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Chongqing Machinery & Electric Co., Ltd.*
重慶機電股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 02722)

**ANNOUNCEMENT OF GROUP RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 43.1% to approximately RMB5,284,318,000
- Gross profit increased by approximately 9.7% to approximately RMB1,245,844,000
- Profit attributable to shareholders increased by approximately 40.2% to approximately RMB444,061,000
- Earnings per share was approximately RMB0.12

ANNUAL RESULTS

The board of directors (the “Board”) of Chongqing Machinery & Electric Co., Ltd.* (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2018 and the comparative figures for the corresponding period of 2017 as follows:

* For identification purposes only

CONSOLIDATED INCOME STATEMENT

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

Item	Notes	This Period	Last Period
1. Total operating revenue	4.1	5,284,317,532.90	9,292,602,679.67
Including: Operating revenue	4.1	5,215,368,816.23	9,217,378,658.00
Interest income	4.1	68,548,323.06	73,763,913.67
Transaction fees and commission income	4.1	400,393.61	1,460,108.00
2. Total operating cost		5,380,384,782.98	9,584,897,503.00
Including: Operating cost	4.1	4,029,037,198.67	8,146,143,025.00
Interest expenses	4.1	9,317,288.09	10,380,310.00
Transaction cost and commission fees	4.1	118,839.98	81,550.00
Business taxes and surcharges		63,485,555.23	60,847,167.00
Selling and distribution expenses	4.2	298,156,677.80	282,134,154.00
Administrative expenses	4.3	513,983,557.96	673,214,052.00
Research and development expenses		240,974,839.39	198,720,426.00
Financial expenses	4.4	128,937,348.85	99,848,642.00
Including: Interest expenses		160,792,293.33	113,181,092.00
Interest income		38,473,948.90	17,728,904.00
Loss on impairment of assets		76,668,574.02	113,528,177.00
Impairment loss on credit		19,704,902.99	—
Add: Others gain	4.5	133,621,128.92	59,020,629.00
Arising from the changes in fair value (Loss listed with “—”)		(109,704.27)	—
Investment income (Loss listed with “—”)	4.6	418,925,355.40	472,783,898.00
Including: income from investments in associates and joint ventures		369,941,950.32	360,840,184.00
Gain on disposal of assets (Loss listed with “—”)	4.7	100,360,500.73	240,368,367.00
3. Operating profit (Loss listed with “—”)		556,730,030.70	479,878,070.67
Add: Non-operating income	4.8	15,877,488.95	9,028,694.00
Less: Non-operating expenses	4.9	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	4.10	60,500,227.64	102,453,392.00

Item	Notes	This Period	Last Period
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 operation		495,171,833.01	366,018,893.67
1. Net profit attributable to continuing operation (Net loss listed with “-”)		495,171,833.01	366,018,893.67
2. Net profit attributable to discontinued operation (Net loss listed with “-”)		–	–
(2) Classification by ownership		495,171,833.01	366,018,893.67
1. Net profit attributable to shareholders of the controlling company	4.11	444,060,837.38	316,644,903.00
2. Net profit attributable to non-controlling interests		51,110,995.63	49,373,990.67
6. Net other comprehensive income after tax		5,514,177.09	13,800,713.00
Net other comprehensive income after tax attributable to shareholders of the Company		5,155,078.09	13,800,713.00
(1) Other comprehensive incomes that cannot be reclassified into profit or loss		1,384,451.00	7,135,569.00
1. Changes from recalculation of defined benefit plan		1,384,451.00	7,135,569.00
(2) Other comprehensive income that can be reclassified into profit or loss		3,770,627.09	6,665,144.00
1. Gain or loss from fair value changes of available-for-sale financial assets		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		(1,658,986.00)	1,295,008.00
3. Effective portion of net investment hedging gains and losses		4,234,206.34	4,635,332.00
4. Translation differences of financial statements in foreign currencies		719,541.75	1,827,239.00
Net other comprehensive income after tax attributable to non-controlling interests		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	4.12	0.12	0.09
Diluted earnings per share	4.12	0.12	0.09

CONSOLIDATED BALANCE SHEET

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

Unit: RMB

Item	Notes	31 Decemebr 2018	31 Decemebr 2017
Current assets			
Cash and cash equivalents	4.13	2,164,670,306.18	1,658,694,663.00
Financial assets held for sale		5,124,292.21	—
Notes receivable and accounts receivable	4.14	3,765,346,019.73	3,883,314,352.00
Including: Notes receivable		1,128,945,186.86	1,479,630,312.00
Accounts receivable		2,636,400,832.87	2,403,684,040.00
Prepayments		264,987,827.45	434,915,529.00
Other receivables		928,431,789.73	1,330,585,629.00
Including: Interests receivable		20,538,197.57	19,416,374.00
Dividends receivable		383,447,758.44	260,528,433.00
Loans and advances to customers		1,115,437,102.20	1,007,178,150.00
Inventories		1,949,892,938.13	2,040,955,563.00
Contractual assets		249,077,553.98	—
Held-for-sale assets		6,039,285.98	—
Non-current assets due within one year		—	1,138,300.00
Other current assets		81,059,064.90	188,049,577.00
Total current assets		10,530,066,180.49	10,544,831,763.00

Item	Notes	31 Decemebr 2018	31 Decemebr 2017
Non-current assets			
Loans and advances to customers		38,880,000.00	37,894,354.00
Long-term receivables		33,200,000.00	91,669,620.00
Long-term equity investments		1,009,154,785.28	1,046,677,545.00
Other equity instruments investment		46,693,061.00	–
Investment properties		83,609,256.52	164,020,540.00
Property, plant and equipment		3,224,720,949.14	2,866,356,781.00
Construction in progress		171,249,276.77	418,264,301.00
Intangible assets		617,595,163.06	615,280,100.00
Development expenditures		29,927,674.79	7,138,672.00
Goodwill		143,312,435.00	143,312,435.00
Long-term deferred expenses		224,093,001.19	203,065,942.00
Deferred tax assets		103,686,673.46	68,505,568.00
Other non-current assets		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
Current liabilities			
Short-term loans		911,696,617.94	1,669,889,955.00
Deposits from banks and other financial institutions		1,334,738,381.17	877,057,450.00
Notes payable and accounts payable	4.15	2,748,376,442.76	2,759,082,239.00
Receipts in advance		–	677,552,844.00
Contractual liabilities		685,648,864.72	–
Employee benefits payables		63,635,374.54	57,693,334.00
Taxes and levies payables		220,974,568.70	221,341,231.00
Other payables		599,204,267.53	526,130,340.00
Including: interests payable		13,156,812.78	11,250,751.00
dividends payable		27,519,691.51	30,077,325.00
Non-current liabilities due within one year		170,826,135.24	294,663,555.00
Other current liabilities		1,176,168.16	–
Total current liabilities		6,736,276,820.76	7,083,410,948.00

Item	Notes	31 Decemebr 2018	31 Decemebr 2017
Non-current liabilities			
Long-term loans		843,184,922.99	562,411,906.00
Bonds payable		799,143,854.22	797,674,683.00
Long-term payables		147,696,759.15	211,496,663.00
Long-term employee benefits payable		16,294,000.00	15,968,000.00
Provisions		20,617,240.24	–
Deferred revenue		405,298,663.38	383,378,140.00
Deferred tax liabilities		79,509,594.57	58,346,309.00
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
Shareholder's equity			
Share capital		3,684,640,154.00	3,684,640,154.00
Capital reserves		50,311,968.20	49,744,935.00
Other comprehensive income		31,052,427.09	27,977,334.00
Surplus reserves		334,373,473.12	297,517,132.00
Retained earnings	4.11	2,708,521,621.81	2,717,844,150.00
Total equity attributable to shareholders of the Company		6,808,899,644.22	6,777,723,705.00
Non-controlling interests		420,762,299.14	400,262,838.00
Total shareholder's equity		7,229,661,943.36	7,177,986,543.00
Total liabilities and shareholder's equity		16,277,683,798.67	16,290,673,192.00

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Unit: RMB

Item	This Year												
	Equity attributable to the equity holders of the controlling Company												
	Other equity instruments					Less:							
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained earning	Non-controlling interests	Total equity
1. Balance at 31 December, 2017	3,684,640,154.00	-	-	-	49,744,935.00	-	27,977,334.00	-	297,517,132.00	-	2,717,844,150.00	400,262,838.00	7,177,986,543.00
Add: 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	6,864,023,347.41
3. Increase/Decrease for the year (Decrease listed with "+,-")													
(1) Total comprehensive income	-	-	-	-	567,033.20	-	5,155,078.09	-	36,856,341.12	-	296,220,793.14	26,839,350.40	365,638,595.95
(2) Capital contribution and reduction from shareholders	-	-	-	-	-	-	5,155,078.09	-	-	-	444,060,837.39	51,110,995.62	500,326,911.10
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	-	-	-	-	-	-	-	-	36,856,341.12	-	(147,840,044.25)	(22,721,152.03)	(133,704,855.16)
1. Appropriation to statutory reserve	-	-	-	-	-	-	-	-	36,856,341.12	-	(36,856,341.12)	-	-
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. Increase 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	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	567,033.20	-	-	-	-	-	-	(1,550,493.19)	(983,459.99)
4. Balance at 31 Dec 2018	3,684,640,154.00	-	-	-	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

Item	Last Year												
	Equity attributable to the equity holders of the controlling Company												
	Other equity instruments												
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained earning	Non-controlling interests	Total equity
1. Balance at 31 December 2016	3,684,640,154.00	-	-	-	156,143,834.00	-	14,176,621.00	-	332,503,407.00	-	2,551,313,941.00	580,595,859.00	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	-	-	-	156,143,834.00	-	14,176,621.00	-	332,503,407.00	-	2,551,313,941.00	580,595,859.00	7,319,375,816.00
3. Increase/Decrease for the year (Decrease listed with "+,-")	-	-	-	-	(106,398,899.00)	-	13,800,713.00	-	(34,988,275.00)	-	166,530,209.00	(180,333,021.00)	(141,389,273.00)
(1) Total comprehensive income	-	-	-	-	-	-	13,800,713.00	-	-	-	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	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Equity increase from Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	20,845,494.00	-	(150,114,694.00)	(98,598,444.00)	(227,867,644.00)
(3) Profit appropriations	-	-	-	-	-	-	-	-	20,845,494.00	-	(20,845,494.00)	-	-
1. Appropriation to statutory reserve	-	-	-	-	-	-	-	-	-	-	(306,794.00)	-	(306,794.00)
2. Appropriation to staff bonus and welfare	-	-	-	-	-	-	-	-	-	-	(128,962,406.00)	(103,958,444.00)	(232,920,850.00)
3. Appropriation to shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-	-	-
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)	-	-	(131,108,568.00)	(146,232,736.00)
4. Balance at 31 Dec 2017	3,684,640,154.00	-	-	-	49,744,935.00	-	27,977,334.00	-	297,517,132.00	-	2,717,844,150.00	400,262,838.00	7,177,986,543.00

CONSOLIDATED STATEMENT OF CASH FLOW

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

Unit: RMB

Item	Notes	This Period	Last Period
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		6,438,766,786.20	9,302,548,964.00
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		6,357,123,948.82	10,100,396,990.00
Net cash flows from operating activities		81,642,837.38	(797,848,026.00)
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

Item	Notes	This Period	Last Period
2. Cash flows from investment activities (Continued)			
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
3. Cash flows from financing activities			
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		2,243,857,890.38	2,227,934,233.00
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		2,826,562,825.12	2,108,721,005.00
Net cash flows from financing activities		(582,704,934.74)	119,213,228.00
4. Effects of changes in exchange rate on cash and cash equivalents		(5,710,451.38)	1,310,289.00
5. Net increase in cash and cash equivalents		395,804,097.06	(218,400,825.00)
Add: opening balance of cash and cash equivalents		1,174,539,298.00	1,392,940,123.00
6. Balance of cash and cash equivalents at the end of this period	4.13	1,570,343,395.06	1,174,539,298.00

NOTES

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 1,004.90 million H shares to foreign investors with approval of the Circular “Zhengjian Xuke [2008] No. 285” of the China Securities Regulatory Commission, and the shares were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). After issuing the shares, the total share capital increased to RMB3,684,640,154.

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 clean energy equipment and high-end smart equipment, and industrial service.

The financial statements are presented in Chinese Renminbi (“RMB”), unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors of the Group on 20 March 2019.

2. 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.

(3) Both new revised guidelines adopted by the Company

Ministry of Finance issued <ASBE No.22—Recognition and Measurement of Financial Instruments (revised in 2017)> (Accounting [2017] No.7), <ASBE No.23—Transfer of Financial Assets (revised in 2017)> (Accounting [2017] No.8) and <ASBE No.24—Hedge Accounting (revised in 2017)> (Accounting [2017] No.9) on March 31 2017 and issued <ASBE No.37—Presentation of Financial Instruments (revised in 2017)> (Accounting [2017] No.14) on May 2 2017 (above criteria are called ‘New Guidelines for Financial Instruments’). Ministry of Finance issued <ASBE No.14—Revenue (revised in 2017)> (Accounting [2017] No.22) (below abbreviated for ‘New Revenue Guideline’) on July 5 2017 and <Notice of concerning the issue of revisions of financial statements format for general enterprise in 2018> (Accounting (2018) No. 15) (below abbreviated for ‘Accounting No. 15 Document’) on June 15 2018. Ministry of Finance requires the enterprises listed in domestic and aboard market or listed in aboard market accepting IFRS or ABSE that prepares financial reports started to implement the above guidelines on January 1 2018. Passed in the first conference resolution of the fourth Boards Meeting on March 29 2018, the Company began to implement the mentioned New Guidelines for Financial Instruments, New Revenue Guideline and Accounting No.15 Document as the required dated by Ministry of Finance.

(4) Not yet adopted newly revised accounting standards

On December 7 2018, Ministry of Finance issued and enacted <ASBE No.21—Leasing> (Accounting [2018] No.35). It requires the enterprises listed in domestic and aboard market or listed in aboard market accepting IFRS or ABSE that prepares financial reports started to implement the above guideline on January 1 2019.

3. 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.

3.1 Financial information of reportable segments in this period:

Item	Hydroelectric										Total
	Engines	Gear boxes	generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	
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	1,395,386,391.38	- 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)	- (167,748,272.06)
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	716,559,783.73	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	7,504,365.12	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	(24,347,127.46)	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)	28,620,676.96	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	30,450,998.92	(30,818,404.97)	27,280,400.76	1,590,532.02	(24,018,466.94)	(13,750,320.52) 495,171,833.01
Depreciation of Property, plant and equipment and investment property,	-	-	-	-	-	-	-	-	-	-	- -
Amortisation of intangible assets	-	-	23,262,187.05	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
Provision on inventory	-	-	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 for/(reversal of) impairment of accounts and other receivables	-	-	21,960,417.74	5,729,765.79	5,497,630.95	-	8,495,755.26	-	-	34,985,004.28	- 76,668,574.02
Additions to non-current assets (other than financial instruments, long term equity investments and deferred income tax assets)	-	-	12,956,221.47	848,238.38	3,349,226.15	-	2,885,648.51	-	(4,754,201.28)	8,310,364.07	- 23,595,497.30
	-	-	(15,130,129.26)	(1,402,435.37)	36,917,482.48	123,117.14	26,177,914.95	-	(4,585.06)	(42,563,521.44)	- 4,117,843.44

3.2 Financial information of reportable segments in last period:

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	1,456,100,962.66	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)	-	(1,046,016,618.87)	(69,474,938.43)	-	(1,178,890,421.10)
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	380,498,510.00	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)	-	(1,046,183,568.37)	(69,474,938.88)	-	(1,135,124,421.00)
External transaction cost	-	242,731,154.11	380,498,510.00	1,240,828,025.70	1,502,095,278.00	10,740,379.47	670,542,406.97	-	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	-	2,758,567.00	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	(13,943,946.00)	(1,777,298.00)	79,590,989.00	-	35,292,256.00	-	360,840,184.00
Total profit	259,024,414.00	(207,900,032.00)	111,366,311.00	90,514,565.00	38,934,454.00	45,984,976.00	(83,248,511.00)	79,340,974.00	51,043.00	31,674,302.00	102,729,789.67	468,472,285.67
Income tax expense	-	558,053.00	(60,543,468.00)	(8,966,486.00)	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	(98,497,618.00)	79,340,974.00	51,043.00	22,505,233.00	102,729,789.67	366,018,893.67
Depreciation of Property, plant and equipment and investment property, Amortisation of intangible assets	-	-	-	-	-	-	-	-	-	-	-	-
Provision on inventory	-	33,700,707.10	16,079,801.70	16,887,048.15	41,974,509.99	395,964.76	84,606,898.72	41,441.76	2,627.31	43,298,223.58	-	236,987,223.06
Provision for/(reversal of) impairment of accounts and other receivables	-	2,355,089.88	2,060,156.77	741,104.26	7,382,381.75	286,701.34	13,082,434.35	-	-	2,319,494.83	-	28,227,363.19
Additions to non-current assets (other than financial instruments, long term equity investments and deferred income tax assets)	-	35,012,547.53	-	705,270.89	-	-	836,106.30	-	-	6,311,599.60	-	42,865,524.32
	-	2,365,675.63	36,062,944.00	15,838,697.08	632,794.00	14,387,373.69	(4,238,595.13)	-	(3,501,953.29)	8,680,880.57	-	70,227,816.55
	-	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	78,093,964.00	-	664,267,274.00

3.3 Assets and liabilities of each segment

Ending Balance	Hydroelectric										Total	
	Engines	Gear boxes	generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments		
Total assets	360,896,119.24	-	2,127,311,656.08	915,622,603.00	3,658,843,585.11	3,573,223,434.74	3,276,304,803.93	248,255,606.76	178,986,451.07	9,310,078,004.98	(7,371,838,466.24)	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	-	155,138,828.08	2,703,766,781.13	(3,760,856,370.40)	9,048,021,855.31
Investment of associates or joint ventures	360,896,119.24	-	-	-	-	-	89,742,246.20	248,255,606.76	-	310,260,813.08	-	1,009,154,785.28
Beginning balance	Hydroelectric										Total	
	Engines	Gear boxes	generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments		
Total assets	348,023,204.00	-	2,276,865,189.00	892,534,134.00	3,311,217,066.00	2,863,715,853.00	3,433,307,147.00	315,442,331.00	482,749,186.00	9,905,960,343.00	(7,539,141,261.00)	16,290,673,192.00
Total liabilities	-	-	1,568,132,602.00	598,018,727.00	2,315,408,698.00	2,151,128,233.00	2,308,099,634.00	-	461,877,940.00	3,391,116,437.00	(3,681,095,622.00)	9,112,686,649.00
Investment of associates or joint ventures	348,023,204.00	-	-	-	15,158,557.00	-	50,808,891.00	298,625,221.00	-	334,061,672.00	-	1,046,677,545.00

4.1 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	5,284,317,532.90	4,038,473,326.74	9,292,602,679.67	8,156,604,885.00

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.

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

Items	Current period		Last period	
	Revenue	Cost	Revenue	Cost
High-end smart 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

(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
Sale of 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

4.2 SELLING AND DISTRIBUTION EXPENSES

Items	Current period	Last period
Traveling expenses	60,406,589.32	51,382,192.00
Employee benefits	60,587,671.96	59,412,241.00
Transportation expense	78,162,691.75	62,898,173.00
“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
Depreciation expenses	998,932.10	926,648.87
Business entertainment fee	5,061,250.87	9,290,797.00
General office expenses	4,016,705.05	3,851,711.48
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

4.3 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.

4.4 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

4.5 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

4.6 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 RMB61,286,500. At Chongqing Assets and Equity Exchange Holding Group Co. Ltd., 10% of Midea General shares selling price is RMB67,122,800. The Company recognized equity investment income of RMB42,283,900. 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.

4.7 GAINS ON DISPOSALS OF ASSETS

Items	Current period	Last period
Gains on disposals of non-current assets which are not classified as held for sale	100,360,500.73	240,368,367.00
Including: Gains on disposals of property, plant and equipment	52,450,246.50	15,826,463.00
Gains on disposals of intangible assets	47,910,254.23	224,541,904.00
Total	<u>100,360,500.73</u>	<u>240,368,367.00</u>

4.8 NON-OPERATING INCOME

(1) Non-operating income:

Items	Current period	Last period
Debt restructuring	4,605,898.05	1,288,593.00
Penalty incomes, default fine and compensation	3,812,547.03	—
Government grants	2,664,347.68	2,218,716.00
Others	4,794,696.19	5,521,385.00
Total	<u>15,877,488.95</u>	<u>9,028,694.00</u>

(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	–	–

4.9 NON-OPERATING EXPENSES

Items	Current period	Last period
Debt restructuring	3,314,140.14	2,409,567.00
Donation expenditure for Commonweal	40,000.00	–
Relocation loss	–	15,302,047.00
Loss from rejection and damage of non-current assests	8,506,043.95	–
Penalty and overdue fine	3,306,129.52	642,499.00
Others	1,769,145.39	2,080,366.00
Total	16,935,459.00	20,434,479.00

4.10 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.

4.11 RETAINED EARNINGS

Items	Current period	Last period
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 for major change of accounting policy	(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 of current year	2,708,521,621.81	2,717,844,150.00

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.

4.12 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)	<u>3.16</u>	<u>0.06</u>	<u>0.06</u>

4.13 CASH AND CASH EQUIVALENTS

Items	Ending balance	Beginning balance
Cash in hand	879,802.59	815,653.00
Cash at bank	<u>1,569,463,592.47</u>	<u>1,173,723,645.00</u>
Balance of cash and equivalents	1,570,343,395.06	1,174,539,298.00
Restricted cash	<u>594,326,911.12</u>	<u>484,155,365.00</u>
Total	<u>2,164,670,306.18</u>	<u>1,658,694,663.00</u>
Including: cash deposited abroad	13,349,574.40	44,881,223.00

Restricted cash

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
Fixed or notice deposit as collateral	188,594,307.57
Statutory reserve	157,873,516.68
Guarantee bond	<u>11,119,829.20</u>
Total	<u>594,326,911.12</u>

4.14 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	<u>457,849,305.43</u>	<u>454,512,556.20</u>	<u>317,995,413.00</u>
Total	<u><u>3,765,346,019.73</u></u>	<u><u>3,695,410,834.52</u></u>	<u><u>3,883,314,352.00</u></u>

(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	<u>42,916,934.70</u>	<u>48,808,594.37</u>	<u>—</u>
Total	<u><u>1,128,945,186.86</u></u>	<u><u>1,430,821,717.63</u></u>	<u><u>1,479,630,312.00</u></u>

Note: As at the end of the year, notes receivables of the Company are of the aging of within 1 year.

(2) Accounts Receivable

1. Classification of accounts receivable as per 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 6 months	1,484,483,137.08	1,416,583,625.73	1,416,583,625.73
6 months to			
1 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	<u>414,932,370.73</u>	<u>405,703,961.83</u>	<u>317,995,413.00</u>
Carrying amount	<u><u>2,636,400,832.87</u></u>	<u><u>2,264,589,116.89</u></u>	<u><u>2,403,684,040.00</u></u>

Note: The Company revenue is mainly raised from goods sales, technology and relevant services offerings and construction engineering businesses, with revenue accounting ended by trading contract items. Related quality guarantee deposits receivable generally expire within 1 to 2 years after completion of constructions. Accounts receivable bears no interest.

4.15 ACCOUNTS PAYABLE AND NOTES PAYABLE

Items	Ending balance	Beginning balance
Notes payable	1,225,850,904.13	809,054,101.00
Accounts payable	<u>1,522,525,538.63</u>	<u>1,950,028,138.00</u>
Total	<u><u>2,748,376,442.76</u></u>	<u><u>2,759,082,239.00</u></u>

(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	<u>1,225,850,904.13</u>	<u>809,054,101.00</u>

1) The aging of the Group's ending notes payable is within one year.

(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	<u>1,522,525,538.63</u>	<u>1,950,028,138.00</u>

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>

CHAIRMAN'S STATEMENT

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.

Total operating revenue of the Group as at 31 December 2018 was approximately RMB5,284.3 million (2017: 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: RMB16,290.7 million), while total liabilities amounted to approximately RMB9,048.0 million (31 December 2017: RMB9,112.7 million); and net asset per share was approximately RMB1.96 (31 December 2017: 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 drove 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 volume 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 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 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 high quality growth in 2019.

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. 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 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 better growth.

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 of last year, mainly due to the Company's initiative to terminate low-margin trade business.

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 to bring favorable development opportunities for the Group to tap potential markets. Meanwhile, the Group benefits from preferential policies such as western development and enjoys 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.

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 the market thoroughly 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 the Group from manufacturing to integrated services and expand the platform of industrial service operation and maintenance.

(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 its 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 promotes the cost reduction, with budget control as the main line; guides and helps 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.

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.

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 the Group; 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

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 the Group's 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 risk control evaluation;

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

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 the Group, 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 the Group; 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 the Group.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, finance and trade, into three business segments, namely the clean energy equipment, high-end smart manufacturing and industrial services.

Operation Analysis

Clean energy equipment business (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 drove 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 the decrease in 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 from the same period of last year was about 17.6%.

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. Market leadership is maintained. The construction project of the high-powered engine technology R&D center entered the completion commissioning phase, and the new high-powered engine 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 better growth in 2019.

High-end smart equipment business (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 and information technology. There has been improvements in management 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 grew stably 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 an 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.

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 of 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 an 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 industrial service segment was approximately RMB183.4 million (accounting for approximately 3.5% of total revenue), a significant decrease of approximately 94.6%. In summary, 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%, which was significantly higher than approximately 12.2% of the same period of last year by approximately 11.4 percentage points, 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.

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 during the Period. Details are set out in Note 4.5 to the 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 approximately 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 4.7 to the 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 last year. The proportion of the selling and administrative expenses in turnover increased to approximately 15.4% from approximately 10.3% of the same period of 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 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 of 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.

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 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 of 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 4.6 to the 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 41.0%, 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 4.10 to the financial statement.

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, an increase of approximately 33.3% as compared with approximately RMB0.09 of the same period of 2017.

DISTRIBUTABLE RESERVES

The Company's distributable reserves as at 31 December 2018 was RMB2,708,521,622.

FINAL DIVIDEND

The Company considers stable and sustainable returns to shareholders of the Company (the “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 also 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.

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 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.

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 furnished 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.

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.

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.

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 a 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 RMB590.3 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.

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 session of the 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 2018 second extraordinary meeting 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.
- (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. The final 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 members 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 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

None

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).

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.

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 and recognised assets and liabilities are denominated in a currency that is not the Group's functioning currency. Management has set up a management system of foreign exchange hedges, requiring all subsidiaries of the Group to manage the foreign exchange risk against their functional currency and adopt foreign exchange tools recognized by the Group.

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 last year. 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, and improve training on safety so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

OTHER CORPORATE INFORMATION

Competition and Conflict of Interests

As at 31 December 2018, the non-competition agreement entered into between Chongqing Machinery and Electronic Holding (Group) Co., Ltd., the Parent Company and the Company on 18 January 2008 remained effective. Please refer to the Prospectus for details of such undertakings.

CONNECTED TRANSACTIONS

During the Period, the Company had no connected transactions.

CONTINUING CONNECTED TRANSACTIONS

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

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

Master Sales Agreement

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

Additionally, in case where there are material fluctuations in the prices of any or all of the products, the parties shall re-negotiate the terms of the Master Sales Agreement in good faith by way of entering into a supplemental agreement or a new master sales agreement. The Master Sales Agreement is valid for a period of three years from the date of the agreement and can be renewed by the Company for successive term of three years by giving notice three months prior to the expiry of the agreement. Accordingly, the approved annual caps of sales for each of the years ended 31 December 2018 and 2019 (the annual general meeting was held on 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 RMB180 million from RMB180 million and RMB190 million, respectively. The approved sales annual caps of 2018 and 2019 after adjustment (the AGM on 28 June 2018) will be 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 the aforesaid prices are not applicable, according to the cost plus method to determine price (tax price), i.e.: the tax price = cost* (1+cost profit rate), which the cost profit rate is not lower than 10%, while the cost profit rate of 10% is determined based on the average gross margin of similar products of the Group in the past three years. Except that the cost profit rate of the raw materials procured by Shengpu Company and resold to the Parent Group was 1%, as the Group's handling fees.

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 Supplies Agreement is valid for a period of three years from the date of the agreement and can be renewed by the Company for successive term of three years by giving notice at least three months prior to the expiry of the initial term. Accordingly, the approved annual caps of supplies for each of the years ended 31 December 2018 and 2019 (the Directors' Meeting was held on 29 March 2016) were set at RMB80 million, respectively.

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

- (i) The quoted prices through the industry website or enquiry with at least two independent third party market (i.e. the supplier (except the Parent Company and its associates) in the price of the same or similar products in the same area in daily operations on normal commercial terms to provide to the independent third party);
- (ii) If there is no market price determined by an independent third party, the transaction price between the Company and its subsidiaries with the independent third party;
- (iii) If the above price is not applicable, according to the cost plus method to determine the price (tax price), namely: the tax price = cost * (1+ profit), which cost profit rate is less than 10%.

For the year ended 31 December 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, for the years ended 31 December 2018 and 2019 (the Directors’ Meeting on 29 March 2016), it was approved that the annual cap of the lease for two years was set to be 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 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 Directors' 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.

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 other 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 commercial bank on the Parent 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 the loan services provided by the Finance Company to the Parent Group was approximately RMB1,288.2 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:

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 RMB1.0 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).

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

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

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

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

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.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Board of the Company has established the Audit and Risk Management Committee in accordance with the requirements and its latest revision of the Corporate Governance Code. The committee has written terms of reference which are available on the websites of the Stock Exchange and the Company. The Audit and Risk Management Committee of the Company currently consists of 3 independent non-executive Directors (namely, Mr. Lo Wah Wai, Mr. Jin Jingyu and Mr. Liu Wei), 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.

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.

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.

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.

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 the 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.

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 Supervisory Committee. 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. Through convening the meetings of the Supervisory Committee and attending the Board meetings, general meetings and other important meetings, establishing archives, etc., the Supervisory Committee conducted the due diligence on senior management personnel. The Supervisory Committee carefully and thoroughly performed their duties according to the principle of prudence.

SECURITIES TRANSACTION BY DIRECTORS

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 Model Code during the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

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 at the Company's and the Stock Exchange's websites on or around 26 April 2019 and will be dispatched to shareholders of the Company thereafter according to the means they choose to receive communications.

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

Chongqing, the PRC
20 March 2019

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