinery tools	EUR 25000	—	100.00	Business combination not under common control
5.6	PTG Investment Development Company Ltd.	Hong Kong	Hong Kong	Import and export materials and equipment	HKD600000	—	100.00	Invest
5.7	Holroyd Precision Limited.	United Kingdom	United Kingdom	Manufacturing of machine tools	GBP100	—	100.00	Business combination not under common control

Notes to the Consolidated Financial Statements (Continued)

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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 (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
5.8	Precision Technologies Group (US) Limited (US Holding)	United Kingdom	United Kingdom	First class SPV built for American plant	GBP1	—	—	100.00	Invest
5.8.1	Precision Technologies Group(US) Limited (PTG US)	The United States	The United States	First class SPV built for American plant	USD1,000	—	—	100.00	Invest
5.8.1.1	Holroyd Precision Screw and Rotors Company (US HPR)	The United States	The United States	Manufacturing of screws	USD1	—	—	100.00	Invest
6	Chongqing Water Turbine Works Co., Ltd.	Jiangjin district, Chongqing	Jiangjin district, Chongqing	Manufacturing of power generators	14,709.71	100.00	—	—	Invest
7	Pigeon Wire	Yubei district, Chongqing	Yubei district, Chongqing	Manufacture electric wires and cables	10,010.00	74.00	—	—	Invest
7.1	Chongqing Pigeon Electrical Porcelain Co., Ltd	Changshou district, Chongqing	Changshou district, Chongqing	Manufacture electrical porcelain	5,300.00	—	—	100.00	Invest
7.2	Chongqing Pigeon Electric Materials Co., Ltd.	Changshou district, Chongqing	Changshou district, Chongqing	PPR/PPC tubular product	680.00	—	—	50.00	Invest
8	Chongqing General Industry (Group) Co., Ltd.	Nan'an district, Chongqing	Nan'an district, Chongqing	Manufacturing of general machinery	51,509.01	100.00	—	—	Invest
8.1	Chongqing Chongtong Wide Wisdom Air Conditioning Equipment Co., Ltd.	Nan'an district, Chongqing	Nan'an district, Chongqing	Designation and manufacturing water cooling unit	3,000.00	—	—	42.00	Invest
8.2	Chongqing Chongtong Turbine Technology Co., Ltd	Nan'an district, Chongqing	Nan'an district, Chongqing	Detection and maintenance of turbine machinery products	3,000.00	—	—	40.00	Invest

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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 (%)		Acquisition method
						Direct	Indirect	
8.3	Jilin Chongtong Chengfei New Material Co., Ltd.	Jilin province	Baicheng district, Jilin	Manufacturing of wind-power equipment	15,265.62	—	91.18	Business Combination not under Common Control
8.3.1	Jilin Chongtong Chengfei New Material Co., Ltd.-Wuwei branch	Jilin province	Jilin province	Manufacturing of wind-power equipment	—	—	91.18	Invest
8.3.2	Chongqing Chongtong Chengfei New Material Co., Ltd	Chongqing	Chongqing	Manufacturing of wind-power equipment	5,000.00	—	91.18	Invest
8.3.3	Gansu Chongtong Chengfei New Material Co., Ltd.	Gansu province	Gansu province	Manufacturing of wind-power equipment	5,000.00	—	91.18	Invest
8.3.4	Chongqing Chengfei Wind Power Equipment Jiangsu Co., Ltd.	Rudong district, Jiangsu	Rudong district, Jiangsu	Manufacturing of wind-power equipment	10,000.00	—	91.18	Invest
8.3.5	Xilinhaote Chenfei Wind-Power Equipment Co., Ltd.	Xilin, Neimeng	Xilin, Neimeng	Manufacturing of wind-power equipment	5,000.00	—	91.18	Business Combination not under Common Control
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	Invest
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	Invest
9	Chongqing Pump Industry Co., Ltd.	Shapingba district, Chongqing	Shapingba district, Chongqing	Manufacturing of pumps	19,641.15	100.00	—	Invest
10	Chongqing Gas Compressor Factory Co., Ltd.	Shapingba district, Chongqing	Shapingba district, Chongqing	Manufacturing of gas compression machine	18,721.39	100.00	—	Invest

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 (%)		Acquisition method
						Direct	Indirect	
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 Shengou Materials Co., Ltd.	Northern new district, Chongqing	Northern new district, Chongqing	Sales of machinery materials	2,140.50	100.00	—	Invest
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	—	Invest

Note: Pursuant to August 31 2017, CQMEHG issued the approval (CQMEG [2017] No. 141) regarding the agreement on the disposal of dissolved assets of Chongqing Huahao Smelting Co. Ltd.. The approval agrees Huahao Smelting to transfer its assets to the Company with the manner of paying a debt by assets. Huahao Smelting has already transferred relevant assets to the Company and completely dissolved on 17 December 2018.

Notes to the Consolidated Financial Statements (Continued)

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VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Subsidiaries (continued)

(2) Significant partly-owned subsidiaries

Name of subsidiary	Shareholding of minority shareholders (%)	Beginning balance of non-controlling interest	Profit or loss attributable to minority shareholders	Dividends distributed to minority shareholders	Decrease of minority shareholders other equity	Ending balance of non-controlling interest
Pigeon Wire	26.00	68,072,697.00	41,832,969.82	22,010,397.03	1,700,281.11	86,194,988.68
CMEFC	30.00	213,776,286.00	15,895,770.89	—	—	229,672,056.89

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

Name of subsidiaries	Ending balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Pigeon Wire	678,202,765.87	237,419,837.13	915,622,603.00	534,778,643.66	21,073,762.58	555,852,406.24
CMEFC	3,561,731,413.37	11,492,021.37	3,573,223,434.74	2,807,649,911.91	—	2,807,649,911.91

Name of subsidiaries	Beginning balance					
	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	598,018,726.99
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

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VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. Interests in Subsidiaries *(continued)*

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

Name of subsidiaries	Current period				Last period			
	Operating revenue	Net profit	Total comprehensive income	Cash	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities
				flows from operating activities				
Pigeon Wire	1,379,182,051.07	156,449,705.68	156,449,705.68	31,482,524.00	1,459,492,246.00	80,037,654.00	80,037,654.00	86,915,245.00
CMEFC	116,794,872.98	52,985,902.97	52,985,902.97	280,151,764.97	112,356,931.00	50,590,996.00	50,590,996.00	(190,699,635.00)

(4) Significant restriction of using assets and paying off debts of the Company

None.

(5) Provide financial or other support to structured entity included in the scope of consolidated financial statements

The Company has no structured entity included in the scope of consolidated financial statements.

(6) Others

On 31 December 2018, all the subsidiary companies do not issue share capital or debt securities.

Notes to the Consolidated Financial Statements (Continued)

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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 (%)		Accounting method
				Directly	Indirectly	
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, Jiu longpo District, Chongqing	Huayan, Jiu longpo District, Chongqing	Power transformer, reactor, HVDC converter transformer, UHV AC transformer, sets of insulator	37.80	—	Equity method
Chongqing Youyan [Note 2]	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	Yutu, Jiangbei District, Chongqing	Yutu, Jiangbei District, Chongqing	Manufacturing and sale of large separation machinery and its systems	41.00	—	Equity method
Water Gen Power S.r.l	Huayan, Jiu longpo District, Chongqing	Huayan, Jiu longpo 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
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

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 (%)		Accounting method
				Directly	Indirectly	
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 [Note 1]	Nanan District, Chongqing	Nanan District, Chongqing	Manufacturing of centrifugal refrigerator	—	10.00	Equity method
Chongqing gas engineering 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 1: On 14 November 2018, CQMEHG issued the approval (CQMEH [2018] No. 186) regarding Chongqing General Industry (Group) Co. Ltd. listed transferring 10% of Chongqing Midea General Refrigeration Equipment Co. Ltd. shares. The approval agreed that Chongqing General Industry (Group) Co. Ltd. that holds 10% of Chongqing Midea General Refrigeration Equipment Co. Ltd. shares open list at Chongqing Assets and equity transfer is completed in the current year.

Note 2: On 7 September 2018, the Company held the fourth board meeting that agreed the Company to use 41.5% of Chongqing Youyan to increase capital and exchange shares for Youyan Powder New Material (Beijing) Co. Ltd. (short for "Beijing Youyan") to acquire 7.26% of Beijing Youyan shares. On 17 October 2018, CQCMHG issued approval to the Company and equity exchange is completed in the current year.

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VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in Joint Ventures or Associates (continued)

(2) Key financial information of significant joint ventures

Items	CQ Cummins	
	Ending balance/ Current period	Beginning balance/Last period
Current assets	1,648,014,239.87	1,664,415,654.00
Including: cash and cash equivalents	462,610,362.85	270,604,937.37
Non-current assets	708,145,201.70	512,901,875.00
Total assets	2,356,159,441.57	2,177,317,529.00
Current liabilities	1,535,629,582.13	1,430,489,552.15
Non-current liabilities	98,737,620.94	50,781,568.37
Total liabilities	1,634,367,203.07	1,481,271,120.52
Non-controlling interest	—	—
Total equity attributable to shareholders of the Company	721,792,238.50	696,046,408.47
Net assets calculated based on shareholding ratio	360,896,119.24	348,023,204.00
Carrying amount of equity investment in joint ventures	360,896,119.24	348,023,204.00
Fair value of investment in joint ventures with public offer	—	—
Operating revenue	2,987,530,210.38	2,808,684,784.22
Financial expenses	(3,295,125.65)	6,953,862.68
Income tax expense	106,272,641.02	95,735,756.71
Net profit	643,793,524.17	518,048,828.00
Total comprehensive income	643,793,524.17	518,048,828.00
Recognized dividends from joint ventures	302,582,956.35	253,495,662.00
Received dividends from joint ventures	177,446,963.62	253,495,662.00

Notes to the Consolidated Financial Statements (Continued)

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VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in Joint Ventures or Associates (continued)

(3) Key financial information of significant associates

Items	ABB		Chongqing Youyan		Hongyan Fangda	
	Ending balance	Beginning balance	Ending balance	Beginning balance	Ending balance	Beginning balance
Current assets	1,131,464,767.62	1,373,533,536.00	—	84,519,136.00	409,057,537.37	377,942,625.00
Including: Cash and cash equivalents	77,821,301.18	66,673,624.00	—	19,974,960.36	32,020,557.04	15,448,273.37
Non-current assets	225,401,318.72	239,860,333.00	—	20,783,630.00	132,676,099.77	132,969,848.00
Total assets	1,356,866,086.34	1,613,393,869.00	—	105,302,766.00	541,733,637.14	510,912,473.00
Current liabilities	667,342,218.79	818,989,227.00	—	10,963,657.00	236,963,977.99	230,354,763.00
Non-current liabilities	32,763,003.35	4,390,835.00	—	—	4,999,713.72	5,792,536.00
Total liabilities	700,105,222.14	823,380,062.00	—	10,963,657.00	241,963,691.71	236,147,299.00
Non-controlling interest	—	—	—	—	19,301,425.49	17,613,431.00
Total equity attributable to shareholders of the Company	656,760,864.20	790,013,807.00	—	94,339,109.00	280,468,519.94	257,151,743.00
Net assets calculated based on shareholding ratio	248,255,606.76	298,625,219.00	—	39,150,730.00	123,406,148.77	113,146,767.00
Carrying amount of equity investment in associates	248,255,606.76	298,625,219.00	—	39,150,730.00	123,406,148.77	113,146,767.00
Fair value of investment in associates with public offer	—	—	—	—	—	—
Operating revenue	726,597,886.02	1,432,162,889.04	—	345,781,835.81	886,441,307.41	693,384,443.81
Financial expenses	(3,022,324.33)	9,993,310.96	—	185,423.97	775,213.95	5,983,151.67
Income tax expense	13,149,657.27	16,320,388.73	—	1,504,736.12	6,148,038.62	6,218,494.34
Net profit	72,170,372.38	210,558,170.67	—	8,575,237.82	25,626,268.64	46,828,862.00
Total comprehensive income	72,170,372.38	210,558,170.67	—	8,575,237.82	25,626,268.64	46,828,862.00
Recognized dividends from joint ventures	79,590,988.45	87,778,353.00	975,250.00	1,600,832.00	—	2,878,647.00
Received dividends from joint ventures	77,650,013.00	—	975,250.00	1,600,832.00	—	2,878,647.00

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VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in Joint Ventures or Associates (continued)

(3) Key financial information of significant associates (continued)

Items	EXEDY (Chongqing) Co., Ltd		Chongqing Jiangbei Machinery		Chongqing Shenjian Automotive Drive Part Co., Ltd	
	Ending	Beginning	Ending	Beginning	Ending	Beginning
	balance	balance	balance	balance	balance	balance
Current assets	329,241,586.99	354,834,611.00	168,788,417.24	186,516,981.00	176,725,505.94	129,329,245.00
Including: Cash and cash equivalents	3,575,496.89	5,001,111.78	9,199,952.67	14,231,525.50	8,850,692.52	14,707,654.18
Non-current assets	138,062,381.42	164,885,581.00	171,260,225.59	183,919,459.00	314,438,509.98	224,406,559.00
Total assets	467,303,968.41	519,720,192.00	340,048,642.83	370,436,440.00	491,164,015.92	353,735,804.00
Current liabilities	168,685,557.60	212,238,328.00	185,227,758.84	216,070,088.78	231,619,103.77	208,569,950.00
Non-current liabilities	9,059,424.00	17,250,288.00	10,883,000.00	12,497,000.00	3,090,000.00	—
Total liabilities	177,744,981.60	229,488,616.00	196,110,758.84	228,567,088.78	234,709,103.77	208,569,950.00
Non-controlling interest	560,676.28	448,032.00	—	—	—	—
Total equity attributable to shareholders of the Company	288,998,310.53	289,783,544.00	143,937,883.99	141,869,351.22	256,454,912.15	145,165,854.00
Net assets calculated based on shareholding ratio	78,029,543.84	78,241,557.00	59,014,532.44	58,166,434.00	89,742,246.20	50,808,049.00
- Others	—	—	—	—	—	—
Carrying amount of equity investment in associates	78,029,543.84	78,241,557.00	59,014,532.44	58,166,434.00	89,742,246.20	50,808,049.00
Fair value of investment in associates with public offer	—	—	—	—	—	—
Operating revenue	495,433,219.88	510,177,293.33	185,118,028.14	158,271,820.10	155,104,136.95	97,091,665.00
Financial expenses	7,739,549.17	4,129,343.62	6,165,527.19	5,177,194.93	1,794,582.28	1,192,270.73
Income tax expense	6,860,944.14	4,635,729.93	134,443.95	447,749.24	—	(233,398.37)
Net profit	20,282,249.09	26,215,563.87	2,068,532.78	(937,009.06)	5,848,064.08	(5,077,994.29)
Total comprehensive income	20,282,249.09	26,215,563.87	2,068,532.78	(937,009.06)	5,848,064.08	(5,077,994.29)
Recognized dividends from joint ventures	2,076,426.00	6,020,465.00	—	—	—	—
Received dividends from joint ventures	3,864,570.09	6,020,465.00	—	—	—	—

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VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in Joint Ventures or Associates (continued)

(4) Financial information of insignificant joint ventures or associates

Items	Ending balance/ Current year	Beginning balance/Last year
Associates	—	—
Total investment par value	49,810,588.03	60,515,585.00
Total amounts by shareholding ratio:	—	—
– Net profit	7,865,510.89	6,509,383.00
– Other comprehensive income	—	—
– Total comprehensive income	7,865,510.89	6,509,383.00

(5) Significant restrictions on the capacity of joint ventures or associates to transfer financial funds to the Company

None.

(6) Excess deficit occurred in joint ventures or associates

None.

(7) Unconfirmed commitment with joint ventures investment

None.

(8) Contingent liabilities with joint ventures or associates investment

None.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

3. Significant cooperative operation

None.

4. Structured entity not included in the scope of consolidated financial statements

None.

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Group's business operations face various risks, including market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's basic strategy aims at the unpredictability of financial market to reduce the negative impact of risks to the financial results of the Group.

(1) Market risk

1) Foreign exchange risk

The Group mainly operates in mainland China. Main business is settled in RMB. But foreign exchange risk arises when future commercial transaction or recognized assets or liabilities are denominated in a currency that is entity's functional currency. Financial department of the Group monitors the scale of foreign currency transactions, assets and liabilities to reduce the negative impact of risks on the Group business performance to the lowest level. There for the Group may sign forward exchange contracts or currency swap contracts. In the year of 2018 and 2017, the Group didn't sign any contracts mentioned above.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

(1) Market risk (continued)

1) Foreign exchange risk (continued)

The Group's foreign currency financial assets and liabilities at beginning and ending of period presented in RMB are as follows:

Item	USD	HKD	Ending balance			Total
			GBP	JPY	EUR	
Foreign currency financial assets	—	—	—	—	—	—
Cash and Cash Equivalents	16,031,670.85	76,669.84	13,373,736.31	—	4,672,925.27	34,155,002.27
Accounts receivable	95,411,249.94	—	89,863,030.05	—	3,404,403.18	188,678,683.17
Prepayments	—	—	16,837,036.76	2,202,240.80	—	19,039,277.56
Other receivables	—	—	114,371,659.07	—	—	114,371,659.07
Total	111,442,920.79	76,669.84	234,445,462.19	2,202,240.80	8,077,328.45	356,244,622.07
Foreign currency financial liabilities	—	—	—	—	—	—
Short-term loans	116,674,400.00	—	—	—	—	116,674,400.00
Receipts in Advance	9,638,190.29	—	58,623,560.21	—	202,182.32	68,463,932.82
Other payables	—	—	128,618,490.76	—	—	128,618,490.76
Accounts payable	38,737,321.55	—	42,948,621.57	—	13,837,448.57	95,523,391.69
Long-term loans	—	—	147,495,400.00	—	—	147,495,400.00
Total	165,049,911.84	—	377,686,072.54	—	14,039,630.89	556,775,615.27

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

(1) Market risk (continued)

1) Foreign exchange risk (continued)

Item	USD	Beginning balance			Total
		HKD	GBP	EUR	
Foreign currency financial assets	—	—	—	—	—
Cash and Cash Equivalents	3,103,510.00	81,718.00	38,186,968.00	3,158,990.00	44,531,186.00
Accounts receivable	93,830,824.00	16,081,359.00	36,630,682.00	2,799,151.00	149,342,016.00
Prepayments	400,683.00	—	6,695,003.00	44,616.00	7,140,302.00
Total	97,335,017.00	16,163,077.00	81,512,653.00	6,002,757.00	201,013,504.00
Foreign currency financial liabilities	—	—	—	—	—
Short-term loans	117,220,089.00	—	10,702,117.00	9,717,749.00	137,639,955.00
Accounts payable	89,082,622.00	—	36,769,406.00	733,455.00	126,585,483.00
Receipts in Advance	—	—	26,982,669.00	—	26,982,669.00
Long-term Loans due within one year	—	—	149,246,400.00	—	149,246,400.00
Total	206,302,711.00	—	223,700,592.00	10,451,204.00	440,454,507.00

As for various US dollar financial assets and liabilities, if RMB devalues or rises against US dollar by 1% On December 31,2018, while other factors remain the same, the Group's net profit will decrease or increase by RMB321,975.63, which is RMB860,845.00 on December 31, 2017.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(1) Market risk *(continued)*

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.

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	915,000,000.00	1,540,765,562.00
Borrowings at fixed rates	910,705,132.24	776,275,000.00
Total	1,825,705,132.24	2,317,040,562.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

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

(1) Market risk *(continued)*

2) Interest rate risk *(continued)*

Financial department of the Group continuously monitors the interest rate. An increasing interest rate will increase the cost of new interest-bearing debt, as well as the interest expense of unpaid interest-bearing debt at floating rates, which makes negative impact on the financial results of the Group. The management will make adjustments according to the latest market conditions, such as interest rate swaps to reduce the interest risk. In the year of 2018 and 2017, the Group didn't make any interest rate swap.

On 31 December 2018, the ending balance of bank borrowings at floating rates is RMB915,000,000.00 (which is RMB1,540,765,562.00 on December 31, 2017). If the borrowing rates at floating rates increase or decrease by 50 points, while other factors remain the same, the Group's net profit will decrease or increase by RMB4,575,000.00, which is about RMB6,079,250.00 on 31 December 2017.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(2) Credit risk

The Group manages credit risk according to credit risk portfolio. Credit risk mainly comes from cash and cash Equivalents, accounts receivable, other receivables and notes receivable, etc.

The Group's liquid capital is deposited in state-owned banks and listed banks of large and medium-scale. So the Group believes that there is no significant risk since there will not be significant losses due to default by the other units.

Otherwise, the Group formulates relevant policies to control credit risk. The Group assesses the credit quality of each customer by taking into account its financial position, possibility of obtaining guarantees from third parties, past experience and other factors, such as current marketing situation and set the appropriate credit period. The Group periodically monitors the customer's credit record. For customers with poor credit, the Group takes written collections, shortens or cancels the credit period so as to ensure the overall credit risk under control.

(3) Liquidity risk

The subsidiaries are responsible for their own cash flow forecast, according to which the finance department of the Group continuously monitors the short-term and long-term capital needs. So that the Group maintains adequate cash reserve portfolio and available securities at any time. At the same time this department continuously monitors compliance with the provisions of the loan agreement, obtaining commitment from the main financial institutions of funds to meet the short-term and long-term funding requirements.

Notes to the Consolidated Financial Statements (Continued)

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IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

(3) Liquidity risk (continued)

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

Item	Ending balance				Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	
Financial assets —	—	—	—	—	—
Cash and Cash Equivalents	2,164,670,306.18	—	—	—	2,164,670,306.18
Trading financial assets	5,124,292.21	—	—	—	5,124,292.21
Notes receivable	1,128,945,186.86	—	—	—	1,128,945,186.86
Accounts receivable	2,636,400,832.87	—	—	—	2,636,400,832.87
Other receivables	524,445,833.72	—	—	—	524,445,833.72
Loans and advances	1,148,120,948.78	41,713,993.15	—	—	1,189,834,941.93
Long-term receivables	—	26,514,400.00	7,084,000.00	—	33,598,400.00
Total	7,607,707,400.62	68,228,393.15	7,084,000.00	—	7,683,019,793.77
Financial liabilities —	—	—	—	—	—
Short-term loans	930,290,350.44	—	—	—	930,290,350.44
Notes payable	1,225,850,904.13	—	—	—	1,225,850,904.13
Accounts payable	1,522,525,538.63	—	—	—	1,522,525,538.63
Other payables	558,527,763.23	—	—	—	558,527,763.23
Interest payable	13,156,812.78	—	—	—	13,156,812.78
Receipt of deposits and deposits from other banks	1,111,051,036.81	—	—	—	1,111,051,036.81
Long-term loans	79,615,859.24	113,832,117.11	501,840,550.00	301,388,400.00	996,676,926.35
Bonds payable	34,240,000.00	34,240,000.00	825,680,000.00	—	894,160,000.00
Long-term payables	75,991,637.84	45,474,486.42	100,227,272.73	—	221,693,396.99
Total	5,551,249,903.10	193,546,603.53	1,427,747,822.73	301,388,400.00	7,473,932,729.36

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

(3) Liquidity risk (continued)

Item	Within 1 year	1-2 years	Beginning balance		Total
			2-5 years	Over 5 years	
Financial assets —	—	—	—	—	—
Cash and Cash Equivalents	1,658,694,663.00	—	—	—	1,658,694,663.00
Other current assets	152,773,313.00	—	—	—	152,773,313.00
Notes receivable	1,479,630,312.00	—	—	—	1,479,630,312.00
Accounts receivable	2,403,684,040.00	—	—	—	2,403,684,040.00
Other receivables	1,050,640,822.00	—	—	—	1,050,640,822.00
Loans and advances	1,053,124,729.75	39,838,931.62	—	—	1,092,963,661.37
Long-term receivables	—	58,493,600.00	33,598,400.00	—	92,092,000.00
Total	7,798,547,879.75	98,332,531.62	33,598,400.00	—	7,930,478,811.37
Financial liabilities —	—	—	—	—	—
Short-term loans	1,701,856,415.00	—	—	—	1,701,856,415.00
Notes payable	809,054,101.00	—	—	—	809,054,101.00
Accounts payable	1,950,028,138.00	—	—	—	1,950,028,138.00
Other payables	484,802,264.00	—	—	—	484,802,264.00
Interest payable	11,250,751.00	—	—	—	11,250,751.00
Receipt of deposits and deposits from other banks	879,613,461.00	—	—	—	879,613,461.00
Long-term loans	193,204,336.00	42,305,853.00	422,626,616.00	126,555,130.00	784,691,935.00
Bonds payable	34,240,000.00	834,240,000.00	—	—	868,480,000.00
Long-term payables	71,877,257.00	68,193,699.00	145,358,616.00	—	285,429,572.00
Total	6,135,926,723.00	944,739,552.00	567,985,232.00	126,555,130.00	7,775,206,637.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

X. FAIR VALUE MEASUREMENT

The fair value measurement is determined by the lowest level to which the input value, which is significant to the fair value measurement as a whole belongs to.

Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: Unobservable inputs for the asset or liability.

(1) Assets measured continuously at fair value

On 31 December 2018, assets measured continuously at fair value are presented according to three levels as follows:

Item	Level 1	Level 2	Level 3	Total
Financial assets	—	—	—	—
Trading financial assets	—	—	—	—
Including: Equity investment	123,356.84	—	—	123,356.84
Money fund investment	5,000,935.37	—	—	5,000,935.37
Other equity instrument investment	—	—	46,693,061.00	46,693,061.00
Total assets	5,124,292.21	—	46,693,061.00	51,817,353.21

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

X. FAIR VALUE MEASUREMENT (CONTINUED)

(1) Assets measured continuously at fair value (continued)

On 31 December 2017, assets measured continuously at fair value are presented according to three levels as follows:

Item	Level 1	Level 2	Level 3	Total
Financial assets	—	—	—	—
Financial assets available for sale—	—	—	—	—
Equity instrument available for sale	—	—	152,773,313.00	152,773,313.00
Total assets	—	—	152,773,313.00	152,773,313.00

(2) Assets measured continuously at fair value of current period changes as follows:

Current period	Trading financial assets	Other equity instrument investment
Beginning balance	—	—
Increase	5,233,996.48	46,693,061.00
– Chongqing Iron and steel stock	233,996.48	—
– Purchasing money fund investment	5,000,000.00	—
– Beijing Youyan Equity	—	46,693,061.00
Total Profit or Loss for the current period	(109,704.27)	—
Gain or loss from fair value changes	(109,704.27)	—
– Chongqing Iron and steel stock	(110,639.64)	—
– Purchasing money fund investment	935.37	—
Ending balance	5,124,292.21	46,693,061.00

Notes to the Consolidated Financial Statements (Continued)

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X. FAIR VALUE MEASUREMENT (CONTINUED)

(2) Assets measured continuously at fair value of current period changes as follows: (continued)

Item	Equity Investments of financial assets available for sale
Balance of January 1,2017	150,000,000.00
Purchase	150,000,000.00
Sale	(150,000,000.00)
Total gain or loss of current period	—
Gain or loss recognized in profit or loss	—
Gain or loss recognized in other comprehensive income	2,773,313.00
Beginning balance	152,773,313.00
Other comprehensive income caused by new financial accounting standards	(2,773,313.00)
Beginning retained earnings caused by new financial accounting standards	2,773,313.00
Equity Investments of financial assets available for sale caused by new financial accounting standards	(152,773,313.00)
Balance of trading financial assets caused by new financial accounting standards	152,773,313.00
Sale	(150,000,000.00)
Total gain or loss of current period	536,755.49
Gain or loss recognized in profit or loss	536,755.49
Ending balance	—

Notes to the Consolidated Financial Statements (Continued)

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XI. CAPITAL MANAGEMENT

The capital management strategies aim to guarantee the continuing operations, so that the Group can reward the shareholders and stakeholders, as while as maintain a perfect capital structure to reduce capital cost.

For maintaining or adjusting the capital structure, the Group could rearrange the dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce the debt.

The Group is not subject to mandatory capital requirements from the outside. It takes advantage of debt ratio to inspect and control the capital. The debt ratio is total borrowing to total capital. Total borrowing is a total of short-term loans, long-term loans, long-term accounts payable, bonds payable and loans of banks and non-bank financial institutions which are included in non-current liabilities due within one year. Total capital is the sum of total borrowing and shareholders' equity.

The ending and beginning debt ratio is as follows:

Item	Ending balance	Beginning balance
Short-term loans	911,696,617.94	1,669,889,955.00
Long-term loans	843,184,922.99	562,411,906.00
Long-term accounts payable	145,701,759.15	207,600,793.00
Loans of banks and non-bank financial institutions included in non-current liabilities due within one year	142,714,020.69	252,295,246.00
Bonds payable	800,000,000.00	800,000,000.00
Total liabilities	2,843,297,320.77	3,492,197,900.00
Shareholders' equity	6,808,899,644.22	6,777,723,705.00
Total capital	9,652,196,964.99	10,269,921,605.00
Debt ratio	29.46%	34.00%

Notes to the Consolidated Financial Statements (Continued)

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XII. RELATED PARTIES AND RELATED-PARTY TRANSACTION

(I) RELATED PARTIES

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	184,288.50	52.22	52.22

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

Controlling shareholder	Beginning balance	Increase	Decrease	Ending balance
CQMEHG	184,288.50	—	—	184,288.50

(3) Shareholdings attributable to controlling shareholders

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

Notes to the Consolidated Financial Statements *(Continued)*

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

(I) RELATED PARTIES *(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 Jiangbei Machinery Co. Ltd.	Associate
Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd.	Associate
Chongqing Hongyan Fangda Automotive Suspension Co. Ltd.	Associate
EXEDY Chongqing Co. Ltd.	Associate
Chongqing Youyan Smelting New Material Co., Ltd.	Associate
Water Gen Power S.r.l	Associate
Shenzhen Chongfa Cummins Engine Co., Ltd	Associate
EXEDY (Guangzhou) Driving System Co., Ltd.	Associate
EXEDY (Beijing) Auto Parts Co., Ltd.	Associate
Jinan Fangda Chongtan Automotive Suspension Co., Ltd.	Associate
Chengdu Red Rock Fangda Automotive Suspension Co., Ltd.	Associate
Chongqing Gas Engineering Co., Ltd.	Associate of a subsidiary
Chongqing Shenjian Automotive Drive Part Co., Ltd.	Associate of a subsidiary

Notes to the Consolidated Financial Statements *(Continued)*

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

(I) RELATED PARTIES *(continued)*

4. Other Related Parties

Other related parties	Relationship with the Group
CQMEHQ	Parent company
Shandong Xinhai Finance & Guarantee Co., Ltd.	Associate of a subsidiary
CQMEHG Asset Management Co. Ltd.	A subsidiary of parent company
Chongqing Heavy-Duty Truck Group Co., Ltd.	A subsidiary of parent company
Chongqing General Machinery Industry Co. Ltd.	A subsidiary of parent company
CQMEHG Casting Co. Ltd.	A subsidiary of parent company
Chongqing Special Type Electrical Machine Factory Co. Ltd.	Associate of parent company
Chongqing Bosen Electrical Group Co. Ltd.	Under the same control of parent company
Chongqing Jianan Instrument Co. Ltd.	Under the same control of parent company
Chongqing Crane Works Co. Ltd.	A subsidiary of parent company
Chongqing Standard Fasteners Industrial Co. Ltd.	A subsidiary of parent company
Electromechanical secondary school of Chongqing	A subsidiary of parent company
Chongqing Jinmei Property Management Co., Ltd.	A subsidiary of parent company
Chongqing Electrical Science Research Institute	A subsidiary of parent company
Chongqing Heavy Vehicle Special Truck Co. Ltd.	A subsidiary of parent company
Chongqing Liangjiang New Area Machinery & Electronic Microcredit Co. Ltd.	A subsidiary of parent company

Notes to the Consolidated Financial Statements *(Continued)*

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

(I) RELATED PARTIES *(continued)*

4. Other Related Parties *(continued)*

Other related parties	Relationship with the Group
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.	A subsidiary of parent company
Chongqing Metallurgical Copper Ltd.	Under the same control of parent company
Chongqing Chongtong Power Transformer Co. Ltd.	A subsidiary of parent company
SAIC-IVECO Hongyan Commercial Vehicle Co. Ltd.	Associate of parent company
SAIC Fiat Powertrain HongYan Co., Ltd.	Associate of parent company
Chongqing Anji Red Rock Logistics Co.,Ltd.	Associate of parent company
Chongqing Xinan Computer Co. Ltd.	Under the same control of parent company
Briggs & Stratton (Chongqing) Engine Co., Ltd.	Associate of parent company
Chongqing Changjiang Bearing Co. Ltd.	A subsidiary of parent company
Chongqing Zhongche Changke Railway Vehicles Co., Ltd.	Associate of parent company
Chongqing Electric Machine Federation Ltd.	Associate of parent company
Chongqing Jinmei Communication Co., Ltd.	Associate of a subsidiary
Kunlun Financial Leasing Co., Ltd.	Associate of a subsidiary
Chongqing Kangjia Electronics Co., Ltd.	A subsidiary of parent company
Chongqing Kangjia Auto Electronic Co., Ltd.	Associate of parent company
Chongqing Heavy Automobile Group Transportation Co., Ltd.	Associate of parent company

Notes to the Consolidated Financial Statements *(Continued)*

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

(I) RELATED PARTIES *(continued)*

4. Other Related Parties *(continued)*

Other related parties	Relationship with the Group
Chongqing Dencare Oral Care Products Co., Ltd.	Associate of a subsidiary
Chongqing Union Property Right Exchange Co., Ltd.	Associate of a subsidiary
Chongqing Qineng Electricity & Aluminum Co., Ltd.	Associate of a subsidiary
Chongqing Ankai Bus Co., Ltd.	Associate of parent company
Chongqing Foreign Trade And Economic Cooperation (Group) Co.Ltd	Associate of a subsidiary
Qijiang Minsheng Rural Bank Co., Ltd.	Associate of a subsidiary
Qijiang Gear Transmission Co. Ltd.	A subsidiary 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 Hongyan Automobile Engineering Property 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 Heavy Automobile Group Kafu Parts Co., Ltd.	Under the same control of parent company

Notes to the Consolidated Financial Statements *(Continued)*

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

(I) RELATED PARTIES *(continued)*

4. Other Related Parties *(continued)*

Other related parties	Relationship with the Group
Chongqing Jidian Property Management Co. Ltd.	Under the same control of parent company
Chongqing Shikai Fuel Gas Power Co., Ltd.	Under the same control of parent company
Chongqing Keyi Special Type Electromechanical Electric Appliance Development Company	Associate of parent company
Chongqing Bosen Electrical Group Switchgear Co. Ltd.	Under the same control of parent company
Chongqing Feiyong Hoisting Equipment Co. Ltd.	Under the same control of parent company
Chongqing Automotive standard parts factory Co., Ltd.	Under the same control of parent company
Chongqing Sanling Industry Co., Ltd.	Under the same control of parent company
Chongqing Huazhan Metal Material Restructuring Co. Ltd.	Under the same control of parent company
Chongqing Electronics Technology Research Institute	Under the same control of parent company
Chongqing Mechanical Engineering Design Institute	Under the same control of parent company
Chongqing Hongzhuan Auto Sales Co., Ltd.	Under the same control of parent company

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
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XII. RELATED PARTIES AND RELATED-PARTY TRANSACTION ***(CONTINUED)***

(I) RELATED PARTIES *(continued)*

4. Other Related Parties *(continued)*

Other related parties	Relationship with the Group
Chongqing Juntong Automobile Co. Ltd.	Under the same control of parent company
CQMEHG Electrical Industry Investment Co. Ltd.	A subsidiary of parent company
Chongqing Tianyuan Material Recycling Ltd	Associate of a subsidiary
Chongqing General Aviation Industry Group Co. Ltd.	Associate of parent company
Chongqing General Aircraft Industry Co. Ltd.	Associate of parent company
CAFUC Chongqing General Aviation Training Company Limited	Under the same control of parent company
Chongqing Coral Property Management Co., Ltd.	Under the same control of parent company
CRRC Chongqing Sifang Technology Co., Ltd.	Associate of parent company
Chongqing Qichi Automobile Parts and Components Co. Ltd.	Under the same control of parent company
Shenzhen Chongfa Cummins Engine Co., Ltd	Associate of parent company
Qijiang Qichi Huade Machinery Co., Ltd.	Under the same control of parent company
Chongqing Zhongqi Construction Design Office	Under the same control of parent company
Chongqing Heavy Automobile Group Hongqi Property Co. Ltd.	Under the same control of parent company

Notes to the Consolidated Financial Statements *(Continued)*

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(All amounts are presented in RMB except otherwise stated)

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

(I) RELATED PARTIES *(continued)*

4. Other Related Parties *(continued)*

Other related parties	Relationship with the Group
China Heavy Automobile Finance Co., Ltd.	Associate of a subsidiary
Chongqing Bosen Electrical Group High Voltage Apparatus Co. Ltd.	A subsidiary of parent company
Chongqing Yuzhu Taixing Film Plating Co., Ltd.	Under the same control of parent company
SAIC-IVECO Hongyan Cheqiao Co. Ltd.	Associate of a subsidiary
Chongqing Military Industry Group Co. Ltd.	A subsidiary of parent company
Chongqing Heavy Vehicle Special Truck Co. Ltd.	A subsidiary of parent company
Chongqing Machinery Industrial Supply and Marketing Company	Under the same control of parent company
Chongqing Shuangqiao Hongyan Automobile Real Estate Development Co. Ltd.	Under the same control of parent company
Chongqing Qichi Heavy Automobile Fittings Co., Ltd.	Under the same control of parent company
Chongqing Xitong Electric Co. Ltd.	Associate of a subsidiary
Chongqing Zili MachineWorks	Associate of parent company
Chongqing Rail transportation industry Investment Ltd	Associate of parent company
Qijiang Qichi Forge Co. Ltd.	Under the same control of parent company

Notes to the Consolidated Financial Statements *(Continued)*

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(All amounts are presented in RMB except otherwise stated)

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

(I) RELATED PARTIES *(continued)*

4. Other Related Parties *(continued)*

Other related parties	Relationship with the Group
Chongqing Standard Fasteners Industry Co. Ltd. Huazhan Metal Material Restructuring Branch	Under the same control of parent company
Qijiang Qichi Xinxin Welfare 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 Qingjia Electronics Co., Ltd.	Associate of parent company
Shandong Xinhai Investment Co., Ltd	Associate of a subsidiary
Chongqing Jinxing Co., Ltd.	Associate of a subsidiary
Chongqing Qichi High-tech casting Co., Ltd.	Associate of a subsidiary

Notes to the Consolidated Financial Statements (Continued)

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

(II) RELATED PARTY TRANSACTIONS

1. Other Related Parties

Related parties	Transactions	Pricing methods and decision-making procedures	Current period	Last period
Chongqing Electric Machine Federation Ltd.	Purchases	Agreed Price	10,034,244.19	4,060,498.00
Chongqing Standard Fasteners Industrial Co. Ltd.*	Purchases	Agreed Price	7,285,901.65	792,797.00
Chongqing Crane Works Co. Ltd.*	Purchases	Agreed Price	6,882,127.32	615,956.00
Chongqing Bosen Electrical Group Switchgear Co. Ltd.*	Purchases	Agreed Price	6,753,144.31	—
Chongqing Chongtong Power Transformer Co. Ltd.*	Purchases	Agreed Price	4,288,012.69	1,209,737.00
Chongqing General Machinery Industry Co. Ltd.*	Purchases	Agreed Price	2,875,400.77	—
Chongqing Bosen Electrical Group Co. Ltd.*	Purchases	Agreed Price	1,247,006.30	2,081,216.00
Chongqing Youyan Smelting New Material Co., Ltd.	Purchases	Agreed Price	412,000.00	—
Chongqing Juntong Automobile Co. Ltd.*	Purchases	Agreed Price	328,403.43	—
Chongqing Xinan Computer Co. Ltd.*	Purchases	Agreed Price	169,700.00	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(II) RELATED PARTY TRANSACTIONS (continued)

1. Other Related Parties (continued)

Related parties	Transactions	Pricing methods and decision-making procedures	Current period	Last period
Chongqing Heavy Automobile Group Transportation Co., Ltd.*	Purchases	Agreed Price	—	35,206,368.00
Chongqing Qichi High-tech casting Co., Ltd.*	Purchases	Agreed Price	—	9,957,823.00
Qijiang Qichi Huade Machinery Co., Ltd.*	Purchases	Agreed Price	—	7,388,342.00
Chongqing Heavy Automobile Group Kafu Parts Co., Ltd.*	Purchases	Agreed Price	—	250,649.00
Chongqing Anji Red Rock Logistics Co., Ltd.*	Purchases	Agreed Price	—	149,552.00
Total			<u>40,275,940.66</u>	<u>61,712,938.00</u>

* The related party transactions above are in accordance with the continuing related party transactions defined in Chapter 14A of the Listing Rules.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(II) RELATED PARTY TRANSACTIONS (continued)

2. Receiving services

Related parties	Transactions	Pricing methods and decision- making procedures	Current period	Last period
Chongqing Heavy Automobile Group Transportation Co., Ltd.*	Receiving Services	Agreed Price	37,135,620.24	—
Chongqing Heavy Automobile Group Hongqi Property Co. Ltd.*	Receiving Services	Agreed Price	4,238,777.12	—
Chongqing West Public Transport Co., Ltd.	Receiving Services	Agreed Price	1,609,655.00	—
Chongqing Jidian Property Management Co. Ltd.*	Receiving Services	Agreed Price	1,445,328.11	—
CQMEHG Asset Management Co. Ltd.*	Receiving Services	Agreed Price	173,700.00	—
Chongqing Hongyan Automobile Engineering Property Co. Ltd.*	Receiving Services	Agreed Price	34,662.88	—
Qijiang Gear Factory*	Receiving Services	Agreed Price	—	1,354,148.00
Chongqing Crane Works Co. Ltd.*	Purchases	Agreed Price	—	61,000.00
CQMEHQ*	Be Guaranteed	Agreed Price	1,886,792.45	1,886,792.45
Total			46,524,535.80	3,301,940.45

* The related party transactions above are in accordance with the continuing related party transactions defined in Chapter 14A of the Listing Rules.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(II) RELATED PARTY TRANSACTIONS (continued)

3. Sale of goods

Related parties	Transactions	Pricing methods and decision- making procedures	Current period	Last period
SAIC-IVECO Hongyan Commercial Vehicle Co. Ltd.*	Sales of Goods	Agreed Price	96,236,567.29	34,341,012.00
Qijiang Gear Transmission Co. Ltd.*	Sales of Goods	Agreed Price	59,915,083.78	5,461,895.00
Chongqing Rail transportation industry Investment Ltd*	Sales of Goods	Agreed Price	55,779,149.20	—
Chongqing Youyan Smelting New Material Co., Ltd.	Sales of Goods	Agreed Price	36,646,074.78	—
Chongqing Xinan Computer Co. Ltd.*	Sales of Goods	Agreed Price	14,292,833.95	15,755,327.00
Chongqing Standard Fasteners Industrial Co. Ltd.*	Sales of Goods	Agreed Price	13,964,595.91	40,519,627.00
CQMEHG Casting Co. Ltd.*	Sales of Goods	Agreed Price	12,058,685.83	—
Chongqing Crane Works Co. Ltd.*	Sales of Goods	Agreed Price	10,926,076.55	—
Chongqing Electric Machine Federation Ltd.	Sales of Goods	Agreed Price	10,670,317.36	9,605,978.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(II) RELATED PARTY TRANSACTIONS *(continued)*

3. Sale of goods *(continued)*

Related parties	Transactions	Pricing methods and decision- making procedures	Current period	Last period
SAIC-IVECO Hongyan Cheqiao Co. Ltd.*	Sales of Goods	Agreed Price	10,596,322.59	13,838,249.00
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.*	Sales of Goods	Agreed Price	8,148,708.28	177,114.00
Chongqing Chongtong Power Transformer Co. Ltd.*	Sales of Goods	Agreed Price	4,859,491.87	2,229,990.00
Chongqing Juntong Automobile Co. Ltd.*	Sales of Goods	Agreed Price	2,554,574.17	161,768.00
Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd.	Sales of Goods	Agreed Price	1,355,531.46	481,737.00
Chongqing Bosen Electrical Group Co. Ltd.*	Sales of Goods	Agreed Price	693,081.14	999,356.00
Chongqing Jiangbei Machinery Co. Ltd.	Sales of Goods	Agreed Price	171,891.30	724,155.00
Chongqing General Machinery Industry Co. Ltd.*	Sales of Goods	Agreed Price	86,466.32	3,891,156.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(II) RELATED PARTY TRANSACTIONS (continued)

3. Sale of goods (continued)

Related parties	Transactions	Pricing methods and decision- making procedures	Current period	Last period
Chongqing Changjiang Bearing Co. Ltd.*	Sales of Goods	Agreed Price	45,653.55	—
Chongqing Liangjiang New Area Machinery & Electronic Microcredit Co. Ltd.*	Sales of Goods	Agreed Price	6,576.85	—
Midea General Refrigeration Equipment Co. Ltd.	Sales of Goods	Agreed Price	—	1,854,582.00
Chongqing Shenjian Automotive Drive Part Co., Ltd.	Sales of Goods	Agreed Price	—	1,569,373.00
Total			339,007,682.18	131,611,319.00

* The related party transactions above are in accordance with the continuing related party transactions defined in Chapter 14A of the Listing Rules.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(II) RELATED PARTY TRANSACTIONS (continued)

4. Charging administrative fee/rending of service

Related parties	Transactions	Pricing methods and decision- making procedures	Current period	Last period
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.*	Rending of Service	Agreed Price	6,298,894.56	
Chongqing Cummins Engine Co., Ltd.	Administration Fee	Agreed Price	1,091,662.11	2,228,079.00
Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd.	Rending of Service	Agreed Price	—	1,211,093.00
Chongqing Bosen Electrical Group Co. Ltd.*	Rending of Service	Agreed Price	—	90,462.00
Chongqing Standard Fasteners Industrial Co. Ltd.*	Rending of Service	Agreed Price	—	46,225.00
Chongqing Changjiang Bearing Co. Ltd.*	Rending of Service	Agreed Price	—	14,744.00
Total			7,390,556.67	3,590,603.00

* The related party transactions above are in accordance with the continuing related party transactions defined in Chapter 14A of the Listing Rules.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
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XII. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(II) RELATED PARTY TRANSACTIONS (continued)

5. Fee and commission income

Related parties	Transactions	Pricing methods and decision- making procedures	Current period	Last period
CQMEHG Asset Management Co. Ltd.*	Discount of Bill	Agreed Price	133,301.89	—
Chongqing Heavy Vehicle Special Truck Co. Ltd.*	Discount of Bill	Agreed Price	86,037.74	—
Qijiang Gear Transmission Co. Ltd.*	Discount of Bill	Agreed Price	39,109.00	141,983.00
Chongqing Crane Works Co. Ltd.*	Discount of Bill	Agreed Price	18,909.98	9,151.00
Chongqing Chongtong Power Transformer Co. Ltd.*	Discount of Bill	Agreed Price	14,948.11	—
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.*	Discount of Bill	Agreed Price	14,837.33	—
Chongqing General Machinery Industry Co. Ltd.*	Discount of Bill	Agreed Price	7,067.67	2,415.00
Chongqing Changjiang Bearing Co. Ltd.*	Discount of Bill	Agreed Price	5,444.69	846,908.00
CQMEHG Casting Co. Ltd.*	Discount of Bill	Agreed Price	5,278.30	—
Chongqing Juntong Automobile Co. Ltd.*	Service Fee	Agreed Price	377.36	—

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
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XII. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

(II) RELATED PARTY TRANSACTIONS *(continued)*

5. Fee and commission income *(continued)*

Related parties	Transactions	Pricing methods and decision- making procedures	Current period	Last period
Chongqing Heavy Vehicle Special Truck Co. Ltd.*	Service Fee	Agreed Price	188.68	219,528.00
Chongqing Jiangbei Machinery Co. Ltd.	Service Fee	Agreed Price	94.34	34,057.00
Chongqing Xitong Electric Co. Ltd.*	Service Fee	Agreed Price	94.34	23,000.00
Chongqing Xinan Computer Co. Ltd.*	Service Fee	Agreed Price	94.34	108.00
Chongqing Chongtong Power Transformer Co. Ltd.*	Service Fee	Agreed Price	—	50,943.00
Chongqing Crane Works Co. Ltd.*	Service Fee	Agreed Price	—	28,917.00
CQMEHG Casting Co. Ltd.*	Service Fee	Agreed Price	—	23,889.00
Chongqing Xitong Electric Co. Ltd.*	Discount of Bill	Agreed Price	—	20,706.00
Chongqing Bosen Electrical Group Co. Ltd.*	Discount of Bill	Agreed Price	—	17,749.00
Chongqing General Machinery Industry Co. Ltd.*	Service Fee	Agreed Price	—	13,181.00
Chongqing Jiangbei Machinery Co. Ltd.	Discount of Bill	Agreed Price	—	13,097.00

Notes to the Consolidated Financial Statements (Continued)

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

(II) RELATED PARTY TRANSACTIONS (continued)

5. Fee and commission income (continued)

Related parties	Transactions	Pricing methods and decision- making procedures	Current period	Last period
Chongqing Changjiang Bearing Co. Ltd.*	Service Fee	Agreed Price	—	11,561.00
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.*	Service Fee	Agreed Price	—	94.00
Others			<u>1,792.45</u>	<u>2,821.00</u>
Total			<u>327,576.22</u>	<u>1,460,108.00</u>

* The related party transactions above are in accordance with the continuing related party transactions defined in Chapter 14A of the Listing Rules.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(II) RELATED PARTY TRANSACTIONS *(continued)*

6. Interest income from loans and advances

Related parties	Transactions	Pricing methods and decision- making procedures	Current period	Last period
Chongqing Changjiang Bearing Co. Ltd.*	Loan Interest	Agreed Price	14,874,642.07	12,651,890.00
CQMEHQ*	Loan Interest	Agreed Price	7,350,405.66	545,207.00
Qijiang Gear Transmission Co. Ltd.*	Loan Interest	Agreed Price	6,332,886.39	6,279,469.00
Chongqing Heavy Vehicle Special Truck Co. Ltd.*	Loan Interest	Agreed Price	6,290,826.13	6,264,868.00
Chongqing Crane Works Co. Ltd.*	Loan Interest	Agreed Price	2,764,176.49	2,632,361.00
Chongqing Chongtong Power Transformer Co. Ltd.*	Loan Interest	Agreed Price	1,702,488.41	2,547,772.00
Chongqing Jiangbei Machinery Co. Ltd.	Loan Interest	Agreed Price	1,095,433.97	2,980,533.00
Chongqing Standard Fasteners Industrial Co. Ltd.*	Loan Interest	Agreed Price	910,410.75	1,055,012.00
Chongqing Juntong Automobile Co. Ltd.*	Loan Interest	Agreed Price	690,937.61	641,159.00
Chongqing Xinan Computer Co. Ltd.*	Loan Interest	Agreed Price	418,121.07	840,926.00
Chongqing Xitong Electric Co. Ltd.*	Loan Interest	Agreed Price	390,651.81	1,800,308.00
CQMEHG Casting Co. Ltd.*	Loan Interest	Agreed Price	245,998.42	4,630,561.00

Notes to the Consolidated Financial Statements (Continued)

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

(II) RELATED PARTY TRANSACTIONS (continued)

6. Interest income from loans and advances (continued)

Related parties	Transactions	Pricing methods and decision- making procedures	Current period	Last period
Chongqing General Aviation Industry Group Co. Ltd.*	Loan Interest	Agreed Price	3,991,546.77	3,525,791.00
Chongqing Cummins Engine Co., Ltd.	Loan Interest	Agreed Price	—	1,390,300.00
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.*	Loan Interest	Agreed Price	—	1,253,019.00
Qijiang Qichi Huade Machinery Co., Ltd.*	Loan Interest	Agreed Price	—	157,950.00
Chongqing General Machinery Industry Co. Ltd.*	Loan Interest	Agreed Price	628,019.18	108,585.00
Chongqing General Aircraft Industry Co. Ltd.*	Loan Interest	Agreed Price	116,273.58	—
Chongqing General Aviation Co. Ltd.*	Loan Interest	Agreed Price	116,273.58	—
Total			47,919,091.89	49,305,711.00

* The related party transactions above are in accordance with the continuing related party transactions defined in Chapter 14A of the Listing Rules.

Notes to the Consolidated Financial Statements *(Continued)*

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

(II) RELATED PARTY TRANSACTIONS *(continued)*

7. Deposit interest payments

Related parties	Transactions	Pricing methods and decision- making procedures	Current period	Last period
CQMEHG Asset Management Co. Ltd.*	Deposit Interest	Agreed Price	2,726,718.41	2,858,012.00
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.*	Deposit Interest	Agreed Price	1,907,198.15	3,159,916.00
CQMEHQ*	Deposit Interest	Agreed Price	1,339,756.27	2,601,140.00
Chongqing Xinan Computer Co. Ltd.*	Deposit Interest	Agreed Price	1,026,604.01	463,638.00
Chongqing Heavy Vehicle Special Truck Co. Ltd.*	Deposit Interest	Agreed Price	938,202.96	110,527.00
Chongqing Jianan Instrument Co. Ltd.*	Deposit Interest	Agreed Price	216,223.59	238,479.00
Qijiang Gear Transmission Co. Ltd.*	Deposit Interest	Agreed Price	167,309.62	47,276.00
Chongqing General Machinery Industry Co. Ltd.*	Deposit Interest	Agreed Price	156,727.55	74,216.00
Chongqing Changjiang Bearing Co. Ltd.*	Deposit Interest	Agreed Price	154,895.79	94,044.00
Chongqing Heavy Automobile Group Hongyan Automobile Spring Co. Ltd.*	Deposit Interest	Agreed Price	81,340.72	—

Notes to the Consolidated Financial Statements (Continued)

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

(II) RELATED PARTY TRANSACTIONS (continued)

7. Deposit interest payments (continued)

Related parties	Transactions	Pricing methods and decision- making procedures	Current period	Last period
Chongqing Standard Fasteners Industrial Co. Ltd.*	Deposit Interest	Agreed Price	79,594.29	239,598.00
CQMEHG Casting Co. Ltd.*	Deposit Interest	Agreed Price	75,981.31	175,573.00
Chongqing General Aviation Industry Group Co. Ltd.*	Deposit Interest	Agreed Price	35,083.08	45,707.00
Chongqing Chongtong Power Transformer Co. Ltd.*	Deposit Interest	Agreed Price	31,104.35	36,569.00
Chongqing Military Industry Group Co. Ltd.*	Deposit Interest	Agreed Price	24,652.38	44,905.00
Chongqing Bosen Electrical Group Co. Ltd.*	Deposit Interest	Agreed Price	22,767.80	—
Qijiang Gear Factory*	Deposit Interest	Agreed Price	16,371.22	10,357.00
Chongqing Juntong Automobile Co. Ltd.*	Deposit Interest	Agreed Price	16,314.14	—
Chongqing Shenjian Automotive Drive Part Co., Ltd.	Deposit Interest	Agreed Price	13,404.47	39,251.00
Chongqing Jiangbei Machinery Co. Ltd.	Deposit Interest	Agreed Price	12,981.72	16,935.00
Chongqing Liangjiang New Area Machinery & Electronic Microcredit Co. Ltd.*	Deposit Interest	Agreed Price	11,897.45	—

Notes to the Consolidated Financial Statements (Continued)

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

(II) RELATED PARTY TRANSACTIONS (continued)

7. Deposit interest payments (continued)

Related parties	Transactions	Pricing methods and decision- making procedures	Current period	Last period
Chongqing Heavy Automobile Group Kafu Parts Co., Ltd.*	Deposit Interest	Agreed Price	9,931.73	13,367.00
Chongqing Crane Works Co. Ltd.*	Deposit Interest	Agreed Price	9,317.66	11,498.00
Chongqing Xitong Electric Co. Ltd.*	Deposit Interest	Agreed Price	8,208.34	9,667.00
Chongqing Transformer Co., Ltd.*	Deposit Interest	Agreed Price	6,049.15	—
Chongqing Hongyan Automobile Engineering Property Co. Ltd.*	Deposit Interest	Agreed Price	2,835.16	14,176.00
Chongqing Bosen Electrical Group Switchgear Co. Ltd.*	Deposit Interest	Agreed Price	1,589.03	—
Chongqing Puhui Mechanical & Electrical Industry Development Co., Ltd.	Deposit Interest	Agreed Price		17,492.00
Others	Deposit Interest	Agreed Price	23,949.10	57,967.00
Total			9,117,009.45	10,380,310.00

* The related party transactions above are in accordance with the continuing related party transactions defined in Chapter 14A of the Listing Rules.

Notes to the Consolidated Financial Statements (Continued)

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

(II) RELATED PARTY TRANSACTIONS (continued)

8. Accommodation of funds

(1) Accepting

Related parties	Current period	Last period
Chongqing Jiangbei Machinery Co. Ltd.	—	10,000,000.00
Total	—	10,000,000.00

(2) Providing

Related parties	Current period	Last period
Chongqing Jiangbei Machinery Co. Ltd.	—	10,000,000.00
Total	—	10,000,000.00

9. Reimbursed expenses

Related parties	Current period	Last period
CQMEHQ	—	4,576,895.00
CQMEHG Asset Management Co. Ltd.	—	1,205,030.00
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.	—	217,500.00
Total	—	5,999,425.00

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

(II) RELATED PARTY TRANSACTIONS (continued)

10. Associated rental conditions

(1) Associated renting

Leaser	Lessee	Asset class	Starting date of lease	Ending date of lease	Pricing method of leasing fee	Leasing fee recognized during current period
CQMEHQ*	Chongqing Machinery & Electric Co., Ltd.*	Buildings	2017.1.1	2018.12.31	Agreed Price	6,153,382.52
CQMEHG Asset Management Co. Ltd.*	Chongqing CAFF Automotive Braking & Steering Systems Co., Ltd.*	Buildings	2018.1.1	2018.12.31	Agreed Price	5,362,516.60
CQMEHQ*	Chongqing Machinery & Electronics Holding Group Finance Co., Ltd.*	Buildings	2016.12.1	2018.11.30	Agreed Price	2,362,698.81
CQMEHQ*	Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd.*	Buildings	2016.6.1	2019.5.31	Agreed Price	1,681,199.95
CQMEHQ*	Chongqing Machine Tools Group Shengpu Machinery Complete Plant Co., Ltd.*	Buildings	2018.8.1	2021.7.31	Agreed Price	838,464.64
CQMEHQ*	Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd.*	Buildings	2016.6.1	2019.5.31	Agreed Price	601,488.68
Chongqing Bosen Electrical Group Co. Ltd.*	Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd.*	Buildings	2018.11.14	2023.11.14	Agreed Price	88,085.71
Chongqing Bosen Electrical Group Co. Ltd.*	Chongqing Mengxun Electronic Technology Co., Ltd.*	Buildings	2015.3.4	2019.3.3	Agreed Price	773,896.50
Total						17,861,733.41

* The related party transactions above are in accordance with the continuing related party transactions defined in Chapter 14A of the Listing Rules.

Notes to the Consolidated Financial Statements (Continued)

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Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018

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

(II) RELATED PARTY TRANSACTIONS *(continued)*

10. Associated rental conditions *(continued)*

(2) Associated leasing

Leaser	Lessee	Asset class	Starting date of lease	Ending date of lease	Pricing method of leasing fee	Leasing fee recognized during current period
Chongqing Machinery & Electric Co., Ltd.	Chongqing Youyan Smelting New Material Co., Ltd.	Buildings	2018.1.1	2019.7.31	Agreed Price	918,596.76
Total						<u>918,596.76</u>

11. Guarantees

(1) The Group as guarantor

None.

Notes to the Consolidated Financial Statements *(Continued)*

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

(II) RELATED PARTY TRANSACTIONS *(continued)*

11. Guarantees *(continued)*

(2) *The Group as guaranteed party*

Guarantor	Guaranteed party	Guaranteed amount	Starting date	Due date	Whether guarantee has been fulfilled
CQMEHQ	Chongqing Machinery & Electric Co., Ltd.	800,000,000.00	2016-9-29	2021-9-29	No
CQMEHQ	Chongqing Machinery & Electric Co., Ltd.	57,600,000.00	2016-3-14	2031-3-14	No
CQMEHQ	Chongqing Machinery & Electric Co., Ltd.	122,000,000.00	2018-3-14	2026-3-14	No
Total		<u>979,600,000.00</u>	—	—	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(III) BALANCES WITH RELATED PARTIES

1. Receivable

Related parties	Ending balance	Beginning balance
Qijiang Gear Transmission Co. Ltd.	55,211,902.83	1,472,196.00
SAIC-IVECO Hongyan Cheqiao Co. Ltd.	25,802,835.01	2,428,937.00
Chongqing Rail transportation industry Investment Ltd	17,941,949.07	—
Chongqing Standard Fasteners Industrial Co. Ltd.	13,326,229.18	—
Chongqing Crane Works Co. Ltd.	4,594,244.72	78,801.00
Chongqing Xinan Computer Co. Ltd.	4,470,600.67	5,035,532.00
Chongqing General Machinery Industry Co. Ltd.	4,130,411.33	712,076.00
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.	3,983,055.92	2,695,846.00
Chongqing Juntong Automobile Co. Ltd.	1,618,498.00	402,300.00
Chongqing Electric Machine Federation Ltd.	1,470,774.74	33,768.00
Water Gen Power S.r.l	853,587.94	—
Chongqing Chongtong Power Transformer Co. Ltd.	772,829.26	639,347.00
Chongqing Bosen Electrical Group Co. Ltd.	4,495.00	546,700.00
Chongqing Huazhan Metal Material Restructuring Co. Ltd.	—	19,282,334.00
SAIC-IVECO Hongyan Commercial Vehicle Co. Ltd.	—	17,879,772.00
Chongqing Special Type Electrical Machine Factory Co. Ltd.	—	7,580,668.00
Chongqing Shenjian Automotive Drive Part Co., Ltd.	—	4,044,663.00
Chongqing Jiangbei Machinery Co. Ltd.	—	1,327,603.00
Chongqing Midea General Refrigeration Equipment Co. Ltd.	—	758,531.00
Chongqing Ankai Bus Co., Ltd.	—	481,795.00
Chongqing Qichi Heavy Automobile Fittings Co., Ltd.	—	330,130.00
Chongqing Changjiang Bearing Co. Ltd.	—	241,800.00
Chongqing Bosen Electrical Group High Voltage Apparatus Co. Ltd.	—	55,350.00
Qijiang Gear Factory	—	24,928.00
Total	134,181,413.67	66,053,077.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

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

2. Other receivables

Related parties	Ending balance	Beginning balance
Chongqing Jiangbei Machinery Co. Ltd.	61,213,147.59	71,213,148.00
Chongqing Shenjian Automotive Drive Part Co., Ltd.	45,855,318.01	68,394,895.00
Chongqing Cummins Engine Co., Ltd.	8,800,000.00	2,337,450.00
Water Gen Power S.r.l	3,923,650.00	—
CQMEHG Asset Management Co. Ltd.	3,628,770.00	3,015,430.00
Qijiang Gear Transmission Co. Ltd.	3,557,160.96	273,417,000.00
Chongqing Hydro Power Control Equipment Branch Office Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd.	2,368,822.27	—
Chongqing Qichi Automobile Parts and Components Co. Ltd.	2,039,799.38	649,155.00
Chongqing Rui Shida Power Technology Co. Ltd.	1,341,455.00	1,341,455.00
Chongqing Qichi Ruiante Transmission Co. Ltd.	1,000,000.00	376,056.00
Chongqing Qichi Ruiante Transmission Co. Ltd.	359,572.99	—
CQMEHQ	155,000.00	150,000.00
Chongqing Bosen Electrical Group Co. Ltd.	60,000.00	11,410.00
Chongqing Jidian Property Management Co. Ltd.	15,000.00	10,000.00
Chongqing Changjiang Bearing Co. Ltd.	—	2,429,198.00
Chongqing Standard Fasteners Industrial Co. Ltd.	—	47,771.00
Chongqing Midea General Refrigeration Equipment Co. Ltd.	—	2,000.00
Others	4,433,105.63	—
Total	138,750,801.83	423,394,968.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(III) BALANCES WITH RELATED PARTIES (continued)

3. Prepayments

Related parties	Ending balance	Beginning balance
Chongqing Electric Machine Federation Ltd.	391,245.44	931,524.00
Chongqing Crane Works Co. Ltd.	341,380.00	—
Chongqing Xinan Computer Co. Ltd.	100,496.80	—
Chongqing Chongtong Power Transformer Co. Ltd.	—	663,000.00
Chongqing Heavy Automobile Group Kafu Parts Co., Ltd.	—	131,076.00
Chongqing Special Type Electrical Machine Factory Co. Ltd.	—	85,333.00
Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd.	—	39,900.00
Chongqing Changjiang Bearing Co. Ltd.	—	18,717.00
Chongqing General Machinery Industry Co. Ltd.	—	2,590.00
Total	833,122.24	1,872,140.00

4. Notes receivable

Related parties	Ending balance	Beginning balance
CQMEHG Casting Co. Ltd.	1,480,544.20	2,000,000.00
Chongqing Chongtong Power Transformer Co. Ltd.	900,000.00	—
Chongqing Electric Machine Federation Ltd.	530,000.00	—
Qijiang Gear Transmission Co. Ltd.	246,665.00	—
Chongqing General Machinery Industry Co. Ltd.	200,000.00	1,309,644.00
Chongqing Changjiang Bearing Co. Ltd.	20,000.00	—
Chongqing Jiangbei Machinery Co. Ltd.	—	200,000.00
Total	3,377,209.20	3,509,644.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

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

5. Dividend receivable

Related parties	Ending balance	Beginning balance
Chongqing Cummins Engine Co., Ltd.	378,631,655.04	253,495,662.00
Chongqing Hongyan Fangda Automotive Suspension Co. Ltd.	4,816,103.40	4,916,566.00
EXEDY Chongqing Co. Ltd.	—	1,760,373.00
Chongqing Youyan Smelting New Material Co., Ltd.	—	355,832.00
Total	383,447,758.44	260,528,433.00

6. Interest receivable

Related parties	Ending balance	Beginning balance
Qijiang Gear Transmission Co. Ltd.	19,325,365.24	18,447,769.00
Chongqing Cummins Engine Co., Ltd.	543,956.61	482,939.00
Chongqing Jiangbei Machinery Co. Ltd.	—	393,457.00
Chongqing Changjiang Bearing Co. Ltd.	—	374,583.00
Chongqing Heavy Vehicle Special Truck Co. Ltd.	—	154,232.00
CQMEHG Casting Co. Ltd.	—	103,917.00
Chongqing General Aviation Industry Group Co. Ltd.	—	99,083.00
Chongqing Crane Works Co. Ltd.	—	77,092.00
Chongqing Xinan Computer Co. Ltd.	—	75,906.00
Chongqing Chongtong Power Transformer Co. Ltd.	—	45,252.00
Chongqing Xitong Electric Co. Ltd.	—	41,482.00
Chongqing Standard Fasteners Industrial Co. Ltd.	—	31,417.00
Chongqing General Machinery Industry Co. Ltd.	—	10,816.00
Chongqing Juntong Automobile Co. Ltd.	—	6,749.00
Total	19,869,321.85	20,344,694.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(III) BALANCES WITH RELATED PARTIES (continued)

7. Long-term receivables

Related parties	Ending balance	Beginning balance
Qijiang Gear Transmission Co. Ltd.	—	49,000,000.00
Chongqing Cummins Engine Co., Ltd.	33,200,000.00	42,000,000.00
Total	33,200,000.00	91,000,000.00

8. Loans and advances

Related parties	Ending balance	Beginning balance
Chongqing Changjiang Bearing Co. Ltd.	307,000,000.00	361,660,412.00
CQMEHQ	267,600,000.00	—
Qijiang Gear Transmission Co. Ltd.	158,000,000.00	166,714,135.00
Chongqing Heavy Vehicle Special Truck Co. Ltd.	150,000,000.00	120,000,000.00
Chongqing General Aviation Industry Group Co. Ltd.	90,000,000.00	80,000,000.00
Chongqing Crane Works Co. Ltd.	63,050,000.00	63,800,000.00
Chongqing Chongtong Power Transformer Co. Ltd.	49,500,000.00	35,000,000.00
Chongqing Standard Fasteners Industrial Co. Ltd.	16,000,000.00	26,000,000.00
CQMEHG Casting Co. Ltd.	—	86,000,000.00
Chongqing Xinan Computer Co. Ltd.	—	60,000,000.00
Chongqing Xitong Electric Co. Ltd.	—	30,489,025.00
Chongqing Jiangbei Machinery Co. Ltd.	—	30,000,000.00
Chongqing General Machinery Industry Co. Ltd.	—	8,951,000.00
Chongqing Juntong Automobile Co. Ltd.	—	5,585,560.00
Total	1,101,150,000.00	1,074,200,132.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(III) BALANCES WITH RELATED PARTIES (continued)

9. Accounts payable

Related parties	Ending balance	Beginning balance
Chongqing Heavy Automobile Group Transportation Co.,Ltd.	12,794,152.25	2,837,137.00
Chongqing Standard Fasteners Industrial Co. Ltd.	2,252,875.91	618,074.00
Chongqing Bosen Electrical Group Co. Ltd.	1,985,766.83	1,284,022.00
Chongqing Chongtong Power Transformer Co. Ltd.	1,839,000.00	25,500.00
Chongqing Crane Works Co. Ltd.	1,595,785.00	635,668.00
Chongqing General Machinery Industry Co. Ltd.	1,174,098.78	—
Chongqing Xinan Computer Co. Ltd.	23,840.00	480,630.00
Qijiang Qichi Forge Co. Ltd.	17,034.89	17,035.00
Chongqing Electric Machine Federation Ltd.	—	3,607,959.00
Chongqing Electrical Science Research Institute	—	267,513.00
Chongqing Special Type Electrical Machine Factory Co. Ltd.	—	68,381.00
Chongqing Anji Red Rock Logistics Co., Ltd.	—	40,457.00
Chongqing Midea General Refrigeration Equipment Co. Ltd.	—	812.00
Total	21,682,553.66	9,883,188.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(III) BALANCES WITH RELATED PARTIES (continued)

10. Other payables

Related parties	Ending balance	Beginning balance
CQMEHG Asset Management Co. Ltd.	19,722,235.62	32,358,405.00
CQMEHQ	11,733,765.23	5,584,500.00
Chongqing Hongyan Automobile Engineering Property Co. Ltd.	658,274.40	760,499.00
Chongqing Shenjian Automotive Drive Part Co., Ltd.	654,552.74	—
Chongqing Heavy Automobile Group Transportation Co., Ltd.	479,353.50	2,062,027.00
Chongqing Bosen Electrical Group Switchgear Co. Ltd.	474,988.00	574,988.00
Chongqing Bosen Electrical Group Co. Ltd.	331,569.95	192,600.00
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.	175,174.90	—
Chongqing Crane Works Co. Ltd.	45,315.00	44,105.00
Chongqing Heavy Automobile Group Hongqi Property Co. Ltd.	34,600.00	—
CQMEHG Casting Co. Ltd.	—	1,517,012.00
Chongqing Changjiang Bearing Co. Ltd.	—	206,280.00
Total	34,309,829.34	43,300,416.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

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

11. Notes payable

Related parties	Ending balance	Beginning balance
Chongqing Standard Fasteners Industrial Co. Ltd.	1,477,818.37	450,000.00
Chongqing Crane Works Co. Ltd.	616,000.00	—
Chongqing General Machinery Industry Co. Ltd.	500,000.00	650,000.00
Chongqing Bosen Electrical Group Co. Ltd.	200,000.00	1,250,000.00
Chongqing Electric Machine Federation Ltd.	—	1,900,000.00
Chongqing Chongtong Power Transformer Co. Ltd.	—	490,000.00
Total	2,793,818.37	4,740,000.00

12. Interests payable

Related parties	Ending balance	Beginning balance
Chongqing General Aviation Industry Group Co. Ltd.	823,602.63	—
CQMEHG Asset Management Co. Ltd.	279,763.28	1,562,310.00
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.	80,209.16	98,689.00
CQMEHQ	50,003.37	11,115.00
Chongqing Xinan Computer Co. Ltd.	34,060.17	12,405.00
Chongqing Changjiang Bearing Co. Ltd.	24,071.66	5,055.00
Chongqing General Machinery Industry Co. Ltd.	16,589.16	—
Chongqing Jianan Instrument Co. Ltd.	14,630.44	3,452.00
Chongqing Heavy Automobile Group Hongqi Property Co. Ltd.	14,297.73	—
Chongqing General Aviation Industry Group Co. Ltd.	7,691.52	341.00
CQMEHG Casting Co. Ltd.	172.47	2,086.00
Others	40,301.51	31,798.00
Total	1,385,393.10	1,727,251.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(III) BALANCES WITH RELATED PARTIES (continued)

13. Deposits taking

Related parties	Ending balance	Beginning balance
CQMEHQ	391,824,799.76	2,889,563.00
Chongqing Xinan Computer Co. Ltd.	346,862,432.28	170,103,295.00
CQMEHG Asset Management Co. Ltd.	183,758,900.33	193,347,768.00
Chongqing Jianan Instrument Co. Ltd.	90,671,059.98	6,028,672.00
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.	75,160,987.76	147,602,838.00
Chongqing Heavy Automobile Group Hongyan Automobile Spring Co. Ltd.	46,946,297.25	2,004,742.00
CQMEHG Asset Management Co. Ltd.	33,368,717.17	—
Chongqing Heavy Vehicle Special Truck Co. Ltd.	32,119,785.76	28,182,226.00
Qijiang Gear Transmission Co. Ltd.	15,178,758.30	193,054,089.00
Chongqing Juntong Automobile Co. Ltd.	15,135,752.57	677,854.00
Chongqing Automotive standard parts factory Co., Ltd.	10,720,286.84	—
Chongqing Liangjiang New Area Machinery & Electronic Microcredit Co. Ltd.	9,450,104.39	930,391.00
Qijiang Gear Factory	9,283,558.14	1,512,901.00
Chongqing Xitong Electric Co. Ltd.	4,885,355.93	29,519.00
Chongqing Jiangbei Machinery Co. Ltd.	4,569,394.58	4,237,229.00
Chongqing Changjiang Bearing Co. Ltd.	4,554,047.34	17,687,759.00
Chongqing Standard Fasteners Industrial Co. Ltd.	4,417,074.89	42,651,443.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

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

13. Deposits taking *(continued)*

Related parties	Ending balance	Beginning balance
Chongqing General Machinery Industry Co. Ltd.	4,049,480.87	9,682,378.00
Chongqing General Aviation Industry Group Co. Ltd.	3,548,418.67	825,443.00
Chongqing Heavy Automobile Group Hongqi Property Co. Ltd.	3,241,650.68	3,279,652.00
Chongqing Jidian Property Management Co. Ltd.	3,034,161.05	2,398,315.00
Chongqing Chongtong Power Transformer Co. Ltd.	1,678,436.26	16,558,145.00
Chongqing Bosen Electrical Group Co. Ltd.	1,179,352.73	6,123,600.00
Chongqing Heavy Automobile Group Kafu Parts Co., Ltd.	423,437.44	1,181,656.00
Chongqing Qichi Automobile Parts and Components Co. Ltd.	421,237.89	2,260,995.00
Chongqing Crane Works Co. Ltd.	345,447.79	1,194,811.00
Chongqing Automotive standard parts factory Co., Ltd.	278,473.20	—
Chongqing General Aircraft Industry Co. Ltd.	199,435.42	9,124.00
CQMEHG Casting Co. Ltd.	194,557.48	3,978,998.00
Chongqing Standard Fasteners Industry Co. Ltd.		
Huazhan Metal Material Restructuring Branch	148,377.22	76,740.00
Chongqing General Aviation Industry Group Co. Ltd.	83,059.99	—
Chongqing High Strength Fasteners Factory	79,548.05	—
Qijiang Qichi Xinxin Welfare Co. Ltd.	17,388.02	491,208.00
Chongqing Shuangqiao Hongyan Automobile Real Estate Development Co. Ltd.	15,032.71	658,944.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(III) BALANCES WITH RELATED PARTIES (continued)

13. Deposits taking (continued)

Related parties	Ending balance	Beginning balance
Chongqing Shenjian Automotive Drive Part Co., Ltd.	6,210.19	10,919,475.00
CQMEHG Electrical Industry Investment Co. Ltd.	959.65	10,699.00
Qijiang Qichi Forge Co. Ltd.	441.25	321,138.00
Chongqing Special Type Electrical Machine Factory Co. Ltd.	361.06	360.00
Chongqing Electrical Science Research Institute	1.39	—
Chongqing Hongyan Automobile Engineering Property Co. Ltd.	—	2,064,739.00
Chongqing Bosen Electrical Group Switchgear Co. Ltd.	—	1,479,195.00
Chongqing Military Industry Group Co. Ltd.	—	1,319,237.00
Chongqing Feiyang Hoisting Equipment Co. Ltd.	—	630,356.00
Chongqing Zili MachineWorks	—	584,354.00
Chongqing Fuye Trade Company	—	67,393.00
Others	—	209.00
Total	1,297,852,782.28	877,057,453.00

14. Receipts in advance

Related parties	Ending balance	Beginning balance
Chongqing Bosen Electrical Group Co. Ltd.	19,999.99	—
Total	19,999.99	—

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

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

15. Long-term payables

Related parties	Ending balance	Beginning balance
Kunlun Financial Leasing Co., Ltd.	5,577,756.42	—
Total	5,577,756.42	—

16. Non-current liabilities due within one year

Related parties	Ending balance	Beginning balance
Kunlun Financial Leasing Co., Ltd.	44,449,820.04	—
Total	44,449,820.04	—

(IV) COMMITMENTS

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

Notes to the Consolidated Financial Statements (Continued)

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(All amounts are presented in RMB except otherwise stated)

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

(V) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Remuneration of directors and supervisors of current period:

Name	Duty	Salaries and allowances	Social insurance, housing fund and pensions	Bonus	Distribution	Total	Notes
Ms. Chen Ping	Executive Director/CEO	266,964.00	90,812.05	456,996.00	—	814,772.05	—
Mr. Yang Quan	Executive Director/Vice president	239,292.00	90,812.05	394,604.00	—	724,708.05	—
Mr. Wang Yuxiang	Chairman of Directors	266,964.00	—	470,151.00	—	737,115.00	—
Mr. Huang Yong	Non-executive Director	60,000.00	—	—	—	60,000.00	—
Mr. Dou Bo	Non-executive Director	60,000.00	—	—	—	60,000.00	—
Mr. Wang Pengcheng	Non-executive Director	60,000.00	—	—	—	60,000.00	—
Mr. Deng Yong	Non-executive Director	60,000.00	—	—	—	60,000.00	Dismissed in 2018.12
Mr. Lu Huawei	Independent Director	129,722.00	—	—	—	129,722.00	—
Mr. Ren Xiaochang	Independent Director	80,400.00	—	—	—	80,400.00	—
Mr. Jin Jingyu	Independent Director	80,400.00	—	—	—	80,400.00	—
Mr. Liu Wei	Independent Director	80,400.00	—	—	—	80,400.00	—
Mr. Sun Wenguang	Chairman of Supervisory Committee	243,904.00	90,812.05	399,923.00	—	734,639.05	Become Chairman of Supervisory Committee in 2018.11
Mr. Xiang Hu	Chairman of Supervisory Committee	155,729.00	55,154.38	376,961.00	—	587,844.38	Dismissed in 2018.07
Ms. Wu Yi	Supervisor	60,000.00	—	—	—	60,000.00	—
Mr. Huang Hui	Supervisor	60,000.00	—	—	—	60,000.00	—
Mr. Xia Hua	Supervisor	516,000.00	89,085.48	751,060.00	440,335.62	1,796,481.10	—
Mr. Zhang Mingzhi	Supervisor	276,012.00	81,411.72	112,660.00	—	470,083.72	—
Total		2,695,787.00	498,087.73	2,962,355.00	440,335.62	6,596,565.35	—

Note 1: Mr. Sun Wenguang, as a supervisor, is nominated to be chairman of the Supervisory Committee in August 2018, and normally serves as the chairman in November 2018.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(V) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

1. Remuneration of directors and supervisors of current period: *(continued)*

Remuneration of directors and supervisors of last period:

Name	Duty	Salaries and allowances	Social insurance, housing fund and pensions	Bonus	Total
Ms. Chen Ping	Executive Director/CEO	255,000.00	63,000.00	334,000.00	652,000.00
Mr. Yang Quan	Executive Director/Vice president	230,000.00	63,000.00	457,000.00	750,000.00
Mr. Wang Yuxiang	Chairman of Directors	221,000.00	—	507,000.00	728,000.00
Mr. Huang Yong	Non-executive Director	60,000.00	—	—	60,000.00
Mr. Dou Bo (entry in November 2017)	Non-executive Director	5,000.00	—	—	5,000.00
Mr. Wang Pengcheng	Non-executive Director	—	—	—	—
Mr. Deng Yong	Non-executive Director	60,000.00	—	—	60,000.00
Mr. Lu Huawei	Independent Director	136,000.00	—	—	136,000.00
Mr. Ren Xiaochang	Independent Director	80,000.00	—	—	80,000.00
Mr. Jin Jingyu	Independent Director	80,000.00	—	—	80,000.00
Mr. Liu Wei	Independent Director	80,000.00	—	—	80,000.00
Ms. He Xiaoyan (resign in December 2017)	Non-executive Director	60,000.00	—	—	60,000.00
Mr. Wei Fusheng (resign in November 2017)	Non-executive Director	55,000.00	—	—	55,000.00
Mr. Yu Gang (resign in March 2016)	Executive Director/CEO	—	—	77,000.00	77,000.00
Mr. Xiang Hu (resign in July 2018)	Chairman of Supervisory Committee	255,000.00	63,000.00	468,000.00	786,000.00
Mr. Huang Hui	Supervisor	60,000.00	—	—	60,000.00
Ms. Wu Yi	Supervisor	60,000.00	—	—	60,000.00
Mr. Xia Hua	Supervisor	258,000.00	60,000.00	924,000.00	1,242,000.00
Mr. Zhang Mingzhi	Supervisor	256,000.00	60,000.00	214,000.00	530,000.00
Total		2,211,000.00	309,000.00	2,981,000.00	5,501,000.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(V) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (continued)

2. Five most well-rewarded employees of current period:

Name	Duty	Salaries and allowances	Social insurance, housing fund and pensions	Bonus	Distribution	Total
Ms. Chen Ping	Executive Director/CEO	266,964.00	90,812.05	456,996.00	—	814,772.05
Mr. Xia Hua	Supervisor	516,000.00	89,085.48	751,060.00	440,335.62	1,796,481.10
Mr. Wang Yuxiang	Chairman of Directors	266,964.00	—	470,151.00	—	737,115.00
Mr. Sun Wenguang	Chairman of Supervisory Committee	243,904.00	90,812.05	399,923.00	—	734,639.05
Ms. Liu Zhongtang	Vice president/CFO	246,435.00	87,372.14	394,218.00	—	728,025.14
Total		1,540,267.00	358,081.72	2,472,348.00	440,335.62	4,811,032.34

Five most well-rewarded employees of last period:

Name	Duty	Salary, housing allowance, other allowance and gains in kind	Social insurance, housing fund and pensions	Bonus	Total
Mr. Wang Yuxiang	Chairman of Directors	221,000.00	—	507,000.00	728,000.00
Ms. Chen Ping	Executive Director/CEO	255,000.00	63,000.00	334,000.00	652,000.00
Mr. Yang Quan	Executive Director/Vice president	230,000.00	63,000.00	457,000.00	750,000.00
Mr. Xiang Hu	Chairman of Supervisory Committee	255,000.00	63,000.00	468,000.00	786,000.00
Mr. Xia Hua	Supervisor	258,000.00	60,000.00	924,000.00	1,242,000.00
Total		1,219,000.00	249,000.00	2,690,000.00	4,158,000.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(V) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (continued)

3. Salary range

Item	Number of Current Period	Number of Last Period
Within 1,000,000 RMB	20	25
RMB 1,000,001 to 1,500,000	0	1
RMB 1,500,001 to 2,000,000	1	0

4. During current period, none of the directors gives up or agrees to give up any salary. During past recorded periods, the Group never paid to any director, supervisor or five most well-rewarded employees to draw them into the Group or make compensation for the employment termination.

5. Remuneration of directors, supervisors and senior management

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

Name	Duty	Salaries and allowances	Social insurance, housing fund and pensions	Bonus	Total
Deng Rui	Company secretary	239,292.00	90,812.05	395,216.00	725,320.05
Zhang Shu	Vice president	239,292.00	90,812.05	392,160.00	722,264.05
Qin Shaobo (entry in June 2018)	Vice president	119,646.00	47,589.20	75,600.00	242,835.20
Liu Zhongtang (entry in July 2018)	Vice president/CFO	246,435.00	87,372.14	394,218.00	728,025.14
Total		844,665.00	316,585.44	1,257,194.00	2,418,444.44

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(V) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

5. Remuneration of directors, supervisors and senior management

Key management remuneration for the previous year

Name	Job Position	Wages and allowances	Social security contributions, Housing Funds and Pension Costs	Bonus	Total
Mr Deng Rui	Secretary of the Board	230,000.00	63,000.00	215,000.00	508,000.00
Mr Sun Shu	Deputy general manager	230,000.00	63,000.00	216,000.00	509,000.00
Mr Sun Wenguang	Deputy general manager	230,000.00	63,000.00	216,000.00	509,000.00
Mr Duan Caijun (Resigned in December 2016)	—	—	—	273,000.00	273,000.00
Mr Chen Yu (Resigned in June 2016)	—	—	—	137,000.00	137,000.00
Mr Liu Yonggang (Resigned in March 2016)	—	—	—	68,000.00	68,000.00
Mr Zhao Zicheng (Resigned in June 2016)	—	—	—	137,000.00	137,000.00
Total		690,000.00	189,000.00	1,262,000.00	2,141,000.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

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

(VI) BORROWINGS RECEIVABLE OF DIRECTORS AND DIRECTORS' RELATED PARTIES

1. Borrowings receivable of directors and directors' related parties

None.

2. Borrowings of directors and directors' related parties guaranteed by corporation

None.

(VII) OTHERS

None.

XIII. CONTINGENCIES

None.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

XIV. 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	53,153,949.02	128,541,946.00
Intangible assets	—	14,768,600.00
Total	53,153,949.02	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	34,094,369.84	26,790,628.00
1-2 years	19,796,210.88	15,517,864.00
2-3 years	12,464,131.20	11,812,008.00
Over 3 years	22,611,700.00	34,886,736.00
Total	88,966,411.92	89,007,236.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

XV. 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	86,017,812.54	81,341,982.00
1-2 years	72,084,642.50	75,566,628.00
2-5 years	106,111,661.48	167,472,195.00
Over 5 years	—	—
Total	264,214,116.52	324,380,805.00
Including: Unacknowledged financial charges	24,373,500.63	38,951,232.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

XVI. EVENTS AFTER THE REPORTING PERIOD

1. Significant Non-adjusting Events

None.

2. Profit Distribution

Items	Balance
Dividends or profits to be distributed	147,385,606.16

Note: According to the Board Resolution on March 20, 2019, the Group's board proposed to distribute dividends to all shareholders at RMB0.04 per share (with tax), the total proposed dividends is RMB147,385,606.16, which is need to approval by the shareholders at annual shareholder meeting on June 28, 2019, therefore, it has not been recognized as a liability in the financial statements.

3. Sales Return

None.

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

XVII. OTHER SIGNIFICANT EVENTS

1. Correction and effect of prior period errors

None.

2. Debt restructuring

None.

3. Pension plan

The Group does not have pension plans.

4. New guidelines to be implemented

On 7 December 2018, the Ministry of Finance issued the “Accounting Standards for Business Enterprises No. 21 – Lease” (Finance [2018] No. 35) and requires to take place on 1 January 2019 for the companies listed at both China and overseas and the companies listed only overseas which adopt International Financial Reporting Standards or Accounting Standards for Business Enterprises to prepare the financial statements. The Group intends to implement the standard from 1 January 2019. The Group expects that the implementation of the standard will not have a significant impact on the financial statements.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

XVII. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. 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.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

XVII. OTHER SIGNIFICANT EVENTS (CONTINUED)

6. Financial information of reportable segments

Item	Hydroelectric		Electrical		General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
	Engines	Gear boxes	generation equipment	wire and cable								
Total segment revenue	—	—	554,061,165.54	1,379,182,051.07	915,110,228.29	116,794,872.98	885,403,491.27	—	206,127,604.43	1,395,366,391.38	—	5,452,065,804.96
Inter-segment revenue	—	—	(4,310.34)	(8,243,404.60)	(5,066,034.68)	(47,846,156.31)	(2,038,514.33)	—	(100,635,787.38)	(3,914,064.42)	—	(167,746,272.06)
Revenue from external customers	—	—	554,056,855.20	1,370,938,646.47	910,044,193.61	68,948,716.67	883,364,976.94	—	105,491,817.05	1,391,472,326.96	—	5,284,317,532.90
Operating costs	—	—	445,861,758.91	1,142,483,961.05	716,559,783.72	28,797,380.33	639,158,550.36	—	199,261,154.68	1,005,702,225.73	—	4,177,824,814.78
Inter-segment transaction cost	—	—	(4,310.34)	(8,243,404.60)	(8,418,378.37)	(19,361,252.26)	(2,038,514.33)	—	(97,283,443.68)	(3,914,064.42)	(88,120.04)	(139,351,488.04)
External transaction cost	—	—	445,857,448.57	1,134,240,556.45	708,141,405.35	9,436,128.07	637,120,036.03	—	101,977,711.00	1,001,788,161.31	(88,120.04)	4,038,473,326.74
Gross profit rates (%)	—	—	19.53	17.27	22.19	86.31	27.88	—	3.33	28.01	—	23.58
Operating (loss)/profit	315,455,871.59	—	8,551,467.10	193,022,751.13	20,577,189.72	39,839,633.97	(12,483,274.30)	27,280,400.76	1,276,711.82	(21,942,700.57)	(14,848,020.52)	556,730,030.70
Interest income	—	—	705,598.78	209,318.09	12,496,330.62	—	19,143,553.24	—	2,221,055.16	3,698,093.01	—	38,473,948.90
Interest costs	—	—	5,461,433.99	7,504,965.12	37,578,842.47	—	47,859,051.75	—	100,165.26	86,404,536.31	(24,116,101.57)	160,792,293.33
Investment income from associates and joint ventures	315,455,871.59	—	—	—	618,793.88	—	3,698,081.58	27,280,400.76	—	22,888,802.51	—	369,941,950.32
Total profit	315,455,871.59	—	9,809,602.39	195,026,305.65	22,058,196.46	39,863,033.65	(24,341,127.46)	27,280,400.76	1,590,532.02	(16,216,733.89)	(14,848,020.52)	555,672,060.65
Income tax expense	—	—	(388,718.29)	28,620,616.96	9,680,923.68	9,412,034.73	6,471,277.51	—	—	7,801,733.05	(1,097,700.00)	60,500,227.64
Net profit	315,455,871.59	—	10,198,320.68	166,405,628.69	12,377,272.78	30,450,999.92	(30,818,404.97)	27,280,400.76	1,590,532.02	(24,018,466.94)	(13,750,320.52)	495,171,833.01

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

XVII. OTHER SIGNIFICANT EVENTS (CONTINUED)

6. 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 of Property, plant and equipment and investment property	—	—	23,282,187.05	1,494,473.44	41,140,566.53	152,010.20	91,925,234.79	—	4,205.26	27,467,900.48	—	185,446,577.75
Amortisation of intangible assets	—	—	1,954,642.01	2,924,745.92	11,082,786.61	309,127.43	15,745,864.85	—	—	2,781,583.68	—	34,798,750.50
Provision on inventory	—	—	21,980,417.74	5,729,765.79	5,497,630.95	—	8,495,755.26	—	—	34,985,004.28	—	76,668,574.02
Provision for/(reversal of) impairment of accounts and other receivables	—	—	12,956,221.47	846,238.38	3,349,226.15	—	2,885,646.51	—	(4,754,201.28)	8,310,364.07	—	23,595,487.30
Additions to non-current assets (other than financial instruments, long term equity investments and deferred income tax assets)	—	—	(15,130,129.28)	(1,402,435.37)	36,917,482.48	123,117.14	26,177,914.95	—	(4,585.06)	(42,583,521.44)	—	4,117,843.44

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

XVII. OTHER SIGNIFICANT EVENTS (CONTINUED)

6. Financial information of reportable segments (continued)

Financial information of reportable segments of the previous year 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	—	235,565,856.82	446,544,811.98	1,458,100,962.66	1,775,910,346.20	120,270,569.00	878,620,646.26	—	4,363,057,796.32	1,195,422,111.53	—	10,471,493,100.77
Inter-segment revenue	—	—	—	(5,727,891.30)	—	(45,046,547.28)	(12,624,425.21)	—	(1,046,016,618.67)	(69,474,938.43)	—	(1,178,980,421.10)
Revenue from external customers	—	235,565,856.82	446,544,811.98	1,450,373,071.36	1,775,910,346.20	75,224,021.72	865,996,221.05	—	3,317,041,177.45	1,125,947,173.10	—	9,292,602,679.67
Operating costs	—	238,994,613.00	390,498,510.00	1,246,555,917.00	1,502,095,278.00	23,812,464.00	674,944,886.00	—	4,353,624,816.00	871,202,822.00	—	9,291,729,306.00
Inter-segment transaction cost	—	3,736,541.11	—	(5,727,891.30)	—	(13,072,084.53)	(4,402,479.03)	—	(1,046,183,588.37)	(69,474,938.89)	—	(1,135,124,421.00)
External transaction cost	—	242,731,154.11	390,498,510.00	1,240,828,025.70	1,502,095,278.00	10,740,379.47	670,547,406.97	—	3,307,441,247.63	801,727,883.12	—	8,156,604,885.00
Gross profit rates (%)	—	(3.04)	14.79	14.45	15.42	85.72	22.57	—	0.29	28.80	—	12.22
Interest income	—	124,367.00	825,908.00	979,466.00	2,960,437.00	—	2,756,567.00	176,528.00	144,147.00	73,941,938.00	(64,182,454.00)	17,728,904.00
Interest costs	—	15,563,052.00	11,039,793.00	10,525,528.00	32,071,491.00	—	62,427,713.00	1,200.00	352,547.00	81,297,677.00	(95,701,455.00)	117,577,546.00
Investment income from associates and joint ventures	259,024,414.00	955,798.00	—	—	1,697,971.00	(13,943,346.00)	(1,777,298.00)	79,590,989.00	—	35,292,256.00	—	360,940,184.00
Total profit	259,024,414.00	(207,900,032.00)	111,366,311.00	90,514,565.00	38,034,454.00	45,994,076.00	(63,248,511.00)	79,340,974.00	51,043.00	31,674,302.00	102,729,789.67	488,172,285.67
Income tax expense	—	558,053.00	(60,543,468.00)	(8,966,466.00)	254,611.00	(9,337,926.00)	(15,249,107.00)	—	—	(9,169,069.00)	—	(102,453,392.00)
Net profit	259,024,414.00	(207,341,979.00)	50,822,843.00	81,548,079.00	39,189,065.00	36,647,050.00	(88,497,618.00)	79,340,974.00	51,043.00	22,505,233.00	102,729,789.67	366,018,893.67

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018

(All amounts are presented in RMB except otherwise stated)

XVII. OTHER SIGNIFICANT EVENTS (CONTINUED)

6. Financial information of reportable segments (continued)

Other items	Hydroelectric							Total				
	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools		High-voltage transformers	Materials sales	Other segments	Offset
Depreciation of Property, plant and equipment	—	33,700,707.10	16,079,801.70	16,867,048.15	41,974,509.99	395,964.76	84,606,898.72	41,441.76	2,627.31	49,298,223.58	—	238,387,223.06
Amortisation of intangible assets	—	2,355,089.88	2,060,166.77	741,104.26	7,382,381.75	286,701.34	13,082,434.35	—	—	2,319,494.83	—	28,227,863.19
Provision on inventory	—	35,012,547.53	—	705,270.89	—	—	836,106.30	—	—	6,311,639.60	—	42,865,524.32
Provision for (reversal of) impairment of accounts and other receivables	—	2,365,675.63	36,082,944.00	15,638,697.08	632,794.00	14,387,373.69	(4,238,595.13)	—	(3,501,953.29)	8,680,880.57	—	70,227,816.55
Additions to non-current assets (other than financial instruments, long term equity investments and deferred income tax assets)	—	28,605,473.00	244,089,969.00	3,695,615.00	220,472,357.00	223,405.00	89,081,163.00	—	5,328.00	75,083,964.00	—	664,267,274.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

XVII. OTHER SIGNIFICANT EVENTS (CONTINUED)

6. Financial information of reportable segments (continued)

Information on the assets and liabilities of reported segments as follows:

Ending Balance	Hydroelectric		Electrical		General		Financial		Machinery		High-voltage		Materials		Other		Total
	Engines	Gear boxes	generation equipment	wire and cable	machinery	services	tools	transformers	sales	segments	sales	segments	sales	segments	Offset		
Total assets	360,896,119.24	—	2,127,311,655.08	915,622,633.00	3,658,843,535.11	3,573,229,434.74	3,276,304,803.93	246,255,606.76	178,986,451.07	9,310,078,004.98	(7,371,839,466.24)	16,277,683,798.67					
Total liabilities	—	—	1,593,004,224.32	555,852,406.24	2,764,649,561.06	2,807,649,911.91	2,228,816.512.97	—	155,139,828.08	2,703,766,781.13	(3,780,856,370.40)	9,048,021,855.31					
Investment of associates or joint ventures	360,896,119.24	—	—	—	—	—	89,742,246.20	246,255,606.76	—	310,260,813.08	—	1,009,154,785.28					

Beginning balance	Hydroelectric		Electrical		General		Financial		Machinery		High-voltage		Materials		Other		Total
	Engines	Gear boxes	generation equipment	wire and cable	machinery	services	tools	transformers	sales	segments	sales	segments	sales	segments	Offset		
Total assets	346,023,204.00	—	2,276,865,183.00	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	9,905,980,343.00	(7,539,141,251.00)	16,230,673,192.00					
Total liabilities	—	—	1,568,132,602.00	598,019,727.00	2,315,408,698.00	2,151,128,233.00	2,308,099,634.00	—	461,877,940.00	3,391,116,437.00	(3,687,095,622.00)	9,112,866,649.00					
Investment of associates or joint ventures	346,023,204.00	—	—	—	15,168,557.00	—	50,808,891.00	298,625,221.00	—	334,061,672.00	—	1,046,677,545.00					

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

None.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

XVIII. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY

1. Other Receivables

Item	Ending balance	Beginning balance
Dividend receivables	52,085,559.19	40,221,072.00
Interest receivables	383,447,758.44	260,528,433.00
Other receivables	1,032,914,121.44	1,723,373,601.00
Less: Provision for bad debts	33,465,586.34	29,841,169.00
Total	1,434,981,852.73	1,994,281,937.00

(1) Interest receivables

1) Classification of interest receivable

Item	Ending balance	Beginning balance
Related-party interest receivable	52,085,559.19	40,221,072.00
Total	52,085,559.19	40,221,072.00

2) Significant overdue interest

None.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

XVIII. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY *(CONTINUED)*

1. Other Receivables *(continued)*

(2) Dividend receivables

Item	Ending balance	Beginning balance	Reasons for not yet recovered	Whether impaired and criterion
Within 1 year	378,631,655.04	258,490,515.02		
Including: Chongqing Cummins	378,631,655.04	253,495,663.00	Declare in current period, Pending Payment	No, Dividends receivable of joint venture
Chongqing Hongyan Fangda	—	2,878,647.02	Declared, Pending Payment	No, Dividends receivable of joint venture
Exedy	—	1,760,373.00	Declared, Pending Payment	No, Dividends receivable of joint venture
Chongqing Youyan	—	355,832.00	Declared, Pending Payment	No, Dividends receivable of joint venture
Over 1 year	4,816,103.40	2,037,917.98	—	—
Including: Chongqing Hongyan Fangda	4,816,103.40	2,037,917.98	Pending Payment	—
Total	<u>383,447,758.44</u>	<u>260,528,433.00</u>	—	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

XVIII. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Other Receivables (continued)

(3) Other receivables

Item	Ending balance	Beginning balance
Other receivables	1,032,914,121.44	1,723,373,601.00
Less: provision for bad debts	33,465,586.34	29,841,169.00
Balance at book value	999,448,535.10	1,693,532,432.00

1) Aging analysis

Aging	Ending balance	Beginning balance
Within 6 months	1,032,511,448.45	1,723,050,518.00
6 months - 1 year	—	—
1-2 years	402,672.99	323,083.00
Total	1,032,914,121.44	1,723,373,601.00
Less: Provision for impairment	33,465,586.34	29,841,169.00
Net amount	999,448,535.10	1,693,532,432.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

XVIII. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY *(CONTINUED)*

1. Other Receivables *(continued)*

(3) Other receivables *(continued)*

2) Other receivables written off this year

None.

3) Classification of other receivables by nature

Nature	Ending balance	Beginning balance
Petty cash	—	382,573.00
Other receivables related party	1,000,304,530.15	1,690,340,709.00
Others	32,609,591.29	32,650,319.00
Total	<u>1,032,914,121.44</u>	<u>1,723,373,601.00</u>
Less: Provision for impairment	33,465,586.34	29,841,169.00
Balance at book value	<u>999,448,535.10</u>	<u>1,693,532,432.00</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

XVIII. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Other Receivables (continued)

(3) Other receivables (continued)

4) Top five debtors of other receivables

Name of debtors	Nature	Ending balance	Aging	Percentage of other receivables ending balance(%)	Ending balance of bad debt provision
Chongqing Machine Tools (Group) Co., Ltd.	Borrowings of related party	282,500,000.00	Within 1 year	27.35	—
Chongqing General Industry (Group) Co., Ltd	Borrowings of related party	250,729,318.32	Within 1 year	24.27	—
Chongqing Water Turbine Works Co., Ltd.	Borrowings of related party	208,459,107.14	Within 1 year, 1-2 years	20.18	—
Chongqing Shengpu Materials Co., Ltd.	Borrowings of related party	103,396,040.80	Within 1 year	10.01	—
Chongqing Pigeon Electric Wires & Cables Co., Ltd	Borrowings of related party	46,997,547.88	Within 1 year, 1-2 years	4.55	—
Total	—	892,082,014.14	—	86.37	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

VIII. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Long-term equity investments

(1) Classification of long-term equity investments

Item	Ending balance			Beginning balance		
	Gross book value	Impairment	Net book value	Gross book value	Impairment	Net book value
Investment in subsidiaries	3,741,666,542.05	88,741,458.00	3,652,925,084.05	3,753,161,503.00	88,741,458.00	3,664,420,045.00
Investment in associates and joint ventures	905,441,679.40	—	905,441,679.40	962,518,551.00	—	962,518,551.00
Total	4,647,108,221.45	88,741,458.00	4,558,366,763.45	4,715,680,054.00	88,741,458.00	4,626,938,596.00

(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. (Notes 1)	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	1,000,000.00	—	795,139,695.15	—	—
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	1,000,000.00	—	1,060,637,386.00	—	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

XVIII. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Long-term equity investments (continued)

(2) Investments in subsidiaries (continued)

Investee	Beginning balance	Increase	Decrease	Ending balance	Provision for impairment	Balance of impairment
Chongqing Shengpu Materials Co., Ltd.	20,992,435.00	—	—	20,992,435.00	—	—
Chongqing Machinery and Electronics Holding Group Finance Co., Ltd.	448,068,452.58	—	—	448,068,452.58	—	—
Precision Technologies Group (PTG) Limited (Notes 2)	145,697,206.75	—	—	145,697,206.75	—	—
Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd.	24,080,288.00	1,000,000.00	—	25,080,288.00	—	—
Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd.	135,870,074.00	—	34,494,961.00	101,375,113.00	—	—
Total	<u>3,753,161,503.05</u>	<u>23,000,000.00</u>	<u>34,494,961.00</u>	<u>3,741,666,542.05</u>	<u>—</u>	<u>88,741,458.00</u>

Notes 1: Second-level subsidiary company, PTG which invested by the Group cancelled its subsidiary company named PTG Advanced Developments Limited (ADL) which mainly engaged in technology research and development before cancelled on 10 April 2018.

Notes 2: Chongqing Machinery & Electric Co., Ltd. issued an approval of asset disposal that the Group agreed to clear Chongqing Huahao Smelting Co., Ltd, and agreed to transfer the asset of Huahao Smelting to the Group by pay debt in assets, underlying assets of Huahao Smelting has been transferred to the Group, Huahao Smelting has been closed and cancelled on 17 December 2018.

**XVIII. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY
(CONTINUED)**

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

2. Long-term equity investments (continued)

(3) Investments in subsidiaries

Investee	Beginning balance	Additional investment	Reduced investment	Investment profit and loss recognized under equity method	Increase or decrease in current period				Provision for impairment	Others	Ending balance	Balance of impairment
					Investment comprehensive income	Adjustment of other comprehensive income	Other equity changes	Cash dividends declared in current period				
1. Joint venture												
CO Cummins	348,023,204.00	—	—	315,453,872.07	—	—	302,582,956.35	—	—	—	360,896,119.72	—
Sub Total	348,023,204.00	—	—	315,453,872.07	—	—	302,582,956.35	—	—	—	360,896,119.72	—
2. Associates												
Chongqing ABB	298,625,219.00	—	—	27,280,400.76	—	—	77,650,013.00	—	—	—	248,255,606.76	—
Hongyan Fangda	113,146,788.00	—	—	10,259,378.66	—	—	—	—	—	—	123,406,146.66	—
Exedy	78,241,557.00	—	—	5,412,929.93	—	—	3,864,570.09	—	(1,760,372.31)	—	81,550,289.15	—
Kocr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd.	42,606,938.00	—	—	6,868,212.03	—	—	—	—	—	—	49,475,150.03	—
Chongqing Youyan	38,449,942.00	—	33,200,000.00	1,914,836.39	—	—	975,250.00	—	6,189,528.39	—	—	—
Chongqing Jiangbei Machinery	41,010,288.00	—	—	848,099.08	—	—	—	—	—	—	41,858,387.08	—
WPG Italy	2,414,655.00	—	—	(2,414,655.00)	—	—	—	—	—	—	—	—
Sub Total	614,495,347.00	—	33,200,000.00	50,163,201.85	—	—	82,489,633.09	—	4,429,156.08	—	544,545,559.68	—
Total	962,518,551.00	—	33,200,000.00	365,625,073.92	—	—	385,072,789.44	—	4,429,156.08	—	905,441,679.40	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2017 to 31 December 2018
(All amounts are presented in RMB except otherwise stated)

XVIII. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Operating revenue & operating cost

Items	Current period		Last period	
	Revenue	Cost	Revenue	Cost
Other operations	2,247,005.78	—	—	—
Total	2,247,005.78	—	—	—

4. Investment income

Items	Current period	Last period
Investment income from long-term equity investments in equity method	365,625,074.86	294,727,306.00
Investment income of long-term equity investments in cost method	62,644,976.16	224,886,822.00
Investment income from disposal of long-term equity investment in a subsidiary	—	(269,349,492.00)
Investment income from disposal of long-term equity investment in a joint venture	6,947,699.25	—
Investment income from merger of subsidiaries	—	35,399,730.00
Investment income from disposal of available-for-sale financial assets	536,756.43	1,466,871.00
Others	(100,462.00)	—
Total	435,654,044.70	287,131,237.00

Notes: No significant restriction of investment income of the Group.

The financial statements have been approved by the Board of Directors on 20 March 2019.

Supplementary Information to Consolidated Financial Statements

From 31 December 2017 to 31 December 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 in 2018 are as follows:

Item	Amount for the period	Explanation
Gains and losses from disposal of non-current assets	100,375,940.91	—
Tax rebate occasionally	4,647,019.63	—
Government grants included in the profit or loss for the period	128,741,607.29	—
Funds utilization fees collected from non-financial enterprises included in the profit or loss for the period	1,155,440.25	—
Investment income from disposal of long-term equity investment	49,165,905.47	—
Investment income from disposal of available-for-sale financial assets	536,755.49	—
Profit and loss from fair value changes of trading financial assets	(109,704.27)	—
Employee resettlement compensation	(18,211,400.87)	—
Other non-operating income and expenses apart from the above	(3,722,317.73)	—
Sub-total	262,579,246.17	—
Impact on income tax	39,149,513.21	—
Impact on non-controlling interest (after tax)	287,747.63	—
Total	223,141,985.33	—

Supplementary Information to Consolidated Financial Statements *(Continued)*

From 31 December 2017 to 31 December 2018

(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 in 2018 are as follows:

Profit for the reporting period	Weighted average return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to the shareholders of the Company	6.34	0.12	0.12
Net profit attributable to the shareholders of the Company (excluding: extraordinary profit and loss)	3.16	0.06	0.06

Chongqing Machinery & Electric Co., Ltd.

20 March 2019



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