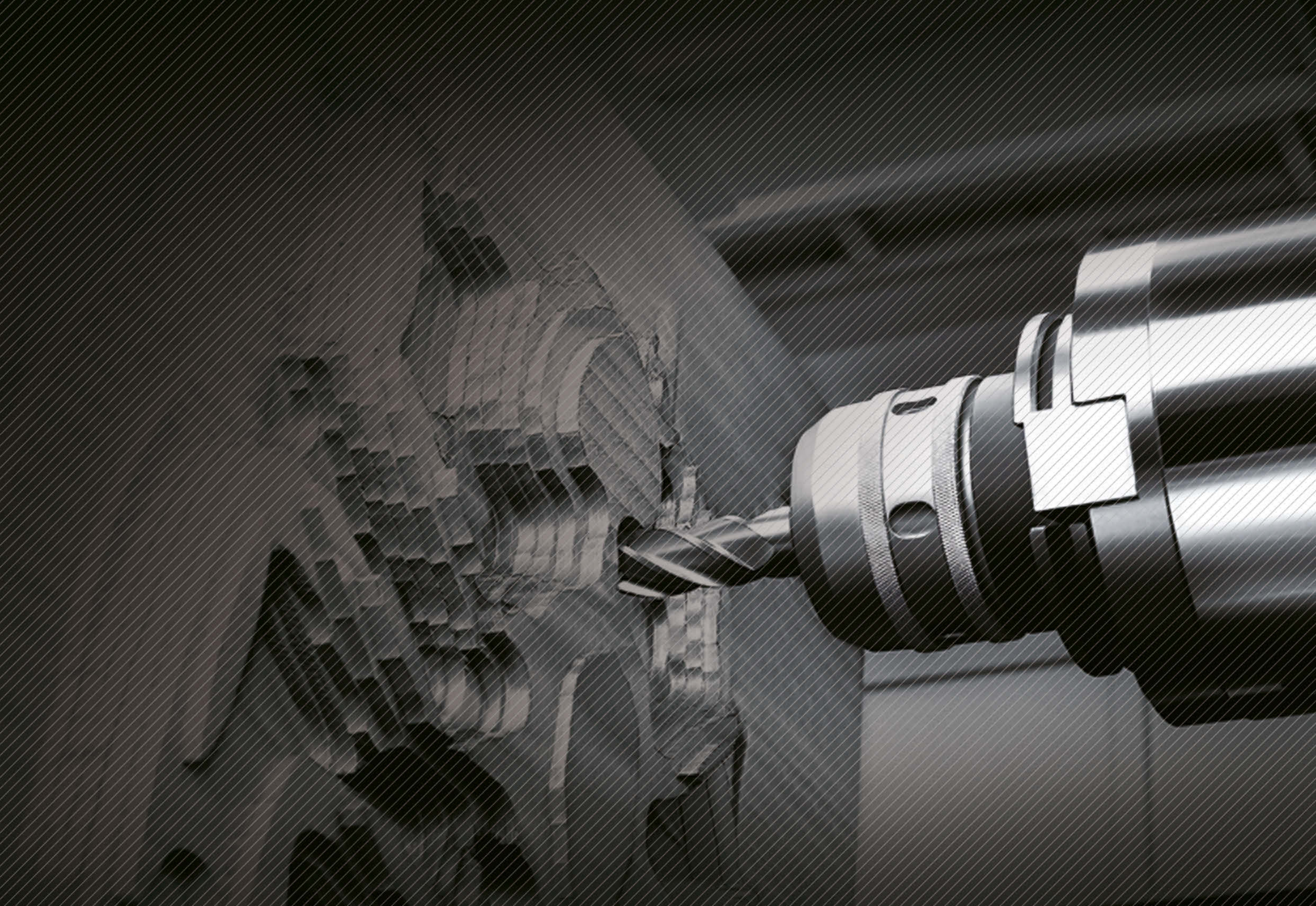
昆明机床
KUNMING MACHINE TOOL

沈 機 集 團 昆 明 機 床 股 份 有 限 公 司

SHENJI GROUP KUNMING MACHINE TOOL COMPANY LIMITED

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



Create Classic of
High Precision Machine Made in China

Annual Report 2018

CONTENTS

1.	STATEMENT AND NOTICE	3
2.	COMPANY PROFILE	4
3.	PRINCIPAL ACCOUNTING DATA AND FINANCIAL HIGHLIGHTS	13
4.	MANAGEMENT DISCUSSION AND ANALYSIS	15
5.	SIGNIFICANT EVENTS	42
6.	CHANGES IN SHARE CAPITAL AND SHAREHOLDERS	52
7.	FINANCING AND PROFIT DISTRIBUTION	55
8.	DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF	56
9.	INDUSTRY INFORMATION	61
10.	CORPORATE GOVERNANCE AND INTERNAL CONTROL	62
11.	ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT	75
12.	FINANCIAL REPORT	83

DEFINITION

Meanings of the following terms

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

STATEMENT AND NOTICE

[Statement] The board of directors (the "Board"), supervisory committee, Directors, Supervisors and senior management of Shenji Group Kunming Machine Tool Company Limited (the "Company") warrant that there are no false representations, misleading statements and material omissions in the Annual Report and are severally and jointly responsible for the truthfulness, accuracy and completeness of the information contained in the Annual Report.

Wang He, Chairman, Xu Juan, the person in charge of accounting affairs, and Wang Jianfang, head of accounting department (Accounting Supervisor), have declared that they assured for the truthfulness, accuracy and completeness of the financial statements in the Annual Report.

Da Hua Certified Public Accountants (Special General Partnership) issued standard unqualified audit report with emphasis paragraphs for the Company.

The forward-looking statements contained in this annual report regarding the Company's future plans do not constitute any substantive commitment to investors, and investors and relevant parties should maintain a sufficient risk profile and understand the differences between plans, forecasts and commitments.

Item	Yes or No
Any disagreement with content of annual report among Directors, Supervisors and Senior Management or matters that cannot guarantee authenticity, accuracy and completeness	☐Yes ✓No
Any Directors' not attendance of the review of annual report of the Board	✓Yes ☐No
Any exemption from disclosure	☐Yes ✓No

1. Presentation of the names of directors who did not attend the Board meeting and the reasons for not attending

Director Ding Side could not attend the Meeting of the Company due to official duties and he appointed director, Ms. Wu Yu to vote on his behalf at the Meeting.

[Table of Significant Risk Warning]

Item	A brief description of important risk warning
The Company's original A Shares were terminated listing and have been transferred to National Equities Exchange and Quotations ("NEEQ")	On 22 May 2018, the Company received the Decision on Termination of Listing of the Shares of Shenji Group Kunming Machine Tool Company Limited issued by the Shanghai Stock Exchange. The Shanghai Stock Exchange decided to terminate the listing of the Shares of the Company. From 30 May 2018, the Company's A Shares entered the delisting preparatory period. On 13 July 2018, the Company's A Shares were delisted by Shanghai Stock Exchange and the Company's shares were terminated listing. On 12 September 2018, the Company's A Shares have been transferred to NEEQ to list and transfer with call auction mode.
Trading in the Company's H Shares has been suspended	According to the direction of the Hong Kong Securities and Futures Commission ("SFC"), trading in the Company's H Shares was suspended from 6 August 2018 by the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). For details, please refer to the Company's announcement published on the website of the Stock Exchange on 6 August 2018. Trading in the Company's H shares has been suspended from 27 March 2017. Please refer to the Company's announcement (Announcement on Suspension of Trading) published on the website of the Stock Exchange for details.
Whether the Significant risks have material changed during the reporting period:	No

COMPANY PROFILE

I. BASIC INFORMATION

Name of the Company (Chinese)	沈機集團昆明機床股份有限公司
Name of the Company (English)	SHENJI GROUP KUNMING MACHINE TOOL COMPANY LIMITED
Abbreviation	Kmtcl
Short Name of domestic shares	KUNJI3
Stock Code	400068
Short name of H Shares	Kunming Machine
Stock code	0300
Legal Representative	Wang He
Business address	23 Ciba Road, Kunming City, Yunnan Province, the PRC

II. CONTACT INFORMATION

Secretary to the Board or the person in charge of information disclosure	He Xi
Position	Secretary to the Board
Telephone number	86-871-66119759
Facsimile number	86-871-66166288
E-mail	hexi@kmtcl.com.cn
Website of the Company	www.kmtcl.com.cn
Business address and post code	23 Ciba Road, Kunming City, Yunnan Province 650203
The Company's designated website for information disclosure	www.neeq.com.cn
The Annual report available at	Kunming City, Yunnan Province

COMPANY PROFILE

III. COMPANY INFORMATION

Place of shares' public transfer	National Equities Exchange and quotations ("NEEQ")
Time of establishment	19 October 1993
Time of listing on NEEQ	12 September 2018
Hierarchical information	Sector of delisting companies and companies with shares trading in STAQ and NET systems
Industry(Management Industry Classification for Listed Companies)	C342 Metal processing machinery manufacturing
Mian products and services	R&D, design, manufacture and sale of horizontal boring machine, large NC floor-type milling and boring machine, NC gantry-type boring and milling machine, NC planer-type boring and milling machine, jig boring machine, horizontal boring and milling machining center, precision rotary table and other products;
Transfer mode of ordinary shares	Call auction
Total share capital of ordinary shares (share)	531,081,103
Total share capital of preferred shares (share)	–
Number of market makers	–
Controlling Shareholder	Shenyang Machine Tool (Group) Company Limited
The actual controller and persons acting in concert	Shenyang State-owned Assets Supervision and Administration Commission

IV. REGISTRATION INFORMATION

Item	Content	Whether the information changed during the reporting period
Unified social credit code	91530000622602196M	No
Registered address	23 Ciba Road, Panlong District, Kunming City, Yunnan Province	No
Registered capital (dollar)	531,081,103	No

COMPANY PROFILE

V. INTERMEDIARY INSTITUTIONS

Securities Agency (SA)	Pacific Securities Co., Ltd.
Business address of SA	31/F, Office Building,Tong De Square, 926 Beijing Road, Kunming City
Whether the SA changed during the reporting period:	No
Appointed Auditor of the Company	Da Hua Certified Public Accountants (Special General Partnership)
Signature of accountants	Ao Du Ji Ya, A Li Ma
Office Address of auditor	Unit 1101, Bldg7, No.16 Xi Si Huan Zhong Road, Haidian District, Beijing

VI. VOLUNTARY DISCLOSURE

✓Applicable ☐Not applicable

I. Corporate History and Changes in Shareholding

(I) Corporate History

Shenji Group Kunming Machine Tool Company Limited, a sino-foreign joint stock limited company established in the People's Republic of China with limited liability, is a part of reconstruction of a former state-owned enterprise, Kunming Machine Tool Factory ("Kunming Machine"). According to the reconstruction, the business, assets and liabilities of Kunming Machine were allocated to the Company and Kunji Group Co. (currently a wholly-owned subsidiary of the second largest shareholder, Yunnan Industrial Investment Holding Group Co Ltd.). The Company established on 19th October 1993 and it's A shares and H shares were listed on Shanghai Stock Exchange and The Stock Exchange of Hong Kong, respectively. The Company mainly engages in design, development, manufacturing and sales of machine tool series products. On 15th November 1993, the Company entered into an agreement with Kunji Group Co. regarding providing several services to each other after reconstruction, pursuant to which, the Company provided water, electricity and other facilities to Kunji Group Co..

On 18th December 1993, the Company issued 60,000,000 A shares on Shanghai Stock Exchange at a price of RMB4.43 per share, which were officially approved for circulation on 9 January 1994. The Company's H shares were listed on 26th November 1993 at an issue price of RMB1.98 per share and the number of approved shares listed was 65,000,000 shares. As of the disclosure date of the 2000 annual report, the Company has 125 million shares listed and in circulation and 120,007,400 shares unlisted and in circulation. The total number of shares of the Company is 245,007,400 shares.

Set out below is the information on shares of the Company under initial public offering: date of issuance: from 3rd December 1993 to 18th December 1993; number of shares in issue: 6,600,000; price of issuance: RMB4.43 per share; date of custody: from 3rd January 1994 to 3rd July 1994; Trustee: Yunnan Provincial Securities Company. According to the relevant regulations of the State, the 6,600,000 employee shares of the Company were listed on Shanghai Stock Exchange on 24th August 1994, as arranged by Shanghai Stock Exchange.

COMPANY PROFILE

As of 31st December 2000, the Company had a total of 13,282 shareholders, comprising 12,937 A-share shareholders, 1 national shareholder, 1 legal person shareholder, 12,935 individual shareholders and 345 H-share shareholders. Among them, People's Government of Yunnan Province holds 102,397,700 shares, accounting for 41.79% of the total number of shares, and Hong Kong Securities Clearing Company Nominees Limited holds 60,613,999 H shares, accounting for 24.74% of the total number of shares. Jinghua Company holds 17,609,700 shares, accounting for 7.19%, and each of the remaining shareholders' shareholding is less than 0.5%. The management in 2000 included Chairman Gao Yangren, Executive Director and General Manager Li Wenrong, and Executive Director and Deputy General Manager Qin Jianzhong. As of the disclosure date of the 2000 annual report, the Company has no wholly-owned or holding subsidiaries. As of 31st December 2000, the Company had 2,460 employees, including 1,802 production personnel, 46 sales personnel, 452 technical personnel, 15 financial personnel and 120 management personnel. Among the employees of the Company, 501 received college education or above and 193 received secondary education; 41 hold senior professional titles, and 167 hold intermediate professional titles. 184 employees retired during the reporting period.

On 25th December 2000, Xi'an Jiaotong University Industrial (Group) Incorporation ("Jiaotong Group") entered into Shares Transfer Agreement of Jiaoda Kunji High-Tech Company Limited with the People's Government of Yunnan Province ("Yunnan Government", the former largest shareholder of the Company) whereby Yunnan Government would transfer 71,052,146 (representing 29% of the share capital) state-owned shares of the Company to Jiaotong Group. The equity transfer was approved by [2001] no. 283 Cai Qi – the Approval of State-owned Shares Transfer of Jiaoda Kunji High-tech Company Limited issued by the Ministry of Finance of the PRC. Upon completion of share transfer procedure on 5th June 2001, Jiaotong Group became the largest shareholder of the Company. According to the assets restructuring approved by the Company at the extraordinary general meeting held on 31 December 2001, upon reconstruction, the Company would transform the traditional mechanical manufacturing company that originally produced the single machine tool into a technology company with high technology content and diversified products. With effective from 29 March 2002, the Company used the name "Jiaoda Kunji High Tech Company Limited" ("Jiaoda Kunji") jointly approved by the State Administration for Industry and Commerce of the PRC and the Ministry of Foreign Trade and Economic Cooperation of the PRC after completing the business registration for change of company name in Yunnan Commercial and Industrial Administration Bureau. Among the shares, 71,052,146 shares, 63,197,999 shares, 31,345,554 shares and 17,609,700 shares, representing 29%, 25.8%, 12.8% and 7.19% of the total share capital, were held by Xi'an Jiaotong University Industrial (Group) Incorporation, Hong Kong Securities Clearing Company Nominees Limited, Yunnan Government and Jinhua Company respectively. Upon transfer, President Mr. Yue Huafeng was appointed as chairman of Xi'an Jiaotong University Industrial (Group) Incorporation.

In 2001, the Company acquired 80% equity interests of Xi'an Ser from Xian Jiaoda Siyuan Technology Joint Stock Company Limited ("Jiaoda Siyuan") and 90% equity interests of Shannxi Hengtong from Lu Bingheng, Luo Jianbin, Li Dichen, Ding Yucheng and Ma Xiaohuai. The determination of the purchase date is based on the approval of the above-mentioned transactions by the shareholders of the parties to the transaction; all authorizations, consents and approvals for the above-mentioned equity transfer are obtained in accordance with laws and regulations of the PRC; a Chinese law firm with the qualification for securities practice has issued legal opinion in respect of the completion of equity transfer. In other words, the Company injected RMB1.6 million (accounting for 80%) and RMB540,000 (accounting for 90%) respectively into Xi'an Ser and Shaanxi Hengtong.

COMPANY PROFILE

In 2002, the total number of shares of the Company and the shareholding of the Company's shareholders did not change. Upon the restructuring in 1993, the Company has established the Articles of Association to comply with the requirements of the "Corporate Governance Standards of Listed Company" announced by the China Securities Regulatory Commission ("CSRC") and the State Economic and Trade Commission. Pursuant to the requirements of the "Notice on the Implementation of the Mandatory Provisions for the Articles of Association of the Companies to be Listed Outside China", the jointly promulgated by the State Council Securities Committee for Restructuring the Economics System of the PRC and the "Mandatory Provisions for the Articles of Associations of the Companies Listed Outside China and held an Annual General Meeting in 1995", the Company has amended the Articles of Association. During the reporting period, the Company's directors, supervisors and senior management has adopted the statement issued by the China Securities Regulatory Commission ("CSRC") and the state Economic and Trade commission about the modern development of corporate governance of listed companies. Pursuant to the requirement, the Company has strictly and comprehensively evaluated its corporate system and produced a self-evaluation report. After examining the report at the Board of Directors meeting, the report has passed to respective department.

In 2002, the Company increased its holdings of 78.03% equity in its subsidiaries Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd., 90.91% in Winko Machines Co., Ltd. and 25% in Xi'an Tongda Siyuan Electric Appliance Company Limited. Goodwill is made for the difference between the transaction price and the book value when Xi'an Jiaotong University Industrial Group acquired two subsidiaries from Intelligent Electronic Machine and Automatic Machine, in December 2001 during the course of the assets restructuring. The Company made the investment of the assets in the two subsidiaries and relevant goodwill stated above and established Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Company Limited and Winko Machines Company Limited in this year. These two items of goodwill are amortized over 10 years.

In 2003, 2004 and 2005, the capital of shares of the Company and the shareholding of the Company's shareholders did not change.

In 2006, the Company's controlling shares changed again. Shenyang Machine Tool (Group) Co., Ltd was granted the majority shareholder status of Xi'an Jiaotong University Industrial Group, holding 29% of the shares, and the remaining shareholders remained unchanged. The specific changes are as follows: on 16th September, 2005, the Company received written notices from the Company's largest shareholder, Xian Jiaotong University Industrial (Group) Incorporation, and Shenyang Machine Tool (Group) Company Limited respectively. Content as the following: On 15th September, 2005, Xian Jiaotong University Industrial (Group) Incorporation and Shenyang Machine Tool (Group) Company Limited signed an agreement regarding transfer of shares. Shenyang Machine Tool (Group) Company Limited agreed to buy 71,052,146 shares of Jiaoda High-Tech Company Limited from Xian Jiaotong University Industrial (Group) Incorporation. The number of shares transferred is 29% of the total 245,007,400 shares. The transfer price of the shares is RMB183,000,000. Later, the Company received a written reply in relation to the state-owned shares transfer issued by the State-owned Assets Supervision and Administration Commission under the State Council which agreed Xi'an Jiaotong University Industrial (Group) Incorporation to transfer its 71,052,146 shares (representing 29% of the total share capital of 245,007,400 shares) of the Company to Shenyang Machine Tool (Group) Co., Ltd.. The shares remained state-owned shares after transferred. China Securities Regulatory Commission approved the transfer by issued "The opinions in regarding to the information disclosure of Shenyang Machine Tool (Group) Company Limited purchases equities of Jiaoda Kunji High-Tech Company Limited" (file no. 證監公司字[2006]255號). On 2nd December 2006, the Company has received the Transfer Registration Confirmation of State-owned Legal Person Shares (《國有法人股轉讓過戶登記確認書》) (the "Confirmation") issued by China Securities Depositories & Clearing Corporation Limited (Shanghai Branch) confirming that Shenyang Machine Tool (Group) Company Limited has completed the share transfer registration of transferring 71,052,146 state-owned legal person shares of the Company held by Xi'an Jiaotong University Industrial (Group) Incorporation. From the date of registration, 1st December 2006, Shenyang Machine Tool (Group) Company Limited has held 71,052,146 state-owned legal person shares of the Company, representing 29% of the total share capital. After the transfer, Shenyang Machine Tool (Group) Company Limited has been the largest shareholder and de facto controller of the Company.

COMPANY PROFILE

In 2006, the Company increased its holdings of 100% equity of its subsidiaries Kunji Transportation Co., Ltd., 16.67% of Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd., 51% of Hangzhou Ser Gas Engineering Co., Ltd. and 50% of TOS Kunming Machine Tool Manufacturing Co., Ltd..

In 2007, the Company converted capital reserve into new shares. After Share Increase, the total share capital of the Company increased to 424,864,883 shares. The Company's major shareholders, Hong Kong Securities Clearing Company Nominees Limited, Shenyang Machine Tool (Group) Company Limited, Yunnan State-owned Assets Operation Co., Ltd. and Jinghua Company, held 25.97%, 25.08% (106,578,219 shares), 11.07% and 6.22% equity interests, respectively, of the Company.

In 2009, Yunnan State-owned Assets Operation Co., Ltd. changed its name to Yunnan Industrial Investment Holding Group Company Limited due to restructuring reasons, and its shareholding ratio remained unchanged. In 2014, Yunnan Industrial Investment reduced its shareholding to 6.79%, and the remaining shareholders' shares remained unchanged. In 2015, the proportion of Yunnan Industrial Investment changed to 6.43%. Since then, the number of shares has not changed.

In 2010, the Company transferred reserve funds to increase the share capital of 106,216,000 shares, and the total number of shares at the end of the period was 531,081,103 shares. Since then, the total number of shares has remained unchanged.

As of November 2017, the Company's total share capital was 531,081,103 shares. The Company's top three shareholders' shareholdings were:

Top three shareholders	Number of shares held	Proportion of shares	Nature
Hong Kong Securities Clearing Company Nominees Limited	134,354,498	25.3%	Foreign shares (H shares)
Shenyang Machine Tool (Group) Company Limited	133,222,774	25.08%	State-owned legal person shares
Yunnan Industrial Investment Holding Group Company Limited	34,153,444	6.43%	State-owned legal person shares

(II) Basic information of controlling shareholders of the Company over the years

The actual controlling shareholder of the Company before 1993-2000 was Yunnan Government, which was a state-owned shareholder. From 2000 to 2006, it was Xi'an Jiaotong University Industrial (Group) Incorporation, and the de facto controller was the State-owned Assets Supervision and Administration Commission of the State Council. Since 2006, it has been Shenyang Machine Tool (Group) Company Limited, and the de facto controller is State-owned Assets Supervision and Administration Commission of Shenyang Municipal Government. The following is the introduction of Xi'an Jiaotong University Industrial (Group) Incorporation and Shenyang Machine Tool (Group) Company Limited.

1. *Xi'an Jiaotong University Industrial (Group) Incorporation (Jiaotong Group)*

Xian Jiaotong University Industrial (Group) Incorporation ("Jiaotong Group") is a wholly owned subsidiary of Xian Jiaotong University. Jiaotong Group was incorporated in 1994. The legal representative of Jiaotong Group is Mr. Wang Jian Hua. The registered capital of Jiaotong Group is RMB30 million. Jiaotong Group is engaged in the electricity, energy, electronic, resources, production of knit, electromechanical products, medical equipments, biochemical, raw materials, and environmental industries. It also engaged in the network construction, development, production and sales of product and technology services.

COMPANY PROFILE

2. *Shenyang Machine Tool (Group) Company Limited*

Shenyang Machine Tool Group was established in 1995 after the restructuring of the original Shenyang First Machine Tool Factory, Zhong Jie You Yi Machine Tool Factory and Shenyang Third Machine Tool Factory. Since 2004, through the merger and acquisition of the German company, SCHIESS, the restructuring of Yunnan Machine Tool Factory, and the controlling of Kunming Machine Tool Factory, the three industrial clusters of Shenyang, Kunming and Arthursleben in Germany have been formed, forming a new layout of trans-regional and transnational operations. The products are widely used in emerging industries such as aircraft, aerospace, automotive, marine, energy and other key industries and consumer electronics, providing machine tool products and related services to more than 100,000 users in Europe, America, Asia Pacific and other regions.

The influence of the Company continues to increase. In 2011, Shenyang Machine Tool Brand was awarded the national well-known trademark and was honored as "China's Top Ten Innovative Enterprises", and the Shenyang Machine Tool Group Party Committee won the honorary title of "National Advanced Grassroots Party Organization"; in 2012, Shenyang Machine Tool was listed "2012 China Emerging Top 50 Multinational Corporations" and won the "Model Enterprise of Social Responsibility Performers in China's Equipment Manufacturing Industry"; Guan Xiyou, Chairman of Shenyang Machine Tool, was elected as the "China Economic Person for the Year of 2012" and "2013 Top Ten Innovative People in China". "2014 China's Five-star Enterprise Fulfilling Social Responsibility in Industrial Industry", Shenyang Machine Tool Co., Ltd. (000410) has become a sample stock of SZSE Strategic Emerging Industry Series Index. Meanwhile, Shenyang Machine Tool won the first China Industrial Awards, Top 500 Chinese Enterprises, Top 500 Competitive Chinese Enterprise Group, Top 500 Most Valuable Brands in China, China Manufacturing Industry Top 500, China Machinery Industry Top 500, National Innovative Enterprise, National Science and Technology Development and Innovation Base, Ten National Models of State-owned Enterprises, and Liaoning Industrial Awards.

The products of Shenyang Machine Tool exhibited at the international exhibitions such as China CNC Machine Tool Exhibition, Beijing International Machine Tool Exhibition, Chicago Machine Tool Exhibition and Germany EMO Exhibition, and received extensive attention and recognition from peers, users and media at home and abroad. In 2015, Shenyang Machine Tool was selected into the first batch of intelligent manufacturing pilot demonstration projects of the Ministry of Industry and Information Technology, becoming the only selected enterprise in the metal cutting machine tool industry, and becoming a pilot demonstration of intelligent equipment and products represented by deep embedded information technology. On 23rd January 2016, at the 2016 China Informatization 100-person Conference held in Beijing, Lu Feng, a member of the China Informatization 100-person Conference and professor of School of Management of Peking University, released an important annual conference "i5 Revolution" report. At the beginning of 2016, Shenyang Municipal Government decided to implement the i5 strategic plan and to promote the transformation and upgrading of the old industrial base and comprehensive revitalization with i5 intelligent manufacturing as the leader.

The ability to innovate is constantly increasing. In recent years, Shenyang Machine Tool has basically formed a socialized innovation system with enterprises as the mainstay, a combination of production, study and research, and an open system. It has invested billions of funds and upgraded the technology and product research and development capabilities of Shenyang Machine Tool. The research and development strength is concentrated on the whole machine motion control technology, the breakthrough of high-end CNC machine tools and its key functional components, from simple technical research to tracking the national construction needs to implement key research. In 2014, the design and development organization under Shenyang Machine Tool Group was named one of the top ten most influential research and development centers in 2013 by Global Science. In 2015, it won 2 Science and Technology Awards in China Machinery Industry, 2 Liaoning Science and Technology Progress Awards, 5 Shenyang Science and Technology Progress Awards, and China Patent Award Appearance Excellence Award; the five-axis linkage precision horizontal machining center for Chengfei passed national acceptance; two projects, i.e. Chongqing Xiaokang crankshaft production line and Chengfei 410 aircraft production line were awarded the first set of provincial awards.

COMPANY PROFILE

Since 2007, Shenyang Machine Tool has started the research and development of CNC system for core functional components with the support of the government. It has invested more than one billion in research and development, has overcome the core underlying technology in the field of motion control such as CNC motion control technology, digital servo drive technology and real-time digital bus technology, and successfully developed the i5 intelligent control system with intelligent and interconnected functions in 2012. At present, Shenyang Machine Tool has more than 40,000 lines of motion control system core code, 36 intellectual property rights, including 10 copyrights, 14 patents and 12 patent applications (including 9 invention patents).

In 2014, Shenyang Machine Tool took the lead in launching the i5 series of intelligent machine tools worldwide, relying on the i5 intelligent control system. This is a new type of machine tool based on information-driven technology and computer technology, with the internet as the carrier, providing customers with product life-cycle services as the core, and effectively interconnecting people, machines and objects. In 2015, Shenyang Machine Tool broke through and mastered the five-axis motion control technology, and obtained batch application on i5 intelligent machine tool products. In 2016, the world's first platform-based intelligent machine tool i5M8 was launched.

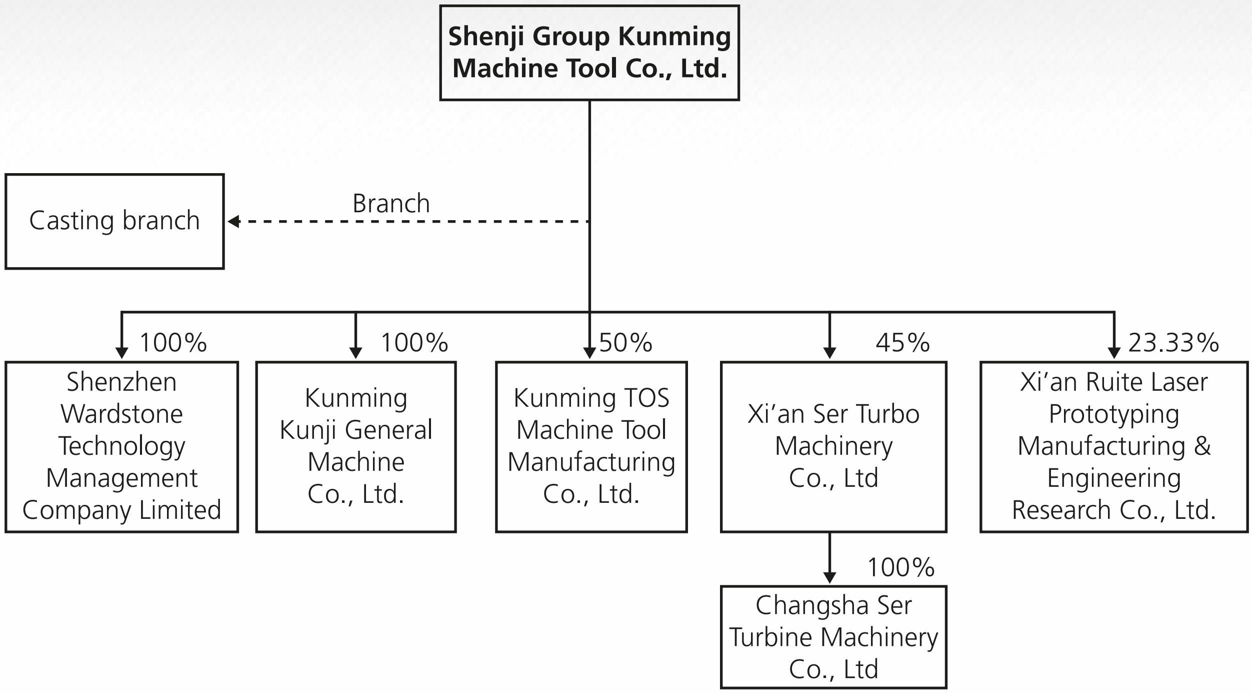
The product structure is continuously optimized. Shenyang Machine Tool Group continues to promote product upgrading and vigorously develops high-end intelligent machine tools and CNC machine tools. Up to now, the numerical control rate of machine tool output has been increased to 85%, and the product structure adjustment has achieved remarkable results. The industrialization and commercialization of ASCA series machine tools jointly designed by China and Germany is accelerated to realize "German quality, Made in China".

Corporate performance continues to climb. Since 2002, Shenyang Machine Tool has actively promoted technological innovation and management innovation of enterprise and achieved operational excellence. The economic scale has maintained rapid growth for 10 consecutive years. In 2011, according to statistics from US Gardner Company, sales revenue of machine tools of Shenyang Machine Tool reached US$2.783 billion, ranking first in the world machine tool industry.

In December 2018, China General Technology Group signed a strategic restructuring agreement with Shenyang Municipal Government to officially launch the restructuring of Shenyang Machine Tool.

COMPANY PROFILE

II. Joint stock and holding companies of the Company



III. Company personnel

At present, the number of registered employees is 1,634, and the number of employees on the job is about 1,222 (including labor dispatch workers). Among them, 412 employees are not on the job, 330 are retired and 82 are waiting for posts. The Company has to pay the internal retirement subsidies for internal retirement employees from their internal retirement to the statutory retirement age. The current annual payment is about RMB13 million. The Company has accrued a long-term payable of RMB31 million according to the future payment schedule.

The actual personnel cost of the Company in 2018 is about RMB154 million, and the average annual salary (including insurance) of on-the-job employees is about RMB92,000. Due to its tight funding, the Company did not pay pension insurance on a monthly basis for employees since May 2017 (not paid in March 2017, and paid in May and June 2018). From October 2017, employees were not paid provident fund on a monthly basis. As of 31th December 2018, the Company owed social insurance and provident fund of about RMB59.5 million (including the Company part and individual parts).

VII. UPDATED INFORMATION AFTER REPORTING PERIOD

☐Applicable ✓Not applicable

PRINCIPAL ACCOUNTING DATA AND FINANCIAL HIGHLIGHTS

I. PROFITABILITY

Unit: RMB

	2018	2017	Increase/ Decrease (%)
Operating income	494,604,933.27	560,399,237.36	-11.74%
Gross profit margin %	2.34%	-3.91%	–
Net profit attributable to equity shareholders of the Company	-250,809,459.68	-349,693,190.86	28.28%
Net profit (excluding extraordinary gains and losses) attributable to equity shareholders of the Company	-263,431,256.51	-358,218,970.73	26.46%
Return on net assets (weighted average) (%)	153.28	-255.95%	–
Return on net assets excluding extraordinary gains and losses (weighted average) (%)	161.00	-270.63%	–
Basic earnings per share (RMB/share)	-0.47	-0.67	29.51%

II. SOLVENCY

Unit: RMB

	2018	2017	Increase/ Decrease (%)
Total assets	1,416,032,456.39	1,691,638,201.32	-16.29%
Total liabilities	1,704,873,384.26	1,722,148,330.64	-1.00%
Net assets attributable to equity shareholders of the Company	-289,030,488.75	-38,221,029.07	-656.21%
Net assets per share attributable to equity shareholders of the Company	-0.54	-0.06	-846.71%
Gearing ratio (parent company)	115.64%	98.28%	–
Gearing ratio (consolidation)	120.40%	101.80%	–
Current ratio	50.98%	69.78%	–
Interest coverage ratio	-9.47	-7.82	–

III. OPERATION

Unit: RMB

	2018	2017	Increase/ Decrease (%)
Net cash flows from operating activities	-14,190,022.85	-820,980.81	1,628.42%
Accounts receivable turnover ratio	220.71%	210.12%	–
Inventory turnover	25.06%	22.15%	–

PRINCIPAL ACCOUNTING DATA AND FINANCIAL HIGHLIGHTS

IV. Growth

	2018	2017	Increase/ Decrease (%)
Total assets growth rate %	-16.12%	-25.29%	–
Operating income growth rate %	-11.74%	-13.23%	–
Net profit growth rate	29.09%	-17.66%	–

V. SHARE CAPITAL

Unit: Share

	2018	2017	Increase/ Decrease (%)
Total share capital of ordinary shares	531,081,103	531,081,103	–
Number of preferred shares included in equity	–	–	–
Number of preferred shares included in liabilities	–	–	–

VI. EXTRAORDINARY GAINS OR LOSSES

Unit: RMB

Item	Amount
Disposal of non-current assets	931,849.77
Government grants recognized through profit and loss (excluding those having close relationship with the Group's operation and enjoyed in fixed amount or quantity according to uniform national standard)	16,795,895.16
Gains or losses on debt restructuring	51,000.00
Other non-operating income and expenses besides the items above	-626,567.06
Total	17,152,177.87
Effect of income tax	4,339,318.15
Effect of non-controlling interests (after tax)	191,062.89
Net extraordinary gains or losses	12,621,796.83

VII. SUPPLEMENTARY FINANCIAL INDICATORS

☐Applicable ✓Not applicable

VIII. RETROSPECTIVE ADJUSTMENTS OR RESTATEMENT DUE TO THE CHANGES OF ACCOUNTING POLICIES AND CORRECTIONS OF ACCOUNTING ERRORS

☐Changes of accounting policies ☐Corrections of accounting errors ✓Not applicable

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS OVERVIEW

(I) Salesperson and Customer

Kunming Machine has established 18 sales centers across the country, covering 40 business areas. The salesperson totals 42, and the sales business covers the major provinces and regions in the country. The after-sales service personnel are allocated in accordance with the sales area to achieve sales and service integration.

The salesperson of Kunming Machine grasps the product price limit table, which is based on the product material cost combed by the Company in combination with the selling price of the main competitors in the market. The salesperson's authority is the product sales price limit. Any price lower than the price limit must be reported to the marketing general manager of the Company for approval, or submitted to the Company's senior executives for review.

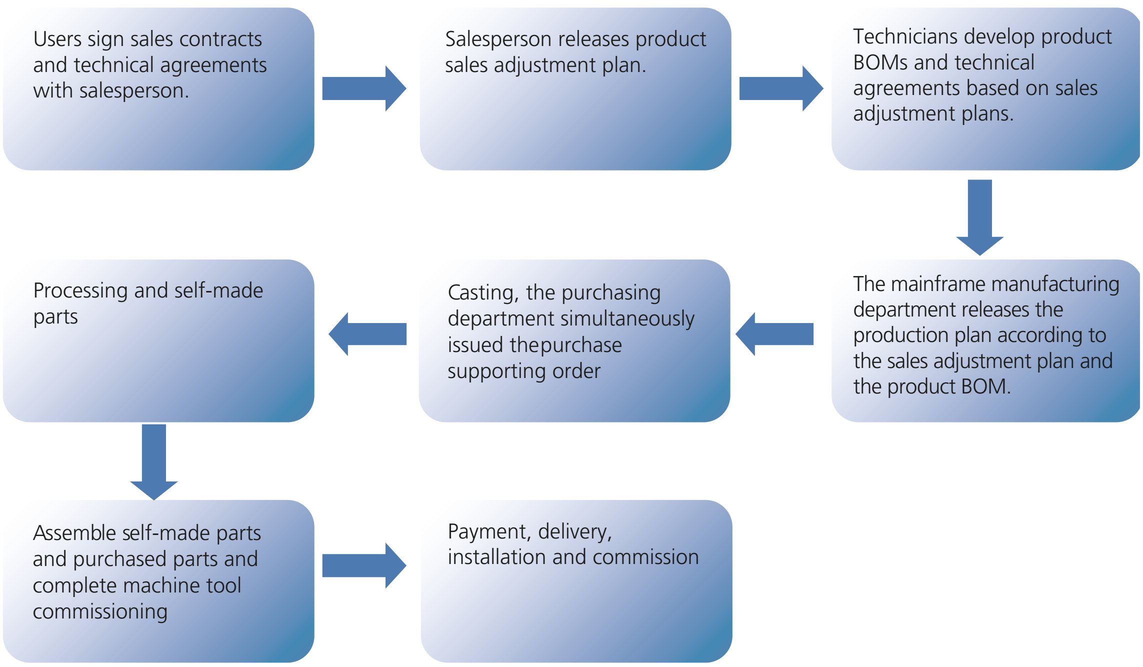
At present, the Company's customer base is relatively complicated, mainly small and medium-sized private enterprises, all walks of life such as aerospace, military, automotive and ships. At present, large downstream manufacturing companies do not produce themselves, but outsource to downstream processing plants. Large companies do not bear the risk from capital occupied by machine tools. At present, the Sino-US trade war has a greater impact on the downstream customers of the Company, and the future business situation is unoptimistic.

The Company follows the conventional payment method of the industry: for project-type machine tools, a 30% repayment is required, 60% shall be paid before the delivery, and 10% will be paid after the warranty period expires (the warranty period of current machine tool is one year after delivery); For Putang series machine tools, a 30% prepayment is required, and full amount shall be paid before delivery.

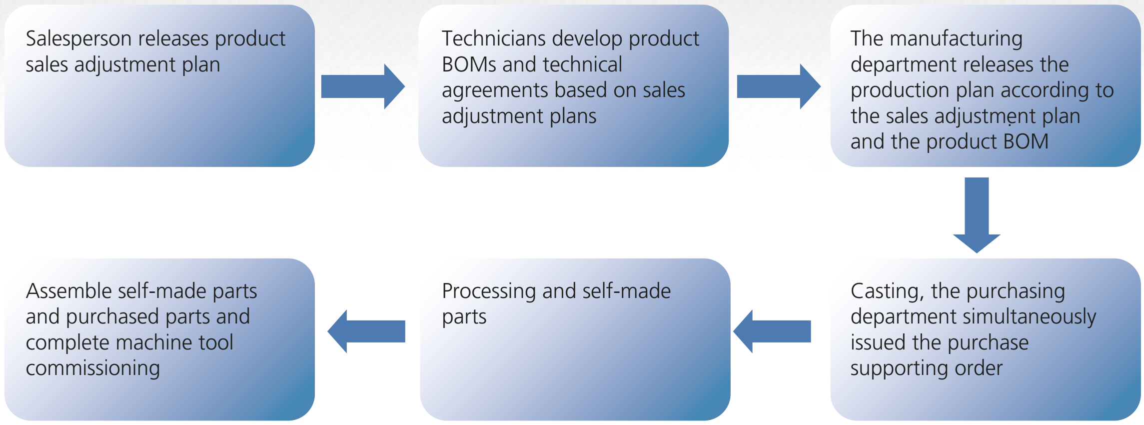
(II) Production

The Company's production model combines order-based production with flow-type production.

Order-based production process:



Flow-type production process:



(III) Technical Strength

The Kunming Machine R&D Institute was established in 1972 on the basis of the former Kunming Precision Machine Tool Research Institute. It was recognized as a provincial research institute by Yunnan Provincial Machinery Bureau in 1978 and was identified as the National Institute of Metal Cutting Machine Tools (Class II) by the First Ministry of Machinery Industry of the People's Republic of China in 1981. Kunming Machine established the Enterprise Technology Center in 1997, which was recognized as the Provincial Enterprise Technology Center by Yunnan Economic and Trade Commission in September 1998. In September 2011, the Technology Center passed the national certified enterprise technology center. The Company also owns technological innovation platforms such as "National and Local Joint Construction of Large Precision CNC Machine Tool Engineering Research Center" and "Yunnan Precision Machine Tool Engineering Technology Research Center".

The Company has a scientific and technological team with reasonable structure, complete professionalism and high quality. The R&D talents, professional and technical personnel and skilled talents are mainly distributed in the technical center, the information office, measurement and physical and chemical laboratory, heat treatment and casting and marketing company, and various production divisions, respectively. As of December 2018, the Company had 647 employees (formal workers, including 564 on-the-job employees) with college education or above, including one young and middle-aged academic and technical leader in Yunnan Province, one Yunling industrial technology leader, 9 innovative talents from Yunnan Province, 2 technical innovation talents training object in Yunnan Province, 12 senior engineers, 69 deputy senior engineers (60 in the post), 114 engineers (97 in the post), 91 assistant engineers (81 in the post), 1 Ph.D. holder, 19 master's degree holders, 1 technical innovation team in Yunnan Province and 1 innovation team in Kunming. The majors of the Company's technical personnel cover mechanical, electrical, process, standards, experimental research and other majors, and the Company mainly engaged in the development of applicable technologies and application technologies for the production line, as well as market-oriented product development. In the past three years, its annual investment in research and development amounted to over RMB30 million.

The Company has domestic leading technology and leading manufacturing level in R&D and manufacturing of precision turntable, large-scale floor milling and boring machine, full range of gantry boring and milling machine, precision and high precision horizontal machining center, digital display and CNC coordinate boring machine, vertical machining center, digital display and CNC horizontal boring machine, milling head functional parts. The products are widely distributed and have achieved good application performance in such fields as aircraft, aerospace, wind power, hydropower, automobile, military, coal mine, rail transit and machine tool manufacturing. The overall technology and manufacturing level of Kunming Machine are at the domestic leading level in terms of accuracy, stability and reliability, and have a good reputation in the industry. In recent years, the demand for high-end CNC machine tools in automotive, axle processing, aircraft and aerospace field has developed.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company pays attention to the improvement of technological innovation capability, green products and sustainable development. In the past three years, it has undertaken and participated in 27 national, provincial and municipal projects, 3 enterprise independent projects, and added 40 new patents, including 11 invention patents, 28 utility models and 1 appearance patent. The Company hosted and participated in the preparation of 5 national standards and industry standards, published more than 20 papers, and its independent research and development capabilities has been significantly improved. The Company has strong transformation ability, and has transformed 20 scientific and technological achievements in 2015-2017, with an average annual conversion of 6.67. The Company undertook the "Technology Center Innovation Capability Construction" and the "Intelligent Manufacturing Special – High-end CNC Lathe Digital Workshop Construction" project of National Development and Reform Commission, as well as the 863 Program "Box-type Precision Work Machine Common-Purpose Frontier Technology Research" and other projects, and built a precision vertical and technical innovation platform. In recent years, with the implementation of projects, the Company's independent research and development and precision manufacturing level have been greatly improved.

Changes during the reporting period:

Item	Yes or No
Whether the industry had changed	☐Yes ✓No
Whether the main business had changed	☐Yes ✓No
Whether the main products or services had changed	☐Yes ✓No
Whether the type of clients had changed	☐Yes ✓No
Whether the key resources had changed	☐Yes ✓No
Whether the sales channel had changed	☐Yes ✓No
Whether the sources of income had changed	☐Yes ✓No
Whether the business model had changed	☐Yes ✓No

MANAGEMENT DISCUSSION AND ANALYSIS

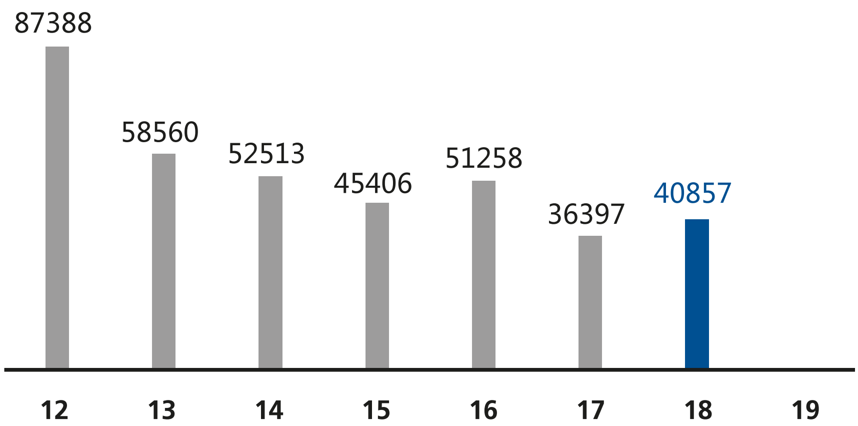
II. RETROSPECTION OF BUSINESS

(I). Operation plan

1. Machine tool principal business

The principal business continued to decline since 2012, its scale shrank to half of its size. In 2016, the business was supported by the projects of Yunji and Yunnei and rebounded slightly. In 2018, sales revenue of principal business stopped sliding down and recovered. Comparing to 2017, the sales of revenue increased RMB44.61 million or 12%.

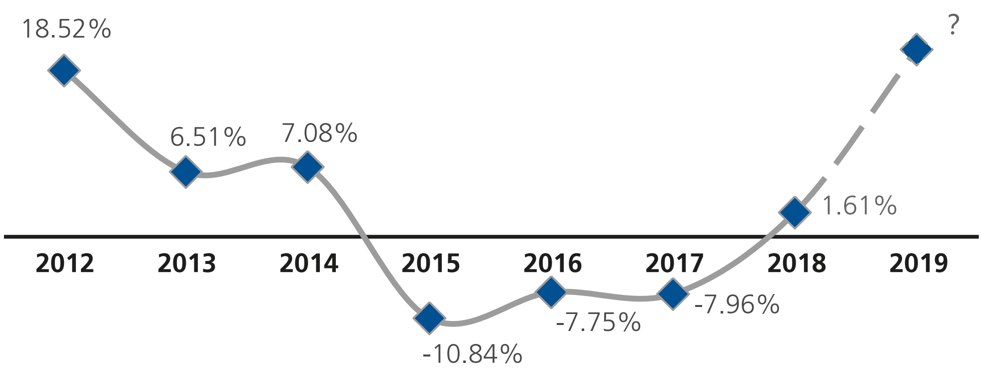
Unit: RMB'0000



Note: machine tool principal business refers to the parent company's non-consolidated data, which has eliminated the business of casting branch company.

2. Gross profit margin of machine tool department

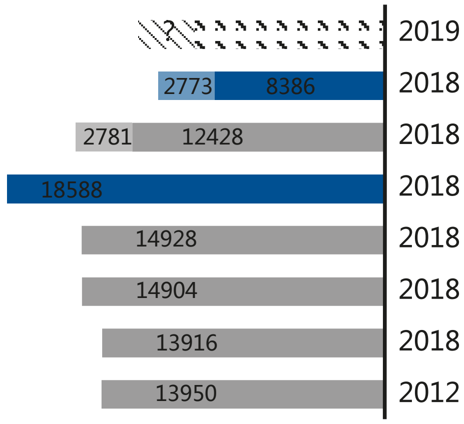
The gross profit margin of principal business segment has been decreased year by year since 2012, and directly fell to negative number by 2015, adequately reflected the weak problems of the Company in cost control and accounting, production, procurement and accounting system control. From the late 2017, the Company began to focus on comprehensive management and carried out work from a series of aspects such as BOM accounting, material collection system and standard cost recognition, and gradually and continuously improved the management.

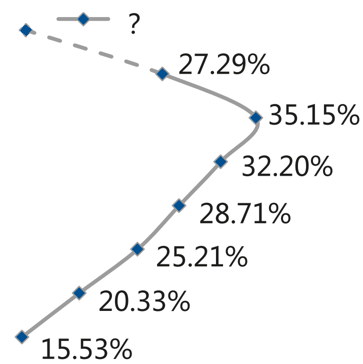


Note: machine tool principal business refers to the parent company's non-consolidated data, which has eliminated the business of casting branch company.

3. *Control of the general and administrative expenses of the Company (parent company basis)*

The general and administrative expenses of the Company increased year by year, which deviated from the decline trend of sales scale. In 2016, the general and administrative expenses reached the maximum number of RMB185.88 million, representing 32% of the revenue. In 2018, the general and expenses was controlled and decreased largely, including rental, the total amount was RMB111.83, representing 27% of the revenue. Except for the rental, total general and administrative expenses in 2018 was about RMB84 million, representing 20% of the total sales revenue, which has been decreased to the level of 2013.

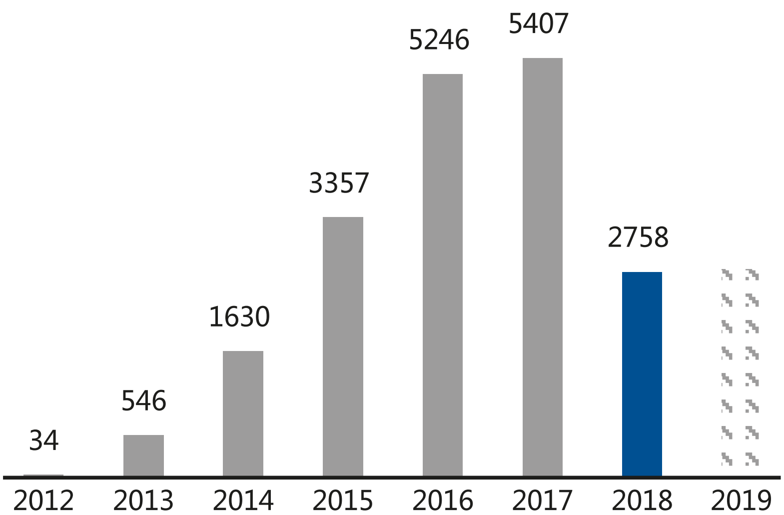




4. *Control of finance expenses (parent company basis)*

Comparing to 2017, the finance expenses decreased largely in 2018.

Unit: RMB'0000



5. *Market share of the Company's products and the direction of development*

Product series	Market share	Direction of development
Horizontal machine	40%	As the market of traditional horizontal machine was shrinking gradually, except for stabling the product quality of horizontal machine, extending the life cycle of traditional boring machine, the Company actively developed the upgrade version of KiMi CNC Horizontal Boring and Milling Machine to maintain its dominant position in the high-voltage switch, valve, reducer and engineering machinery industries.
Planer type boring machine	30%	Planer type boring machine has the characters of flexible configuration and wide adaptability. Within a certain time, it is still the main force of boring machine tool sales. However, the Company needs to upgrade the product structure and introduce a linear guideway type planer machine with strong milling capability to actively develop the domestic and overseas market and to improve the market share.
Machining center	1%	For horizontal machining center products, the Company needs to improve the users' experience, enhance the reliability of the products., optimize product structure, introduce overall advanced technology platform to enter the mainstream consumer manufacturing field, and actively expand market share of flow-type horizontal machining center and carry forward the Company's advantages in the field of precision manufacturing.
Floor-type machine	10%	The traditional floor-type machine, which plays an indelible contribution in the development of the Company, is in a competitive disadvantageous position in the competition with the main opponent static pressure floor-type boring machine. However, the floor-type machine still has strong vitality in private enterprises. The Company will continue to improve the product structure and extend the life cycle of the product and will mainly develop the static pressure floor-type machine to improve the competitiveness of the floor-type machine of the Company.
Gantry machine	1%	The development of gantry machine has broad prospects and is the main equipment for surface processing and contour processing. The development of the Company's gantry machine was later and its market share was low. On the heavy-duty gantry technology platform, the Company's gantry machine has a small gap with its main competitors, mainly at a competitive disadvantage on flow-type gantry machine. In the future, the Company will actively develop flow-type gantry machine, improve users' experience and enhance competitiveness to increase the market share of the gantry machine.

Note: the market share was estimated by the Company, and it may be different from the actual situation. Investors are advised to pay attention.

6. *Future development*

2019 will be the year of the 80th anniversary of the establishment of Kunming Machine Tool Factory. As a long -established national manufacturing brand, the Company has encountered great survival challenges in recent years. The Company is facing a difficult situation in which various risk factors are superimposed. The management of the Company should unify its thinking, establish a culture of "doing something", change the work style of "shirking, dragging and lengthening", go all out and rise to challenges. In 2018, the Company's operations presented good situations through reforms. The gross profit margin was restored to positive figure and the expenses ratio was further optimized. Through the Company's continuous improvement, a positive promotion effect was produced which maintained a stable and good development situation for the Company.

However, facing the internal and external factors superimposed by various risk factors, if only through internal reforms, it will be difficult to bring the Company into a benign development status. As at the disclosure date of the 2018 annual report, the Company's gearing ratio is close to 120%, and the current assets/current liabilities ratio is only 0.51. The Company's financial position exists great risks. At the same time, the risk of various litigation increases. A more difficult problem is that the Company is temporarily unable to fully raise funds for relocation and construction, which has led to the current dilemma. The management of the Company needs to resort to and seek the assistance of the Company's actual controller, the second largest shareholder and all stakeholders, so that it can completely get out of the dilemma!

(II) Industry Overview

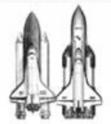
The Company's main products are high-end CNC machine tools, belonging to the machine tool manufacturing industry, and belonging to C342 metal processing machinery manufacturing and C34 general equipment manufacturing in the National Economic Industry Classification Standards and Listed Companies Industry Classification Guidelines, respectively. Machine tool industry, which is the working machine of the equipment manufacturing industry, provides production equipment for manufacturing industry. The downstream customers include traditional machinery industry, automobile industry, power equipment, railway locomotive, shipbuilding, defense industry, aircraft and aerospace industry, petrochemical industry, engineering machinery, electronic information technology industry and others processing industry. Relevant industrial policy documents generally include: Outline of the National Program for Medium- and Long-Term Scientific and Technological Development (2006-2020), Certain Opinions of the State Council on Accelerating the Rejuvenation of the Equipment Manufacturing Industry, Interim Provisions on Promoting Structural Adjustment of the Industry, Adjustment and Rejuvenation Plan for the Equipment Manufacturing Industry, and <China Manufacturing 2025> Technology Roadmap for Key Areas (2015 Edition). The increase and decrease of the order level of downstream enterprises in the machine tool industry and the fixed asset investment situation will directly affect the supply and demand of the machine tool industry, while the demand for fixed assets investment is directly constrained by the country's macroeconomic development situation and the growth rate of the national economy.

MANAGEMENT DISCUSSION AND ANALYSIS

Hot industry: Under the influence of national economic and industrial policies, the development of consumer electronics, aircraft and aerospace industry is growing faster.

Unit: hundred units

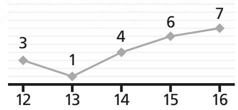
Aircraft and aerospace



- In 2017, China's aerospace, military and other group companies are adjusting their layout, and the development trend is good.
- Global informatization competition is becoming increasingly fierce, and investment in aerospace development is strengthened

5-axis, horizontal machine, gantry machine

National defense pillar, invest heavily



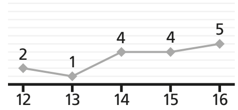
Unit: hundred units

Rail transit

- With the implementation of the national "Belt and Road" strategy, a new investment peak will be ushered in.
- Full implementation of the "going out" strategy for Chinese manufacturing with a focus on high-speed rail

Table-type boring, horizontal machine, gantry machine

National strategy, investment hotspot



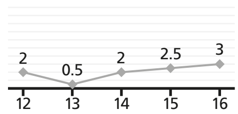
Unit: hundred units

Construction machinery

- In 2017, it is estimated that infrastructure investment will exceed RMB10 trillion, and construction machinery investment will grow steadily.
- The Beijing-Tianjin-Hebei integration, the "Belt and Road" initiative and the renovation of shantytowns have been fully launched.

Horizontal machine, floor-type boring and milling machine, table-type boring

Bottomed out and rebounded steadily



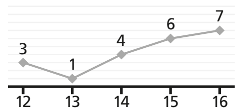
Unit: hundred units

Energy industry

- In 2020, the scale of construction of offshore wind power in the world will reach 10 million kilowatts, and the cumulative grid-connected capacity will reach 5 million kilowatts.
- become new capacity in the next two years

Floor-type boring and milling machine, table-type boring

Focus shift, export growth

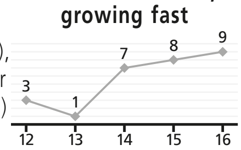


Consumer electronics

- Market demand for consumer electronics represented by smartphones soared
- The in-depth development of Industry 4.0 drives the explosive growth of the sensor electronics industry

Vertical machine (40,000 units), drilling center (50,000 units)

Sunrise industries, growing fast



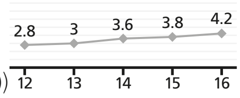
Unit: hundred units

Automobile industry

- It is estimated that China's automobile production and sales will maintain a steady growth of 8% in 2017.
- As the domestic automobile industry matures, domestically produced vehicles will enter a new stage of growth.

Horizontal machine (2,500 units) (vertical machine (40,000 units))

Traditional advantage, steady growth



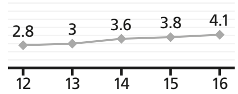
Unit: thousand unit

Mold high voltage switch

- In the top ten areas of "Made in China 2025", auto molds account for about 35% of the domestic mold market, while auto parts molds account for more than 90% of auto molds. It is a market with capacity and continuous stability.

Gantry boring, Table-type boring and others (1,500 units)

Traditional advantage, continuous growth



Unit: thousand unit

Since 2012, due to the economic situation at home and abroad, China's machine tool industry is facing a severe situation. The main macroeconomic data is falling month by month. The production, sales and profits of the industry are negative, and the profit of metal processing machine tool industry is particularly obvious. Our company was significantly impacted. Since 2012, both on-hand orders and new orders have fallen sharply, and inventories have increased significantly. The Company faces fierce competition from domestic and foreign companies. Compared with internationally leading old machine companies such as Yamazaki Mazak, the Company still has a big gap in product design, production technology and brand reputation. There is still a long way to go to import substitution for the whole series of products.

In 2018, China's macro economy has become more complicated than before, and the downward pressure on the economy has increased. The manufacturing industry is in a relatively difficult period. In terms of capital market and financing, the Company is facing the negative adverse market impact brought by delisting, and the financing capacity is greatly reduced, making it difficult to obtain indirect financing. In terms of operations, the Company continues to face the shortage of production due to shortage of funds. In addition, the lack of supply from suppliers and shortage of spare parts has made it impossible for the Company to effectively convert relatively sufficient orders into operating income. In terms of historical burden, the Company's relocation still needs to pay for the construction cost of the new plant, which has dragged down the Company's cash flow. At the same time, the problem of staff redundancy is outstanding, and the period cost is huge. Compared with 2017, the current data has achieved a large degree of loss reduction. The main reason is that the Company's management is actively

(III) Financial analysis

1. *Analysis of the structure of assets and liabilities*

Unit: RMB

	31 December 2018		31 December 2017		Percentage
Item	Amount	Percentage of total assets (%)	Amount	Percentage of total assets (%)	change in closing balance (%)
Cash at bank and on hand	75,506,339.54	5.33%	91,148,044.38	5.39%	-17.16%
Bills receivable and accounts receivable	221,468,560.85	15.64%	284,228,889.00	16.80%	-22.08%
Prepayments	22,926,092.96	1.62%	38,114,906.00	2.25%	-39.85%
Net other receivables	12,398,524.76	0.88%	19,794,921.53	1.17%	-37.37%
Inventories	401,945,580.88	28.39%	561,821,346.40	33.21%	-28.46%
Other current assets	5,686,355.64	0.40%	18,165,469.49	1.07%	-68.70%
Investment properties	14,388,255.72	1.02%	14,826,693.00	0.88%	-2.96%
Long-term equity investments	8,747,249.21	0.62%	10,039,220.02	0.59%	-12.87%
Fixed assets	373,161,637.67	26.35%	409,396,449.93	24.20%	-8.85%
Construction in progress	70,645,813.07	4.99%	54,044,868.15	3.19%	30.72%
Short-term loans	241,000,000.00	17.02%	363,683,036.94	21.50%	-33.73%
Other payables	536,839,983.54	37.91%	389,284,243.04	23.01%	37.90%
Long-term loans	0	0.00%	1,665,275.66	0.10%	-100.00%
Retained earnings	-956,953,642.25	-67.58%	-706,144,182.57	-41.74%	35.52%

Reasons for major changes in assets and liabilities:

1. Monetary funds: in order to support production and operation and pay finance costs, net operating cash outflow and net financing cash outflow resulted in overall reduction of monetary funds;

2. Bills receivable and accounts receivable: The Company's zero-tolerance policy for receivables prompted to increase the collection of receivables, and the Company required to increase the proportion of shipments during the actual delivery process, resulting in reduction in accounts receivable;

3. Prepayments: The main reason for the decrease in prepayments is the efficiency improvement of the production process of the Company, and the maximum restriction on the purchase of prepayments;

4. Inventories: The decrease in inventories was mainly attributable to the non-consolidation of Changsha Ser and the active digestion of inventories in the current period, while controlling unnecessary production inputs, taking policies such as reducing inventory and promoting sales;

5. Other current assets: the decrease in other current assets was mainly due to the decrease in reclassified taxes payable;

6. Other payables: The increase in other payables was due to the replacement of the bank loan principals into the parent company and the delay in payment of the site rent and the five statutory insurances and provident fund.

2. *Analysis of operation*

(1) Composition of profits

Unit: RMB

	2018		2017		
Item	**Amount**	**Percentage of Operating income (%)**	**Amount**	**Percentage of Operating income (%)**	**Percentage of change (%)**
Operating income	494,604,933.27	–	560,399,237.36	–	-11.74%
Operating costs	483,044,158.91	97.66%	582,290,174.33	103.91%	-17.04%
Gross profit margin %	2.34%	–	-3.91%	–	–
General and administrative expenses	135,140,686.68	27.32%	164,273,889.23	29.31%	-17.73%
R&D expenses	12,927,256.00	2.61%	5,739,242.43	1.02%	125.24%
Selling and distribution expenses	70,193,433.64	14.19%	85,193,796.00	15.20%	-17.61%
Financial expenses	28,348,222.90	5.73%	56,469,493.05	10.08%	-49.80%
Assets impairment losses	1,175,708.66	0.24%	18,059,173.52	3.22%	-93.49%
Other income	16,795,895.16	3.40%	8,883,770.03	1.59%	89.06%
Investment income	190,415.07	0.04%	-3,107,018.80	-0.55%	-106.13%
Gain on fair value change	–	–	–	–	–
Gain on disposal of assets	931,849.77	0.19%	802,737.87	0.14%	16.08%
Exchange gain	1,332,873.67	0.27%	11,146,025.67	1.99%	-88.04%
Operating profit	-252,894,989.51	-51.13%	-352,162,332.18	-62.84%	-28.19%
Non-operating income	2,618,139.21	0.53%	1,828,974.47	0.33%	43.15%
Non-operating expenses	3,193,706.27	0.65%	1,052,847.51	0.19%	203.34%
Net Profit	-253,330,798.55	-51.22%	-352,133,461.54	-62.84%	-28.06%

Reasons for major changes in the project:

1. The decrease in operating income compared with the same period of last year was due to the fact that the machinery industry was still in a sluggish state and the market demand was insufficient. The sales revenue of the subsidiary Kunming TOS in the current period decreased significantly compared with the same period of last year;

2. The decrease in operating costs was mainly due to the decrease in operating income during the period, and the Company strictly controlled the cost and the machine tool cost was also under control;

3. The main reason for the increase in gross profit margin is that we have sorted out the standard BOM in 2018. From April onwards, we strictly demanded to pick up as per the BOM and strictly control the cost;

4. The decrease in administrative expenses was mainly due to the strict control of the Company's expenses during the period, and some of the expenses were effectively controlled and reduced;

5. The decrease in R&D expenses is due to the fact that most of the R&D projects have been completed in the previous period, and the expenditures for the current project have decreased;

6. The decrease in selling and distribution expenses expenses is due to the Company's strict control of the relevant expenses of the marketing department, and some expenses are effectively controlled and reduced;

7. The decrease in financial expenses was due to the return of some bank loans, and the interest on the corresponding loan was reduced;

8. The increase in investment income is due to the decrease in the associate's loss compared with the previous period;

9. The decrease in asset disposal income is due to the disposal of idle equipment, and its revenue is included in non-operating income, resulting in an increase in non-operating income.

(2) Composition of income

Unit: RMB

Item	2018	2017	Change
Operating income	468,276,093.16	525,952,460.04	-10.97%
Other operating income	26,328,840.11	34,446,777.32	-23.57%
Operating cost	457,734,971.90	547,986,257.15	-16.47%
Other operating costs	25,309,187.01	34,303,917.18	-26.22%

Analysis by product:

Unit: RMB

Products	2018	Percentage of Operating income (%)	2017	Percentage of Operating income (%)
Horizontal machine	113,589,723.82	22.97%	92,231,167.28	16.46%
Floor-type machine	74,276,819.96	15.02%	88,561,752.23	15.80%
Planer type boring machine	134,780,592.37	27.25%	162,160,093.99	28.94%
Machining center	1,104,882.83	0.22%	28,801,538.46	5.14%
Gantry machine	75,038,395.23	15.17%	58,979,487.19	10.52%
Vertical machining center	8,491,503.10	1.72%		
Turbo machines	42,268,702.13	8.55%	42,212,516.90	7.53%
Other products	45,054,313.83	9.11%	87,452,681.32	15.61%

As of 31 December 2018, the newly contracts were 664, amounted to RMB570 million, among which, contracts for CNC machine tools accounted for 85% (by contracts amount).

Analysis by region:

☐Applicable ✓Not applicable

The reasons for changes in driven revenue

1) *Market factors*

Since 2018, China's manufacturing transformation and upgrading has been steadily moving forward, innovation has driven the market development, and the demand for machine tools has gradually picked up. The machine tool industry seized the opportunity to actively reduce inventory pressure while adjusting excess capacity. According to the National Bureau of Statistics, the investment in emerging manufacturing industry continued in 2018, and the machine tool industry showed an increasing trend from January to December. However, the investment in the whole industry has not yet come out of the trough, and the capital pressure remains a common problem for customers, resulting in delay in picking up the machine tool products ordered or not picking up the goods, a backlog of stocks and difficulty in recycling funds, and affecting sales revenue.

2) *Price factor*

In 2018, the machine tool industry showed a recovery growth. The rapid rise of machine tool manufacturing led by private capital intensified market competition. The buyer's market dominated and the user's choice increased. The price became a key factor in the negotiation. To obtain the order, the Company maintained a low price strategy as a whole. At the same time, based on the cost increase and other reasons, the Company fine-tuned the price of partial products in a timely and flexible manner. In addition, in order to encourage sales channels to increase sales and accelerate capital flow, the Company adopted a discount pricing strategy, and sold inventory products at a discount, which affected sales revenue.

3) *Inventory factors*

The customer delays picking up the goods or temporarily unpicks up the goods, resulting in a backlog of machine tools, increasing the capital occupied by the stock, affecting the re-input production and operation. In order to reduce the inventory, the Company adopted an active sales policy and implemented price reduction sales or resale for partial stocks. In 2018, 74 units were sold out, and the contract value was RMB120 million, which also affected sales revenue.

(3) Major clients

Unit: RMB

No.	Clients	Sales amount	Percentage of annual sales revenue	Whether connected relationship existed
1	Shangdong LongMa Heavy Technology Co., Ltd.	23,094,459.18	4.67%	No
2	Ningbo Beilun LinYan CNC Machine Tool Co., Ltd.	15,101,679.93	3.05%	No
3	Changzhou DeWei CNC Machine Tool Co., Ltd.	14,076,318.88	2.85%	No
4	Ningbo RiXing Casting Co., Ltd.	11,564,102.59	2.34%	No
5	Wuxi Sunteam Electrical Technology Co., Ltd.	9,955,349.25	2.01%	No
Total		73,791,909.83	14.92%	–

(4) Major suppliers

Unit: RMB

No.	Suppliers	Purchase	Percentage of annual purchase	Whether connected relationship existed
1	Siemens International Trade (Shanghai) Co., Ltd.	22,591,827.89	7.91%	No
2	Shenyang Machine Tool Co., Ltd. Welding Branch Company	13,003,520.11	4.55%	No
3	Tianjin MaiKe Technology Development Co., Ltd.	7,809,211.7	2.73%	No
4	Shanghai QiaoHai Imp. & Exp. Co., Ltd.	7,640,511.27	2.67%	No
5	Beijing Fauna Electromechanical Co., Ltd.	7,474,897.01	2.62%	No
Total		58,519,967.98	20.48%	–

3. *Table of analysis of production and sales*

Main products	Production	Sales	Inventory	Percentage change in production (%)	Percentage change in sales (%)	Percentage change in inventory (%)
Horizontal machine	163	203	7	246.81	14.69	-85.11
Floor-type machine	17	20	6	112.50	11.11	-33.33
Planer type boring machine	42	51	3	-26.32	-19.05	-75.00
Horizontal machining center	3	6	3	-72.73	-53.85	-50.00
Gantry machine	28	33	3	-33.33	-5.71	-62.50
Vertical machining center	32	32				
Turbo machines	31	41		342.86	-35.94	-100.00
Other products	149	86	63		681.82	

Description of production and sales:

The Company adopted the policy of reducing inventory and promoting sales in recent years, inventories of machine tools decreasd largely. As last year produced more remodeling machine tools, the production of 2018 was stable as comparaed to the production of last year, and the output increased significantly

Table of analysis of costs

		Analysis by segments				
Business segments	Items of costs structure	2018	Proportion (%)	2017	Proportion (%)	Increase/ Decrease (%)
Machine tools	Raw materials	342,689,888.79	70.94	416,641,988.01	71.55	-17.75
	Direct labor costs	45,027,915.77	9.32	59,910,826.14	10.29	-24.84
	Benefits expenses	10,349,052.15	2.14	15,064,955.31	2.59	-31.30
	Fuel and power	4,375,391.08	0.91	3,024,624.23	0.52	44.66
	Manufacturing costs	42,916,156.49	8.88	43,798,885.52	7.52	-2.02
	External processing expenses	5,169,641.07	1.07	7,270,731.33	1.25	-28.90
Turbo machines	Raw materials	18,248,042.94	3.78	20,286,249.64	3.48	-10.05
	Direct labor costs	4,656,307.46	0.96	4,553,981.39	0.78	2.25
	External processing expenses	4,955,455.70	1.03	6,679,172.71	1.15	-25.81
	Shipping fee	325,161.13	0.07	373,097.27	0.06	-12.85
	Manufacturing costs	4,331,146.33	0.90	4,685,662.78	0.80	-7.57

4. *Cash flows*

Unit: RMB

Item	2018	2017	Change
Net cash flows from operating activities	-14,190,022.85	-820,980.81	1,628.42%
Net cash flows from investing activities	37,075,173.42	-19,313,398.54	-291.97%
Net cash flows from financing activities	-51,352,114.05	-215,091,036.91	-76.13%

Analysis of cash flows:

Company's cash flow situation: Net cash outflows from operating activities were 14.19 million. The Company's working capital is further shrinking, liquidity risk further increased. Net cash flow from investing activities increased due to the income of investment and wealth management activities of Kunming TOS, which included in the scope of the consolidated statements of the Company. Net cash outflows from financing activities were 51.53 million, mainly affedted by the financial expenses paid by the Company.

(IV). Investment Analysis

1. *Information of major subsidiaries and invested companies*

Name	Business nature	Main products and services	Registered Capita (RMB)	Asset size	Operating income	Net profit
Xi'an Ser Turbo Machinery Manufacturing Co., Ltd. ("Xi'an Ser")	Special equipment production	Turbo machines	50,000,000	154,898,831.19	42,268,702.13	-3,136,696.00
Kunming TOS Machine Tool Manufacturing Co., Ltd. ("Kunming TOS")	Development, design, production and sales of self-produced machine tool series products and accessories	Floor-type, planer-type boring and milling machine tools, Horizontal products machining center and others	5,000,000 Euros	111,478,251.77	39,736,680.60	-1,592,312.13
Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd. ("Xi'an Ruite")	Laser prototyping machine	Laser prototyping machine	60,000,000	120,285,334.70	41,494,751.91	-16,321,828.07
Kunming Kunji General Machine Co., Ltd. ("General Machine")	Development, design and sales of machine tool products and accessories	Turntable, milling head and machine parts, contract machining; measurement, physical and chemical testing and maintenance services	3,000,000	103,648,517.17	37,872,696.69	-353,497.94
Shenzhen Wardstone Technology Management Company Limited ("Shenzhen Wardstone")	Technical services, information consultation, technical consulting, technology development and technology transfer etc. for mechanical machining	No products available temporarily	/	/	/	/

Note: Shenzhen Wardston is still in the process of registration.

2. *Entrusted wealth management and derivatives investments*

None

(V). Description of modified audit opinion

☐Applicable ✓Not applicable

(VI). Changes in accounting policies, accounting estimates or correction of material accounting errors

☐Applicable ✓Not applicable

(VII). Changes in the scope of the consolidated financial statements

✓Applicable ☐Not applicable

As compared with same period of last year, the entities included in the consolidated financial statements increased 1 entity and decreased 1 entity, which are:

1. Subsidiaries, special purpose entities, and operating entities that form control rights through entrusted operation or lease, etc newly included in the consolidation scope in this period

Name	Reason for change
Shenzhen Wardstone Technology Management Company Limited	Newly established

2. Subsidiaries, special purpose entities, and operating entities that form control rights through entrusted operation or lease, etc no longer included in the consolidation scope in this period

Name	Reason for change
Changsha Ser Turbine Machinery Co., Ltd, ("Changsha Ser")	Bankruptcy reorganization

(VIII). Corporate social responsibility

1. *Poverty alleviation by the Company*

✓Applicable ☐Not applicable

(1) Targeted Poverty Alleviation Plan

Targeted Poverty Alleviation Plan: According to the spirits of Notice on Issuing the Five-year Plan of Targeted Poverty Alleviation of Yunnan Industrial Investment Group for Longzhupeng Village of Chonggang Township (Yun Gong Tou Dang Fa [2015] No. 90) and Notice on Division of Responsibility of Targeted Poverty Alleviation of Yunnan Industrial Investment Group for Longzhupeng Village of Chonggang Township" (Yun Gong Tou Dang Fa [2015] No. 91) issued by the Party Committee of Yunnan Industrial Investment Group, the higher-level Party Committee, The Company jointly contributed with Nantian Co., Ltd. (南天股份公司), Yunnan State-owned Grain and Oil Trading Company (雲南國資糧油貿易公司) and Yunnan Pharmaceutical Industry Co., Ltd. (雲南醫藥工業股份公司), and coordinated with agroforestry departments such as agricultural stations and forestry stations in county and township to provide villagers with training in planting and breeding technology. Through the poverty alleviation for the backbone of the rural households to carry out the planned training of planting and breeding technology, provide technical support for industrial poverty alleviation, and promote the smooth realization of poverty alleviation targets. The Company intends to provide RMB50,000 as technical training funds, which will be included in the special account of Industrial Investment Group for unified management of the expenses.

(2) Summary of Targeted Poverty Alleviation Work in the Year
The Company conducted a planting and breeding technology training in the form of on-site training courses

(3) Subsequent Targeted Poverty Alleviation Plans
Subsequent Targeted Poverty Alleviation Plans: The Company will focus on strengthening the technical guidance after the training on key planting and breeding industry such as walnuts, pigs, chickens, cattle and sheep based on agricultural stations and forestry stations at the county and township levels, establish demonstration households and demonstration bases, and cultivate and publicize technology leaders. For technical training involving other planting and breeding industry, the Company will establish demonstration households and demonstration bases based on State-owned Grain and Oil Trading Company and Pharmaceutical Industry Co., Ltd., respectively, to promote technology.

2. *Social responsibility*

✓Applicable ☐Not applicable

Please refer to the "2018 Social Responsibility Report" of the Company published on the website of the Company www.kmtcl.com.cn and the website of National Equities Exchange and Quotations www.neeq.com.cn on 29 March 2019.

III. ASSESSMENT OF GOING CONCERN

Please refer to the audit opinion in this annual reort and notes.

IV. INDUSTRY DEVELOPMENT TREND

Voluntary disclosure

✓Yes ☐No

(I). Industry Development Trend

The Company operates in the machine tool manufacturing industry with main offerings of high-end NC machine tools. Under the Standards for Classification of National Industries and the Industry Classification Guidelines for Listed Companies, the machine tool industry belongs to 352 and C34 general equipment manufacturing industries and provides manufacturing equipment, being machine tools, for equipment manufacturing industry, whose downstream customers cover traditional machinery industry, auto industry, electrical equipment, railway locomotives, ships, national defense industry, aerospace industry, petrochemical industry, engineering machinery, electronic information technology industry and other processing industries.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) Industry management systems and industry policies

1. *Industry management systems*

Currently, the machinery industry and machine tool industry are mainly managed by the National Development and Reform Commission under the market-oriented principle with no special restrictions thereon. In addition, by adhering to the concept of upholding the common interests of the entire industry and advancing its development, China Machine Tool & Tool Builders' Association (CMTBA) plays its roles of bridging, linking and intermediary among the government, peer industries at home and abroad and the users, and the roles of self-discipline and coordination among enterprises operating in the same industry in the PRC. The major tasks of CMTBA are to survey and study the current situation and development trend of the machine tool & tool industry, and to convey the demands of the industry and enterprises to the government; to put forward suggestion on development plan of the industry according to government's entrustment; and to develop and implement technical standards applicable to the industry and put forward product quality assurance measures.

2. *Industry policies*

(1) Outline of the National Program for Medium- and Long-Term Scientific and Technological Development (2006 -2020): In February 2006, the Central Committee of the Communist Party of China and the State Council issued the Outline of the National Program for Medium- and Long-Term Scientific and Technological Development (2006 -2020), which determined "high-end NC machine tool and foundational manufacturing technology" as one of the 16 significant special projects. The significant special projects are significant strategic products, key common technologies and material projects, which, as a top priority for China's technological development, shall be completed within a certain period of time and aim at the realization of the national objectives through know-how breakthrough and resource integration. The Outline clearly proposes that "enterprises shall improve their equipment designing, manufacturing and integrating capabilities, and basically realize the independent designing and manufacturing of high-end NC machine tools, machine tools, material complete technical equipment, core materials and key parts and components through technical breakthroughs riding on the advancement of enterprise's technological innovation."

(2) Certain Opinions of the State Council on Accelerating the Rejuvenation of the Equipment Manufacturing Industry: In June 2006, the Central Committee of the Communist Party of China and the State Council issued the Certain Opinions of the State Council on Accelerating the Rejuvenation of the Equipment Manufacturing Industry, which selected 16 significant special projects covering material technical equipment and products, which will have a material impact on the national economic security and national defense construction, demonstrate remarkable results in advancement of the sustainable development of the national economy, positively drive the structural reform and industry upgrade, and can rapidly expand the market share of independent equipment, as the focuses to step up efforts in policy support and guidance thereon, thereby achieving significant breakthroughs in key areas. The 12th one is to develop large, precision and high-speed NC equipment and NC systems and functional components, to change the current situation of import-dependent large and high-precision NC machine tools in majority, and to satisfy the development needs for the machinery industry, aerospace industry, etc.

(3) Interim Provisions on Promoting Structural Adjustment of the Industry: In December 2005, the Central Committee of the Communist Party of China and the State Council issued and implemented the Interim Provisions on Promoting Structural Adjustment of the Industry, the article 6 of which provided that enterprises shall focus on rejuvenating the equipment manufacturing industry to develop the advanced manufacturing industry by leveraging on its role of important support to the economic development. Through self-dependent innovation, introduction of technologies, cooperative development, joint manufacturing and other ways, the equipment manufacturing industry shall depend on key construction projects to raise the level of domestically made material technical equipment, achieve breakthroughs particularly in high-efficient clean power generation and power transmission and transformation, large petrochemical equipment, advanced applicable transporting equipment, high-end NC machine tools, automatic control, integrated circuits, advanced power equipment, energy-saving and consumption-reduction equipment, etc. as well as advance the overall level of R&D and designing, core auxiliary components and parts, processing manufacturing and system integration. They shall insist on informationalized-driven industrialization and encourage application of high technological and advanced applicable technological renovation to improve the manufacturing industry and increase the proportion of self-dependent intellectual property rights, self-owned brands and high-end products.

(4) Adjustment and Rejuvenation Plan for the Equipment Manufacturing Industry: In February 2009, the Executive Meeting of the Central Committee of the Communist Party of China and the State Council approved, in principle, the Adjustment and Rejuvenation Plan for the Equipment Manufacturing Industry, which indicated that the equipment manufacturing industry is a strategic industry furnishing technical equipment for all sectors of the national economy. A high degree of association, strong employment attraction ability and technical capital intensive are important assurance for upgrade of all industries and technical progress as well as the centralized demonstration of the comprehensive capability of the PRC.

(5) Significant Special Project of High-end NC Machine Tool and Foundational Manufacturing Equipment: In December 2008, the Executive Meeting of the Central Committee of the Communist Party of China and the State Council reviewed and approved, in principle, the Significant Special Project of High-end NC Machine Tool and Foundational Manufacturing Equipment as one of the 16 national significant special technological projects as determined by the Outline of the National Program for Medium- and Long-Term Scientific and Technological Development (2006 -2020). According to the Program, by 2020, China will develop its ability at self-dependent research and development of major products of high-end NC machine tools and foundational manufacturing equipment with world-leading technological level in general and some world-leading products; build complete functional components R&D and auxiliary abilities; form a technical innovation system dominated by enterprises and integrating industry, institution and research; cultivate and develop a high-calibre R&D team; and realize the target that about 80% of high-end NC machine tools and foundational manufacturing equipment required for the aerospace, ships, automobiles and power generation equipment will be produced domestically.

(6) Decisions of the State Council on Accelerating Cultivation and Development of Strategic Emerging Industries: In October 2010, the Central Committee of the Communist Party of China and the State Council reviewed and approved the Decisions of the State Council on Accelerating Cultivation and Development of Strategic Emerging Industries, which listed "high-end equipment manufacturing industry" as one of the seven strategic emerging industries, which, as a key sector, will be advanced at a quicker pace with all efforts from the country as supported by strengthened financial and taxation policies. According to the spirits of the Decisions, the intelligent manufacturing equipment including high-end NC machine tools in the high-end equipment manufacturing industry will develop toward the core direction of digitalized, flexible and system-integrated technologies; and the basic supporting abilities of intelligent manufacturing equipment will also get enhanced.

(7) Key Field Technology Roadmap of Made in China 2025 (2015 Version): On 30 October 2015, the Ministry of Industry and Information Technology officially released the Key Field Technology Roadmap of Made in China 2025 (2015 Version), which clarified to achieve significant breakthroughs in ten areas including "high-end NC machine tools and robots" and 23 heavy industries, and strive to attain world-leading position or world-leading level by 2025. The detailed objectives for "high-end NC machine tools and foundational facilities and equipment" set out in the Made in China 2025 are as follows: by 2020, the domestic market share of high-end NC machine tools and foundational manufacturing equipment shall exceed 70%; the domestic market share of standard-type and intelligent-type NC systems shall reach 60% and 10% respectively; and the domestic market share of principal axis, leading screw, guide rail and other mid-to-high end functional components shall reach 50%; by 2025, the domestic market share of high-end NC machine tools and foundational manufacturing equipment shall exceed 80%, in particular, the average default-free time of the machine tools used for auto industry shall reach 2,000 hours and the precision shall maintain for 5 years; the domestic market share of standard-type and intelligent-type NC systems shall reach 80% and 30% respectively; the domestic market share of principal axis, leading screw, guide rail and other mid-to-high end functional components shall reach 80%, and the high-end NC machine tools and foundational manufacturing equipment shall attain world-leading level overall.

(II) Overview of the machine tool industry in China

1. The PRC has become the No. 1 machine tool manufacturer worldwide

According to the data provided by CMTBA and Gardner Business Media Company, since 2003, 28 major countries and regions engaging in machine tool manufacturing have maintained a growing trend in their gross output as a whole, but experienced a decline of varied degree in 2009 and from 2012 to 2015.

Japan and Germany were the top two strong powers worldwide in terms of output of traditional machine tool manufacturing at the start of the 21st century, which was, however, greatly affected by the financial crisis outbreak in 2008. China, at its high-speed development in respect of machine tool industry, was less affected by the financial crisis, and topped the world in terms of machine tool output in 2009 and has maintained such No. 1 machine tool manufacturer position in the world in the seven years afterwards.

In 2015, the 56 countries and regions engaging in machine tool manufacturing as calculated by Gardner Business Media as a whole regarding machine tool output recorded a gross output of US$80.190 billion; China, Japan, Germany, South Korea and Italy contributed 72.42% to the aforesaid gross output. In particular, China recorded US$22.1 billion of machine tool output, representing 27.56% of aforesaid gross output.

MANAGEMENT DISCUSSION AND ANALYSIS

Benefiting from China's economic development and growth in fixed asset investment, the domestic needs for machine tools in the PRC have maintained at a high level in general, despite a decrease in recent two years. In 2015, the machine tool consumption in China reached US$27.5 billion, which dropped by 13.5% over 2014, but still accounted for 34.82% of the aggregate machine tool consumption in the world in 2015.

2. The metal forming machine tools segment recorded a year-on-year increase of 7.2%, 1.9% and 6.3% in revenue, total profit and finished product inventory, respectively. The profit margin of the principal activity decreased significantly, which was directly associated with the separation of "water supply, electricity supply, heat supply and property management" as reflected by the enterprise. New orders and the existing orders continued to grow year-on-year. The growth dropped as compared to the previous month, but it is still expected that the market demands will increase in the future. The significant increase in inventory shall be monitored on a continual basis.

3. The measuring tools segment recorded a year-on-year increase of 5.5%, 16.0% and 10.7% in revenue, total profit and finished product inventory, respectively. The export delivery value continued to increase on a year-on-year basis by 6.4% from January to December. Given a large proportion of export in the revenue from this segment, ongoing attention shall be paid to the impact thereon caused by the trade frictions between the U.S. and the PRC. Product sales rate further dropped year-on-year, but finished product inventory recorded a larger year-on-year increase. In conclusion, this segment continued to grow amid increasingly greater operating pressures, therefore ongoing attention shall be paid to the impacts from changes in inventory and the trade frictions between the U.S. and the PRC.

4. The metal-cutting machine tools segment recorded a larger negative year-on-year growth in revenue. For profit, the Company recorded a turnaround in profitability as compared to the corresponding period of last year, but a continuous loss for the current period in December, mainly due to the following: firstly, this segment derived a large amount of revenue from disposal of material assets in last December; secondly, the profit for the current period decreased as a result of the separation of "water supply, electricity supply, heat supply and property management" as mentioned above. Production volume, new orders and finished product inventory all recorded a significant year-on-year decrease. As reflected by several enterprises, the amount and structure of orders in recent months are not as good as those in the same periods of the previous years with growing operating pressures. To cope with this, production has currently be cut to digest the inventory.

   In general, this segment will continue to face intensified downward pressures, which will sustain to the next year, due to a decrease in market demand.

(III) Development trend of the machine tool industry in China

As shown by the year-on-year changes in major economic indicators of key associated enterprises and all segments in 2018, the revenue from principal activity remained at par as a whole, but the metal-cutting machine tools segment still showed a negative growth and such negative growth rate further increased. The total profit, excluding non-principal activity, increased significantly in general, and only that of the NC equipment segment recorded a year-on-year negative growth. Product sales rate experienced a negative growth as a whole, and only that of the metal-cutting machine tools segment and NC equipment segment recorded a slight year-on-year increase. Finished product inventory dropped overall, but only that of the metal-cutting machine tools segment and rolling functional components segment recorded a year-on-year decrease.

The government has regarded stable growth as a top priority for the economic tasks in a certain period of time in the future. Meanwhile, it has first pointed out that China's economy will operate toward an "L" shape, and has consecutively introduced a series of policies thereon, many of which are unprecedented, such as polices on de-capacity, de-stocking, de-leveraging, cost-cutting and making up deficiency. This shows that the decision-makers currently have accurate judgement and due risk estimates on the operational tendency of China's economy. As such, from the prospective of China's economic base and development prospect, China's economy is expected to improve as a whole in the future. On the other hand, due to the fact that users of machine tools have encountered development lag and transformation and upgrade of varied degree, the supply-demand structural imbalance has gradually stood out. Meanwhile, the domestic and overseas economies all demonstrate the momentum of recovery in struggling under long-term variability and periodicity.

(IV) Factors affecting the industry development

1. *Favorable factors*

(1) Support from national industry policies

As a fundamental and strategic sector in the entire equipment manufacturing industry, the machine tool industry has been greatly supported by the national policies. At the critical stage where the macro economy is still subject to phased adjustment, policy factor is an important impetus for the future development of the machine tool industry in the PRC.

(2) New development opportunities brought by structural reform of the industry

Upon high-speed development for a long time, China's industry encounters new pressures from periodic adjustment and enters a new development phase to promote its transformation and upgrade. From the view of external development environment, the global economic structural reform speeds up and a new layout is coming into shape. The developed countries re-value developing the entity economy and accelerate their pace of deployment in new energies, new materials, information, environmental protection, bioscience and other sectors, to gain a head start in technological and industrial development in the future, which causes objective huge pressures and restrictions on China's economic development. From the view of internal development environment, the deep-level contradictions and issues in China's industry have gradually emerged, including unreasonable industry structure, severe excess capacity in certain sectors, excessively investment- and export-dependent, poor self-dependent innovative ability, lack of core technology and brands, and the low-to-mid position in the international industry assignment system as a whole. Currently, China's industrial development is unsustainable without adequate resource support due to the consumption of a large number of materials and resources. In the meantime, favorable conditions and material bases are also in place for the accelerated structural reform of China's industry. The central government has introduced a series of insignificant policies to strongly support the advancement of the transformation and upgrade of China's industry. The implementation of these policies will provide a solid assurance for such industrial transformation and upgrade. The equipment manufacturing industry is a strategic and fundamental industry offering technical equipment for all sectors of the national economy, and its adjustment and upgrade serve as the entry point for China's industrial adjustment and upgrade, which will push forward and upgrade the entire economic structure. It has become one of the current work focuses to facilitate the upgrade of traditional manufacturing industry by new high technology and strengthen the technical renovation for traditional manufacturing industry. The machine tool industry, which provides machine tools for equipment manufacturing industry, functions as a basic guarantee for this round of industrial upgrade. A new round of industrial upgrade will surely feature the replacement of simple manufacturing industry with high-end manufacturing industry and replacement of labor-intensive industry with technology-intensive industry. Such transformation and upgrade will significantly increase the needs for NC machine tools. The increasing popularization of NC machine tools will also drive the development of equipment manufacturing industry toward sustainable efficiency-oriented, quality-oriented and effect-oriented development, which will in turn promote the virtuous circulation of China's industry.

(3) Sound opportunities from international industrial transfer
NC machine tool industry is labor-intensive, relatively technology-intensive and capital-intensive, which are its foundations. Due to the economic globalization, the international industrial transfer has accelerated its pace, and some production capacity of the world equipment manufacturing industry is shifting to the developing countries in terms of both processing manufacturing and R&D, which presents an opportunity for the development of NC machine tool industry in the PRC.

2. *Unfavorable factors*

(1) Lagging behind in development of key functional components
Among the unfavorable factors affecting the development of domestically made NC machine tools, the lagging behind in development of functional components sector has become a generally-accepted bottle neck in the development of NC machine tools. In view of the failure of domestically made functional components to meet the OEM requirements of domestic high-end NC machine tool manufacturers in terms of product type, quantity and product level, the mid-to-high end functional components for full handset machinery in the PRC are largely import-dependent. In this regard, it is critical to rapidly improve the manufacturing level of domestically made functional components for NC machine tools and speed up the industrialization thereof.

(2) Low concentration of the industry
The investment in product R&D and manufacturing equipment is affected by the low concentration and poor mass production capacity of the NC machine tool industry in the PRC, which in turn leads to a poor product quality and weakens the market and industry competitiveness of NC machine tool products.

(3) Restriction on industry development for lack of talents
Currently, a large number of the following three levels of NC technicians are in need in China: the first level is the operators and assemblers who are skillful at the operation and processing process of NC machine tools, and maintenance thereof and are capable of manual or automatic programming; the second level is the mid-level talents who get the hang of NC machine tool's mechanical structure and NC system software and hardware, and are proficient in the application of UG, PRO/E, CAD/CAM and other software with solid professional theoretical background, high English proficiency as well as extensive practicing experience; and the third level is the senior NC technicians who master NC machine tool's structure design and NC system's electrical design, and are able to develop and innovate technologies for NC machine tool products. The industry development is restrained for lack of the aforesaid talents.

(II). Development Strategies of the Company

Omission

(III). Operation plan or target

2019 annual target:achieve sales revenue of RMB730 million

(IV). Uncertainty factors

Omission

V. RISK FACTORS

(I). Risk factors continuing into the current year

1. *Financial risk*

As at 31 December 2018, the total assets of the Company were RMB1.416 billion, of which, shareholders' equity of the Company was negative RMB289 million, the gearing ratio was 120.40%, long-term solvency was week. The current assets of the Company were RMB740 million, current liabilities were RMB1.451 billion, current ratio was only 0.51, the capacity for payment of short-term liabilities was weak. In general, The Company's debt repayment capability to the creditors was relatively weak. existing the risk of rupture of cash flow. Meanwhile, due to the litigations caused by suppliers and some partners, the Company's multiple bank accounts were frozen, which has caused certain risks to the Company's cash management. Funds transfer exists certain obstacles, and business activities will be affected. The Company is currently actively and properly solving the problem to ensure that normal use of funds will not be affected.

2. *The delay of relocation and relevant risks*

The lease term for the current the Company's production land and office accommodation was from December 2016 to 30 November 2018 and has expired. The agreed rental was RMB30.46 million per year. The Company has paid the rental for the year 2017 according to the agreement. 2018 to present, the rental has not been paid. According to the agreement, at the same time of renting the venue, the Kunming Rail Transit Group Company Limited (the "Rail Company") has collected a deposit of RMB6 million. However, the relocation compensation fees of RMB48,253,200 have not yet been paid to the Company by the Rail Company.

Currently, the construction of Yanglin Base is progressing slowly. The construction of the first stage focused on heavy-duty processing and assembly plant, stepdown substation 110kv, pump house, water treatment station, bathroom and air compressor station, part of the plant engineering. The construction scale is 30,136 square meters for heavy-duty processing and assembly plant, 1,895.8 square meters for stepdown substation 110kv, 439 square meters for pump house, 718.41 square meters for water treatment station, 1,719.36 square meters for bathrooms and air compressor station. In particular, structural works of heavy-duty assembly plant was completed in June 2012, the substation was completed and passed the acceptance, and was officially put into use in May 2013. The iron foundation construction of heavy-duty assembly plant was completed and passed the acceptance in October 2013. The foundation construction of the Schiess gantry milling machine was completed and passed the acceptance in August 2014. Construction of the surrounding roads and underground pipe network of the heavy-duty assembly plant was completed in November 2014 (not yet accepted).

The construction of the second and third stage focused on (or should focus on) heavy-duty casting workshop, model workshop and model warehouse, canteen and shift dormitory, supporting plant engineering, machining workshop, heat treatment section, office building, canteen, physical and chemical room, plant engineering (roads and squares, greening, public pipelines, information and intelligence). Among them, the construction of the second-stage heavy-duty casting workshop is 39,276.25 square meters, the model workshop and model library are 9,609.59 square meters, and the canteen and shift dormitory are 6,735.54 square meters. Heavy-duty casting workshop, model workshop and model warehouse, canteens and shifting dormitories are all under construction. According to the contractual construction period, the construction and installation engineering should be completed and accepted in February 2018. However, the capping work has not yet been completed. The third stage of the Base has not yet started construction.

Currently, the funding gap for the first stage and the second stage is about RMB300 million, and the third stage engineering needs RMB280 million, which is mainly used for plant construction and equipment procurement. The specific investment amount has a certain reduction space.

3. *The risk of litigations from small and medium stock traders*

Up to now, due to equity transfer and false information statements, the Company has received a total of 372 complaints from small and medium shareholders, involving RMB93.02 million in the litigations. In May 2018, 95 cases of equity transfer were heard in court. In January 2019, civil judgements for 18 cases were received, which sentenced the Company and the other three defendants (Shenyang Machine Tool (Group) Co.., Ltd., Zhong De Securities and Tibet Unis-zhuoyuan Equity Investment Co., Ltd. should jointly and severally compensate the plaintiffs' losses of RMB647,395.14 in total. The Company's attorney has appealed the 18 cases.

The relevant information of 372 lawsuits is as follows:

Litigation matter	Number of cases	Litigations targets (RMB)	Remarks
Company's false information statement in equity transfer	157	18,596,668.98	In May 2018, 95 trials were held and 18 judgments have been received.
Company's financial information false statement	215	74,429,307.07	Court trial has yet to commence
Total	**372**	**93,025,976.05**	

4. *Risk of suppliers' litigations*

Up to now, a total of 19 lawsuits were involved for a total amount of RMB15,433,574.04

5. *Risk of subsidiaries bankruptcy liquidations*

According to the notice (2018) Xiang 01 Po No. 12-1 issued by Hunan Province Changsha Intermediate People's Court (the "Court"), Changsha Ser officially entered the bankruptcy reorganization procedure on July 23, 2018. The Court accepted and through the legal procedures, selected the bankruptcy reorganization administrator (the "Administrator"), namely Lin Lanyan, lawyer of Guangdong Tiandi Zheng Law Firm and her team on August 6, 2018. After entering the bankruptcy reorganization procedure, in accordance with the relevant requirements of the bankruptcy procedures, Changsha Ser has stopped all payment and collection, and the accounts and company's management rights have been transferred to the Administrator. On October 17, 2018, under the auspices of the Court, the bankruptcy reorganization administrator organized the creditors to convene the first meeting of creditors. The meeting reviewed the 1) work report for the first meeting of creditors issued by the administrator; 2) Report on Declaration of Creditors' Right and Review report and; 3) Report on property status, and carried out the first confirmation to the company's creditors' rights and debts. At the same time, the creditors' meeting decided that the Administrator continued to be responsible for the management of the company. Under the supervision of the Administrator, the company continues to produce and operate to complete the production of products which have been contracted but not yet completed. At present, apart from the company's senior management team and a small number of production personnel, the company has no remaining employees. On January 23, 2019, the Company received the "Reorganization Plan (Draft)" issued by the Administrator, and it is currently known that the court is still evaluating the program.

The final adoption of this program requires the involvement of external restructuring investors. At present, the Company has contacted the reorganization investors under the introduction of the Administrator, However, only after the Court finally passes the reorganization plan can the Company determine whether participate the program.

Currently, Xi'an Ser has only 10 employees, three senior management officers mainly in charge of bankruptcy reorganization of Changsha Ser and the other seven people are staff who remain in service. Their main job is to collect the corresponding receivables. The Administrator of Changsha Ser informed the Company that due to Xi'an Ser owes Changsha Ser about RMB30 million, the Administrator will file a bankruptcy liquidation and reorganization procedure in the Beilin District People's Court. In order to maximize the possible to maintain the security of the Company's claims, considering that Changsha Ser still owes the Company's original dividends and interest of about RMB20 million, the Company has filed a lawsuit to the Kunming Intermediate People's Court(the "Kunming Court") to apply for repayment of the arrears and apply for legally freezing certain properties and bank accounts in Xi'an under the name of Xi'an Ser. The Kunming Court has accepted the case in January 2019 and the case was heard in the court.

6. *The risk of the Company's H Shares being delisted by HKEX as the Company not completion of the resumption of trading within the original time*

(1) Resumption progress of H Shares
The Company's independent investigation committee has carried out its work on targeting the requirements of H Shares resumption conditions.

i. The Company's auditor, Da Hua Certified Public Accountants (Special General Partnership), has completed the audit of the Company for the year 2016 and 2017, and issued Special Audit Report on Involved Matters with Disclaimer of Opinion for the Year 2016 (Da Hua He Zi [2018] no. 003038) and standard unqualified Auditors' Report with emphasis paragraphs for the year 2017 (Da Hua Shen Zi [2018] no. 001105). For the details, please refer to the announcements of the Company. For details, please refer to the Company's announcement.

ii. The team of forensic audit (the "Team") was originally expected to commence field work at the beginning of September 2018 and the investigation was originally expected to be completed in November 2018. However, the field work was delayed as the Company was late in settlement of the installment payment to the Team. The Company paid the said installment payment in November 2018 and the Team commenced the field work at the end of November 2018. The issuance of relevant forensic audit report is delayed. Given that the Company is expecting to publish 2016 annual report and 2017 interim report by end of May 2019, and it will be within 2 months after disclosure of the forensic report, the Company is currently working towards the schedule for the forensic report to be released in March 2019.

iii. It was originally expected that the internal control consultant could issue the first stage report in March 2019. Since the relevant work is still being carried out, it is expected that the work will be completed in April 2019. Thereafter, the Company will make the rectification plans according to the recommendations of the internal control consultant and it is currently expected that the rectification measures can be fully implemented in May 2019. The internal control consultant will carry out follow-up review on the implementation of rectification measures in June 2019. It is expected that the internal control report can be issued in July 2019. The Company is making efforts to conduct the aforesaid forensic investigation and internal control review work according to the above timeframe to fulfill the various conditions of resumption as soon as possible.

iv. The Company's financial Adviser in relation to resumption, Alliance Capital Partners Limited, internal control consultant and the team of forensic audit have discussed and analyzed the related work on the resumption of the Company's H Shares. The Company is actively coordinating with the teams to carry out the related work.

(2) The risk of the Company's H Shares being delisted by HKEX as the Company not completion of the resumption of trading within the original time

The time limit of the resumption of trading of the Company's H Shares is about to expired (31 July 2019).If the Company fails to complete the relevant resumption work before this deadline, the Company's H shares will probably be delisted by the Hong Kong Stock Exchange.

7. *As the Company being investigated by the SFC (Securities and Futures Commission) and the conclusion has yet completed, the subsequent risk may exist*

The Company is temporarily unable to judge the measures and risks that may be taken against the Company by the SFC after investigation.

(II). New risk factors during the reporting period

None

SIGNIFICANT EVENTS

I INDEX OF SIGNIFICANT EVENTS

Item	Yes or No	Index
Any major lawsuits or arbitrations	✓Yes ☐No	II (VII)
Any external guarantees	✓Yes ☐No	II (VIII)
Any appropriation or transferring of the Company's funds or assets by the shareholder(s) or its related parties	☐Yes ✓No	
Any external loans provided	☐Yes ✓No	
Any daily related transactions	✓Yes ☐No	II (IX)
Any occasional connected transactions	☐Yes ✓No	
Any acquisitions, sales of assets, foreign investment matters that had been considered by the shareholders' meeting or corporate mergers that occurred during the year	☐Yes ✓No	
Any equity incentives	☐Yes ✓No	
Any share repurchases	☐Yes ✓No	
Any disclosed commitments	☐Yes ✓No	
Any cases where assets were attached, seized, frozen or mortgaged or pledged	✓Yes ☐No	II (X)
Any matters of being investigated and punished	☐Yes ✓No	
Any situations of dishonesty?	☐Yes ✓No	
Any other significant events of voluntary disclosure	☐Yes ✓No	

II. DETAILS OF SIGNIFICANT EVENTS (IF THE MATTER EXISTS, SELECT THE FORM BELOW TO FILL OUT)

(I) Pre-emptive rights

Since there is no provision for pre-emptive rights under the Company's Articles of Association, the Company did not have any arrangement for the pre-emptive rights scheme during the reporting period.

(II) Warrants and others

Neither the Company nor any of its subsidiaries issued any warrants, convertible securities, options or other securities with similar rights, nor did any person exercise any rights as stated above.

(III) Purchase, sale and redemption of securities of the Company

Neither the Company nor its subsidiaries purchased, sold or redeemed any securities issued by the Company during reporting period.

(IV) Bank loans, overdraft and other borrowings

Details of bank loans, overdrafts and other borrowings as at 31st December 2018 are set out in the notes to the financial statements.

(V) Financial resources and capital structure of the group

As at the end of 2018, total equity attributable to shareholders of the Company was negative RMB289,030,000 compared to negative RMB38,221,000 as at the end of 2017.

(VI) Fulfillment of commitments

Commitments made by the Company's de facto controller, shareholders, connected parties, acquirers and the Company etc. commitment parties during or subsisting to the Reporting Period

Background of commitment	Type of commitment	Commitment making party	Content of commitment	Date of commitment and duration	Is there a fulfillment time limit	Whether duly and timely fulfilled	Explanation on not complete fulfillment	Explanation on the next plan
Commitment in relation to share reform	Other	Shenyang Machine Tool (Group) Co., Ltd.	It would provide full support to the business development of the Company in terms of technology, business and resources and would consolidate the relevant resources and markets by leveraging on its own unique strengths based on the principles and models favorable to accelerating the growth of the Company within two years after the completion of the share transfer and share reform with a view to developing Kunming Machine Tool as an important platform for technological upgrade, business expansion and sector growth to provide comprehensive support and facilitate the sustainable and healthy development of the Company. Currently, Shenyang Machine Tool (Group) Co., Ltd. has introduced production management officers to the Company in order to facilitate the enhancement of the production management capabilities and provide convenience for the exports of the Company in terms of market expansion.	None	No	Yes	Not applicable	Not applicable
Other commitments to small and medium shareholders of the Company	Solve the problem of industry competition	Shenyang Machine Tool (Group) Co., Ltd.	On 28 October 2017, Shenyang Group through Shenyang Machine Tool Co, Ltd published the Announcement on the Commitment of Change of Controlling Shareholder to Avoid Horizontal Competition Shenyang Group committed that within 36 months from the effective date of the commitment, according to national and relevant regional laws and regulations and the approval of industry authorities, it will eliminate the industry competition through appropriate methods For details, please refer to the provision announcement (2017-099) published by Shenyang Machine Tool Co, Ltd	Within 36 months from 28 October 2017	Yes	Yes	Not applicable	Not applicable

(VII) Major litigations and arbitrations

1. *Litigations and arbitrations arising during the reporting period*

Whether the accumulated amount involved in litigations and arbitrations arising during the reporting period accounted for 10% or more of the net assets

☐Yes ✓No

2. *Litigation and arbitration issues disclosed in the provisional announcements and pending during the reporting period*

✓Applicable ☐Not Applicable

Unit: RMB

Plaintiff/ Applicant	Defendant/ Respondent	Cause of action	Amount involved	Percentage of net assets at the end of the period %	Whether formation of estimated liabilities	Disclosure time of the announcement
Zheng Ru	The Company	False statements of securities	3,203,484.91	–		11 April 2018
Zhang Yong	The Company	False statements of securities	620,958.20	–		31 August 2018
Cao Jikui	The Company	False statements of securities	25,888.07	–		31 August 2018
Cao Zuyu	The Company	False statements of securities	23,495.52	–		31 August 2018
Rao Renxiao	The Company	False statements of securities	63,665.56	–		31 August 2018
Zhang Lixiang	The Company	False statements of securities	23,732.54	–		31 August 2018
He Ling	The Company	False statements of securities	1,835,382.96	–		31 August 2018
Qi Shuxin	The Company	False statements of securities	15,933.76	–		31 August 2018
Xue Xiaoyan	The Company	False statements of securities	38,906.70	–		31 August 2018
Peng Hongwei	The Company	False statements of securities	94,865.75	–		31 August 2018
Zhang Feng	The Company	False statements of securities	4,410.73	–		31 August 2018
Qiu Xiaona	The Company	False statements of securities	58,027.57	–		31 August 2018
Zhao Kai	The Company	False statements of securities	2,427.83	–		31 August 2018

Plaintiff/ Applicant	Defendant/ Respondent	Cause of action	Amount involved	Percentage of net assets at the end of the period %	Whether formation of estimated liabilities	Disclosure time of the announcement
Wu Yuezhen	The Company	False statements of securities	1,417.77	–		31 August 2018
Hou Li	The Company	False statements of securities	82,077.23	–		31 August 2018
Huang Zhicong	The Company	False statements of securities	124,262.78	–		31 August 2018
Xu Weiming	The Company	False statements of securities	119,792.13	–		31 August 2018
Ma Lingjia	The Company	False statements of securities	5,083.24	–		31 August 2018
Huang Xun	The Company	False statements of securities	3,801.14	–		31 August 2018
Liu Guanghui	The Company	False statements of securities	90,070.10	–		31 August 2018
Shen Fuzhen	The Company	False statements of securities	9,820.27	–		31 August 2018
Chen Qiang	The Company	False statements of securities	74,598.09	–		31 August 2018
Liang Yingchun	The Company	False statements of securities	6,024.10	–		31 August 2018
Wang Yichao	The Company	False statements of securities	5,588.29	–		31 August 2018
Zhao Huaxin	The Company	False statements of securities	16,427.74	–		31 August 2018
Zhang Jin	The Company	False statements of securities	6,816.58	–		31 August 2018
Xia Zhengjun	The Company	False statements of securities	6,314.05	–		31 August 2018

SIGNIFICANT EVENTS

Plaintiff/ Applicant	Defendant/ Respondent	Cause of action	Amount involved	Percentage of net assets at the end of the period %	Whether formation of estimated liabilities	Disclosure time of the announcement
Li Qingjian	The Company	False statements of securities	27,882.00	–		31 August 2018
Fan Hanxiong	The Company	False statements of securities	33,910.70	–		31 August 2018
Shen Wenmei	The Company	False statements of securities	2,437,782.00	–		31 August 2018
Shi Juncheng	The Company	False statements of securities	47,060.00	–		31 August 2018
Zhu Zhihong	The Company	False statements of securities	160,536.20	–		31 August 2018
Li Lanbo	The Company	False statements of securities	4,232.00	–		31 August 2018
Li Kaduo	The Company	False statements of securities	16,040.00	–		31 August 2018
Zhou Xiaona	The Company	False statements of securities	16,504.04	–		31 August 2018
Chen Yigang	The Company	False statements of securities	219,381.00	–		31 August 2018
Xu Jun	The Company	False statements of securities	110,826.00	–		31 August 2018
Zhen Zhuoli	The Company	False statements of securities	85,764.00	–		31 August 2018
Guo Liyun	The Company	False statements of securities	27,054.00	–		31 August 2018
Chen Zhihong	The Company	False statements of securities	149,815.00	–		31 August 2018
Ma Wei	The Company	False statements of securities	340,335.00	–		31 August 2018

Plaintiff/ Applicant	Defendant/ Respondent	Cause of action	Amount involved	Percentage of net assets at the end of the period %	Whether formation of estimated liabilities	Disclosure time of the announcement
Ma Xiufeng	The Company	False statements of securities	1,250,278.00	–		31 August 2018
Gu Yixiong	The Company	False statements of securities	1,184,715.00	–		31 August 2018
Li Guangyu	The Company	False statements of securities	726,575.49	–		31 August 2018
Zhao Min	The Company	False statements of securities	230,851.99	–		31 August 2018
Gao Hong	The Company	False statements of securities	4,581.67	–		31 August 2018
Xu Min	The Company	False statements of securities	1,054.7	–		31 August 2018
Jiang Wenting	The Company	False statements of securities	34,630.07	–		31 August 2018
Liu Shubin	The Company	False statements of securities	12,187.54	–		31 August 2018
Wang Bolin	The Company	False statements of securities	31,360.91	–		31 August 2018
Yang Weijun	The Company	False statements of securities	26,222.58	–		31 August 2018
Zhou Wenjun	The Company	False statements of securities	3,991.65	–		31 August 2018
Xue Guohua	The Company	False statements of securities	80,339.82	–		31 August 2018
Xu Yongjin	The Company	False statements of securities	22,225.88	–		31 August 2018
Deng Xuehong	The Company	False statements of securities	56,213.65	–		31 August 2018
Yu Zhongbo	The Company	False statements of securities	3,873.43	–		31 August 2018

Plaintiff/ Applicant	Defendant/ Respondent	Cause of action	Amount involved	Percentage of net assets at the end of the period %	Whether formation of estimated liabilities	Disclosure time of the announcement
Cao Hong	The Company	False statements of securities	41,039.4	–		31 August 2018
Wang Na	The Company	False statements of securities	7,371.17	–		31 August 2018
Xue Dongliang	The Company	False statements of securities	32,022.58	–		31 August 2018
He Qikang	The Company	False statements of securities	7,472.69	–		31 August 2018
Tang Yunnan	The Company	False statements of securities	27,033.48	–		31 August 2018
Chen Fuxia	The Company	False statements of securities	2,130.17	–		31 August 2018
Liu Zhiqiang	The Company	False statements of securities	10,226.00	–		31 August 2018
Huang Xiaomei	The Company	False statements of securities	13,016.00	–		31 August 2018
Shen Wenmei	The Company	False statements of securities	651,662.00	–		31 August 2018
Jiang Weiping	The Company	False statements of securities	150,893	–		31 August 2018
Total	–	–	14,852,364.42	–	–	–

The development of the pending cases of litigation and arbitration and their impact on the Company

The Company is a co-defendant in some of the above cases and this judgement is not a final judgement. The division of the final responsibility is subject to the conclusion of the court. Currently, the Company is unable to predict the impact of the above cases on the profits and losses of the Company.

3. *Litigation and arbitration issues disclosed in the provisional announcements and closed during the reporting period*

☐Applicable ✓Not applicable

(VIII) External guarantees provided by the Company

Whether the accumulated amount involved in external guarantees which have been fulfilled and have not been fulfilled during the reporting period accounted for 10% or more of the net asssets

✓Yes ☐No

Unit: RMB

Guaranteed party	Amount of guarantee	Guarantee period	Type of guarantee	Type of responsibility	Any the necessary decision-making procedures fulfilled	Whether it is a connected party guarantee
Shenyang Group	191,665,275.66	Commencement of 31 Jan 2018	Mortgage	Joint liability	Fulfilled in time	Yes
Total	191,665,275.66	–	–	–	–	–

Summary of classification of guarantees:

Summary	**Balance**
External guarantees by the Company (including external guarantees by the Company and its subsidiaries, excluding guarantees provided by the Company for its subsidiaries)	0
Guarantees to shareholders, de facto controller and their related parties by the Company and its subsidiaries	191,665,275.66
The amount of debt guarantee directly or indirectly for the guaranteed party whose gearing ratio exceeded 70%	0
The amount of the Company's total guarantees exceeded 50% of the net assets (excluding 50%)	0

Repayment of guarantee and non-compliance guarantee:

None

(IX) The daily related parties'transactions of the Company during the reporting period

Unit: RMB

Specific matters	**Estimated amount**	**Amount incurred**
1.Purchase of raw materials, fuel and power	–	–
2.Sales of products, goods, provision or receipt of services and commissioning and entrusted sales	6,970,000.00	Refer to notes to the financial statements: related party transactions
3.investment (including co-investment, entrusted financial management and entrusted loans)	–	–
4.Financial assistance (accepted by the Company)	–	–
5.The types of daily related party's transactions that are applicable to the Company stipulated in the Company's articles of association	–	–
6.Others	–	–

Notes:

1. *Disclosed related party's transactions*

Summary of events	Query index
The Company entered into agreements of purchase or sales products with Yunnan CY Group Co, Ltd, Yunnan CY Group Jinhui Coating Factory and Shenyang Rui Shi Da International Trade Co, Ltd with the term of three years	For details, please refer to the provisional announcement no 2016-050 published on the website of Shanghai Stock Exchange
Company provided corporate guarantee to Shenyang Group for the working capital borrowed from the Export-Import Bank of China, Yunnan branch (the "Bank"). Meanwhile, the Company provided property mortgage for the loan which Shenyang Group borrowed from the Bank. The total of secured amount of corporate guarantee and property pledge were not more than RMB200 million.	For details, please refer to the provisional announcement no 2018-026 published on the website of Shanghai Stock Exchange

2. *Others*

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

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

(X) Information of assets which were attached, seized, frozen, mortgaged or pledged

Unit: RMB

Assets	Type of restricted rights	Book Value	Percentage of total assets	Causes
The property mortgage includes the Company's buildings located in the east side of the north-south main road in Yang Lin Industrial Park, and the land use rights of the land located in the east side of the north-south main road in Yang Lin Industrial Park and the land located in the east side of the airport avenue in Yang Lin Industrial Park.	Mortgage guarantee	100,616,014.10	7.1%	The Company provided property mortgage for the loan of RMB200 million which Shenyang Group borrowed from the Bank. The total of secured amount of corporate guarantee and property mortgage were not more than RMB200 million.
Total	–	100,616,014.10	7.1%	–

(XI) Penalties on the COMPANY, its directors, supervisors and senior management officers, controlling shareholder, de facto controller and acquirer, and rectification issues

On 23 March 2017, the Company published the Announcement on Receiving the Notification of Investigation of China Securities Regulatory Commission ("CSRC") (2017-029) in China Securities Journal, Shanghai Securities News and Securities Times and on the following websites: http://www.sse.com.cn, http://www.hkex.com.hk, and http://www.kmtcl.com.cn. Since the information disclosure of the Company breach of securities laws and regulations, according to the Securities Law, CSRC decided to initiate an investigation to the Company.

In February 2018, the Company received the Decision of Administrative Penalties Issued by CSRC (the Company and Wang Xing and Chang Baoqiang etc. 23 Responsible Persons) ([2018] no.9) and the Decision of Prohibition of Entering the Market (Wang Xing, Chang Baoqiang and Jin Xiaofeng) by CSRC ([2018] no.2). For details, please refer to the provisional announcements (2018-012, 013) of the Company.

(XII) Other significant events

1. Kunming municipal government planned to resume 255mu lands located in Kunming Machine Tool Factory area for subway project construction. The Company responded to the overall planning requirements of the Kunming municipal government, and therefore the company planned to implement the relocation in recent years. As the Yanlin factory area is under construction, currently, the Company does not have the overall relocation conditions. Hence, the Company needs to lease the resumed land, buildings (structures) and fixtures erected thereon for about two years until the end of 2018.

   The Land and Buildings Lease Agreement entered into between the Company and Kunming Rail Transit was approved by the 38th meeting of the 8th Board of the Company. According to the Agreement, the Company is going to lease the land located in Railway Line No. 8 Huayugou Kunji Land project of Ciba Street Office of the Panlong People's Government with a site area of approximately 418.4834 mu (畝) together with the buildings, structures and fixtures erected thereon. The lease term is from the effective date of the Agreement to 30 November 2018, the longest extension to 31 December 2018. The total rental of land and buildings during the leasing period is RMB60.92 million (including tax).

   Currently, the Company did not have the conditions of relocation, and are negotiating with the Kunming Rail Transit on lease and relocation problems.

2. Changsha Ser is a wholly owned subsidiary of Xi'an Ser, a majority-owned subsidiary of the Company. The Company holds 45% shareholdings of Xi'an Ser. Changsha Ser had difficulties in operation. The basic bank accounts and some general accounts of the company were judicially frozen due to lawsuits, and several bank loans were overdue. Changsha Ser has basically been in a semi-suspended position. Recently, the Company received relevant legal documents. According to the Civil Ruling Paper (2018) Xiang 01 Po Shen No.23 issued by Changsha Intermediate People's Court (the "Court"), the Court accepted the application of Changsha Ser to have the company enter the bankruptcy reorganization procedure.

   As the de facto controller of Changsha Ser, the Company will properly handle the bankruptcy reorganization matters of Changsha Ser and cooperate with the Court to do the relevant work well, and will disclose the progress of the bankruptcy reorganization of Changsha Ser in time.

3. The first largest shareholder, Shenyang Group, (holds 133,222,774 shares of the Company, representing 25.08% of issued shares of the Company) pledge its 66,597,570 shares of the Company (representing 12.54% of issued shares of the Company). Date of pledge registration: 23 November 2018. Name of pledgee: Shenyang International Technology Development Company Limited.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. CHANGES IN ORDINARY SHARES

(I) Share capital structure of ordinary shares

Unit: RMB

Nature of shares		Opening balance Number of shares	Opening balance Proportion %	Changed	Closing balance Number of shares	Closing balance Proportion %
Selling unrestricted shares	Total number of selling unrestricted shares	531,081,103	100%	0	531,081,103	100%
	Of which: controlling shareholder, de facto controller	133,222,774	25.08%	0	133,222,774	25.08%
	Directors, supervisors and senior management officers	0		0	0	–
	Core staff	0	–	0	0	–
Selling restricted shares	Total number of selling restricted shares	0	–	0	0	–
	Of which: controlling shareholder, de facto controller	0	–	0	0	–
	Directors, supervisors and senior management officers	0	–	0	0	–
	Core staff	0	–	0	0	–
Total share capital		531,081,103	–	0	531,081,103	–
Total number of shareholders with ordinary shares		3,453				

(II) Top ten shareholders with ordinary shares or shareholders holding 10% or more shares

Unit: RMB

No.	Name of shareholders	Total number of shares held at the beginning of the period	Change of shareholdings	Total number of shares held at the end of the period	proportion of shareholdings at the end of the period %	Total number of selling restricted shares held at the end of the period	Total number of selling unrestricted shares held at the end of the period
1	HKSCC NOMINEES LIMITED	134,354,498	–	134,354,498	25.30%	–	134,354,498
2	Shenyang Machine Tool (Group) Co., Ltd.	133,222,774	–	133,222,774	25.08%	–	133,222,774
3	Yunnan Industrial Investment Holding Group Co., Ltd.	34,153,444	–	34,153,444	6.43%	–	34,153,444
4	Zhang Haiying	1,846,600	693,400	2,540,000	0.478%	–	2,540,000
5	Zheng Haiyu	1,660,428	673,300	2,333,728	0.439%	–	2,333,728
6	Yu Chengmiao	490,500	1,520,500	2,011,000	0.38%	–	2,011,000
7	Zhang Shun	800,000	1,200,000	2,000,000	0.38%	–	2,000,000
8	Cai Jianxiu	982,700	619,625	1,602,325	0.30%	–	1,602,325
9	CHAN KUNG SUK YUEN	1,306,000	–	1,306,000	0.25%	–	1,306,000
10	Zhu Yushu	1,230,000	–	1,230,000	0.23%	–	1,230,000
Total		310,046,944	4,706,825	314,753,769	59.18%	0	314,753,769

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Explanation of the connected relationship among the top five holders of ordinary shares or shareholders holding 10% or more shares of the Company: Except for no connected relationship between state-owned legal person shareholders, the Company was not notified of any connected relationship or acting in concert relationship regulated by "Measure for the Administration of Acquisition of Listed Company" among the top ten shareholders. Other than the substantial shareholders disclosed above, as at 31 December 2018, there were no other shareholders whose shareholdings exceeded the amount required to be disclosed under Article 60 of "Administration of the Issuing and Trading of Shares Provisional Regulations" of the PRC and Issue No.3 of "The Content and Format of Disclosure of Information of the Listed Companies" (amended in 2016); and under Section 16(1) of the Securities and Futures Ordinance under the Hong Kong Exchanges and Clearing Limited, the Company was not notified of any interests representing 10% or more of the issued share capital of the Company. Among top ten shareholders, there are three shareholders holding 5% or more of the Company's shares. They are HKSCC Nominees Limited (hereinafter referred to as "HKSCC Nominees Limited"), which holds the overseas listed foreign shares; Shenyang Machine Tool (Group) Co., Ltd., which holds the state-owned legal person shares; and Yunnan Industrial Investment Holding Group Co., Ltd., which holds state-owned legal person shares.

Except for the shareholder Shenyang Machine Tool (Group) Co., Ltd. who pledged 66,597,570 shares of the Company, the Company was not notified that the shares held by others shareholders were incurred change, pledge, freezing, or escrow.

1) HKSCC (Nominees) Limited holds shares on behalf of clients. The Company did not receive any notification that any H shareholder held more than 10% in total share capital of the Company, neither received any notification that any H shareholder held more than 5% of total H shares of Company.

2) Save as disclosed above, the Directors were not notified by any person (who is not a Director or a chief executive officer) who owns the interest or short position in the shares or underlying shares of the Company that shall be disclosed to the Company in compliance with the requirements contained in Divisions 2 and 3 of Part XV of Securities and Future Ordinance ("SFO"), or the interest or short position that shall be included in the prescribed register in accordance with Section 336 of SFO.

3) As at 31 December 2018, none of the Directors and the Supervisors had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests or short positions which the Directors or the Supervisors are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

II. BASIC SITUATION OF PREFERRED SHARES

☐Applicable ✓Not applicable

III. CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

Any combined disclosure:

✓Yes ☐No

Name	Shenyang Machine Tool (Group) Co., Ltd.
Person in charge or legal representative	Guan Xiyou
Date of establishment	18th December 1995
Principal activities	Manufacturing of metal cutting machines, CNC machines and mechanical equipment; general commercial trading, technology trading, property leasing within the PRC, economic information consulting services.
Equity interests in other domestic and overseas holding listed companies during the reporting period	Shenyang Machine Tool (Group) Co., Ltd. holds 30.12% equity interest in Shenyang Machine Tool Co., Ltd., whose beneficial controller is Shenyang State-owned Assets Supervision and Administration Commission
Explanation on other information	None

FINANCING AND PROFIT DISTRIBUTION

I. ISSUANCE OF ORDINARY SHARES IN THE LAST TWO FISCAL YEARS

☐Applicable ✓Not applicable

II. INFORMATION OF PREFERRED SHARES THAT CONTINUED TO EXIST DURING THE CURRENT PERIOD

☐Applicable ✓Not applicable

III. BOND FINANCING

☐Applicable ✓Not applicable

Bond defaults

☐Applicable ✓Not applicable

Special disclosure requirements for publicly issuance of bonds

☐Applicable ✓Not applicable

IV. INDIRECT FINANCING

☐Applicable ✓Not applicable

Defaults

☐Applicable ✓Not applicable

V. INTERESTS DISTRIBUTION

Profit distribution and capitalization of capital reserve during the reporting period

☐Applicable ✓Not applicable

Profit distribution and capitalization of capital reserve not executed completely during the reporting period

☐Applicable ✓Not applicable

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Basic information

Name	Position	Gender	Date of birth	Education	Term of office	Whether received emoluments from the Company
Wang He	Executive director Chairman	M	August 1966	Bachelor	15 Feb 2017–31 Oct 2020	Yes
Zhang Xiaoyi	Vice chairman	M	April 1964	Post graduate diploma	31 Oct 2008-31 Oct 2020	Yes
Peng Liangfeng	Executive director President Vice president ("VP")	M	August 1981	Post graduate diploma	15 Feb 2017-31 Oct 2020 23 Jan 2017-31 Oct 2020 30 March 2015-23 Jan 2017	Yes
Xu Juan	Executive director CFO	F	July 1981	Post graduate diploma	8 May 2018-31 Oct 2020 12 Dec 2017-31 Oct 2020	Yes
Liu Chunshi	Non-executive director ("NED")	M	Nov 1966	Post graduate diploma	31 Oct 2017-31 Oct 2020	No
Xia Changtao	NED	M	Jan 1964	Bachelor	31 Oct 2017-31 Oct 2020	No
Kang Jun	NED	M	Oct 1976	Post graduate diploma	31 Oct 2017-16 Sept 2018	No
Wu Yu	NED	F	March 1984	Post graduate diploma	31 Oct 2017-31 Oct 2020	No
Ding Side	NED	M	Nov 1984	Post graduate diploma	28 Dec 2018-31 Oct 2020	No
Na Chaohong	Independent non-executive director ("INED")	M	May 1977	Doctoral candidate	31 Oct 2017-31 Oct 2020	Yes
Chi Yilin	INED	M	April 1953	Post graduate diploma	31 Oct 2017-31 Oct 2020	Yes
Jin Mei	INED	F	Nov 1977	Bachelor	31 Oct 2017-31 Oct 2020	Yes
Tian Ruihua	INED	M	April 1963	Bachelor	31 Oct 2017-31 Oct 2020	Yes
Wei Aixue	Supervisor	F	Nov 1968	Bachelor	31 Oct 2017-31 Oct 2020	No
Lv Jianbo	Supervisor	M	June 1982	Bachelor	31 Oct 2017-31 Oct 2020	No
Su Jiao	Supervisor	F	August 1981	Post graduate diploma	31 Oct 2017-31 Oct 2020	No
Cai Zhemin	Supervisor	M	Sept 1962	College degree	10 May 2011-31 Oct 2020	No
Zhou Guoxing	Employee supervisor	M	Nov 1962	Post graduate diploma	31 Oct 2014-31 Oct 2020	Yes
Ye Nong	VP	M	Nov 1960	Post graduate diploma	30 Dec 2006-31 Oct 2020	Yes

Name	Position	Gender	Date of birth	Education	Term of office	Whether received emoluments from the Company
Zhu Xiang	VP	M	April 1966	Post graduate diploma	20 August 2007-31 Oct 2020	Yes
He Xi	Secretary to the Board	M	Oct 1986	Bachelor	17 March 2017-31 Oct 2020	Yes
Number of Board members:						12
Number of members of Supervisory Committee:						5
Number of senior management officers						5

Mutual relationship between directors, supervisors and senior management officers (the "Personnel") and relationship between the Personnel and controlling shareholder and de facto controller

Directors Mr. Xia Changtao, Mr. Liu Chunshi, supervisors Ms. Su Jiao and Mr. Cai Zhemin are the directors and supervisors appointed by the substantial shareholder of the Company (de facto controller). Directors Mr. Ding Side, Mr. Kang Jun (resigned), Ms. Wu Yu, supervisors Ms. Wei Aixue and Mr. Lv Jianbo are directors and supervisors appointed by the second largest shareholder of the Company.

(II) Details of shareholding of the Company

Unit: Share

Name of shareholder	Position	Number of ordinary shares held as at the beginning of the period	Change	Number of ordinary shares held as at the end of the Period	Proportion of ordinary shares held at the end of the period %	Number of stock options held at the end of the period
Total	–	0	0	0	0%	0

(III) Details of Change

Information statistics

Whether the chairman has changed	☐Yes	✓No
Whether the general manager has changed	☐Yes	✓No
Whether the secretary to the board has changed	☐Yes	✓No
Whether the chief financial officer has changed	☐Yes	✓No

Change of directors, supervisors and senior management officers during the reporting period

✓Applicable ☐Not applicable

Name	Position	Type of change	Position of the term of office	Reasons for change
Kang Jun	Non executive director	Resignation	None	Resignation
Ding Side	None	newly-appointment	Non executive director	Election
Xu Jun	CFO	newly-appointment	Executive director, CFO	Election

Resumes of newly appointed directors, supervisors and senior management officers during the reporting period:

✓Applicable ☐Not applicable

Ding Side, male, born in 1984, master of Economics. From July 2007 to March 2009, Mr. Ding was an industry researcher in TX investment Consulting Co., Ltd.; from March 2009 to March 2010, he was an industry researcher in Beijing Zhi Ying Yi He Financial Consultant Co., Ltd.; from August 2010 to June 2015, he was a senior industry researcher and director of industry research in Lianxun Securities Co., Ltd.; from June 2015 to June 2018, he was a senior industry researcher in Huarong Securities Co., Ltd.; and from July 2018 up to now, he has been a vice general manager of Equity Operations Department of Yunnan Industrial Investment Holding Group Co. , Ltd. . From 28 Dec 2018, he has been serving as a director of the Company.

Xu Juan, female, born in July 1981, CPC member, master of financial management. From April 2008 to June 2015, she worked as an accountant, in-charge accountant in Yunnan CY Group Co., Ltd. ("CY Group"); from July 2015 to October 2016, Ms. Xu was the financial manager in the research department of Shenji Group Kunming Machine Tool Company Limited(the "Company")); from November 2016 to July 2017, she was the vice manager of finance department and from August 2017 to 12 Dec 2017, she was the manager of finance department of the Company. From 12 Dec 2017 to now, she has been the CFO of the Company. From 8 May 2018 up to now, Ms. Xu has been serving as a director of the Company.

II. STAFF

(I) Basic information of staff (the Company and its holding subsidiaires)

Classified by nature of work	Number of personnel at the beginning of the period	Number of personnel at the end of the period
Administration General services	289	297
Production	698	690
Sales and marketing	53	49
Technology	192	148
Finance	42	32
Early retirement	383	330
Staff pending for duties	89	82
Other staff	9	6
Total	1,755	1,634

Education level	Number of personnel at the beginning of the period	Number of personnel at the end of the period
PhD		1
Master	20	19
Bachelor	349	312
College diploma	326	303
Diploma below	1,060	1,000
Total	1,755	1,634

Staff remuneration Policy, training programme and number of retired employees who need the Company to bear the cost

Staff remuneration Policy:

The total workload of each unit is verified and assessed by the Company. Every month, the actual amount of work to be assigned by each unit in the current month is determined through the assessment of the Company. Each unit has formulated a proposal of two performance appraisals for the unit. Each unit carries out the appraisal, allocation and distribution according to the unit's proposal of two performance appraisals.

Training Programme:

Based on 2018 operating target, in accordance with the requirements of the Company's "Human Resources Control Procedures", "Post Capability and Management Measures for Qualification Control " and " Management Measures for Training Assessment ", in order to further improve the quality and professional skills of the Company's workforce, create a high-quality, highly skilled staff team, improve the overall quality level and work efficiency, promote the Company's sustainable development, enhance the Company's competitiveness in the market, the Company made the employee training plan for the year. 1. Construction of Yu Qingming Chief Technician Studio; 2. Establishing technician studios by level in the Company's production system; 3. Targeted training for key positions; 4. Technical workers' vocational skills qualification level training; 5. Undergraduate new staff training; 6. Special operation personnel training; 7. Energy management and energy conservation publicity training; 8. Quality management system training and training for converted version of 2015 version quality management system; 9. Temporary single professional training; 10. Training organized by each unit.

Number of retired employees who need the Company to bear the cost was 1793 and number of reemployment staff was 412.

(II) Core staff (the Company and its holding subsidiaires)

✓Applicable ☐Not applicable

Core staff	Number of personnel at the beginning of the period	Number of personnel at the end of the period
Core staff		181
Other personnel (non-directors, supervisors, senior management personnel) who have significant influence on the Company		–

Change of core staff

None

INDUSTRY INFORMATION

Whether voluntary disclosure

☐Yes ✓No

CORPORATE GOVERNANCE AND INTERNAL CONTROL

Item	Yes or no
Whether established a new corporate governance system during the year	☐Yes ✓No
Whether set up special committees under the Board	✓Yes ☐No
Whether the Board members included independent non-executive directors	✓Yes ☐No
Whether directors were sent to the investment institutions	☐Yes ✓No
Whether the Supervisory Committee has disagreement to supervision matters in this year	☐Yes ✓No
Whether management introduced professional managers	☐Yes ✓No
Whether material weakness were found in accounting system, financial management, risk control and other major internal management systems during the year	☐Yes ✓No
Whether established accountability system for significant errors in the annual report	✓Yes ☐No

I. CORPORATE GOVERNANCE

(I) System and assessment

1. Basic situation of corporate governance

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

2. Whether the corporate governance mechanism provides appropriate protection and equal rights to all shareholders

Yes

3. Whether the Company's significant decisions fulfilled the prescribed procedures

Yes

4. Amendments to the Articles of Association of the Company

The resolution of amendments to Articles of Association of the Company was considered and approved by the second extraordinary general meeting of 2018 on 28 December 2018. According to the relevant regulations, the overall requirements for the Party's construction shall be included in the Articles of Association of the Company to establish the legal status of the party organization in the corporate governance structure of the Company, and clarify the working organs of the Party, funding for the work and performance duties of the Party organization. Meanwhile, the A shares of the Company have been transferred to National Equity Exchange and Quotations, the relevant rules and requirements also need to be adjusted. Therefore, the Articles of Association of the Company was amended.

(II) The operation of the Board, the Supervisory Committee and the general meeting of shareholders

1. Information of convening meetings

Type of meeting	Number of meetings held during the reporting period	Significant matters considered (Brief description)
Board meeting	14	For details, please refer to the Company's announcements no. 2018-002, 2018-006, 2018-022, 2018-075 and 2018-082.
Meeting of Supervisory Committee	4	To consider the annual report 2017, work report of the Supervisory Committee, the first quarterly report, interim report and the third quarterly report of 2018
the general meeting of shareholders	3	For details, please refer to the Company's announcements no. 2018-026, 2018-046, 2018-59(correction) and 2018-085.

2. Assessment of whether the convening, holding and voting procedures of the meetings complied with the requirements of laws and regulations

The convening and holding procedure of the general meetings of shareholders of the Company complied with relevant laws and regulations and the Articles of Association of the Company. The qualifications of attendants of the general meetings of shareholders are legal and valid, and voting procedures of the general meetings of shareholders complied with relevant laws and regulations and the Articles of Association of the Company. The voting results and resolutions of the general meetings of shareholders were legally valid.

(III) The improvements corporate governance

The Company appointed internal control consultant, Moore Stephens Advisory Services Limited to sort out the internal control problems and required the departments to make practicable and feasible rectification plans according to the communication opinions and recommendations with the internal control consultant. As at the date of the announcement, the work still needs some time to complete.

(IV) Investor relationship management

The major communication channels set up by the Company include the general meetings of shareholders, the website and email of the Company, facsimile and telephone of the office of secretary to the Board, which enable shareholders to express their opinions or exercise their rights.

(V) Important opinions and suggestions provided by special committees under the board in the performance of their duties during the reporting period

☐Applicable ✓Not applicable

(VI) Duty performance of independent non-executive directors

✓Applicable ☐Not applicable (no mandatory requirements to the base-level companies)

Name	Required attendance during the year	Attended in person	Attended by representative	Absence
Na Chaohong	14	14	0	0
Jin Mei	14	14	0	0
Chhi Yilin	14	14	0	0
Tian Ruihua	14	14	0	0

Opinions of independent non-executive directors:

None

II. INTERNAL CONTROL

(I) Opinions on supervisory matters from the supervisory committee during the year

The review procedures for the Board meetings, periodic reports, etc. are in compliance with all provisions under the laws, regulations, the Articles of Association and the Company's internal management systems; and the contents and formats of periodic reports meet all provisions of the CSRC and NEEQ.

(II) Explanations on independence and independent operating ability of the Company

The Company maintains its independence and has independent operating ability in terms of manufacturing and operation, human resources, assets and finance.

(III) Evaluation on material internal management systems

All the Company's prevailing material internal management systems are based on the Company Law, the Articles of Association and other relevant national laws and regulations, and with reference to the Internal Control System manual, having regard to its own actual situations, which are in line with the requirements from relevant authorities on corporate governance structure and corporate systems. As a long-term and ongoing system engineering, internal control is subject to continuous adjustment and improvement based on the industry where the Company operates and its operating status and development.

(IV) Information on accountability system for mistakes in annual report

In order to further develop and improve the Company's information disclosure management system, strengthen its standardized operation, enhance the truthfulness, accuracy, completeness and timeliness of information disclosure, and upgrade the quality of periodic reports, the Company has developed the Accountability System for Material Mistakes in Annual Report Information Disclosure. The Company's person-in-charge of information disclosure and the management will strictly abide by relevant systems.

III. RELEVANT CONTENTS DISCLOSED IN 2018 IN ACCORDANCE WITH THE RELATED RULES OF HONG KONG

1. Corporate Governance Practice

The Company complies with the relevant provisions as set out in the "Code on Corporate Governance Practices" ("Code") of the Appendix 14 to the Listing Rules of the Stock Exchange of Hong Kong Limited and strives to improve its level of corporate governance. The implementation of the provisions as set out in the Code is as follow:

A. Directors

A.1 Board Meetings

The Company holds at least one board meeting each quarter.14 board meetings were held during 2018 and 12 of them were in written resolutions. Please see the table for details of attendance of Board meeting by directors.

			Attendance at board meeting			
Name of director	**Whether independent non-executive director**	**Required Attendance during the year**	**Attended in person**	**Attended by representative**	**Absence**	**Failed to be present at two meetings in a row**
Wang He	No	14	14	0	0	No
Zhang Xiaoyi	No	14	13	1	0	No
Peng Liangfeng	No	14	14	0	0	No
Xu Juan	No	8	8	0	0	No
Xia Changtao	No	14	13	1	0	No
Liu Chunshi	No	14	14	0	0	No
Wu Yu	No	14	14	0	0	No
Kang Jun	No	9	9	0	0	No
Ding Side	No	0	0	0	0	No
Na Chaohong	Yes	14	14	0	0	No
Tian Ruihua	Yes	14	14	0	0	No
Chi Yinlin	Yes	14	14	0	0	No
Jin Mei	Yes	14	14	0	0	No

The secretary to the Board would consult each director for discussion issues and include them in the agenda for every board meeting to be held. During the reporting period, the notice and preliminary agenda were distributed to the directors at least 14 days before the date of meeting.

All directors keep close contact with the Company Secretary. The Company Secretary is responsible for ensuring that the compliance of the operations of Board with the procedures and advising on the corporate governance and compliance issues. The minutes of the board meetings are compiled and kept by the Company Secretary. Minutes are passed to each director for reference within a reasonable period after the meeting. Directors may seek for independent professional advice at the cost of the Company.

If a substantial shareholder or a director has a conflict of interest in respect of any material matters, a board meeting shall be held. The subject director shall abstain from voting and be excluded from the quorum of the meeting.

A.2 Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Office were held by Mr. Wang He and Mr. Peng Liangfeng respectively.

A.3 Composition of the Board

The Company discloses the composition of members of Board in its communications by the director category including Chairman, Executive Directors, Independent Non-Executive Directors and Non-Executive Directors. The Board currently comprises 4 independent non-executive directors, representing 1/3 of the total number of directors. During 2018, 4 directors took up the role of management, representing 1/3 of the total number of directors. This enabled the Board to strictly review and monitor the management procedures of the Company. In order to enrich the shareholders' understanding of the directors and the composition of the Board of the Company, the Company has published the role of directors and their responsibilities in related media.

A.4 Appointment, Election and Removal

The directors of the Company (including non-executive directors) have specific term of appointment. According to the Articles of Association, directors are elected at shareholders' meeting for a term of three years, subject to re-election upon expiry. However, the term of appointment for independent directors shall not exceed 6 years. The appointment of all directors of the Company shall be approved by the shareholders.

A.5 Directors' Responsibilities

In order to ensure the directors' sufficient understanding of the operations and businesses of the Company, each newly appointed director is given a comprehensive induction materials kit upon appointment. This kit sets out the business profile of the Company, responsibilities and obligations of directors and other legal requirements. Apart from that, each non-executive director will receive strategic proposals, business reports, and economics activities analysis from the management regularly in order to execute their functions effectively (including making independent recommendations at board meetings). The non-executive directors shall give directions in the event of any potential interest conflicts; act as members of the committees under the Board; and carefully assess the performance of the issuer.

The Company Secretary is responsible for ensuring that all directors receive the latest updates on the Listing Rules and other statutory requirements.

A.6 Provision and Usage of Information

In order to ensure that obligations are duly performed and informed decision are made by the directors of the Company, the agenda and relevant documents of the board meetings are distributed to all directors within ten days before the date of the meeting.

The directors may meet the senior management officers formally or informally before the board meetings. The directors and committee members may review the relevant documents and minutes of the board meetings.

B. Remuneration of Directors and Senior Management Officers

Since the establishment of Remuneration and Assessment Committee of the Company, the remuneration and assessment of directors, supervisors and senior management officers are based on the rules of procedure of such committee. Independent professional advice may be sought if necessary in accordance with the stated procedures at the cost of the Company.

C. Accountability and Auditing

C.1 Financial Reporting

The directors would regularly receive integrated reports including strategic proposals, latest updates on various operations, financial objectives, plans and measures from the management. In the annual or interim report, or other announcements regarding price sensitive information and other disclosable financial information, the Board would make a balanced, clear and reasonable review on the Company's state of affairs and prospects.

C.2 Internal Control

The Supervisory Committee of the Company exercises its supervisory rights independently in accordance with laws and regulations to safeguard the legal rights of shareholders, the Company and employees. The number of members and composition of the Supervisory Committee shall comply with the laws and regulations. During 2018, 2 meetings were held, except for Mr. Cai Zhemin not attending the meeting due to office duties, other supervisors attended the meetings, where the supervisors supervised on behalf of the shareholders the financial conditions of the Company and the performance of obligations of directors and senior management officers and their compliance, and sat in the board meetings to perform the duties of the Supervisory Committee in a diligent manner.

The Board is responsible for the establishment and maintenance the internal control system of the Company for reviewing the financial, operational and supervisory control procedures so as to safeguard the interests of the shareholders and the assets of the Company. The Board may delegate the authority to the management for implementation of the internal control system. The Audit Committee is responsible for reviewing its effectiveness.

The Internal Audit Department conducts inspection, supervision and assessment on the risks relating to and the importance of various businesses and procedures regularly and when necessary. In addition, corresponding internal management system and procedures are established for monitoring, operation, construction, finance and administration. Inspection will be carried out on a random basis.

C.3 Audit Committee

Since its establishment, the Audit Committee has functioned its important role of improving the financial reporting and the transparency of financial arrangement. The Company attaches great attention to the documentation of minutes of the Audit Committee meetings. The minutes draft is prepared by a designated person and will be delivered to the members of the committee within a reasonable period after the meetings. The draft is prepared for collecting the comments from the members and will be kept as minutes once finalized.

D. Transfer of Right of the Board

D.1 Management Function
The Board and the management of the Company both have clearly defined terms of reference and their respective functions are set out in the Articles of Association.

D.2 Committees under the Board
The Strategic Committee, Audit Committee, Nomination Committee, Remuneration and Assessment Committee of the Company are established under the board of directors with respective terms of reference. Each committee performed its duties separately during the reporting period.

E. Communication with Shareholders

E.1 Effective Communication
The Board endeavors to maintain communications with its shareholders. During the 2017 Annual General Meeting and the first and second extraordinary general meetings of 2018, part of Executive Directors and senior management officers attended the meetings to communicate with its shareholders.

E.2 Voting by poll
Shareholders are informed regularly of the procedures of voting by poll. The procedures of voting by poll are set out in the notice of annual general meeting and circular. Relevant procedures will be also explained at the annual general meeting.

2. Securities Transaction of Directors

During the reporting period, the Company adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" ("Model Code") of the Appendix 10 to the Listing Rules of the Stock Exchange of Hong Kong Limited as regulation for securities transaction of directors. The directors and supervisors of the Company complied with the Model Code and standards on securities transaction of directors as stated in its code of conduct during the reporting period.

3. Board of Directors

(1) Composition of the Board

There were 12 directors in the 9th board of directors of the Company and 4 of them were independent directors. The term of directors was from 31 October 2017 to 31 October 2020.

14 board meetings were held during 2018 and 12 of them were in written resolutions. Please refer to section of CORPORATE GOVERANCE for details of attendance of Board meeting by directors.

During the reporting period, the directors attended substantially all the board meetings.

Representatives were appointed to attend the board meetings and express opinions on the behalf of directors if the directors were unable to attend the board meetings due to office duties.

In addition, according to the Article of Association, notice of a regular board meeting shall be given to all directors at least 10 days before the board meeting. In the course of practical operations, the Company complied with the requirements under Appendix 14A.1.3 to the Listing Rules of the Stock Exchange of Hong Kong Limited where all notices of regular board meetings were despatched 14 days before the board meetings.

The secretary to the Board is responsible for distributing the details of the regular board meetings (including the information on the issues to be considered at the meetings of the specialized committees under the Board) to the directors no later than 5 days before the date of meetings to ensure that all directors understand the issues to be considered at the meetings.

Details of any temporary board meetings held based on the needs of the management of the Company in the form of electronic communication shall be despatched to all directors by means of e-mail and facsimile, and shall allow sufficient time for directors' consideration.

The secretary to the Board shall respond to the directors' queries in a timely manner and take proper actions to assist the directors to ensure compliance with the requirements such as the Company Law, Articles of Association and Listing Rules.

Minutes of the board meetings shall be signed by the directors attending the meetings and the minutes-taker and maintained over a long period of time for inspection by the directors if necessary.

Where the directors consider that material conflicts of interests arise in respect of the connected transactions discussed, the directors involved shall take measures of side-stepping and abstain from voting in respect of such matters.

(2) Appointment and removal of Directors

Each director of the Company is elected for a term of three years, subject to re-election upon expiry. The term of appointment of the independent non-executive directors shall not exceed six years. The Company shall enter into a Directors' Service Contract with the directors for a term of three years where the term of appointment of any additional directors during the term is less than three years. The appointment or removal of directors shall be approved at the shareholders' meeting. please refer to the section of DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF set out in this report for details of the appointment and resignation of directors during 2018.

(3) Duties of the Board

The duties and responsibilities of the Board are clearly defined and set out in the Articles of Association of the Company.

Details of the work of the board and its board committees are set out in section of CORPORATE GOVERANCE of attendance of Board meeting by directors.

(4) Qualifications and Independence of Independent Non-executive Directors

Independent board members have different professional backgrounds. They have professional expertise, sound qualifications and extensive experience in the areas of corporate management, financial accounting and manufacturing of machine tools.

Independence of the independent non-executive directors complies with the guidelines on independence as set out in Rule 3.13 of the Listing Rules.

(5) Implementation of Measures for Ensuring the Performance of Directors' Responsibilities

The secretary to the Board shall give all the directors relevant materials and updates on the statutory, regulatory and other ongoing responsibilities that the directors of the listed companies shall comply in a timely manner to ensure thorough understanding of their responsibilities, consistent execution of the procedures of the Board and proper compliance with applicable laws and regulations. The Board of the Company is entitled to engage independent professional bodies for such duties based on its power of authority for the performance of its responsibilities or business needs at the reasonable expense of the Company.

(6) Relationship between the Members of the Board

There is no relationship between the members of the Board, particularly between the chairman and the general manager, in terms of finance, business, family and others.

4. Chairman and General Manager

The chairman and general manager are taken by different persons with clearly segregated duties.

The chairman is responsible for the management of the affairs of the Board such as inspecting the implementation progress of the issues approved by the Board. The general manager is responsible for management of operations of the Company and implementation of strategies formulated by the Board. The duties and responsibilities of the general manager are clearly defined and set out in the Articles of Association of the Company.

5. TERM OF NON-EXECUTIVE DIRECTORS: According to the Articles of Association, Rules of Procedure for the General Meetings of the Shareholders, and Rules of Procedure for the Meetings of the Board of Directors, the term of the non-executive directors under the 9th Board is from 31 October 2017 to 31 October 2020.

6. STRATEGIC COMMITTEE, AUDIT COMMITTEE, NOMINATION COMMITTEE AND REMUNERATION AND ASSESSMENT COMMITTEE ARE UNDER THE BOARD OF DIRECTORS. DETAILS ARE AS FOLLOWS:

No.	Special Committee under the Board	Major responsibilities	Chairman	Committee members	Annual meeting and work details
1.	Strategic Committee	Conducting research and providing suggestions on the Company's strategic planning, significant investment and financing issues, significant usage of capital and asset utilization	Chi Yilin	Wang He Kang Jun Liu Chunshi Chi Yilin Jin Mei Peng Liangfeng	Conducted research and analysis on the changes in the machine tool market and on the product mix adjustment of the Company
2.	Audit Committee	Issuing work reports on regular reports, annual performance results and implementation of the internal control system	Na Chaohong	Na Chaohong Jin Mei Liu Chunshi	Conducted audit on annual report and interim report and Convened special meetings on the construction of internal control system
3.	Nomination Committee	Formulating policies for directors' nomination including nomination procedures, handling steps and criteria for selection of director candidates	Chi Yilin	Chi Yilin Xia Changtao Jin Mei	Reviewed and nominated senior management officers for appointment or removal for the year
4.	Remuneration and Assessment Committee	Formulating remuneration policy for executive directors, assessing performance of executive directors and approving terms of the executive directors' service contract	Tian Ruihua	Tian Ruihua Chi Yilin Xia Changtao	Formulated assessment and appraisal system based on operational objectives.

Notes: The chairman of the Company's Strategic Committee is Mr. Chi Yilin, the independent non-executive director;

The chairman of the Company's Audit Committee is Mr. Na Chaohong, the independent non-executive director;

The chairman of the Company's Nomination Committee is Mr. Chi Yilin, independent non-executive director;

The chairman of the Company's Remuneration and Assessment Committee is Ms. Tian Ruihua, independent non-executive director.

Mr. Kang Jun resigned from all positions held in the Company on 16 September 2018.

7. Directors' and Supervisors' Service Contracts

None of the Directors or Supervisors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

8. Directors' and Supervisors' Interests in Contracts

In 2018, none of the Directors or Supervisors had a material interest in the contracts entered into by the Company, its controlling company or subsidiaries of its controlling company.

9. Auditor's Fee

The auditor's fee for 2018

Name of the accounting firm: Da Hua Certified Public Accountants (Special General Partnership)

Amount: RMB800,000.

The major factors for the basis of determination of the auditor's fee paid by the Company are as follows:

General remuneration offered for auditing service;

General work load on audit work for the previous accounting period;

General work load on audit work for the previous engagement

10. Company Secretary

The Company complied with the Rule 3.29 under the Listing Rules and has appointed suitable person to serve as company secretary. At the same time, the company also appointed external service agencies to assist the company secretary in performing duties. The primary internal contacts of the Company are the Company's executive directors and company secretary

11. Rights of Shareholders

The Company maintains good communication with its shareholders. The major communication channels include the general meetings, website and email of the Company, facsimile and telephone of the office of secretary to the Board to enable shareholders to express their opinions or exercise their rights.

(1) According to Article 45 of the "Articles of Association" of the Company, when shareholder(s) solely or jointly holding 10 percent or more of the Company's voting shares (the "proposal shareholder(s)") or supervisory committee require(s) the Board to convene an extraordinary general meeting, a proposal for a full agenda and contents of the meeting should be submitted in writing to the Board. The written proposal(s) should be submitted to the local CSRC authority and stock exchange for filing. The proposal shareholder(s) or supervisory committee should ensure that the contents of the proposal comply with laws, regulations and the articles of association of the Company.

(2) the procedures by which enquiries may be put to the board and sufficient contact details to enable these enquiries to be properly directed; and

(3) the procedures and sufficient contact details for putting forward proposals at shareholders' meetings.

12. Investor Relations

No significant changes in the Articles of Association of the Company during the year.

13. Risk Management and Internal Control

Pursuant to Code Provision C.2.1, the Company has included the statement of the board of directors in the annual report, which illustrated that the board of directors has made a review on the risk management and internal control system.

(1) The Company has internal audit function in place;

(2) The review on the risk management and internal control system was irregular, with samples selecting and covering the period of the year;

(3) During the year, the Company has made a statement on the effectiveness of the risk management and internal control system. Meanwhile, the Company appointed Moore Stephens Advisory Services Limited to sort out the internal control problems. Currently, the work is in the progress.

14. Responsibilities for Financial Statements

The Directors are responsible for supervising the preparation of accounts for each financial period which shall present a true and fair view of the, results and cash flow of the Group during such period.

The duties of the external auditor of the Company, Da Hua Certified Public Accountants (Special General Partnership), are set out in the annual report.

15. The Company confirmed that it has received from each of the independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers the independent non-executive directors to be independent.

For details of the part, please refer to the Independent Directors' Work Report for the Year 2018 of the Company published at the website of the Company at www.kmtcl.com.cn and the website of NEEQ at www.sse.com.cn on 29 March 2019.

16. There was no director of the Company intends to re-elect at the next annual general meeting, the period on expiration of directors has been stated in the annual report of the Company. There was no such service contracts being entered by the Company and the directors.

17. The listed issuer is required to include details of any service contracts that are exempt from relevant rules in accordance with the Rule 13.69 of the Listing Rules.

The directors' service contracts entered into by the issuer or any of its subsidiaries in accordance with the Listing Rules on or before 31 January 2004 are exempt from the shareholders' approval requirement under Rule 13.68 of the Listing Rules. Upon any variation as to duration or payment on termination or any other material terms of the directors' service contracts or renewal of any such directors' service contracts, the issuer must comply in full with the requirements set out in Rule 13.68 in respect of the service contracts effected after such variation or renewal. Pursuant to paragraph 14A of Appendix 16 of the Listing Rules, the issuer must include particulars of any service contracts that are exempt under this rule in its annual reports during the term of any such service contracts.

18. The Company is required to include the particulars (nature and scope) of transaction, arrangement or contract of significance subsisting during or at the end of the financial year in which the Directors or an entity connected with him/she is or was materially interested, either directly or indirectly.

For details of the part, please refer to related section five II (IX)in this annual report.

19. There was no pre-emptive rights exist in the jurisdiction in which the Company is incorporated or otherwise established.

20. The Company will include the information necessary to enable holders of the its listed securities to obtain any relief from taxation to which they are entitled, and such relief from taxation are entitled for their status as the holder of such securities.

21. The Company is required to state the sufficiency of its public float.

22. The details of change in auditors of the Company in any of the past three years.

On 10 August 2015, the second extraordinary general meeting of 2015 approved the appointment of Ruihua Certified Public Accountants (Special General Partnership) as the auditor of the Company in 2015. On 31 October 2017, the third extraordinary general meeting of 2017 approved Da Hua Certified Public Accountants (Special General Partnership) to re-audit the annual report of the Company for 2016, and to be the auditor of the Company in 2017. The first extraordinary general meeting of 2019 approved Da Hua Certified Public Accountants (Special General Partnership) as the auditor of the Company in 2018.

23. Listing Rules 14A.71(6) – Disclosures Related to Continuing Connected Transactions (Information) in Annual Reports

(14A.71 The listed issuer's annual report must contain details of the connected transactions during the financial year (including continuing connected transactions under agreements signed in previous years): (6) for continuing connected transactions, (a) a confirmation from the listed issuer's independent non-executive directors on the matters set out in Rule 14A.55 of the Listing Rules; and (b) a statement from the listed issuer's board of directors whether the auditors have confirmed the matters set out in Rule 14A.56 of the Listing Rules.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

This report reviewed the work and performance of Shenji Group Kunming Machine Tool Co., Ltd (the "Company"), and revealed the Company's ideal, implementation and results on fulfilling the economic, environmental and social responsibility.

BASIS OF PREPARATION

This report is written according to the Environmental, Social and Governance Reporting Guide ("ESG Reporting Guide") in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company has complied with the disclosure requirement of "comply or explain" provisions under the ESG Reporting Guide.

TIME RANGE

From 1 January 2018 to 31 December 2018

SOURCE OF INFORMATION

All the information contained in this report is the summary and statistic figures of the performance of the Company in fulfilling our duties and the contents of all information have been reviewed by the management of the Company or competent departments.

DISCLAIMER

This report includes forward-looking statements. Except for historical facts, all events or expression of events which may happen or will happen in the future (including but not limit to premises, targets, estimations and business plan) belong to forward-looking statements. Due to the influence of external variable factors, the results of future developments or trends of the facts may be different from the statements. The forward-looking statements in this report was made in March 2019. The Company has no obligation or responsibility to amend the statements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

I. Overview of The Company

Shenji Group Kunming Machine Tool Co., Ltd is one of the key enterprises in China manufacturing large high-precision machine tools. The Company has developed more than 140 machine tools as "First of its kind in China" The predecessor of the Company was the Central Machine Factory (Zhongyang Jiqi Chang) established in 1936, and was renamed Kunming Machine Tool Factory in 1953.The company was officially established on 19th October 1993 in the name of Kunming Machine Tool Co. Ltd. The Company became one of the first batch of standardized share-holding pilot enterprises listed in Hong Kong, and became the only A+H Shares listed company listed on the domestic and overseas markets in Yunnan Province and the domestic equipment industry.

On 5th June 2001, as shares of the Company being transferred to Xi'an Jiaotong University Industrial (Group) Incorporation ("Jiaotong Group"), Jiaotong Group became the largest shareholder of the Company.

Following the share transference, the Company was renamed "Jiaoda Kunji High-Tech Company Limited" and the name was officially registered on 29th March 2002.

On 1st December 2006, Jiaotong Group transferred the shares to Shenyang Machine Tool (Group) Co., Ltd. ("Shenyang Group"') and made it the largest shareholder of the Company. On 23rd March 2007, following the decision made on the General Meeting of Shareholders of Jiaoda Kunji High-Tech Company Limited, the Company was named Shenji Group Kunming Machine Tool Co., Ltd.

On 22 May 2018, the Company received the Decision on Termination of Listing of the Shares of Shenji Group Kunming Machine Tool Company Limited issued by the Shanghai Stock Exchange. The Shanghai Stock Exchange decided to terminate the listing of the Shares of the Company. From 30 May 2018, the Company's A Shares entered the delisting preparatory period. On 11 July 2018, the Company's shares were traded in the delisting preparatory period for 30 trading days. On 13 July 2018, the Company's A Shares were delisted by Shanghai Stock Exchange and the Company's shares were terminated listing (see the announcement 2018-057 for details). On 12 September 2018, the Company's A Shares have been transferred to NEEQ to list and transfer with call auction mode.

II. Core Values of the Company

To take innovation as the priority, to take quality as the foundation and to take precision as the soul.

III. Environmental Impact

3.1 Emission

The Company strictly complied with the environmental protection laws and regulations such as Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution and Law of the People's Republic of China on Prevention and Control of Water Pollution.

The Company has made its own water control procedure. A sewage collection and treatment system was built in the manufacturing area, waste water generated during the manufacturing process will be reused after treatment.

3.2 Use of resources

The Company makes use of different measures to utilize resources more efficiently, such as enhancements on designs with advanced technologies, improvement on management, pooling of resources and recycling of waste water.

Other than implementing management measures to save energy and water, the Company also provides environmental safety trainings to employees to raise their awareness and promote the idea of conserving electricity and water.

IV. Social Impact

4.1 Employment

The Company complied with the Labour Protection Law of the PRC etc. laws and regulations strictly and the internal policy on human resources management of the Company to select employees on a fair, open, and equitable basis.

The Company issued the Remuneration Management Measures of Shenji Group Kunming Machine Tool Co., Ltd., pursuant to which a sound remuneration management system has been established, with clearly defined constituents of total remuneration, post-specific and performance based salaries, remuneration management and distribution, settings of post-specific salaries, and the principles and measures for assessment and adjustments. The remuneration consists of basic salary, job position salary, performance salary, special bonus, transportation fee and meal expenses. The Company further enhanced salary control and management and continued to carry out two performance appraisals.

The first performance appraisal is conducted monthly by the Company according to the breakdown indexes and main duties of various units; the second performance appraisal, which is specific to every post and every employee, is made by various units based on the scheme of the first performance appraisal. Moreover, the Company also complies with the laws and regulations and provides well developed welfare services, including pensions, medical insurance, work-related injury insurance, maternity insurance, unemployment insurance and housing funds. In addition, apart from statutory holidays, the Company also provides arrangements on marital leave, maternity leave, annual vacation, personal leave with a suitable reason and sick leave.

4.2 Trainings and motivation mechanism

There are two levels of trainings in the Company. The training on the company level includes the enhancement of cohesion and trainings for key individuals and managers, while the trainings on department level focus more on skill training according to the need of each department. The training plan of both levels are decided at the beginning of every year and trainings are implemented accordingly, while the human resources department is responsible for the management, monitoring and assessment of the trainings.

The Company respects and recognizes the contribution of every employees and have an effective appraisal system to conduct comprehensive assessment and evaluation on the performance of employees. The evaluation result will be an important reference for the promotion and selection of managers.

4.3 Health and Safety of Employees

We attribute great importance to the health and safety of employees, and provide guidance on safety protection in the work process through promotions and trainings.

We exercise safety management based on the Law on Safety in Production. Responsibilities are delegated to each level with a high demand on the management of work procedure, we protect the safety and health of employees with a high sense of responsibility. In order to 'standardize the procedure and operation', we develop a Technical Operation Safety Standard to clarify the responsibilities, obligations and rights of employees to the safety of production to improve their safety awareness and strengthen their knowledge in identifying source of danger. Apart from safety operation certificates, our special operation personnel must also undergo professional trainings and pass the examination, only after obtaining the "Special Operation Certificate" issued by the higher safety supervision and management department can they take the post.

We arrange regular body check-ups and screenings of occupational illness of special operations for employees over 30, in order to ensure the health of employees.

4.4 Management of Supply Chain

Suppliers are important business partners for the enterprises. In order to achieve the long-term and stable development of the Company, we pay close attention to the operation of the suppliers and their continuous development.

We select our suppliers on a fair, open and equitable basis and evaluate the product's qualities, prices and cooperation abilities of suppliers, and even investigate through field studies to the suppliers that provide important raw materials, to ensure that the materials supplied follow the standards on quality, environmental impact and safety. In addition, we also select suppliers through public biddings to ensure that the purchased materials can satisfy the needs of the Company's production, reduce procurement costs and improve supply chain management.

4.5 Product responsibility

The Company attached great importance to the product quality. In accordance with GB/T 19001–2016 idt ISO 9001:2015 the Requirements for Quality Management System and GB/T 24001-2016 idt ISO 14001:2015 the Requirements and User Guide for Environmental Management Systems and combining the actual and development needs of the Company, the Company stipulates the quality and environmental responsibilities of each units and put forward the operational requirements for quality and environmental management system. Such documents are the programmatic documents and action guide for quality and environmental management system of the Company. With the lead of the leaders of the Company, we dedicate ourselves to meet the demands of our clients and improve the procedures base on the data and information of feedbacks. Our goals on product quality are 100% of qualified products, 80% of customers satisfaction, 100% of qualified machine parts,100% of response rate to complains and 100% of Improvement measures completion.

The implementation of quality monitoring management of the Company covers every step of production. The process of production and services are monitored and assessed, which allows us to discover and solve product quality problems in time.

4.6 Anti-corruption

We comply strictly to laws and regulations in order to completely eliminate illegal acts like bribing, blackmailing, fraud and money laundering.

We have developed and implemented an anti-corruption system which sets requirements for the ethics and conducts of high-level managers and general staff and expresses a zero tolerance towards corruption. Moreover, by having a reasonable separation in duties and the procedure of cross-approval, the possibility of corruption is lowered.

The Company has disciplinary inspection and supervision office, and petition reception room. We support and encourage our employees, suppliers and customers to make complains and supervise the business integrity operation of the Company.

V. Major Achievements and Certificates

The Company's main business includes R&D, design, manufacture and sale of horizontal boring machine, large NC floor-type milling and boring machine, NC gantry-type boring and milling machine, NC planer-type boring and milling machine, jig boring machine, horizontal boring and milling machining center, precision rotary table and other products. The Company has long been the first choice of various key industries like machining, automotive manufacturing, plane manufacturing and aerospace industry. Our clients include various wholly foreign-owned enterprises and large-scale private enterprises, who are generally very satisfied of our products. Most of our key products are considered as top-quality products in China, and our market share in China is over 30%. We have developed over 200 types of products, and 148 of them are the first of its kind in China. We have also received over 80 awards in scientific research from the national, provincial and municipal departments, and 18 awards of product qualities from ministry level or above, with 2 National Quality Gold Awards and 3 National Quality Silver Awards. We have been awarded the 'Top 100 National Enterprises with Excellent Qualities' and the brand of "Kunji" is well-known in China.

In September 2011, the Company's technology center became the national certification level enterprise technology center. In addition, the Company also owns the "National Local Joint Large Precision CNC Machine Engineering Research Center" and "Yunnan Precision Machine Tool Engineering Technology Research Center" etc. technology innovation platform, which provide us the opportunities to undertake 6 national technology projects and participate in 14 national technology projects. The Company also participated in 3 provincial technology projects and received 1 first award, 3 second awards and 2 third awards from provincial government on technology improvements.

VI. Corporate Governance

The Company is committed to compliance with regulatory requirements and according to the international recommended practice to continuously improve the corporate governance practices. We have adopted the Appendix 14, Corporate Governance Code the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and use it as an principle of governance.

For a more detailed report on our governance policy and other data, please refer to the governance report in the 2018 annual report of the Company.

VII. Future Prospects

To focus on finance to create value for shareholders; focus on the market to create value for customers and focus on products to create value for the industry, while maintaining the management on conventional products, the Company will have three strategic transition in the market in the next three years, firstly, transition from universal machine tools to industrial specialized machine tools. Aim at national strategic focuses and emerging industries such as aviation industry, military equipment, railway, wind power and automotive market to conduct market layout, and re-divide the market by region and industry, secondly, transition from single-machine manufacturing to intelligent solutions, implementing Machine tool + Internet and transition to industry service provider, and thirdly, transition from domestic market to international market. Based on international market special demand, continue to develop export products, with emphasis on products required for industrialization of developing countries. The proportion of export goods should reach over 10% within the next 3 years.

VIII. Content Index of the Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange

Main scope Aspects Page	General Disclosures and key performance indicators ("Comply or explain" Provisions)
A. Environment	
Aspect A1:	General Disclosure:
Emissions	relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.
	(a) the policies; and
	(b) compliance with relevant laws and regulations that have a significant impact on the issuer
Aspect A2:	General Disclosure:
Use of Resources	Policies on the efficient use of resources, including energy, water and other raw materials.
Aspect A3:	General Disclosure:
The Environment and	Policies on minimising the issuer's significant impact on the environment and natural resources Natural Resources

Main scope Aspects Page	General Disclosures and key performance indicators ("Comply or explain" Provisions)
B. Society	
Employment and Labour Standards	
Aspect B1:	General Disclosure:
Employment	relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.
	(a) the policies; and
	(b) compliance with relevant laws and regulations that have a
Aspect B2:	General Disclosure:
Health and Safety	relating to providing a safe working environment and protecting employees from occupational hazards.
	(a) the policies; and
	(b) compliance with relevant laws and regulations that have a significant impact on the issuer
Aspect B3:	General Disclosure:
Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.
Aspect B4:	General Disclosure:
Labour Standards	relating to preventing child and forced labour.
	(a) compliance with relevant laws and regulations that have a significant impact on the issuer

Main scope Aspects Page	General Disclosures and key performance indicators ("Comply or explain" Provisions)
Aspect B5:	General Disclosure:
Supply Chain Management	Policies on managing environmental and social risks of the supply chain.
Aspect B6:	General Disclosure:
Product Responsibility	relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer
Aspect B7:	General Disclosure:
Anticorruption	relating to bribery, extortion, fraud and money laundering. (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer
KPI B 7.2	Describe preventive measures and reporting procedures, and related implementation and monitoring methods

FINANCIAL REPORT

I. AUDITORS' REPORT

Audited or not	Yes
Audit opinion	Unmodified opinion
Special paragraphs in the auditors' report	☐Nil ✓Emphasized matter paragraph ☐Other matter paragraph ☐Going concern material uncertainty paragraph ☐Other information paragraph containing explanations on uncorrected material misstatement of other information
Auditors' Report number	Da Hua Shen Zi [2019] No. 002768
Name of audit institution	Da Hua Certified Public Accountants (Special General Partnership)
Address of audit institution	Unit 1101, Bldg7, No.16 Xi Si Huan Zhong Road, Haidian District, Beijing
Date of auditors' report	28 March 2019
Signature of accountants	Ao Du Ji Ya, A Lima
Whether the accounting firm changed	No

AUDITORS' REPORT:

All Shareholders of Shenji Group Kunming Machine Tool Company Limited:

I. Audit Opinion

We have audited the financial statements of Shenji Group Kunming Machine Tool Company Limited (the "Company"), which comprise the consolidated balance sheet and balance sheet of parent as at 31 December 2018, the consolidated income statement and income statement of parent, the consolidated cash flow statement and cash flow statement of parent, the consolidated statement of changes in shareholders' equity and statement of changes in shareholders' equity of parent for the year then ended 2018, and related notes to the financial statements.

In our opinion, the accompanying financial statements prepared in accordance with the requirements of Accounting Standards for Business Enterprises in all material aspects, give a fair view of the Company's consolidated financial position and financial position of parent as at 31 December 2018, and of its consolidated financial performance and cash flows of parent for the year then ended 2018.

I. AUDITORS' REPORT *(Continued)*

II. Basis for Audit Opinion

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

III. Material Uncertainty Related to Going Concern

We draw the attention from users of financial statement to that, the Company incurred a net loss of RMB253,330,798.55 in 2018, and as at 31 December 2018, the current liabilities of the Company exceeded its current assets by RMB711,384,670.11, and its gearing ratio as at the end of 2018 was 120.40% as stated in note III to the financial statements. As stated in note III to the financial statements, these matters or circumstances, together with other matters stated in note VI to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our audit opinion made was not affected by these matters.

IV. Key Audit Matters

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

We determine that revenue recognition and costs carrying forward are key audit matters that need to be communicated in the auditors' report.

1. *Description of the key audit matter*

As stated in note IV, (XXV) and note VI, note 36 to the financial statement, the time of revenue recognition of sales of machine tool, the Company's principal activity, is the delivery of the product to the customer's designated delivery place and the revenue recognition after acceptance. As the operating revenue recognition and costs carrying forward have had a significant impact on the Company, we have determined that as a key audit matter.

2. *How our audit addressed the key audit matter*

The key auditing procedures we implemented for revenue recognition and costs carrying forward include:

(1) We understood, tested and evaluated the internal control systems related to revenue recognition and costs carrying forward;

(2) We reviewed the appropriateness of accounting policies for revenue recognition and costs carrying forward of the Company and whether they have been implemented effectively;

(3) We performed cut-off testing to determine whether there was any inter-period sales revenue and costs;

(4) We selected the sample size in the annual income, and checked the sales contracts, delivery invoices, transportation contracts and acceptance certificates of each single sale against the sample item by item based on the sales process, and comprehensively evaluated the realization of revenue based on the evidence obtained;

I. AUDITORS' REPORT *(Continued)*

(5) We further recognized the realization of revenue by combining the accounts receivable, advances from customers and revenue confirmations, as well as post-payment test of sales;

(6) We implemented analytical procedures on a monthly and yearly basis, and matched the sales volume of all machine tools with quantity and amount of costs carrying forward based on the standard cost of the whole machine and the results of opening and closing physical stock-take, to confirm whether the calculation for costs of principal activities of the current period is accurate;

(7) We reviewed whether the costs of principal business were carried forward in an accurate manner based on the records on receipt, release and storage of inventories and the time of sales revenue recognition;

(8) We checked the sufficiency and appropriateness of the presentation and disclosure of the revenue and cost of the Company in the financial statements.

Based on the audit evidence obtained, we believe that the accounting treatment, presentation and disclosure of revenue recognition and costs carrying forward for 2018 by the management of the Company are appropriate.

V. Other Information

The management of the Company is responsible for other information. Other information comprises the information included in the 2018 annual report, but does not include the financial statements and our auditors' report thereon.

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

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

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

VI. Responsibilities of Management and Governance Layer for the Financial Statements

The management of the Company is responsible for preparing financial statements in accordance with Accounting Standards for Business Enterprises, and fairly presenting them; designing, implementing and maintaining internal control which is necessary to enable the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management of the Company is responsible for assessing the Company's ability to continue as a going concern, disclosing, where applicable, matters in relation to going concern and applying the going-concern assumption unless the management intends to liquidate the Company, cease operations, or have no realistic alternative but to do so.

The governance layer is responsible for overseeing the financial reporting process of the Company.

I. AUDITORS' REPORT *(Continued)*

VII. Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with the auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

2. obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

3. evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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

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

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

I. AUDITORS' REPORT *(Continued)*

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

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

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

Da Hua Certified Public Accountants (Special General Partnership)

Beijing, China

28 March 2019

FINANCIAL REPORT

II. FINANCIAL STATEMENTS

(I) Consolidated Balance Sheet

Unit: RMB

Item	Note	2018	2017
Current assets:			
Cash at bank and on hand	VI. 1	75,506,339.54	91,148,044.38
Settlement provisions			
Lending funds			
Financial assets held for trading			
Derivative financial assets			
Bills receivable and Accounts receivable	VI.2	221,468,560.85	284,228,889.00
Prepayments	VI.3	22,926,092.96	38,114,906.00
Premiums receivable			
Reinsurance accounts receivable			
Reinsurance contract reserve			
Other receivables	VI.4	12,398,524.76	19,794,921.53
Financial assets purchased under resale agreements			
Inventories	VI.5	401,945,580.88	561,821,346.40
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets	VI.6	5,686,355.64	18,165,469.49
Total current assets		**739,931,454.63**	**1,013,273,576.80**
Non-current assets:			
Entrusted loans and advances			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	VI.8	8,747,249.21	10,039,220.02
Other equity instrument investment			
Other non-current financial assets	VI.9	612,000.00	612,000.00
Investment properties	VI.10	14,388,255.72	14,826,693.00
Fixed assets	VI.11	373,161,637.67	409,396,449.93
Construction in progress	VI.12	70,645,813.07	54,044,868.15
Productive biological assets			
Oil and gas assets			
Intangible assets	VI.13	159,087,181.40	178,785,639.52
Development expenditure	VI.14	38,116,809.77	4,150,415.13
Goodwill	VI.15		
Long-term deferred expenses	VI.16	4,692,958.13	
Deferred tax assets	VI.17	2,533,005.71	2,393,247.69
Other non-current assets	VI.18	4,116,091.08	4,116,091.08
Total non-current assets		**676,101,001.76**	**678,364,624.52**
Total assets		**1,416,032,456.39**	**1,691,638,201.32**

II. FINANCIAL STATEMENTS *(Continued)*

(I) Consolidated Balance Sheet *(Continued)*

Unit: RMB

Item	Note	2018	2017
Current liabilities:			
Short-term loans	VI.19	241,000,000.00	363,683,036.94
Borrowings from central bank			
Deposits and interbank deposit			
Borrowing funds			
Financial liabilities held for trading			
Derivative financial liabilities			
Bills payable and accounts payable	VI.20	303,528,115.97	320,626,464.70
Advances from customers	VI.21		282,852,805.07
Contract liabilities	VI.22	310,370,448.64	
Financial assets sold under repurchase agreements			
Fees and commissions payable			
Employee benefits payable	VI.23	47,242,378.23	39,039,042.73
Taxes payable	VI.24	12,335,198.36	11,643,532.84
Other payables	VI.25	536,839,983.54	389,284,243.04
Reinsurance payable			
Insurance contract reserve			
Payables to brokerage			
Acting underwriting securities			
Liabilities held for sale			
Non-current liabilities due within one year	VI.26		45,000,000.00
Other current liabilities			
Total current liabilities		**1,451,316,124.74**	**1,452,129,125.32**
Non-current liabilities:			
Long-term loans	VI.27	0	1,665,275.66
Debentures payable			
Including: Preferred shares			
Perpetual debt			
Long-term payables	VI.28	20,947,539.29	20,947,539.29
Long-term employee benefits payable	VI.29	37,004,116.91	41,689,562.44
Estimated liabilities	VI.30	8,933,077.54	10,513,913.91
Deferred income	VI.31	186,672,525.78	195,202,914.02
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		**253,557,259.52**	**270,019,205.32**
Total liabilities		**1,704,873,384.26**	**1,722,148,330.64**

II. FINANCIAL STATEMENTS *(Continued)*

(I) Consolidated Balance Sheet *(Continued)*

Unit: RMB

Item	Note	2018	2017
Shareholders' equity:			
Share capital	VI.32	531,081,103	531,081,103
Other equity instruments			
Including: Preferred shares			
Perpetual debt			
Capital reserve	VI.33	19,765,031.17	19,765,031.17
Less: Treasury stock			
Other comprehensive income			
Specific reserve			
Surplus reserve	VI.34	117,077,019.33	117,077,019.33
General risk provisions			
Retained earnings	VI.35	-956,953,642.25	-706,144,182.57
Total equity attributable to shareholders of the Company		-289,030,488.75	-38,221,029.07
Non-controlling interests		189,560.88	7,710,899.75
Total shareholders' equity		**-288,840,927.87**	**-30,510,129.32**
Total liabilities and shareholders' equity		**1,416,032,456.39**	**1,691,638,201.32**

Legal representative of the Company:
Wang He

The person in charge of accounting affairs:
Xu Juan

The head of the accounting department:
Wang Jianfang

II. FINANCIAL STATEMENTS

(II) Balance Sheet

Unit: RMB

Item	Note	2018	2017
Current assets:			
Cash at bank and on hand		40,842,195.14	53,738,819.88
Financial assets held for trading			
Derivative financial assets			
Bills receivable and Accounts receivable	XVI. 1	273,292,120.00	319,276,644.26
Prepayments		20,162,130.66	22,473,939.73
Other receivables	XVI. 2	33,102,096.26	64,709,323.75
Inventories		239,918,892.95	395,361,175.05
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets		4,513,907.37	17,386,311.22
Total current assets		**611,831,342.38**	**872,946,213.89**
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	XVI. 3	103,979,583.41	56,472,191.03
Other equity instrument investment			
Other non-current financial assets			
Investment properties		14,388,255.72	14,826,693.00
Fixed assets		357,006,767.27	369,864,949.39
Construction in progress		70,645,813.07	54,044,868.15
Productive biological assets			
Oil and gas assets			
Intangible assets		159,054,498.04	168,324,633.19
Development expenditure		38,116,809.77	4,150,415.13
Goodwill			
Long-term deferred expenses		4,692,958.13	
Deferred tax assets			
Other non-current assets		4,116,091.08	4,116,091.08
Total non-current assets		**752,000,776.49**	**671,799,840.97**
Total assets		**1,363,832,118.87**	**1,544,746,054.86**

II. FINANCIAL STATEMENTS *(Continued)*

(II) Balance Sheet *(Continued)*

Unit: RMB

Item	*Note*	2018	2017
Current liabilities:			
Short-term loans		241,000,000.00	340,000,000.00
Financial liabilities held for trading			
Derivative financial liabilities			
Bills payable and Accounts payable		256,933,327.48	250,156,983.11
Advances from customers			185,644,384.34
Contract liabilities		242,990,427.57	
Employee benefits payable		46,152,574.33	37,892,556.89
Taxes payable		9,663,574.62	8,535,984.19
Other payables		528,062,865.64	383,753,765.94
Liabilities held for sale			
Non-current liabilities due within one year			45,000,000.00
Other current liabilities			
Total current liabilities		**1,324,802,769.64**	**1,250,983,674.47**
Non-current liabilities:			
Long-term loans			1,665,275.66
Debentures payable			
Including: Preferred shares			
Perpetual debt			
Long-term payables		20,947,539.29	20,947,539.29
Long-term employee benefits payable		37,004,116.91	41,689,562.44
Estimated liabilities		7,918,925.33	9,286,536.28
Deferred income		186,432,525.78	193,562,914.02
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		**252,303,107.31**	**267,151,827.69**
Total liabilities		**1,577,105,876.95**	**1,518,135,502.16**

II. FINANCIAL STATEMENTS *(Continued)*

(II) Balance Sheet *(Continued)*

Unit: RMB

Item	*Note*	2018	2017
Shareholders' equity:			
Share capital		531,081,103	531,081,103
Other equity instruments			
Including: Preferred shares			
Perpetual debt			
Capital reserve		27,303,321.72	27,303,321.72
Less: Treasury stock			
Other comprehensive income			
Specific reserve			
Surplus reserve		117,077,019.33	117,077,019.33
General risk provisions			
Retained earnings		-888,735,202.13	-648,850,891.35
Total shareholders' equity		**-213,273,758.08**	**26,610,552.70**
Total liabilities and shareholders' equity		**1,363,832,118.87**	**1,544,746,054.86**

II. FINANCIAL STATEMENTS *(Continued)*

(III) Consolidated Income Statement

Unit: RMB

Item	Note	2018	2017
1. Operating income		**494,604,933.27**	**560,399,237.36**
Including: Operating income		494,604,933.27	560,399,237.36
Interest income			
Earned premium			
Fee and commission income			
2. Operating costs			
Including: Operating costs		483,044,158.91	582,290,174.33
Interest expenses			
Fee and commission expenses			
Premium refunded			
Net compensation expenses			
Withdrawal of net insurance contract reserve			
Premium bonus expenses			
Reinsurance expenses			
Business tax and surcharges		7,261,951.46	7,115,290.08
Selling and distribution expenses		70,193,433.64	85,193,796.00
General and administrative expenses		135,140,686.68	164,273,889.23
R & D expenses		12,927,256.00	5,739,242.43
Financial expenses		28,348,222.90	56,469,493.05
Including: interests expenses			
interest income			
Assets impairment losses		1,175,708.66	18,059,173.52
Credit impairment losses		27,326,664.53	
Add: Other income		16,795,895.16	8,883,770.03
Investment income ("-" for loss)		190,415.07	-3,107,018.80
Including: investment income from Associates and joint ventures		-1,291,970.81	-3,107,018.80
Gains from net exposure hedges ("-" for loss)			
Gains from changes in fair values ("-" for loss)			
Gain on disposal of assets ("-" for loss)		931,849.77	802,737.87
Exchange gain ("-" for loss)			
3. Operating profit ("-" for loss)		**-252,894,989.51**	**-352,162,332.18**
Add: Non-operating income		2,618,139.21	1,828,974.47
Less: Non-operating expenses		3,193,706.27	1,052,847.51
4. Profit before income tax ("-" for loss)		**-253,470,556.57**	**-351,386,205.22**
Less: Income tax expense		-139,758.02	747,256.32

II. FINANCIAL STATEMENTS *(Continued)*

(III) Consolidated Income Statement *(Continued)*

Unit: RMB

Item	Note	2018	2017
5. Net Profit for the year ("-" for loss)		**-253,330,798.55**	**-352,133,461.54**
Including: the net profit realized by the combined party before the business combination			
(I)Classified by operating continuity	–	–	–
(1)Net profit from continuing operations ("-" for net loss)		-251,511,921.30	-352,133,461.54
(2)Net profit of discontinued operation ("-" for net loss)		-1,818,877.25	
(II)Classified by ownership	–	–	–
Net profit attributable to			
1. Non-controlling interests		-2,521,338.87	-2,440,270.68
2. Shareholders of the Company		-250,809,459.68	-349,693,190.86
6. Other comprehensive income, net of tax			
Other comprehensive income, net of tax attributable to the shareholders of parent company			
(I)Other comprehensive income that cannot be reclassified to profit or loss			
1. Changes in net liabilities or net assets arising from the remeasurement of defined benefit plans			
2. Other comprehensive income cannot be transferred to income or loss under equity method			
3. Changes in fair value other equity instruments investment			
4. Changes in the fair value of the company's credit risk			
(II)Other comprehensive income that can be reclassified into profit or loss			
1. Other comprehensive income that can be reclassified to profit or loss			
2. Changes in fair value of other debt investment			
3. The amount of financial assets reclassified into other comprehensive income			
4. Credit impairment provision for other debt investment			
5. Cash flow hedging reserve			
6. Exchange differences from translation of financial statements			
7. Others			
Other comprehensive income, net after tax attributable to non-controlling interests			
7. Total comprehensive income		**-253,330,798.55**	**-352,133,461.54**
Attributable to: Shareholders of the Company		-250,809,459.68	-349,693,190.86
Non-controlling interests		-2,521,338.87	-2,440,270.68
8. Earnings per share:			
(I)basic earnings per share		-0.47	-0.67
(II)diluted earnings per share		-0.47	-0.67

Legal representative of the Company: Wang He The person in charge of accounting affairs: Xu Juan

The head of the accounting department: Wang Jianfang

II. FINANCIAL STATEMENTS *(Continued)*

(IV) Income Statement

Unit: RMB

Item	Note	2018	2017
1. Operating income	*XVI.4*	**427,381,579.91**	**464,213,170.74**
Less: Operating costs	*XVI.4*	431,251,066.29	505,302,115.68
Business taxes and surcharges		6,120,675.07	5,803,350.73
Selling and distribution expenses		62,019,258.67	74,021,485.97
General and administrative expenses		111,834,955.13	141,149,071.09
R & D expenses		12,927,256.00	5,739,242.43
Financial expenses		27,582,204.05	54,077,111.93
Including: interests expenses			
interest income			
Assets impairment losses		1,175,708.66	10,372,787.96
Credit impairment losses		34,733,682.44	
Add: Other income		16,577,276.24	8,522,770.03
Investment income ("-" for loss)	*XVI.5*	3,708,029.19	-607,018.80
Including: investment income from associates and joint ventures			-3,107,018.80
Gains from net exposure hedges ("-" for loss)			
Gains from changes in fair values ("-" for loss)			
Gain on disposal of assets ("-" for loss)		819,597.11	727,818.03
Exchange gain ("-" for loss)			
2. Operating profit ("-" for loss)		**-239,158,323.86**	**-323,608,425.79**
Add: Non-operating income		1,468,062.14	371,722.70
Less: Non-operating expenses		2,194,049.06	1,005,197.70
3. Profit before income tax ("-" for loss)		-239,884,310.78	-324,241,900.79
Less: Income tax expense			
4. Net Profit for the year ("-" for loss)		-239,884,310.78	-324,241,900.79
(1)Net profit from continuing operations		-239,884,310.78	-324,241,900.79
(2)Net profit of discontinued operation			

II. FINANCIAL STATEMENTS *(Continued)*

(IV) Income Statement *(Continued)*

Unit: RMB

Item	*Note*	2018	2017
5. Other comprehensive income, net of tax			
(I)Other comprehensive income that cannot be reclassified to profit or loss			
1. Changes in net liabilities or net assets arising from the remeasurement of defined benefit plans			
2. Other comprehensive income cannot be transferred to income or loss under equity method			
3. Changes in fair value of other equity instruments investment			
4. Changes in the fair value of the company's credit risk			
(II)Other comprehensive income that can be reclassified into profit or loss			
1. Other comprehensive income that can be reclassified to profit or loss			
2. Changes in fair value of other debt investment			
3. The amount of financial assets reclassified into other comprehensive income			
4. Credit impairment provision for other debt investment			
5. Cash flow hedging reserve			
6. Exchange differences from translation of financial statements			
7. Others			
6. Total comprehensive income		**-239,884,310.78**	**-324,241,900.79**
7. Earnings per share:			
(III)basic earnings per share		-0.43	
(IV)diluted earnings per share		-0.43	

II. FINANCIAL STATEMENTS *(Continued)*

(V) Consolidated Cash Flow Statement

Unit: RMB

Item	Note	2018	2017
1. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		296,978,849.64	692,430,529.00
Net increase of deposits and interbank deposits			
Net increase of borrowing from central bank			
Net increase of borrowings from other financial institutions			
Cash received from premiums of original contracts			
Net cash received from reinsurance business			
Net increase in policyholders' reserve and investment			
Net increase of financial assets measured at fair value and its changes included in the current profits and losses			
Cash received from interest, processing fees and commissions			
Net increase of borrowing funds			
Net increase of funds from repurchase business			
Received taxes and fees returned		3,385,983.05	
Cash received relating to other operating activities		51,777,562.06	172,208,301.67
Sub-total of cash inflows from operating activities		352,142,394.75	864,638,830.67
Payment for goods and services		78,149,938.18	486,972,040.24
Net increase in customer loans and advances			
Net increase of deposits in central bank and interbank deposits			
Payment of original insurance contracts' claims			
Cash paid for interest, commission and commission			
Cash paid for policy dividends			
Payment to and for employees		154,033,241.51	173,076,092.29
Payment for all types of taxes		27,187,805.59	19,943,111.63
Payment relating to other operating activities		106,961,432.32	185,468,567.32
Sub-total of cash outflows from operating activities		366,332,417.60	865,459,811.48
Net cash flows from operating activities		-14,190,022.85	-820,980.81
2. Cash flows from investing activities:			
Cash received from recovery of investment		206,000,000.00	
Investment returns received		603,842.48	
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		38,038,799.99	3,585,434.39
Net cash received from disposal of subsidiaries and other business units			
Cash received relating to other investing activities			
Sub-total of cash inflows from investing activities		244,642,642.47	3,585,434.39

II. FINANCIAL STATEMENTS *(Continued)*

(V) Consolidated Cash Flow Statement *(Continued)*

Unit: RMB

Item	Note	2018	2017
Payment for acquisition of fixed assets, intangible assets and other long-term assets		736,751.82	22,898,832.93
Cash paid for investment		206,000,000.00	
Net increase in pledged loans			
Net cash paid for acquisition of subsidiaries and other business units			
Payment relating to other investing activities		830,717.23	
Sub-total of cash outflows from investing activities		207,567,469.05	22,898,832.93
Net cash flows from investing activities		37,075,173.42	-19,313,398.54
3. Cash flows from financing activities:			
Cash received from investments			
Including: cash received by subsidiaries absorbing non-controlling shareholders' investments			
Cash received from borrowings		241,000,000.00	410,024,100.00
Cash received from issuing of bonds			
Cash received relating to other financing activitie		155,135,664.28	82,717,500.00
Sub-total of cash inflows from financing activities		396,135,664.28	492,741,600.00
Repayments of borrowings		387,167,333.04	607,013,783.06
Payment for distribution of dividends, profit or repayment of interest		26,920,445.29	45,818,853.85
Including: dividends, profits paid to non-controlling shareholders by subsidiaries			
Payment relating to other financing activities		33,400,000.00	55,000,000.00
Sub-total of cash outflows from financing activities		447,487,778.33	707,832,636.91
Net cash flows from financing activities		-51,352,114.05	-215,091,036.91
4. Effect of foreign exchange rate changes on cash and cash equivalents		**-189,164.93**	**-111,118.04**
5. Net Increase in cash and cash equivalents		**-28,656,128.41**	**-235,336,534.30**
Add: Cash and cash equivalents at the beginning of the period		90,263,315.47	325,599,849.77
6. Cash and cash equivalents at the end of the period		**61,607,187.06**	**90,263,315.47**

Legal representative of the Company: Wang He   The person in charge of accounting affairs: Xu Juan

The head of the accounting department: Wang Jianfang

II. FINANCIAL STATEMENTS *(Continued)*

(VI) Cash Flow Statement

Unit: RMB

Item	*Note*	2018	2017
1. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		205,054,228.76	539,658,021.01
Received taxes and fees returned		3,385,983.05	
Cash received relating to other operating activities		45,805,128.46	196,185,518.42
Sub-total of cash inflows from operating activities		254,245,340.27	735,843,539.43
Payment for goods and services		35,947,244.23	354,908,819.79
Payment to and for employees		131,534,455.74	166,092,378.43
Payment for all types of taxes		21,450,270.97	11,054,273.26
Payment relating to other operating activities		85,943,684.42	177,410,245.87
Sub-total of cash outflows from operating activities		274,875,655.36	709,465,717.35
Net cash flows from operating activities		-20,630,315.09	26,377,822.08
2. Cash flows from investing activities:			
Cash received from recovery of investment			
Investment returns received		5,000,000.00	
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		38,001,000.00	4,262,347.03
Net cash received from disposal of subsidiaries and other business units			
Cash received relating to other investing activities			
Sub-total of cash inflows from investing activities		43,001,000.00	4,262,347.03
Payment for acquisition of fixed assets, intangible assets and other long-term assets		665,885.72	23,549,995.22
Cash paid for investment			
Net cash paid for acquisition of subsidiaries and other business units			
Payment relating to other investing activities		-470,388.62	
Sub-total of cash outflows from investing activities		195,497.10	23,549,995.22
Net cash flows from investing activities		42,805,502.90	-19,287,648.19

II. FINANCIAL STATEMENTS *(Continued)*

(VI) Cash Flow Statement *(Continued)*

Unit: RMB

Item	*Note*	2018	2017
3. Cash flows from financing activities:			
Cash received from investments			
Cash received from borrowings		241,000,000.00	170,000,000.00
Cash received from issuing of bonds			
Cash received relating to other financing activities		155,135,664.28	82,717,500.00
Sub-total of cash inflows from financing activities		396,135,664.28	252,717,500.00
Repayments of borrowings		386,665,275.66	416,300,000.00
Payment for distribution of dividends, profit or repayment of interest		21,152,961.77	15,504,757.54
Payment relating to other financing activities		33,400,000.00	55,000,000.00
Sub-total of cash outflows from financing activities		441,218,237.43	486,804,757.54
Net cash flows from financing activities		-45,082,573.15	-234,087,257.54
4. Effect of foreign exchange rate changes on cash and cash equivalents		**-189,325.23**	**-114,245.62**
5. Net Increase in cash and cash equivalents		**-23,096,710.57**	**-227,111,329.27**
Add: Cash and cash equivalents at the beginning of the period		52,854,090.97	279,965,420.24
6. Cash and cash equivalents at the end of the period		**29,757,380.40**	**52,854,090.97**

II. FINANCIAL STATEMENTS *(Continued)*

(VII) Consolidated Statement of Changes in Shareholders' Equity

Unit: RMB

	2018										
	Attributable to shareholders of the Company										
Item	Share capital	Other equity instrument	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserve	General risk reserves	Retained earnings	Non-controlling interest	Total shareholders' equity
I. Closing balance as at the end of the prior year	**531,081,103.00**		**19,765,031.17**				**117,077,019.33**		**-706,144,182.57**	**7,710,899.75**	**-30,510,129.32**
Add: Changes in accounting policies											
Correction of prior periods errors											
Business combination under the common control											
Others											
II. Beginning balance of the current year	**531,081,103.00**		**19,765,031.17**				**117,077,019.33**		**-706,144,182.57**	**7,710,899.75**	**-30,510,129.32**
III. Increase/decrease of the period ("- " for decrease)									**-250,809,459.68**	**-7,521,338.87**	**-258,330,798.55**
(I)Total comprehensive income									-250,809,459.68	-2,521,338.87	-253,330,798.55
(II)Contribution and withdrawal of capital by shareholders											
1. Common shares contributed by shareholders											
2. Capital contributed by holders of other equity instruments											
3. Share-based payments recognized in equity											
4. Others											
(III)Profit distribution										-5,000,000.00	-5,000,000.00
1. Appropriation to surplus reserves											
2. Appropriation to general risk reserve											
3. Appropriation to shareholders										-5,000,000.00	-5,000,000.00
4. Others											
(IV)Internal transfer within the shareholders' equity											
1. Transfer of capital reserve to share capital											
2. Transfer of surplus reserves to share capital											
3. Using surplus reserves to cover losses											
4. Change of setting benefit plan carry -over retained earning											
5. Other comprehensive income carry-over retained earnings											
6. Others											
(V)Special reserves											
1. Current period appropriation											
2. Utilization in the current period											
(VI)Others											
IV. Balance at the end of the year	**531,081,103.00**		**19,765,031.17**				**117,077,019.33**		**-956,953,642.25**	**189,560.88**	**-288,840,927.87**

II. FINANCIAL STATEMENTS *(Continued)*

(VII) Consolidated Statement of Changes in Shareholders' Equity *(Continued)*

Unit: RMB

	2017										
	Attributable to shareholders of the Company										
Item	Share capital	Other equity instrument	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserve	General risk reserves	Retained earnings	Non-controlling interest	Total shareholders' equity
I. Closing balance as at the end of the prior year	**531,081,103.00**		**19,765,031.17**				**117,077,019.33**		**-356,450,991.71**	**12,651,170.43**	**324,123,332.22**
Add: Changes in accounting policies											
Correction of prior periods errors											
Business combination under the common control											
Others											
II. Beginning balance of the current year	**531,081,103.00**		**19,765,031.17**				**117,077,019.33**		**-356,450,991.71**	**12,651,170.43**	**324,123,332.22**
III. Increase/decrease of the period ("- " for decrease)									**-349,693,190.86**	**-4,940,270.68**	**-354,633,461.54**
(I)Total comprehensive income									-349,693,190.86	-2,440,270.68	-352,133,461.54
(II)Contribution and withdrawal of capital by shareholders											
1. Common shares contributed by shareholders											
2. Capital contributed by holders of other equity instruments											
3. Share-based payments recognized in equity											
4. Others											
(III)Profit distribution										-2,500,000.00	-2,500,000.00
1. Appropriation to surplus reserves											
2. Appropriation to general risk reserve											
3. Appropriation to shareholders										-2,500,000.00	-2,500,000.00
4. Others											
(IV)Internal transfer within the shareholders' equity											
1. Transfer of capital reserve to share capital											
2.Transfer of surplus reserves to share capital											
3. Using surplus reserves to cover losses											
4. Change of setting benefit plan carry -over retained earning											
5. Other comprehensive income carry-over retained earnings											
6. Others											
(V)Special reserves											
1. Current period appropriation											
2. Utilization in the current period											
(VI)Others											
IV. Balance at the end of the year	**531,081,103.00**		**19,765,031.17**				**117,077,019.33**		**-706,144,182.57**	**7,710,899.75**	**-30,510,129.32**

Legal representative of the Company: Wang He

The person in charge of accounting affairs: Xu Juan

The head of the accounting department: Wang Jianfang

II. FINANCIAL STATEMENTS *(Continued)*

(VIII) Statement of Changes in Shareholders' Equity

Unit: RMB

	2018									
Item	**Share capital**	**Other equity instrument**	**Capital reserve**	**Less: treasury stock**	**Other comprehensive income**	**Special reserves**	**Surplus reserve**	**General risk reserves**	**Retained earnings**	**Total shareholders' equity**
I. Closing balance as at the end of the prior year	**531,081,103.00**		**27,303,321.72**				**117,077,019.33**		**-648,850,891.35**	**26,610,552.70**
Add: Changes in accounting policies										
Correction of prior periods errors										
Others										
II. Beginning balance of the current year	**531,081,103.00**		**27,303,321.72**				**117,077,019.33**		**-648,850,891.35**	**26,610,552.70**
III. Increase/decrease of the period ("-" for decrease)									**-239,884,310.78**	**-239,884,310.78**
(I) Total comprehensive income									-239,884,310.78	-239,884,310.78
(II) Contribution and withdrawal of capital by shareholders										
1. Ordinary shares contributed by shareholders										
2. Capital contributed by holders of other equity instruments										
3. Share-based payments recognized in equity										
4. Others										
(III) Profit distribution										
1. Appropriation to surplus reserves										
2. Appropriation to general risk reserve										
3. Appropriation to shareholders										
4. Others										
(IV) Internal transfer within the shareholders' equity										
1. Transfer of capital reserve to share capital										
2.Transfer of surplus reserves to share capital										
3. Using surplus reserves to cover losses										
4. Change of setting benefit plan carry -over retained earning										
5. Other comprehensive income carry-over retained earnings										
6. Others										
(V) Special reserves										
1. Current period appropriation										
2. Utilization in the current period										
(VI) Others										
IV. Balance at the end of the year	**531,081,103.00**		**27,303,321.72**				**117,077,019.33**		**-888,735,202.13**	**-213,273,758.08**

II. FINANCIAL STATEMENTS *(Continued)*

(VIII) Statement of Changes in Shareholders' Equity *(Continued)*

Unit: RMB

2017

Item	Share capital	Other equity instrument	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserve	General risk reserves	Retained earnings	Total shareholders' equity
I. Closing balance as at the end of the prior year	**531,081,103.00**		**27,303,321.72**				**117,077,019.33**		**-324,608,990.56**	**350,852,453.49**
Add: Changes in accounting policies										
Correction of prior periods errors										
Others										
II. Beginning balance of the current year	**531,081,103.00**		**27,303,321.72**				**117,077,019.33**		**-324,608,990.56**	**350,852,453.49**
III. Increase/decrease of the period ("-" for decrease)									**-324,241,900.79**	**-324,241,900.79**
(I) Total comprehensive income									-324,241,900.79	-324,241,900.79
(II) Contribution and withdrawal of capital by shareholders										
1. Ordinary shares contributed by shareholders										
2. Capital contributed by holders of other equity instruments										
3. Share-based payments recognized in equity										
4. Others										
(III) Profit distribution										
1. Appropriation to surplus reserves										
2. Appropriation to general risk reserve										
3. Appropriation to shareholders										
4. Others										
(IV) Internal transfer within the shareholders' equity										
1. Transfer of capital reserve to share capital										
2.Transfer of surplus reserves to share capital										
3. Using surplus reserves to cover losses										
4. Change of setting benefit plan carry -over retained earning										
5. Other comprehensive income carry-over retained earnings										
6. Others										
(V) Special reserves										
1. Current period appropriation										
2. Utilization in the current period										
(VI) Others										
IV. Balance at the end of the year	**531,081,103.00**		**27,303,321.72**				**117,077,019.33**		**-648,850,891.35**	**26,610,552.70**

I. CORPORATE INFORMATION

(I) The registered address of the Company, the type of organization, and the address of headquarters

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

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

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

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

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

I. CORPORATE INFORMATION *(Continued)*

(I) The registered address of the Company, the type of organization, and the address of headquarters *(Continued)*

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

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

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

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

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

I. CORPORATE INFORMATION *(Continued)*

(I) The registered address of the Company, the type of organization, and the address of headquarters *(Continued)*

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

On 22 May 2018, the Company received the Decision on Termination of Listing of the Shares of Shenji Group Kunming Machine Tool Company Limited issued by the Shanghai Stock Exchange. The Shanghai Stock Exchange decided to terminate the listing of the Shares of the Company. From 30 May 2018, the Company's A Shares entered the delisting preparatory period. From 13 July 2018, the Company's A Shares has been terminated the listing. 45 transfer days from 11 July 2018 (i.e. 12 September 2018), the Company's A Shares began to transfer to NEEQ to list and transfer with call auction mode.

As at 31 December 2018, the number of the total issued shares of the Company was 531,081,103 shares, and the registered capital of the Company was RMB531,081,103.00.

The registered address of the Company is 23 Ciba Road, Kunming City, Yunnan Province, the PRC, and the Company has obtained the business license with unified social credit code 91530000622602196M.

(II) The nature of the Company's business and its main business activities

The Company is in machinery manufacturing industry, it engages in R&D, design, manufacture and sales of horizontal boring and milling machine tool, floor-type boring and milling tool etc. and provide service to such products.

(III) The approval of the financial statements

The financial statements are reported after approval by the board of directors of the Company on 28 March 2019.

II. SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company include 4 companies, which are:

The name of subsidiaries	The type of Subsidiaries	Rank	Percentage of shareholdings (%)	Percentage of voting rights (%)
Xi'an Ser	Limited liability company	2	45	57.14
Shenzhen Wardstone	Limited liability company	2	100	100
Kunming TOS	Limited liability company	2	50	57.14
General Machine	Limited liability company	2	100	100

Please see "VIII DISCLOSURE OF EQUITY IN OTHER ENTITIES (I) Interests in subsidiaries" for the reasons of the subsidiaries' percentage of shareholding different from the percentage of voting rights, and the basis of controlling the invested companies.

II. SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As compared with same period of last year, the entities included in the consolidated financial statements increased 1 entity and decreased 1 entity, which are:

1. Subsidiaries, special purpose entities, and operating entities that form control rights through entrusted operation or lease, etc. newly included in the consolidation scope in this period

Name	Reason for change
Shenzhen Wardstone Technology Management Company Limited	Newly established

2 Subsidiaries, special purpose entities, and operating entities that loss control rights through entrusted operation or lease, etc. no longer included in the consolidation scope in this period

Name	Reason for change
Changsha Ser Turbine Machinery Co., Ltd, ("Changsha Ser")	Bankruptcy reorganization

III. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

(I) Going concern

As at 31 December 2018, the Company had net loss of RMB253,330,798.55, and the current liabilities of the Company was higher than the current assets of RMB711,384,670.11 as at 31 December 2018. Moreover, the Company encountered the following difficulties:

1 The contingent compensation caused by the risk of small and medium-sized investors will have a negative impact on the Company's operating cash flow and financial reporting performance;

2 Insufficient investment in the construction of Yanglin base will result in the Company not being able to achieve the whole plant relocation on schedule;

3 The Company's operating results remained in downturn, and financial institutions were unable to maintain the existing level of bank credit which may lead to the extraction of loans. Such situation will further adversely affect the operating cash flow of the Company;

4 The increase in litigations of the suppliers' accounts payable has increased the company's operating burden;

III. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

(I) Going concern *(Continued)*

Facing the above situation, the Company has taken the following measures to maintain the company's ongoing operations:

1 Responding to the demands of the shareholders adequately, respecting the legitimate rights and interests of the investors, actively responding to the lawsuits, and protecting the rights and interests of all shareholders of the Company in accordance with the laws;

2 Actively seeking strategic investment partners to discuss cooperation to solve the problem of insufficient construction funds, and achieving construction completion and the whole plant relocation as soon as possible;

3 Actively communicating with the credit banks to strive towards maintaining the current credit line without reducing or extracting loans;

4 Collection of accounts receivable of the Company to make up for the shortage of production investment funds, increasing the collections from operating to make up for the historical arrears of supplier's accounts payable by incremental operating fund.

Therefore, the management of the Company considered that the Company's preparation of annual financial statements on a going concern basis was reasonable. The above matters which may have significant doubts on continuing operations existed uncertainty.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(I) Statement of compliance with the accounting standards for business Enterprises

The financial statements have been prepared by the Company in conformity with the ASBEs, which truly and fully reflect the financial position of the Company and relevant information of operating results. change in shareholders' equity and cash flows.

(II) Accounting period

The accounting year of the Company is from 1 January to 31 December of each calendar year.

(III) Operating cycle

The operating cycle of the Company consists of 12 months.

(IV) Recording currency

Renminbi (RMB) is used as recording currency.

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

(V) Accounting method for business combination under the common control and not under the common control

1. *To take many transactions as a package transaction for accounting treatment if the terms, conditions, and economic effects of each transaction in a step by step business combination process meet one or more of the following cases:*

   i. These transactions are occurred at the same time or have considered the impact of each other.

   ii. All these transactions together can achieve a complete business result.

   iii. The occurrence of a transaction depends on the occurrence of at least one other transaction.

   iv. A deal alone is not economical, but it is economic when considering together with other transactions.

2. *Business combination under common control*

   The assets and liabilities acquired by our company during business combination shall be measured according to the book value of the assets and liabilities of the merged party, including the final controlling party's acquisition of the merged party, in the consolidated financial statements of the final controlling party. The difference between the net assets book value acquired in the merger and the book value of the combined consideration value (or the total value of the issued shares) should be adjusted by the equity premium in the capital surplus, if it is not enough, adjust retained earnings.

   If there exist contingent consideration which need to confirm the estimated liabilities or assets, the difference between the estimated liabilities or the amount of assets and the price of subsequent contingent consideration, we should adjust the capital surplus (capital premium or equity premium). When the capital surplus is insufficient, adjust the retained earnings.

   As enterprise merger realized by multiple transactions which belong to a package transaction, considering these transactions as a control transaction when carrying out accounting method. In the case of non-package transactions, on the day of gaining control day, the difference between the initial investment cost of long-term equity investment and the book value of the new payment consideration with the sum of the book value of the new share price before the merger should be adjusted by adjusting capital surplus. If the capital stock is not enough to be reduced, the retained earnings will be adjusted. Accounting treatment would not be carried out for equity investment which measured by equity method or identification and measurement criteria for financial instruments before merger until disposing of the investment based on the same assets or liabilities that are directly disposed of with the invested unit. Changes in the owner's equity exclude net profit and loss, other comprehensive income and profit distribution would not be processed until the changes is transferred into the current profits and losses.

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

(V) Accounting method for business combination under the common control and not under the common control *(Continued)*

3. *Enterprise merger not under common control*

The purchase date refers to the date that the Company actually obtains the control right of the buyer, that is, the date of transfer of the net assets of the buyer or the control right of production and operation decision to the Company. The Company generally believes that the transfer of control is realized when the following conditions are met:

i. An enterprise merger contract or agreement has been approved by the internal authority of the Company.

ii. The merger of enterprises should be approved by the relevant competent authorities of the state and has been approved.

iii. The necessary transfer procedures for property rights have been carried out.

iv. The Company has paid most of the consolidated price and has the ability and plan to pay the surplus.

v. The Company has actually controlled the financial and operating policies of the purchaser and has the corresponding interest and the corresponding risk.

The difference between the fair value and the book value when the assets, liabilities incurred or incurred on the purchase date is included in the profits and losses of the current period.

When the cost of the merger is larger than the fair value share of the recognizable net assets obtained by the purchaser, the difference between these two is confirmed as the goodwill. When cost of the merger is less than the fair value of the recognizable net assets obtained by the purchase, the difference shall be counted into the profit and loss of the current period after the review.

In a business combination not under common control that is realized by a stage-up approach with multiple transactions, in case of a package of transactions, should be accounted with all transactions as the one to acquire the control; in case of not a package of transactions, should be accounted under equity method: the equity investment held before the date of combination, the sum of the carrying amount of the equity investment held by the acquiree before the date of acquisition and the cost of new investment on the date of acquisition are recognised as the initial investment cost of such investment; due to the other comprehensive income accounted and recognised under equity method, the equity investment held before the date of acquisition is accounted on the same basis as used for disposal of relevant assets or liabilities of the investee when disposal of such investment. Where the equity investment held before the date of combination is accounted according to the recognition and measurement criteria for financial instruments, the sum of the fair value of such equity investment on the date of combination and the new investment cost are accounted as the initial investment cost on the date of combination. The difference between the fair value of the original equity and its carrying amount and the accumulative changes originally included in the other comprehensive income is transferred to current investment income on the date of combination.

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

(V) Accounting method for business combination under the common control and not under the common control *(Continued)*

4. The costs of merger

Intermediary costs and other direct related expenses, such as audit, legal service, evaluation and consultation, and other direct related expenses, are included in the current profit and loss at the time of occurrence. The transaction costs for the issue of equity securities for an enterprise which could be directly attributable to the rights and interests can deduct from rights and interests.

(VI) Preparation of consolidated financial statements

1. Scope of the merger

The consolidation scope of the Group's consolidated financial statements is determined by the basis of control. All subsidiaries (including the separate entity controlled by the parent company) are included in the consolidated financial statements.

2. Consolidated procedures

Based on the financial statements of their own and each subsidiary, the Company prepare the consolidated financial statements refer to other relevant information. The Company consider the entire enterprise group as an accounting entity when preparing the consolidated financial statements. In accordance with the relevant accounting standards of measurement and reporting requirements, unified accounting policies reflect the enterprise overall financial status, operating results and cash flow.

All subsidiaries included in the consolidated financial statements are consistent with accounting polices. When the accounting policies adopted by the subsidiaries inconsistent with the Company, the necessary adjustment period according to the Company's accounting policies and accounting is needed.

The consolidated financial statements set off the internal transactions between the Company and its subsidiaries which affect the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement and the consolidated shareholders' equity change statement. When the opinion of group consolidated financial statements and the subsidiaries are different, the transitions should be adjusted from the perspective of enterprise group.

The share of minority shareholders in the owner's equity, current net profit and loss and current comprehensive income is separately shown under the owner's equity item of the consolidated balance sheet, the net profit item and the total income of the consolidated income statement and the total income item. The current share losses shared by minority shareholders exceed the balance formed by the minority shareholders' share in the initial owner's equity, then deduct the difference between these two from minority shareholders' rights and interests.

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

(VI) Preparation of consolidated financial statements *(Continued)*

2. Consolidated procedures (Continued)

When the subsidiary which was under the same control acquired through business combination, the financial statements should be adjusted based on the book value of its assets and liabilities in the final control party's financial statements (including the goodwill caused by the final controlling party's acquisition of the subsidiary). When the subsidiary which was not under the same control acquired through business combination, the financial statements should be adjusted which was based on fair value of the identifiable net assets at the acquisition date.

(1) Addition of subsidiary or business
During the reporting period, if there is an addition of subsidiary or business due to business combination under common control, the amount at the beginning of the period in the consolidated balance sheet will be adjusted; the income, expenses and profit of the subsidiary or business combination from the beginning of the period to the end of the reporting period will be included in the consolidated income statement; the cash flows of the subsidiary or business combination from the beginning of the period to the end of the reporting period will be included in the consolidated statement of cash flows, and relevant items in the comparative statements will also be adjusted as if the reporting entity after combination had been existing since the control of the ultimate controlling party started.

Where control over the investee under common control is obtained due to reasons such as increase in investments, adjustment is made as if the parties involved in the combination had been existing in the current condition since the control of the ultimate controlling party started. For equity investment held before the control over the acquiree is obtained, profit or loss, other comprehensive income and other changes in net assets recognised from the later of the acquisition of the original equity interest and the date when the acquirer and the acquiree were placed under common control until the date of combination are offset against retained earnings at the beginning of the period of the comparative statements or profit or loss of the period respectively.

During the reporting period, if there is an addition of subsidiary or business due to business combination not under common control, the amount at the beginning of the period in the consolidated balance sheet will not be adjusted; the income, expenses and profit of the subsidiary or business from the date of acquisition to the end of the reporting period will be included in the consolidated income statement; the cash flows of the subsidiary or business from the date of acquisition to the end of the reporting period will be included in the consolidated statement of cash flows.

Where control over the investee not under common control is obtained due to reasons such as increase in investments, for the equity interest of the acquiree held before the date of acquisition, the Company remeasures the equity interest at its fair value as at the date of acquisition, and any difference between the fair value and its carrying amount will be accounted for as investment gains of the period. Where equity interest of the acquiree held before the date of acquisition is related to other comprehensive income under equity accounting and other changes in owners' equity other than net profit or loss, other comprehensive income and profit distribution, other comprehensive income and other changes in owners' equity related thereto are transferred to investment gains of the period to which the date of acquisition belongs, except for other comprehensive income arising from the changes in net liabilities or net assets due to the re-measurement of defined beneficiary plans by the acquiree.

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

(VI) Preparation of consolidated financial statements *(Continued)*

2. Consolidated procedures (Continued)

(2) Disposal of Subsidiary or Business

i. General treatment for disposal

During the reporting period, for the disposal of a subsidiary or business, the income, expenses and profit of the subsidiary or business from the beginning of the period to the date of disposal are included in the consolidated income statement; the cash flows of the subsidiary or business from the beginning of the period to the date of disposal are included in the consolidated statement of cash flows.

When control over the investee is lost due to the disposal of part of the equity investment or other reasons, the Company remeasures the remaining equity investment at fair value as at the date on which control is lost. The difference between the sum of the consideration received from equity disposal and the fair value of the remaining equity interest and the sum of the net assets of the subsidiary proportionate to the original shareholding accumulated from the date of acquisition or combination and goodwill is included in investment gains of the period during which the control is lost. Other comprehensive income related to the equity investment in the original subsidiary or other changes in owners' equity other than net profit or loss, other comprehensive income and profit distribution are transferred to investment gains of the period during which the control is lost, except for other comprehensive income arising from the changes in net liabilities or net assets due to the re-measurement of defined beneficiary plans by the investee.

ii. Stepwise Disposal of Subsidiary

In respect of stepwise disposal of equity investment in a subsidiary through multiple transactions until control is lost, if the terms, conditions and economic effects of the transactions of equity investment in the subsidiary satisfy one or more of the following conditions, the transactions are normally accounted for as a basket of transactions:

(i) these transactions were entered into simultaneously or after considering the effects of each other;

(ii) these transactions constituted a complete commercial result as a whole;

(iii) one transaction was conditional upon at least one of the other transaction;

(iv) one transaction was not economical on its own but was economical when considering together with other transactions.

Where the transactions of disposal of equity investment in a subsidiary until control is lost constitute a basket of transactions, the Company accounts for the transactions as a transaction of disposal of a subsidiary until control is lost; however, the difference between the amount received each time for disposal before control is lost and the net assets of such subsidiary corresponding to the disposal of investment is recognised as other comprehensive income in the consolidated financial statements, and is transferred to profit or loss of the period during which control is lost upon loss of control.

Where the transactions of disposal of equity investment in a subsidiary until control is lost do not constitute a package of transactions, before the loss of control, the transactions are accounted for using the policies related to partial disposal of equity investment in a subsidiary where no control is lost; when control is lost, they are accounted for using the general method for disposal of subsidiaries.

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

(VI) Preparation of consolidated financial statements *(Continued)*

2. *Consolidated procedures (Continued)*

(3) Purchase of Minority Interests in Subsidiary
For the difference between the long-term equity investment newly acquired due to the purchase of minority interests by the Company and the share of net assets of the subsidiary calculated according to the new shareholding accumulated from the date of acquisition (or date of combination), share premium of the capital reserve in the consolidated balance sheet will be adjusted; where share premium of the capital reserve is insufficient for the write-down, retained earnings will be adjusted.

(4) Partial Disposal of Equity Investment in Subsidiary without Loss of Control
For the difference between the consideration received from partial disposal of long-term equity investment in a subsidiary without loss of control and the net assets of the subsidiary corresponding to the disposal of long-term equity investment accumulated from the date of acquisition or date of combination, share premium of the capital reserve in the consolidated balance sheet will be adjusted; where share premium of the capital reserve is insufficient for the write-down, retained earnings will be adjusted.

(VII) Category on joint arrangement and accounting treatment on joint operations

1. *Classification of joint venture arrangements*

The Company classifies the joint venture arrangements into joint operation and joint venture according to the structure, legal form of joint venture arrangement, the terms agreed in the joint venture arrangement, other relevant matters and situations.

Any joint venture arrangement that is not achieved by a separate entity shall be classified as a joint operation. Any joint venture arrangement that is achieved by a separate entity shall be generally classified as a joint venture. But if a joint venture arrangement is conclusively proved to meet any of the following conditions and meets the provisions of relevant laws and regulations, it shall be classified as joint operation:

i. its legal form shows the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement.

ii. contract terms of the joint venture arrangement stipulate that the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement.

iii. other relevant facts and situations show that the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement. For example, the joint ventures enjoy almost all output related to the arrangement and repayment of liabilities in the arrangement consecutively relies on the joint ventures' supports.

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

(VII) Category on joint arrangement and accounting treatment on joint operations *(Continued)*

2. Accounting method for joint operation

The Company recognises the following items related to its share of benefits in the joint operation and conducts accounting treatment in accordance with relevant accounting standards for business enterprises:

i. assets it solely holds and its share of jointly-held assets based on its percentage;

ii. liabilities it solely assumes and its share of jointly-assumed liabilities based on its percentage;

iii. incomes from sale of output enjoyed by it from the joint operation;

iv. incomes from sale of output from the joint operation based on its percentage;

v. separate costs and costs for the joint operation based on its percentage.

When the Company invests or sells assets and others in or to the joint operation (except for assets that constitute business), only that part of profits or losses from the transaction attributable to other participants to the joint operation shall be recognised before such assets and others are sold by the joint operation to a third party. If the invested or sold assets are of impairment loss subject to the Accounting Standards for Business Enterprises No.8 – Assets Impairment and other provisions, the Company shall recognise such loss in full.

When the Company purchases assets and others from the joint operation (except for assets that constitute business), only that part of profits or losses from the transaction attributable to other participants to the joint operation shall be recognised before such assets and others are sold to a third party. If the purchased assets are of impairment loss subject to the Accounting Standards for Business Enterprises No.8 – Assets Impairment and other provisions, the Company shall recognise its part of such loss based on its percentage.

If the Company has no joint control over a joint operation enjoys and assumes relevant assets and liabilities of the joint operation, it shall conduct accounting treatment in accordance with aforesaid principle; or it shall do the same in accordance with relevant accounting standards for business enterprises.

(VIII) Cash and cash equivalents

Cash in the cash flow statement of the Group indicates both cash on hand and the deposit held in bank which are available for payment at any time. Cash equivalents are held less than 3 months, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of value change.

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

(IX) Transactions involving foreign currencies

1. Transactions involving foreign currencies

Foreign currency transactions of the Group are translated into RMB at the spot exchange rate on the date of the transaction.

The monetary items in foreign currency are translated into RMB at the spot exchange rate of the balance date. Except for the exchange difference caused by specific foreign currency loans made to purchase or manufacture assets which will be capitalized, the exchange difference is accounted into current profit or loss. For non-monetary items measured in foreign currency under historical cost method, the exchange rate on the date when the cost is recognised is applied and the amount in RMB is consistent.

When convert non-monetary items into foreign currency by the fair value of the spot exchange rate, the exchange difference is counted as the profits and losses of the current period as the profit and loss of the fair value change. If non-monetary item used for sale of foreign currency, the balance of exchange formed into other comprehensive benefits.

(X) Financial instruments

Financial instruments include financial assets, financial liabilities, and equity instrument.

1. Category of financial instruments

(1) The Company classifies financial assets into the following three categories based on the business model of the financial assets under management and the contractual cash flow characteristics of financial assets:

(a) Financial assets measured at amortized cost.

(b) Financial assets at fair value through other comprehensive income.

(c) Financial assets at fair value through profit or loss.

The classification of debt instrument investment depends on the business model in which the Company holds the investment; the classification of equity instrument investment depends on whether the Company has made an irrevocable choice at the initial recognition of fair value and its changes are included in other comprehensive income. The Company only reclassifies all affected financial assets when changing the business model of financial assets.

(2) Financial liabilities are divided into the following two categories:

(a) Financial liabilities at fair value through profit or loss.

(b) Financial liabilities measured at amortized cost.

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

(X) Financial instruments *(Continued)*

2. Basis for recognition of financial instruments

(1) Financial assets measured at amortized cost
The financial assets of the Company that meet the following conditions are classified as financial assets measured at amortized cost:

(a) The business model for managing the financial assets is aimed at collecting contractual cash flows.

(b) The contractual terms of the financial assets stipulate that the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount.

(2) Financial assets at fair value through other comprehensive income
The financial assets of the Company that meet the following conditions are classified as financial assets at fair value through other comprehensive income:

(a) The business model for managing the financial assets is aimed at both the collection of contractual cash flows and the sale of the financial assets.

(b) The contractual terms of the financial asset stipulate that the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount.

At the initial recognition, the Company may designate non-trading equity instrument investments as financial assets at fair value through other comprehensive income, present the same as other equity instrument investment item, and recognize dividend income when the conditions are met. Such designation is irrevocable once made. Such designation of equity instrument investments is not applicable to the following circumstances: the financial assets are secured mainly for recent sales; at the initial recognition, the financial assets are part of an identifiable financial asset instrument portfolio under centralized management with objective evidence showing that there is actual short-term profit model recently; the financial assets fall into the scope of derivatives (other than those in line with the definition under financial guarantee contracts and designated as effective hedging instruments).

(3) Financial assets at fair value through profit or loss
The Company divides financial assets except those measured at amortized cost and those measured at fair value through changes in other comprehensive income into financial assets measured at fair value and whose changes are included in the profit or loss of the current period.

Where a financial asset is recognized or valued in the merger of an enterprise not under the same control, the financial asset shall be classified as a financial asset measured at fair value and whose changes are included in the profit or loss of the current period.

At the time of initial recognition, if the accounting mismatch can be eliminated or significantly reduced, the financial assets can be designated as financial assets measured at fair value through changes in profit or loss. Such designation is irrevocable once made.

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

(X) Financial instruments *(Continued)*

2. Basis for recognition of financial instruments (Continued)

(3) Financial assets at fair value through profit or loss *(Continued)*
Where a mixed contract contains one or more embedded derivative(s) and its principal contract is not the above-mentioned financial assets, it may be designated as a financial asset measured at fair value through changes in profit or loss as a whole, except for the following circumstances:

(a) Embedded derivative(s) will not cause material changes in the cash flows of the mixed contract.

(b) At the initial determination about whether similar mixed contract is subject to subdivision, it is clear, in the presence of few analysis, that the embedded derivative(s) contained therein shall not be subdivided. For example, the early repayment right for embedded loans entitles the holders to repay the loans in advance at an amount nearly equivalent to the amortized cost, such early repayment right is not subject to subdivision.

(4) Financial liabilities at fair value through profit or loss
This category includes transactional financial liabilities (including derivatives that are financial liabilities) and those designated as financial liabilities at fair value through profit or loss.

In the case of a business combination that is not under the same control, if the Company is recognized as the purchaser or has a consideration to form a financial liability, the financial liability is under accounting treatment as one measured at fair value through profit or loss.

At the initial recognition, in order to provide more relevant accounting information, the Company designates financial liabilities that meet one of the following conditions as financial liabilities at fair value through profit or loss (such designation is irrevocable once made):

(a) Accounting mismatch can be eliminated or significantly reduced.

(b) According to the enterprise risk management or investment strategy specified in the official written documents, manage and evaluate the financial liability portfolio or financial assets and financial liabilities based on fair value, and report to key managers on the basis of this within the enterprise.

(5) Financial liabilities measured at amortized cost
Except for the following items, the Company classifies financial liabilities as financial liabilities measured at amortized cost:

(a) Financial liabilities at fair value through profit or loss.

(b) Financial assets transfer does not meet the conditions for derecognition or financial liabilities arising from the transfer of transferred financial assets.

(c) Financial guarantee contracts that are not in the first two categories of this article, and loan commitments that are not subject to the market rate in the case of category I of this article.

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

(X) Financial instruments *(Continued)*

3. *Initial measurement of financial instruments*

The Company's financial assets or financial liabilities are measured at fair value at initial recognition. For financial assets and financial liabilities at fair value through profit or loss, the related transaction expenses are directly included in the current profit or loss; for financial assets or financial liabilities of other categories, the related transaction expenses are included in the initial recognition amount.

Fair value is usually the transaction price of the relevant financial asset or financial liability. Where there is a difference between the fair value of a financial asset or financial liability and the transaction price, the following conditions shall be treated:

At the initial recognition, the fair value of a financial asset or financial liability is based on the quotation of the same asset or liability in an active market or the valuation technique using only observable market data, the difference between the fair value and the transaction price can be recognized as a gain or loss.

At the initial recognition, if the fair value of a financial asset or financial liability is determined in other ways, the difference between the fair value and the transaction price is deferred. After the initial recognition, the deferred difference is recognized as a gain or loss of the corresponding accounting period based on the degree of change in certain factor in the corresponding accounting period. This factor should be limited to factors that market participants will consider when pricing the financial instrument, including time.

4. *Subsequent measurement of financial instruments*

After the initial recognition, the financial assets of different categories are subsequently measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss, respectively.

The amortized cost of financial assets or financial liabilities is determined by the following adjustments to the initial recognition amount of the financial assets or financial liabilities:

(1) Deduct the principal that has been repaid.

(2) Add or subtract the accumulated amortization amount formed by amortizing the difference between the initial recognition amount and the amount at the maturity date using the effective interest method.

(3) Deduct the accumulated provision for losses (only applicable to financial assets).

Save as financial assets, gains or losses arising from financial liabilities measured at amortized cost that are not part of any hedge relationship are included in the current profit or loss at the derecognition, or included in the profit or loss of relevant period when amortized using the effective interest method.

When the financial liability of the Company is initially recognized and designated as financial liability at fair value through profit or loss according to the standards, the change in the fair value of the financial liability caused by the change in the credit risk of the enterprise shall be included in other comprehensive income, and other changes in the fair value shall be included in the current profit or loss. However, if the accounting treatment results in or expands the accounting mismatch in the profit or loss, then all the gains or losses of the financial liability (including the influence amount of the change in the credit risk of the enterprise itself) shall be included in the current profit or loss.

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

(X) Financial instruments *(Continued)*

5. *Derecognition of financial instruments*

(1) Financial assets that meet one of the following conditions shall be derecognized:

(a) The contractual right for collection of cash flows of the financial assets is terminated.

(b) The financial assets have been transferred in compliance with the provisions on derecognition of financial assets in the Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets. The derecognition of financial assets or financial liabilities referred to in this standard means that the previously recognized financial assets or financial liabilities are transferred by the enterprise out of its balance sheet.

(2) Conditions for derecognition of financial liabilities
If the current obligation of the financial liability (or part of it) has been discharged, the financial liability (or part of the financial liability) is derecognized. If the Company and the lender sign an agreement to replace the original financial liability with a new financial liability, and the contractual terms for the new financial liability are substantially different from those for the original financial liability, the original financial liability will be derecognized and the new financial liability will be recognized.

If a substantial change is made to the contractual terms of the original financial liability (or a part thereof), the original financial liability is derecognized and a new financial liability is recognized in accordance with the revised terms.

If the financial liability (or a part thereof) is derecognized, the difference between the carrying amount and the consideration paid (including the transferred non-cash assets or liabilities assumed) is recognized in profit or loss for the current period.

If the Company repurchases part of the financial liabilities, the book value of the financial liabilities as a whole is allocated based on the proportion of the fair value of the continuing recognition portion and the derecognized portion on the repurchase date. The difference between the book value assigned to the derecognized portion and the consideration paid (including the transferred non-cash assets or liabilities assumed) shall be included in the current profit or loss.

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

(X) Financial instruments *(Continued)*

6. *Recognition and measurement of financial assets transfer*

When the financial assets transfer occurs, the Company assesses the extent of the risks and rewards of retaining the ownership of financial assets, and handles the following situations:

(1) If almost all risks and rewards of ownership of financial assets are transferred, the financial assets are derecognized and the rights and obligations arising from or retained in the transfer are separately recognized as assets or liabilities.

(2) If almost all risks and rewards of ownership of financial assets are retained, the financial assets continue to be recognized.

(3) If there is neither transfer nor retention of almost all risks and rewards of ownership of financial assets (i.e., other than paragraphs (1) and (2)), then according to whether or not they retain control over financial assets, the following situations are dealt with respectively:

(a) If the control over the financial assets is not retained, the financial assets are derecognized and the rights and obligations arising from or retained in the transfer are separately recognized as assets or liabilities.

(b) If the control over the financial assets is retained, the relevant financial assets continue to be recognized according to the extent to which they continue to be involved in the transferred financial assets, and the related liabilities are recognized accordingly. The extent of continuing involvement in the transferred financial assets refers to the extent to which the Company assumes the risk or reward of changes in the value of the transferred financial assets.

When judging whether the transfer of financial assets meets the conditions for derecognition of the above financial assets, the principle that substance outweighs the form is used. The Company distinguishes the transfer of financial assets into the overall transfer and partial transfer of financial assets:

(1) The overall transfer of financial assets meets the conditions for derecognition, then the difference between the following two amounts is included in the current profit or loss:

(a) The book value of the transferred financial assets on the date of derecognition.

(b) The sum of the consideration received from the transfer of financial assets and the amount corresponding to the derecognized part in the accumulated amount of the fair value change that is previously directly included in other comprehensive income (the financial assets involved in the transfer are financial assets at fair value through other comprehensive income).

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

(X) Financial instruments *(Continued)*

6. *Recognition and measurement of financial assets transfer (Continued)*

(2) If the financial assets are partially transferred and the transferred part as a whole meets the conditions for derecognition, the book value of the financial assets as a whole will be transferred between the derecognized part and the continually recognized part (in this case, the retained service assets shall be deemed to be part of the continuing recognition of the financial assets). They shall be apportioned according to their respective fair values on the transfer date, and the difference between the following two amounts shall be included in the current profit or loss:

(a) The book value of the derecognized part on the date of derecognition.

(b) The sum of the consideration received from the derecognized part and the amount corresponding to the derecognized part in the accumulated amount of the fair value change that is previously included in other comprehensive income (the financial assets involved in the transfer are financial assets at fair value through other comprehensive income).

If the transfer of a financial asset does not meet the conditions for derecognition, the financial asset continues to be recognized and the price received is recognized as a financial liability.

7. *The method of determining the fair value of financial assets and financial liabilities*

When the financial assets or financial liabilities are in an active market, the quoted prices in active markets to determine these fair values. Active market quotation includes those related assets or liabilities which can be easy and regular to get from the exchange, traders, brokers, industry group, pricing mechanism or regulatory agencies and can represent the actual and often occur in even bargain basis market transactions.

The fair value of the initial or derived financial assets or financial liabilities are determined are based on the market price.

Valuation techniques are used to determine the fair value of the financial assets or financial liabilities that do not exist in an active market. In the valuation, valuation techniques are chosen which are available in the current circumstances and are supported by enough available data and other information. The input value is chosen that is consistent with the selection of market participants considering in the relevant assets or liabilities in the transaction of assets or liabilities and choose the relevant observable input as far as possible. Unobservable input values are used when the relevant observable input values are unavailable or unpracticable.

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

(X) Financial instruments *(Continued)*

8. Provision for impairment of financial assets (excluding receivables)

(1) Based on the expected credit losses, the Company evaluates the expected credit losses of financial assets measured at amortized cost and financial assets at fair value through other comprehensive income, conducts impairment accounting treatment and recognizes loss provision. The expected credit loss is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Company discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

(2) When one or more events that adversely affect the expected future cash flows of a financial asset occur, the financial asset becomes a credit-impaired financial asset. Evidence that credit impairment has occurred in financial assets includes the following observable information:

(a) The issuer or debtor has serious financial difficulties.

(b) The debtor violates the terms of the contract, such as the payment of interest or principal in default or overdue.

(c) The creditor makes a concession that will not be made in any other cases to the debtor who has a financial difficulty, considering the economic or legal factors.

(d) The debtor is likely to fail or carry out other financial restructuring.

(e) The active market for financial assets disappears because the issuer or debtor has major financial difficulties.

(f) Purchase or source a financial asset at a substantial discount, which reflects the fact that credit losses have occurred.

The credit impairment of financial assets may be caused by the joint action of multiple events, but not necessarily by separately identifiable event.

(3) For purchased or sourced financial assets that have suffered credit impairment, the cumulative change in expected credit losses only over the entire life period from the initial recognition is recognized as loss provision on the balance sheet date. On each balance sheet date, the amount of the change in expected credit losses over the entire life period is included in the current profit or loss as an impairment loss or gain. Even if the expected credit loss over the entire life period determined on the balance sheet date is less than that reflected in the estimated cash flow at the initial recognition, the favorable change in expected credit loss is still recognized as an impairment gain.

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

(X) Financial instruments *(Continued)*

8. *Provision for impairment of financial assets (excluding receivables) (Continued)*

(4) Except for the case of the provision for loss of financial instruments under item (3), the Company assesses whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition on each balance sheet date, and measures the loss provision, recognizes the expected credit loss and the change thereof according to the following situations:

(a) If the credit risk of the financial instrument has increased significantly since the initial recognition, the loss provision is measured at the amount equivalent to the expected credit loss over the entire duration of the financial instrument. Regardless of whether the Company's assessment of credit losses is based on a single financial instrument or a combination of financial instruments, the increase or reversal of the loss provision resulting therefrom should be included in the current profit or loss as an impairment loss or gain.

(b) If the credit risk of the financial instruments has not increased significantly since the initial recognition, the loss provision is measured at the amount equivalent to the expected credit loss over the next 12 months of the financial instruments. Regardless of whether the Company's assessment of credit losses is based on a single financial instrument or a combination of financial instruments, the increase or reversal of the loss provision resulting therefrom should be included in the current profit or loss as an impairment loss or gain.

The expected credit loss over the next 12 months refers to the expected credit loss caused by the possible default of financial instruments within the next 12 months after the balance sheet date (if the expected duration of a financial instrument is less than 12 months, it is the expected duration), which is part of the expected credit loss over the entire life period.

In conducting the assessment, the Company considers all reasonable and valid information, including prospective information. In order to ensure a significant increase in credit risk since the initial recognition of financial instruments, that is to recognize the expected credit loss over the entire life period, credit risk is assessed on the basis of portfolio in some cases about whether it has increased significantly.

9. *Offset of financial assets and financial liabilities*

Financial assets and financial liabilities are presented in the balance sheet respectively and are not offset with each other. However, the net value after offset is presented in the balance sheet when the following conditions are satisfied:

(a) The Company has the legal right to offset the recognised amount and such right is exercisable;

(b) The Company plans to settle by net amount or realize the financial assets and repay the financial liabilities at the same time.

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

(XI) Accounts receivable

The Company makes provision for bad debts for all receivables based on the amount of expected credit losses during the entire life. Expected loss rate is determined based on the actual loss rate of receivables in the previous years, judgement on future recovery risk and analysis of credit risk features, and provision for bad debts is made based thereon.

1. *Bills and accounts receivable*

The Company makes provision for bad debts for all bills and accounts receivable based on the amount of expected credit losses during the entire life.

For bills and accounts receivable that suffer credit impairment after the initial recognition, the Company conducts credit assessment on such bills and accounts receivable on an individual basis under a credit scoring model. The credit scoring model is based on the following parameters: (1) current and historical overdue cases; (2) customer's liability level and solvency; (3) customer's repayment performance; (4) amount of obligation.

Save as the aforesaid bills and accounts receivable under individual assessment, the Company is unable to obtain sufficient evidence about significant increase in credit risk at a reasonable cost at the level of individual instrument, while it is workable to do so on a collective group basis. Accordingly, the Company decides to make provision for a group of bad debts and determines expected loss provision rate on a collective group basis based on the actual loss rate of receivables in the previous years, judgement on future recovery risk and analysis of credit risk features.

Basis for determination of a group:

Name of group	Basis for determination of group	Method of provision
Risk-free bills group	The drawer has a high credit rating with no historical default of bills, extremely low credit loss risk, and strong ability to perform its obligation of contractual cash flow payment within a short period of time	No provision is made for bad debts with reference to historical credit loss experience
Aging group	Whether subject to the same type of risk	Provided based on the overdue days and fixed loss provision rate
Related party group	Whether subject to the same type of risk	Provided based on the overdue days and fixed loss provision rate

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

(XI) Accounts receivable *(Continued)*

1. *Bills and accounts receivable (Continued)*

(1) Bills receivable

No provision is made for bad debts in respect of bank acceptance bills. Bad debts are provided in respect of commercial acceptance bills based on the difference between the present value of its future cash flows lower than its carrying amount.

(2) Accounts receivable

	Expected loss provision rate (%)	
Overdue days	**Aging group**	**Related party group**
Within 1 year	5%	–
1-2 years	30%	–
2-3 years	60%	–
Over 3 years	95%	–

2. *Other receivables*

The Company makes provision for bad debts for other receivables formed from transactions conducted under the standards on revenue based on the amount of expected credit losses during the entire life and in comparison with the bills and accounts receivable.

Except for the other receivables set out above, the Company makes provision for loss of other receivables according to the following conditions: (a) for financial asset whose credit risk has not increased significantly since the initial recognition, its loss is provided based on the amount of expected credit losses over the future 12 months; (b) for financial asset whose credit risk has increased significantly since the initial recognition, its loss is provided based on the amount equivalent to the expected credit losses over the entire life of this financial instrument, and interest income is calculated based on its carrying amount and the effective interest rate; (c) for financial asset that suffers credit impairment after the initial recognition, its loss is provided based on the amount equivalent to the expected credit losses over the entire life of this financial instrument, and interest income is calculated based on its amortized cost and the effective interest rate; (d) for purchased or sourced financial asset that suffers credit impairment, its loss is provided based on the amount equivalent to the expected credit losses over the entire life. Bad debts are provided by comparing with the bills and accounts receivable.

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

(XI) Accounts receivable *(Continued)*

2. *Other receivables (Continued)*

Basis for determination of a group:

Name of group	Basis for determination of group	Method of provision
Aging group	Whether subject to the same type of risk	Provided based on the overdue days and fixed loss provision rate
Related party group	Whether subject to the same type of risk	Provided based on the overdue days and fixed loss provision rate

The overdue days and fixed loss provision rate recognized by the Company with reference to historical credit loss experience are as follows:

	Expected loss provision rate (%)	
overdue days	**Aging group**	**Related party group**
Within 1 year	5%	–
1-2 years	50%	–
Over 2 years	100%	–

(XII) Inventories

1. *Classification*

Inventories are products that the Company holds for sale in daily activities, materials consumed in the production process, materials in the process of providing services in the production process. Inventories include raw material, work in process, semi-finished goods, finished goods and reusable materials. Reusable materials include low-value consumables, packaging materials and other materials, which can be used repeatedly but do not meet the definition of fixed assets.

2. *Method of valuation of inventory*

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

3. *The basis for determining the net realizable value of inventory and method for provision for diminution in value of inventories*

At the end of the reporting period, according to the inventories at the lower of cost and net realizable value to make or adjust the provision for inventory impairment. The estimated sales price of the inventories, such as finished products, inventory commodities and materials directly used for sale is deducted from the estimated sales cost and the amount after the relevant taxes and fees, and the net realizable value is determined. The net realizable value of inventory which require processes is determined by the estimated selling price of finished products deducting the estimated cost, estimated sales cost and related taxes and fees after completion. To execute sales contracts or labour contracts, the net realizable value is measured by the contract price. If the quantity of stock held is more than that of the sales contract, the net realizable value of the excess part will be measured by the general selling price.

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

(XII) Inventories *(Continued)*

3. The basis for determining the net realizable value of inventory and method for provision for diminution in value of inventories (Continued)

Inventories provision accrues individually at the end of term. If a large stock has a lower unit price, provision for decline in inventory is prepared in accordance with the inventory category. If the inventory is related to a series of products that are produced which sold in the same area and have the same or similar end uses or purposes and it is difficult to separate the items from other items, the provision for decline in inventory will be combined.

If the previous reduction factors of inventory value have disappeared, the reduced amount shall be recovered. Meanwhile, reserving the original provision for inventory, reversal of the amount should be included in the current profits and losses.

4. Inventory system

The Company maintains a perpetual inventory system. Amortization method of low-value consumables and packaging material:

low-value consumables adopt one-time writing-off method.

Packaging material adopt one-time writing-off method.

Other revolving materials adopt one-time writing-off method

(XIII) Assets held for Sale

1. Criteria for recognition of assets classified as held for sale

The Company recognises non-current assets or disposal groups as held for sale that meet both of the following conditions:

(a) According to the practice of selling of such assets or disposal groups in similar transactions, they can be sold immediately under current conditions;

(b) The sale is very likely to occur, that is, the Company has already made a resolution on a sales plan and has obtained a certain purchase commitment. It is expected that the sale will be completed within one year.

The confirmed acquisition commitment refers to the legally binding purchase agreement signed between the Company and other parties. The agreement contains important terms such as transaction price, time, and severe and severe penalties for breach of contract, making the possibility to make major adjustments or cancellations of the agreement is small.

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

(XIII) Assets held for Sale *(Continued)*

2. *Accounting method for assets held for sale*

If the Company does not make depreciation or amortization for the non-current assets or disposal group held for sale, if the carrying amount is higher than the net amount after the fair value less the selling expenses, the carrying amount shall be written down to the net amount after the fair value less the selling expenses, and the amount written down shall be recognised as impairment loss of assets, included in the current profit or loss, as provision for impairment of assets held for sale at the same time.

For the non-current assets or disposal group classified as held for sale at the date of acquisition, they are measured at the lower of their initial measurement amount and the net amount after the fair value less the selling expenses based on the assumption that such non-current assets or disposal group are not classified as held for sale at the time of initial measurement.

The above principle applies to all non-current assets, but does not include investment property that are subsequently measured using the fair value model, biological assets measured using fair value less net selling expenses, assets formed from employee compensation, and deferred income tax assets, the rights arising from financial assets regulated by the relevant accounting standards of financial instruments and insurance contracts regulated by the relevant accounting standards of insurance contracts.

(XIV) Long-term Equity Investments

1. *Determination of initial investment cost*

(1) For long-term equity investments formed by business combination, details of accounting policies are set out in "Accounting method of business combination under common control and not under common control" of notes IV/(V).

(2) Long-term equity investments obtained through other means
Initial investment costs of long-term equity investment obtained through cash payment is determined by the actual consideration paid. The initial investment cost consists of the expenses directly relevant to the obtainment of the long-term equity investment, taxes and other necessary expenses.

Initial investment costs of long-term equity investment obtained through issuance of equity securities is determined by the fair value of the equity securities issued; trading expenses incurred during insurance or acquisition of equity instrument that may be directly attributable to equity trade can be deducted from the equity.

The initial investment costs of long-term equity investment obtained in an exchange of nonmonetary assets is determined using the fair value of the asset surrendered, provided that the asset received in exchange for non-monetary asset has a commercial substance and the fair value of both the asset received and the asset surrendered can be reliably measured, except there is definite evidence that the fair value of the asset received is more reliable; the initial investment costs of a long-term equity investment in a non-monetary asset exchange that cannot satisfy the above conditions is determined by the carrying amount of the asset surrendered and the amount of relevant taxation payable.

The initial investment costs of a long-term equity investment obtained through debt restructuring is determined based on the fair value.

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

(XIV) Long-term Equity Investments *(Continued)*

2. Subsequent measurement and profit or loss recognition

(1) Cost method
The Company may adopt the cost method for accounting of the long-term equity investment controlled by the investee, and measure the investment at the initial investment cost. The cost for long-term equity investment is adjusted in the event of additional investment or investment recovery.

Except receiving the actual consideration paid for the investment or the declared but not yet distributed cash dividends or profits which is included in the consideration, the Company recognises cash dividends or profits declared by the investee as current investment gains.

(2) Equity method
The Company adopts the equity method for accounting of long-term equity investment in associates and joint ventures; where part of the equity investment of the associates is indirectly held by venture capital institutions, mutual funds, trust companies or similar subjects including unit-linked insurance fund, the investment is measured at fair value, the changes in which are included in the profit and loss.

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

After the Company acquires a long-term equity investment, investment gain and other comprehensive income shall be recognised based on the Company's share of the net profits or losses and other comprehensive income made by the investee, respectively. Meanwhile, the carrying amount of long-term equity investment shall be adjusted. The carrying amount of long-term equity investment shall be reduced based on the Company's share of profit or cash dividend distributed by the investee. In respect of the other movement in owners' equity other than the net profit or loss, other comprehensive income and profit distribution of investee, the carrying value of long-term equity investment shall be adjusted and included in the owners' equity.

The Company shall recognise its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the time of acquisition, after making appropriate adjustments thereto. The profit or loss of the unrealised internal transaction between the Company and the associates, joint ventures be deducted with the part attributable to the Company according to the proportion the Company is entitled to, and the gains or losses on investment shall be recognised on such basis.

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

(XIV) Long-term Equity Investments *(Continued)*

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

(2) Equity method *(Continued)*

Recognition of loss in the investee by the Company shall follow this order: firstly, reduce the carrying amount of the long-term equity investments; secondly, if the carrying amount of long-term equity investments is insufficient for such reduction, continue to recognise such investment loss to the extent of the carrying amount of the long-term equity net investment in the investee and reduce the carrying amount of long-term receivables. Finally, after the above treatment, if the Company still bears additional obligations stipulated under the investment contract or agreement, the estimated obligations assumed are recognised as estimated obligations and recognised in the current investment loss.

If the investee records a profit subsequently, after reducing the attributable loss that is not yet recognised, the treatment by the Company shall be the reverse of the above order: reverse the carrying balance of estimated obligations already recognised, restore the carrying amount that physically constitute the long-term interests and long-term equity investment in the investee, and recognise investment gain.

3. *Change of the accounting methods for long-term equity investments*

(1) Change of measurement at fair value to accounting under equity method

Where the equity investment held by the Company have no control, joint control or significant impact on the investee and that are accounted according to the financial instrument recognition and measurement criteria can place significant impact or carry out common control but cannot control the investee due to addition of investment, the sum of the fair value of the equity investment originally held determined subject to the Accounting Standards for Enterprises No.22 – Recognition and Measurement of Financial Instruments and the new investment cost are determined to be the initial investment cost accounted under equity method.

Where the equity investment originally held is classified into available-for-sale financial assets, the difference between the fair value and the carrying amount and the accumulative changes in fair value that are originally included in other comprehensive income are included in current profit or loss under equity method.

The carrying amount of the long-term equity investment is adjusted by the difference between the fair value shares of the identifiable net assets of the investee on the date of additional investment determined by calculation of the new shareholding proportion after such additional investment and the initial investment cost under equity cost and is included in current nonoperating income.

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

(XIV) Long-term Equity Investments *(Continued)*

3. Change of the accounting methods for long-term equity investments (Continued)

(2) Change of measurement at fair value or accounting under equity method to cost method
The equity investment of the investee held by the Company with no control, joint control or significant impact and accounted according to the financial instrument recognition and measurement criteria, or the long-term equity investment in associates or joint venture originally held that can be controlled due to addition of investment, the sum of the carrying amount of the original equity investment and the cost of new investment is changed to be accounted under cost method and recognised as the initial investment cost in preparing separate financial statements.

The other comprehensive income recognised due to the adoption of equity method for the equity investment held before the date of acquisition shall be accounted on the same basis for the disposal of relevant assets or liabilities of the investee during the disposal of such investment.

Equity investment held before the date of acquisition shall be subject to Accounting Standards for Enterprises No.22 – Recognition and Measurement of Financial Instruments and the accumulated fair value changes that were originally included in other comprehensive income shall be included in current profit or loss under cost method.

(3) Change of accounting under equity method to measurement at fair value
Where the Company losses common control or significant impact over the investee due to partial disposal of the equity investment, the remaining equity after disposal shall be subject to accounting under Accounting Standards for Enterprises No.22 – Recognition and Measurement of Financial Instruments, and the difference between the fair value on the date when the common control or significant impact is lost and the carrying amount is included in current profit or loss.

Other comprehensive income of original equity investment that is recognised due to adoption of the equity method shall be subject to accounting on the same basis for direct disposal of relevant assets or liabilities of the investee at the time when the equity method is ceased.

(4) Change of cost method to equity method
Where the Company losses the control over the investee due to partial disposal of the equity investment, and the remaining equity after disposal can place common control or significant impact over investee, it should be changed to equity method in preparing separate financial statements and the remaining equity shall be adjusted as if the equity method is adopted at the acquisition.

(5) Change of cost method into measurement at fair value
Where the Company losses the control over the investee due to partial disposal of the equity investment, and the remaining equity after disposal cannot place common control or significant impact over investee, the accounting should be changed and become subject to Accounting Standards for Enterprises No.22 – Recognition and Measurement of Financial Instruments, and the difference between the fair value on the date when the control is lost and the carrying amount is included in current profit or loss in preparing separate financial statements.

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

(XIV) Long-term Equity Investments *(Continued)*

4. *Disposal of long-term equity investment*

For disposal of long-term equity investment, the difference between its carrying amount and the payment actually acquired shall be included in the current profit or loss. For the long-term equity investment calculated under the equity method, when disposing of such investment, part of amounts that shall be originally included in other comprehensive income shall be accounted for in proportion by using the same basis as the investee used for direct disposal of relevant assets or liabilities.

If the terms, conditions and economic effects of the transactions of equity investment in the subsidiary satisfy one or more of the following conditions, the transactions are accounted for as a basket of transactions:

i. these transactions were entered into simultaneously or after considering the effects of each other;

ii. these transactions constituted a complete commercial result as a whole;

iii. one transaction was conditional upon at least one of the other transaction;

iv. one transaction was not economical on its own but was economical when considering together with other transactions.

When the controls over the original subsidiary is lost due to partial disposal of equity investment or other reasons not constitute a basket of transactions, they are accounted for in separate financial statements and consolidated financial statements:

(1) In separate financial statements, for equity disposed, the accounting treatment for disposal of equity, the difference between the carrying amount and the actual payment is included in current profit or loss. Where the remaining equity after disposal can implement common control or place significant impact over the investee, the equity method is adopted for accounting treatment, and the remaining equity is adjusted as if the equity is adopted at the time of acquisition; where the remaining equity after disposal cannot implement common control or place significant impact over the investee, relevant provisions of Accounting Standards for Enterprises No.22 – Recognition and Measurement of Financial Instruments shall be adopted for accounting, and the difference between the fair value on the date when the control is lost and the carrying amount is included in current profit or loss.

(2) In consolidated financial statements, for the transactions before the loss of control over subsidiaries, the capital reserve (share premium) is adjusted by the difference between the price of disposal and the net asset shares of subsidiaries continuously calculated since the date of acquisition or combination corresponding to the long-term equity investment; where the capital reserve is insufficient, retained earnings are adjusted; at the time of loss of control over subsidiaries, the remaining equity are re-measured according to the fair value at the date of loss of control. The difference between the sum of the price acquired for disposal of equity and the fair value of the remaining equity less shares of net assets constantly calculated since the date of acquisition based on the original shareholding proportion is included in the investment income in the period when the control is lost and is written down to good will.

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

(XIV) Long-term Equity Investments *(Continued)*

4. *Disposal of long-term equity investment (Continued)*

Relevant other comprehensive income related to original equity investment in the subsidiaries is transferred to current investment income at the time of loss of control.

Where the transactions of disposal of equity investment in a subsidiary until control is lost constitute a basket of transactions, the Company accounts for the transactions as a transaction of disposal of a subsidiary until control is lost, they are accounted for in separate financial statements and consolidated financial statements:

(a) In the separate financial statements, the difference between the amount received each time for disposal before control is lost and the carrying amount of long-term equity investment corresponding to the equity is recognised as other comprehensive income, and is transferred to profit or loss of the period during which control is lost upon loss of control.

(b) In the consolidated financial statements, the difference between the amount received each time for disposal before control is lost and the net assets of such subsidiary corresponding to the disposal of investment is recognised as other comprehensive income, and is transferred to profit or loss of the period during which control is lost upon loss of control.

5. *Criteria for determination of common control and significant impact*

If the Company collectively control certain arrangement with the other participants as agreed, and the decisions on the activities that may have significant impact on the return of arrangement exit with consistent agreement from participants sharing the control power, then the Company and the other participants are deemed to have common control over certain arrangement, which is joint venture arrangement.

Where the joint venture arrangement is realized through individual entity, it is judged according to relevant agreement that, when the Company is entitled to rights over the net assets of such entity, the entity is a joint venture and adopts equity method for accounting treatment. If judged according to relevant agreement that, the Company has no rights over the net assets of such entity, such entity is joint operation, and the Company recognise the items in relation to the shares in the joint operation and adopts provisions of relevant accounting standards for accounting treatment.

Significant impact refers to the power of an investing party to participate in making decisions on the financial and operating policies of an investee, but not to control or jointly control together with other parties over the formulation of these policies. The Company determines, the significant impact is placed on investee in one or more situations as follows after a comprehensive consideration of all facts and situations: (1) dispatching representatives in the board of directors or similar power organ of the investee; (2) participating in the formulation of the financial and operation policies of the investee; (3) having significant deals with the investee; (4) dispatching management personnel to the investee; and (5) providing key technical data to investee.

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

(XV) Investment Properties

Investment property refers to real estate held to earn rentals or for capital appreciation, or both, including land-use rights that have been leased, land use rights that are held and prepared for transfer after appreciation, and buildings that have been leased. In addition, for the vacant buildings that the Company holds for operating leases, if the board of directors makes a written decision that it is explicitly used for operating leases and that the holdings do not change in the short term, they are also presented as investment property.

The Company's investment property is recorded at its cost, and the cost of an purchased investment property includes the purchase price, related taxes, and other expenses directly attributable to the asset; the cost of self-constructed investment property is included all necessary expenditures incurred during the construction and before the asset reaches its intended usable condition constitute.

The Company adopts a cost model for subsequent measurement of investment property, and depreciates or amortizes buildings and land use rights according to their estimated useful life and net residual value. The estimated useful life, net residual value rate and annual depreciation (amortization) rate of investment property are listed as follows:

Category	Estimated useful life (years)	Expected net residual rate	Annual depreciation (amortization) rate (%)
Land use rights	50	–	2.00%
Buildings and structures	40	5%	2.38%

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

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

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

(XVI) Fixed assets

1. *Conditions for confirmation of fixed assets*

Fixed assets are tangible assets, having useful life over one accounting year, which are held to produce goods and/or the rendering of services, leasing to others, or for operating purposes. Fixed assets are confirmed when the following conditions are met at the same time:

i. Fixed asset is recognised when it is probable that future economic benefits associated with the item will flow to the Group;

ii. The cost of the item can be measured reliably.

2. *Initial measurement of fixed assets*

Fixed assets are initially measured at cost.

i. The cost of a purchased fixed asset comprises the purchase price, import tariffs etc. relevant taxes and any directly attributable expenditure for bringing the asset to working condition for its intended use.

ii. The cost of self-built fixed assets comprises necessary expenditures for bringing the self-built asset to working condition for its intended use.

iii. The cost of fixed assets invested by investors is recorded according to the agreed value in the investment contract or agreement, where the agreed value n the investment contract or agreement is not fair, the cost is recorded at fair value.

iv. Should the delay in payment of purchase price of fixed beyond normal credit terms has substantially financing nature, the cost of fixed price is determined based on the present value of purchase price. The difference between the actual payment and the present value of the purchase price is included in the current profit and loss during the credit period except for capitalization.

3. *Subsequent measurement and disposal of fixed assets*

(1) Depreciation of fixed assets
Depreciation of fixed assets is accrued within the estimated useful life based on its recorded value less estimated residual value. For fixed assets with impairment provision, the depreciation amount will be determined in the future period based on the book value after deducting the impairment provision and the remaining useful life. Fixed assets that have been fully depreciated and continue to be used are not depreciated.

Fixed assets formed by using special reserve expenditures, reducing special reserves according to the cost of forming fixed assets, and recognize the accumulated depreciation of the same amount. Such fixed assets will no longer be depreciated in the future periods.

The Company determines the useful life and estimated net residual value of fixed assets based on the nature and use of fixed assets, and conducts review to the useful life, estimated net residual value and depreciation method of fixed assets at the end of year. The corresponding adjustments will be made If there is a difference from the original estimates.

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

(XVI) Fixed assets *(Continued)*

3. Subsequent measurement and disposal of fixed assets (Continued)

(1) Depreciation of fixed assets *(Continued)*
The depreciation method, depreciation life and annual depreciation rate of various categories of fixed assets are as follows:

Category	Depreciation method	Useful life of depreciation (Year)	Estimated residual value rate (%)	Annual depreciation rate (%)
Buildings and structures	straight-line method	40	5.00	2.38
Machinery equipment	straight-line method	5-20	5.00	4.75-19.00
Electronic equipment	straight-line method	5-14	5.00	6.79-19.00
Transportation equipment	straight-line method	5-14	5.00	6.79-19.00

(2) Subsequent expenditures of fixed assets
Should subsequent expenditures of fixed assets meet the conditions for confirmation of fixed assets, they are included in the cost of fixed assets; if the subsequent expenditures of fixed assets do not meet the conditions for conformation of fixed assets, they are included in current profit and loss at the time of occurrence.

(3) Disposal of fixed assets
When a fixed asset is disposed of, or is expected not to generate economic benefits through use or disposal, recognition of the fixed assets will be terminated. The amount of disposal income from the sale, transfer, scrap or damage of fixed assets is recognized in profit or loss for the current period after deducting the net of its carrying amount and related taxes and expenses.

4. Determination basis, measurement and depreciation method of fixed assets acquired under financial lease

The fixed asset leased by the Company will be recognized as fixed asset acquired under finance leases when it complies with one or more of the following standards:

(1) The ownership of the leased asset will be transferred to the Company upon expiry of the lease term.

(2) The Company has the option to acquire the leased asset, and the acquisition consideration is expected to be much lower than the fair value of the leased asset at the time when the right of option is exercised. Therefore, it can be reasonably confirmed from the commencement date of the lease term that Company will exercise the right of option.

(3) Even if the ownership of the leased asset will not be transferred, the lease term accounts for the most of useful life of the leased asset.

(4) The present value of the minimum lease payment made by the Company at the commencement date of the lease almost equals to the fair value of the leased asset at the commencement date of the lease.

(5) The leased asset is of a specialized nature that only the Company can use it without making major modifications.

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

(XVI) Fixed assets *(Continued)*

4. *Determination basis, measurement and depreciation method of fixed assets acquired under financial lease (Continued)*

The entry value of the leased asset acquired under finance leases is recorded as the lower of the fair value of the leased asset and the present value of the minimum lease payment at the commencement date of the lease. The minimum lease payment is recognized as long-term payable, and the difference between them is recognized as unrecognized finance charge. Initial direct costs that are attributable to the leased item incurred during the process of negotiating and securing the lease agreement, such as handling fees, attorney fees, traveling expenses and stamp duty, are also credited to the value of the leased asset. Unrecognized finance charge is amortized using effective interest method over the lease term.

For fixed assets acquired under finance leases, the basis for provision of leased assets depreciation is the same as that of self-owned fixed assets. When it can be reasonably determined that the ownership of a leased asset will be transferred at the end of the lease term, it is depreciated over the period of expected use; otherwise, the lease asset is depreciated over the shorter period of the lease term and the period of expected use.

(XVII) Construction in progress

1. *Initial measurement of the construction in progress*

The actual construction cost of the construction in progress is determined by the actual expenses incurred before the construction of the asset reaches the intended usable condition, including the cost of engineering materials, labor costs and relevant taxes payable, capitalized borrowing costs and indirect costs that should be apportioned.

2. *Standards and time points for the construction in progress to be carried forward to fixed assets*

The total expenditure incurred before the construction project is constructed to reach the intended usable condition shall be recorded as the value of the fixed assets. The construction of fixed assets under construction has reached the intended use of the state, but has not yet completed the final accounts, since the scheduled use of the date of use, according to the project budget, cost or actual project costs, according to the estimated value into fixed Assets and depreciation of fixed assets in accordance with the depreciation policy of the Company's fixed assets. After the completion of the final accounts, the original estimated value shall be adjusted according to the actual cost, but the original depreciation amount shall not be adjusted.

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

(XVIII) Borrowing cost

1. *Recognition principle of capitalization of borrowing costs*

The borrowing costs, the Company can directly attributable to the acquisition and construction or production of assets eligible for capitalization, in the case of eligible for capitalization start capitalization, included in the relevant asset costs; Other borrowing costs shall be recognized as expenses at the time of occurrence and shall be included in the current profits and losses.

Assets that are eligible for capitalization are assets that require a long period of time to purchase or produce activities to achieve fixed assets, investment real estate and inventory that are intended to be available or sold.

Borrowing costs begin to capitalize when the following conditions are met:

(1) Assets expenditure has occurred, including expenditure incurred in the form of cash, transfer of non-cash assets or interest-bearing debt for the acquisition or construction of assets eligible for capitalization.

(2) Borrowing costs have already occurred.

(3) The purchase and construction or production activities necessary for the asset to reach the intended use or saleable status.

2. *Capitalization period of borrowing costs*

During the period of capitalization, the period during which the borrowing costs are suspended from capitalization is not included during the period from the point of time when the borrowing costs are capitalized to the point where the capitalization is stopped.

The borrowing costs shall cease to be capitalized when the assets acquired or produced meet the conditions for capitalization are ready for use or sold.

When part of the assets purchased or produced in accordance with the capitalization conditions are completed and can be used alone, the part of the asset borrowing costs to stop capitalization.

The parts of the assets purchased or produced are completed separately but must wait until the whole is completed or can be sold abroad. The capitalization of the borrowing costs shall be stopped when the asset is completed as a whole.

3. *Suspension of capitalization period*

If the assets that meet the capitalization conditions are interrupted abnormally during the construction or production process and the interruption time lasts for more than 3 months, the borrowing costs shall be suspended; the borrowing costs continue to be capitalized if the acquisition or production of assets eligible for capitalization to meet the required usable status or the availability of sales. The borrowing costs incurred during the interruption are recognized as profit or loss for the current period and the borrowing costs continue to be capitalized until the asset is purchased or the activity is resumed.

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

(XVIII) Borrowing cost *(Continued)*

4. *Calculation for capitalization of borrowing costs*

Special loan interest charges (excluding unused borrowing money deposited in the bank interest income, or for a temporary investment return on investment) and its ancillary expenses and construction or production of assets eligible for capitalization, before to the expected conditions for use or sale shall be capitalized.

Based on the weighted average of the asset expenditures that exceed the special borrowing portion, the accumulative asset expenditure is calculated to determine the amount of interest that the general borrowing should be capitalized. The capitalization rate is determined based on the average borrowing weighted average interest rate.

Where there is a discount or premium in the loan, the interest amount shall be adjusted in accordance with the real interest rate method to determine the discount or premium amount that shall be amortized during each accounting period.

(XIX) Intangible assets and development expenditure

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

1. *Initial measurement of intangible assets*

The cost of outsourcing intangible assets, including purchase price, related taxes and other expenses directly attributable to the asset to the intended use. The purchase price of intangible assets exceeds the normal credit terms deferred payment, in essence, the nature of the financing, the cost of intangible assets to determine the value of the purchase price.

Debt restructuring to the debtor to owe, intangible assets, on the basis of the fair value of the intangible assets to determine its costs, and the book value of the debt restructuring and the to a debt is the difference between the fair value of intangible assets, included in the current profits and losses.

The entry value of intangible asset received in an exchange for non-monetary asset is based on the fair value of the asset surrendered, provided that the asset received in exchange for non-monetary asset has a commercial substance and the fair value of both the asset received and the asset surrendered can be reliably measured, except there is definite evidence that the fair value of the asset received is more reliable; for exchange of nonmonetary asset that cannot satisfy the above conditions, the cost of the intangible asset received is based on the carrying amount of the asset surrendered and the amount of relevant taxation payable, and no profit or loss is recognized.

The intangible assets acquired under the same control are determined by the book value of the merged party. The intangible assets acquired by enterprises under the control of nonidentical control shall determine their accounting value at fair value.

Internal self-developed intangible assets, and its cost includes: the development of the intangible assets, consumption of materials, labor costs, registration fees, used in the development process of the amortization of patents and other concessions and for capitalization of interest costs, as well as to make the intangible asset to the expected purpose of the other direct costs.

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

(XIX) Intangible assets and development expenditure *(Continued)*

2. *The subsequent measurement of intangible assets*

The Company analyses and determines its service life when acquiring intangible assets, which is divided into intangible assets with limited service life and uncertain service life.

(1) Intangible assets with limited useful life
For intangible assets with limited service life, they are amortized by straight-line method for the economic benefits of enterprises. The life expectancy of the intangible assets with limited life span are predicted as follows:

Item	Expected useful life(year)	Basis
Land use rights	50	Expected useful life
Software	3-10	Expected useful life
Others	5-10	Expected useful life

At the end of each term, the service life and amortization method of the intangible assets with limited service life will be rechecked. If there are differences with the original estimates, corresponding adjustments will be made.

After reviewing, the life and amortization methods of intangible assets are not different from previous estimates.

(2) Intangible assets with uncertain useful life
It is impossible to foresee that intangible assets will bring economic benefits to enterprises, which are regarded as intangible assets with uncertain service life. For intangible assets with uncertain service life, they will not be amortized during the holding period, and the life of intangible assets will be reviewed at the end of each term. If the final review remains uncertain, the impairment test will continue during each accounting period.

After reviewing, the useful life of this kind of intangible assets is still uncertain.

3. *Division of the research and development stages of internal research in the Company and the specific standards for development projects*

The stage of research: a stage of original planning, research, and research for the acquisition and understanding of new scientific or technical knowledge.

Development stage: before the commercial production or use, the research results or other knowledge will be applied to a plan or design to produce new or substantial improvements in materials, devices, products and other activities.

The expenditure of the research stage of the internal research and development project is included in the current profit and loss at the time of occurrence.

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

(XIX) Intangible assets and development expenditure *(Continued)*

4. *Specific standard for capitalization of expenditure in the development stage*

Internal research and development projects in the development phase of the expenditure, while meeting the following conditions identified as intangible assets:

(1) Complete the intangible asset so that it can be used or sold in technical feasibility;

(2) The intention to complete the intangible asset and to use or sell it.

(3) Intangible assets to generate economic benefits, including the ability to prove the existence of the products using the intangible assets market or the market of intangible assets, intangible assets will be used internally, to prove its usefulness.

(4) Having sufficient technical, financial resources and other resource support to complete the development of the intangible asset and have the ability to use or sell the intangible asset.

(5) Expenditures attributable to the development stage of the intangible asset can be reliably measured.

Expenditures incurred in the development stage that do not meet the above conditions shall be included in the current profit and loss in the event of occurrence. The development expenditure which has been included in the profit and loss has not been reconfirmed as an asset in the future. Expenditures in the capitalized development phase are shown on the balance sheet as development expenditures and are converted into intangible assets from the date of the project's intended use.

(XX) Impairment on long-term assets

On the balance sheet date, the Group determines whether there may be a sign of a reduction in long-term assets. If there are signs of impairment in long-term assets, the recoverable amount is estimated on the basis of a single asset. If it is difficult to estimate the recoverable amount of a single asset, then determine the recoverable amount of the asset group on the basis of the asset group belonging to the asset.

The estimation of assets recoverable amount is the larger amount between the fair value deducting net cost when disposal and the expected value of future cash flow of assets.

The measurement results show that when the long-term recoverable amount assets is lower than its book value, the book value of long-term assets is reduced to its recoverable amount. The reduced amount is recognized as impairment loss recognized, at the same time, make the corresponding assets depreciation preparation. As soon as the loss of assets is confirmed, it shall not be returned during the subsequent accounting period.

After the asset impairment loss is confirmed, the depreciation or amortization expenses of the impairment assets will be adjusted accordingly in the future period so that the assets'
book value of adjusted assets will be allocated in the remaining useful life (deducting the estimated net residual value).

No matter whether there is any sign of impairment or not, the impairment test is carried out every year because of the goodwill and the intangible assets of the enterprise merger.

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

(XX) Impairment on long-term assets *(Continued)*

Conducting impairment test combines with good will and relevant assets or assets combination related the goodwill. When taking an impairment test on the relevant asset group containing goodwill or combination of group assets, such as goodwill and the related asset group or combination of asset groups signs of impairment, first calculate the recoverable amount but not test the impairment which does not contain an asset group or combination of asset groups. Then, compare it with the related book value and confirm the impairment the corresponding loss. Next, testing impairment of goodwill includes asset group or combination of asset groups and comparing book value of the related asset group or combination of asset groups (book value includes the share of goodwill) with the recoverable amount. If the recoverable amount of asset group or combination of asset groups is lower than the book value, confirm the impairment loss of goodwill.

(XXI) Long-term Prepaid Expenses

1. *Amortization method*

Long-term prepaid expenses of the Company refer to expenses that already been spent and the benefit period is one year or more. Long-term prepaid expenses are amortized using the straight-line method in its benefit period.

2. *Amortization period (year)*

Type	Amortization period (year)	Remark
Mold and sandbox	3	Benefit period

(XXII) Employee benefits

Employee's benefits refer to various forms of remuneration or compensation given by the company to obtain services provided by employees or to terminate labor relations. Employee's benefits include short-term remuneration, post-employment benefits, termination benefits and other long-term benefits.

1. *Short-term remuneration*

Short-term remuneration refers to the remuneration of the employees that needs to be fully paid within 12 months after the end of the annual reporting period in which the employees provide related services, except for post-employment benefits and termination benefits. Short-term remuneration shall be recognized as liabilities during the accounting period when the employee renders services to the Company and allocated to related cost of assets and current period profit or loss based on different beneficiaries.

2. *Post-employment benefits*

Post-employment benefits refer to the compensation and benefits provided, after employees' retirement and termination of employment, by the Group in order to obtain services from employees, except for the short-term compensation and employee benefits. Post-employment benefits classified into defined contribution plan and defined benefit plan.

Defined contribution plan of the Group refers to the basic endowment insurance, unemployment insurance paid for the employees according to relevant regulation by local governments. During the accounting period when employees render services to the Group, amount payable calculated by the base and ratio in conformity with local regulation is recognized as liability and accounted for profit and loss or related cost of assets.

After the Company paying the above-mentioned funds regularly in accordance with the standards and annuity plans stipulated by the state, it does not have other payment obligations.

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

(XXII) Employee benefits *(Continued)*

3. Termination benefits

Termination benefits refer to the compensation paid when the Company terminates the employment relationship with employee before the expiry of the employment contracts or provides compensation as an offer to encourage employee to accept voluntary redundancy. Where the Company provides termination benefits to employees, the Company recognizes the liabilities of employee benefits payable generated from the termination benefits at the earlier date of the following two dates: 1) when the Company cannot reverse the termination benefits due to the plan of cancelling the labour relationship or the termination benefits provided by the advice of reducing staff; and 2) the Group recognizes the cost or expense relative to the payment of termination benefits of restructuring into the current profit or loss.

The Company provides retirement benefits to employees who accept internal retirement arrangements. The internal retirement benefits refer to the remuneration and the social insurance premiums paid to the employees who have not reached the retirement age set by the state, and voluntarily withdrew from the job after approval of the Company's management. The Company pays internal retired benefits to internal retired employees from the day the internal retirement arrangement begins to the employee reaches the normal retirement age. For internal retirement benefits, the Company conducts accounting treatment in contrast to the termination benefits. When the related confirmation conditions of termination benefits are met, the Company will confirm the remuneration and the social insurance premiums of the internal retired employee to be paid during the period between the employee's termination of service and normal retirement date, confirm those as liabilities and included the amount in the current profit or loss in one time. Changes in actuarial assumptions of internal retirement benefits and differences arising from the adjustment of welfare standards are included in current profit or loss when incurred.

4. Other long-term employment benefit

Other long-term employment benefit refers to all employee benefit except for short-term benefit, post-employment benefit, and termination benefit.

For other long-term employee benefits that meet the conditions of the defined contribution plan, during the accounting period in which the employee provides services for the company, the amount that should be paid is recognized as a liability and is included in the current profit or loss or the cost of the relevant assets. In addition to the above situations, other long-term employee benefits are actuarially calculated by the independent actuary using the expected cumulative welfare unit method on the balance sheet date, and the welfare obligations arising from the defined benefit plans are attributed to the period during which the employees provide services and are included in the current profit and loss or related asset costs.

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

(XXIII) Estimated liabilities

1. *Criteria for estimated liabilities*

The Group shall recognize estimated liabilities if the contingent matters meet the following requirements:
The assumed responsibilities are current liability.

The fulfilment of obligations will cause the outflow of economic benefit from the Group.

The amount of liabilities can be measured reliable.

2. *Measurement method of estimated liabilities*

The initial measure of expected liabilities is the best estimate of the expenditure required for the performance of the current obligations.

When determining the best estimates, the Company consider the risks, uncertainties and time value of the currency. If the time value of money has a great influence, the Company determine the best estimate by discounting the related future cash outflows.

The best estimates are measured in different situation as follow:

Expenditure and the probability of the occurrence of all the results in the range is the same, the best estimate is determined according to the median value of the range, which is the average of the upper and lower limit.

There is a necessary expense that does not exist a continuous range (or range) or exist a continuous range with a range of different possibility of a variety of results. If the contingencies of individual projects involving, the best estimate is most likely to occur in accordance with the amount determined. If contingencies involving a number of projects, the best estimate according to various possible results and related probability calculation.

The total or part of the expected expenses of the Company is expected to be compensated by the third party. When the amount of the compensation is determined, it is basically determined and it can be independently recognized as assets. The amount of compensation confirmed will not exceed the book value of the estimated liabilities.

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

(XXIV) Revenue

1. *General principles for revenue recognition*

(1) When the contract between the Company and its customer meets the following conditions at the same time, the Company recognizes revenue when the customer obtains control of the relevant goods:

(a) The contracted parties have approved the contract and promised to fulfill their respective obligations;

(b) The contract clarifies the rights and obligations of the contracted parties in relation to the goods transferred or the provision of services;

(c) The contract has clear payment terms on the goods transferred or services rendered;

(d) The contract is of commercial nature, namely that the performance of the contract will change the risk, time distribution or amount of future cash flows of the Company;

(e) The consideration that the enterprise has the right to obtain due to the transfer of goods or services to customers is likely to be recovered.

Obtaining control of the relevant goods means that it is able to dominate the use of the goods and derive almost all economic benefits therefrom.

(2) The Company further divides the performance obligations in the customer contract. For performance obligation fulfilled at a certain point in time, the Company recognizes revenue when the customer obtains control of the relevant goods; for performance obligation fulfilled during a certain period of time, the Company is at that time. Revenue is recognized in accordance with the progress of the performance, and the output method (or input method) is used to determine the appropriate performance schedule based on the nature of the goods and services. The output method is based on the value of the goods transferred to the customer to determine the performance of the customer (the input method is based on the Company's commitment to fulfill the performance obligations). When the performance of the contract cannot be reasonably determined and the Company is expected to be reimbursed for the cost incurred, the revenue shall be recognized according to the cost amount incurred until the performance schedule can be reasonably determined.

2. *Revenue treatment principles for specific transactions*

(1) Contracts with sales return provisions: When the customer obtains control of the relevant goods, revenue is recognized based on the amount of consideration expected to be received due to the transfer of goods to the customers (exclusive of the amount expected to be refunded due to the return of sales), while liability is recognized based on the amount expected to be refunded due to the return of sales.

The carrying amount of goods expected to be returned at sales of goods, after deduction of costs expected to incur for recovery of such goods (including impairment of value of the returned goods), will be accounted for under the item of "Right of return assets".

(2) Contracts with quality assurance provisions: The Company assesses whether a separate service is rendered in respect of the quality assurance besides guaranteeing the sales of goods to customers are in line with the designated standards. Where addition service is provided by the Company, it is considered as a single performance obligation and under accounting treatment according to the standards on revenue; otherwise, quality assurance obligations will be under accounting treatment according to the accounting standards on contingent matters.

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

(XXIV) Revenue *(Continued)*

2. *Revenue treatment principles for specific transactions (Continued)*

(3) Sales contracts with additional purchase option of customers: The Company assesses whether customers will enjoy a significant right with this option. If customers enjoy a significant right, it is considered as a single performance obligation and the transaction price is apportioned to this performance obligation, and corresponding revenue is recognized when the customers obtain control of the relevant goods after exercising the purchase option in the future or the option elapses. Where the single sales price of additional purchase option of customers is not observable directly, it will be reasonably estimated by considering the difference between the discounts available under the circumstances where the option is exercised and not exercised by the customers, respectively, the possibility of exercising of the option by the customers, and other relevant information.

(4) Contracts on grant of intellectual property license to customers: The Company assesses whether the intellectual property license constitutes a single performance obligation. If so, the Company will then further determine whether it is fulfilled during a certain period of time or at a certain point in time. Where intellectual property license is granted to the customers with agreed terms on charging royalties based on the actual sales of or use by them, the revenue will be recognized at the time of the following, whichever is later: actual occurrence of subsequent sales of or use by customers; the fulfillment of relevant performance obligation by the Company.

(5) After-sale repurchase

(a) Contracts with repurchase obligation due to forward arrangement with customers: In this case, the customers do not obtain control of the relevant goods at the time of sales, thus it is taken as a leasing transaction or financing transaction for corresponding accounting treatment. In particular, contract whose repurchase price is lower than its original sales price is regarded as a leasing transaction for accounting treatment according to the provisions on leasing of the Accounting Standards for Business Enterprises; contract whose repurchase price is no lower than its original sales price is regarded as a financing transaction, and will be recognized as a financial liability upon receipt of the amount due from customers, and the difference between such amount and the repurchase price is recognized as interest expense, etc. during the repurchase period. Where the repurchase right is not exercised by the Company at the maturity date, the financial liability will be derecognized and a revenue will be recognized at the same time when the right falls due.

(b) Contracts with repurchase obligation as required by customers: Where customers have significant economic factors upon assessment, after-sale repurchase will be regarded as a leasing transaction or financing transaction for accounting treatment according to the provisions set out in Item (a) above; otherwise, it will be treated as a sales transaction with sales return provisions.

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

(XXIV) Revenue *(Continued)*

2. *Revenue treatment principles for specific transactions (Continued)*

   (6) Contracts with collection of initial fees from customers with no need for return: The initial fees charged from customers with no need for return on the commencement (or close to the commencement) date of the contract shall be included in the transaction price. Upon assessment by the Company, where the initial fees are associated with the transfer of promised goods to customers, and such goods constitute a single performance obligation, the revenue will be recognized based on the transaction price apportioned to such goods at the transfer of the goods; where the initial fees are associated with the transfer of promised goods to customers, but such goods do not constitute a single performance obligation, the revenue will be recognized based on the transaction price apportioned to the single performance obligation at the fulfillment of the single performance obligation including such goods; where the initial fees are not associated with the transfer of promised goods to customers, the initial fees will be recognized as a revenue as advances to transfer of goods at the time of the transfer in the future.

3. *Detailed method for revenue recognition*

   The time of revenue recognition of sales of machine tool, the Company's principal activity, is the delivery of the product to the customer's designated delivery place and the revenue recognition after acceptance.

(XXV) Government grants

1. *Types*

   Government grants are transfer of monetary assets or nonmonetary assets from the government to the Company at no consideration. According to the subsidy object specified in relevant government documents, government grants are classified into government grants related to assets and government grants related to income.

   For the government grants without clearly subsidy object in the government documents, the Company classified the grants into government grants related to assets and government grants related t income according to actual subsidy object. For details of the relevant judgment basis, please refer to note (VI), deferred income/non-operating income of the financial statements.

   Grants related to assets are government grants obtained by the Company for the acquisition, construction or otherwise formation of long-term assets. Government grants related to income refer to the grants other than government grants related to assets.

2. *Recognition of government grants*

   At the end of the period, if there are evidences show the Company can meet the relevant conditions stipulated in the financial support policy and it is expected that the Company will receive financial support funds, the government grants will be recognized according to the amount receivable. Save for this, government grants are recognized on actual receipt.

   If a government grant is in the form of a transfer of monetary asset, the item shall be measured at the amount received or receivable. If a government grant is in the form of a transfer of non-monetary asset, the item shall be measured at fair value. If fair value is not reliably determinable, the item shall be measured at a nominal amount (RMB1 dollar) and recognized immediately in current profit and loss period.

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

(XXV) Government grants *(Continued)*

3. Accounting treatment method for the government grants

According to the essence of economic business, the Company determines whether a certain type of government grant should be used the total amount method or the net amount method accounting treatment. In general, the Company only chooses one method for the same or similar government grants, and this method is consistently to be applied to such grants.

Item	Accounting content
Type of government grants to be used total method accounting treatment	The government grants related to the assets and government grants related to income
Type of government grants to be used net method accounting treatment	

The government grants related to the assets are recognized as deferred income and are included in the profit and loss by staging or reducing the book value of related assets with reasonable and systematic methods within the useful life of self-built assets or purchased assets.

Government grants related to income are used to compensate the relevant expenses or losses in the subsequent period of the enterprise and are recognized as deferred income and are included in the current profit and loss, or reduced related costs. Grants used to compensate for the relevant expenses or losses incurred by the enterprise are directly included in the current profit and loss, or reduced related costs when obtaining.

Government grants related to daily activities of the enterprises are included into other incomes or reduced related costs and expenses; government grants not related to daily activities of the Company are included into non-operating income.

Government grants received related to policy concessional loan discount shall offset the related borrowing costs. Should policy concessionary rate loan provided by a bank is obtained, actual amount of the loan received will be as the book value of the loan, relevant borrowing costs will be calculated according to principal of the borrowing and policy concessionary rate.

For the repayment of a government grant already recognized, if the book value of the relevant assets is reduced at the initial recognition, the book value of the assets shall be adjusted; if there is any related deferred income, the repayment shall be off set against the carrying amount of the deferred income, and any excess shall be recognized in profit or loss for the current period; if there is no related deferred income, the repayment shall be recognized immediately in profit or loss for the current period.

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

(XXVI) Deferred tax assets/deferred tax liabilities

Deferred tax assets and deferred liabilities are recognized based on the differences (temporary differences) between tax bases of assets and liabilities and respective carrying amount. At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or liability is settled.

1. Basis of confirmation for deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available to offset the deductible temporary difference and deduct loss and tax deduction for the year after the end of the year. However, deferred income tax assets resulting from the initial confirmation of assets or liabilities in a transaction with the following characteristics are not recognized: (1) The transaction is not an enterprise merger. (2) The transaction does not affect the accounting profit and the taxable income or the deductible loss as well.

As for deductible temporary differences related to the investment of the joint venture and meet the following conditions to confirm the corresponding deferred income tax assets: Temporary differences are likely to be turned back in the foreseeable future and it is likely to gain the amount of taxable income that is used to offset the temporary difference of deductible in the future.

2. Basis of confirmation for deferred tax liabilities

The Company recognized the temporary tax difference between the current and the previous periods as deferred income tax liabilities. But it does not include:

(1) Temporary differences in the initial recognition of goodwill.

(2) A transaction or event formed by a non-enterprise merger. Meanwhile, hen the transaction or event occurs, it will neither affect the accounting profits nor affect the temporary difference formed by the taxable income (or deductible loss).

(3) For temporary tax differences related to investment in subsidiaries and joint ventures, the time of temporary difference reversal can be controlled and the temporary difference is unlikely to turn back in the foreseeable future.

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

(XXVII) Lease

If a lease that substantially transfers all the risks and rewards of ownership of the assets to the lessee, the lease is a financing lease, other leases are operating leases.

1. *Operating leases accounting treatment*

(1) Operating leased assets
The lease fee paid by the Company for the leased assets shall be apportioned according to the straight-line method and included in the current cost. The initial direct expenses related to the leasing transaction are included in the current expenses.

When the lessor undertakes the expenses related to the lease which the Company shall bear, the Company shall deduct the part of the expenses from the total amount of the rent, and the rental expenses shall be apportioned during the lease term and included in the current expenses.

(2) Operating leased out assets
The lease fee charged by the Company for the leased out assets shall be assessed and confirmed as the lease income without deducting the whole tenancy period of the rent-free period. The initial direct expenses related to the lease transaction paid by the Company shall be included in the current expenses; If the amount is larger, the capital shall be capitalized and shall be included in the current period income according to the same basic stage as the rental income.

When the company undertakes the lease-related expenses that shall be borne by the lessee, the company will deduct such expenses from the total amount of lease income and allocate the deducted lease expenses during the lease period.

2. *Finance lease accounting treatment*

(1) Financial leasing-in assets: The Company on the lease beginning date, the fair value of the leased asset and the present value of minimum lease payment of the two lower as the entry value of the assets and the difference as the unrecognized financing charges. For details of the basis for recognition, valuation and depreciation of financing leased assets, please refer to Note IV (XVI) Fixed assets.

The Company adopts the effective interest method to amortize the unrecognized financing expenses and be included in the financial expenses during the asset lease period.

(2) Financial leasing-out assets: the Company recognizes the difference between the sum of the finance lease and the unrecognized residual at the beginning of the lease as the unrealized financing income and recognizes the rental income in the future period in which the rent is received, the initial direct costs incurred by the Company relating to the leasing transaction are included in the initial measurement of the finance lease and the amount recognized in the lease term is reduced.

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

(XXVIII) Discontinued operation

It can be recognized as an integral part of discontinued operation when the component has been disposed of or classified as a component that can be separately classified for sale and meet one of the following requirements:

(1) The component represents an independent major business or a separate major operating area.

(2) This component is part of a related plan to be disposed of an independent major business or a separate major operating area.

(3) The component is a subsidiary made for resale.

Operating profit and loss and disposal of profit and loss such as impairment losses and reversal amount on discontinued operation etc. as the terminated profit and loss are stated in the income statement.

(XXIX) Safety production cost

The Company accrues safety production cost and records it to the cost of related products or in the profit or loss and transferred to special reserve based on state regulations. The Group shall directly reduce special reserve if the safety production cost is belonging to expense. If fixed asset is arising in using safety production cost, all expenditures are recorded in construction in progress and recognized as fixed asset when the safety project is finished and ready for its intended use; meanwhile, the Group shall reduce special reserve based on the cost of the fixed asset and recognize the accumulated depreciation in the same amount. No deprecation shall be recognised in for this fixed asset in following periods.

(XXX) Explanations on changes in items presented in the financial statements

The Ministry of Finance issued the Notice on Revising and Circulating the Format of Financial Statements of General Enterprises for the Year 2018 (Cai Kuai (2018) No. 15) on 15 June 2018, for the purpose of amendments to the format of financial statements of general enterprises by merger of some items in the balance sheet and subdivision of some items in the income statement; and issued the Explanations on the Issues in Relation to the Format of Financial Statements of General Enterprises for the Year 2018 on 7 September 2018, clarifying that the rebate of commissions for withholding of personal income tax shall be presented in 'Other income", and government grants actually received, whether in connection with assets or income, shall all be presented as cash flows from operating activities in preparing the cash flow statement, etc.

The Company has prepared its financial statements according to the new requirements for format of financial statements of enterprises, and made adjustment to comparative data for the comparative period according to the Accounting Standard for Business Enterprises No. 30 – Presentation of Financial Statements where there is any change in the items presented in the financial statements, including the changes in the items presented in the balance sheet and effected amounts for the comparative period; changes in presentation format and the impact on the consolidated balance sheet caused by the implementation of new accounting standard for business enterprises by the subsidiaries; impact on the items and amounts presented in the income statement and the cash flow statement for the comparative period, which are as follows:

Item	Amount for the year 2017 presented prior to 31 December 2017	Effected amount	Amount for the year 2017 after changes in the presented items on 1 January 2018	Note
General and administrative expenses	170,013,131.66	-5,739,242.43	164,273,889.23	
Research and development expenditures		5,739,242.43	5,739,242.43	

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

(XXXI) Changes in significant accounting policies and accounting estimates

1. Changes in accounting policies

Since 1 January 2018, the Company has adopted the Accounting Standard for Business Enterprises No. 14 – Revenue and Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets and Accounting Standard for Business Enterprises No. 24 – Hedging Accounting, Accounting Standard for Business Enterprises No. 37 Presentation of Financial Instruments revised by the Ministry of Finance in 2017 (the above four standards are collectively referred to as the "New Standards on Financial Instruments"). The accounting policies after the change are detailed in the note IV (XI) and (XXV).

(1) Impact on the Company caused by implementation of new standards on revenue
The new standards on revenue require the entity to adjust the cumulative effect into the retained earnings at the beginning of initial adoption period of the new standards (i.e. 1 January 2018) and relevant items in the financial statements, and not to adjust the information in the comparative period.

In implementation of the new standards on revenue, the Company makes adjustment only to the cumulative effect of contracts that have yet been completed as at the date of the first implementation; and does not make retrospective adjustment to the changes in the contracts conducted before the beginning of the earliest comparative period or the beginning of 2018, but identifies the fulfilled and outstanding performance obligations, finalizes the transaction prices and allocate transaction prices between the fulfilled and outstanding performance obligations based on the final arrangements for the contractual changes.

The effected opening amount of related items in the balance sheet for the current period from the implementation of the new standards on revenue is zero.

(2) Impact on the Company caused by implementation of New Standards on Financial Instruments
Where the requirements for recognition and measurement of financial instrument prior to 1 January 2018 differ from those under the New Standards on Financial Instruments, the Company will make connecting adjustment according to the New Standards on Financial Instruments. If the data of the previous comparative financial statements is inconsistent with the requirements under the New Standards on Financial Instruments, no adjustment will be made to the information in the comparative period. The difference between the original carrying amount of financial instrument and its new carrying amount at the implementation date of the New Standards on Financial Instruments will be included in retained earnings or other comprehensive income as at 1 January 2018.

The effected opening amount of related items in the balance sheet for the current period from the implementation of the New Standards on Financial Instruments is zero.

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

(XXXI) Changes in significant accounting policies and accounting estimates *(Continued)*

1. *Changes in accounting policies (Continued)*

(3) Combined impacts on the Company caused by change in presentation format and implementation of new standards on revenue and New Standards on Financial Instruments

Item	31 December 2017	Impact from change in presentation format	Adjusted amount after change in presentation format	Impact from implementation of new Accounting Standards for Business Enterprises	1 January 2018
Bills receivable	29,684,093.00	-29,684,093.00			
Accounts receivable	254,544,796.00	-254,544,796.00			
Bills receivable and Accounts receivable		+284,228,889.00	284,228,889.00		284,228,889.00
Interest receivable					
Dividends receivable					
Other receivables	19,794,921.53		19,794,921.53		19,794,921.53
Financial assets available for sale	612,000.00			-612,000.00	
Other non-current financial assets				+612,000.00	612,000.00
Bills payable					
Accounts payable	320,626,464.70	-320,626,464.70			
Bills payable and Accounts payable		+320,626,464.70	320,626,464.70		320,626,464.70
Interest payable	390,593.75	-390,593.75			
Dividends payable	135,898.49	-135,898.49			
Other payables	388,757,750.80	+526,492.24	389,284,243.04		389,284,243.04
Long-term payables		+20,947,539.29	20,947,539.29		20,947,539.29
Special payables	20,947,539.29	-20,947,539.29			

2. *Changes in significant accounting estimates*

There is no change in significant accounting estimates during the reporting period.

V. TAXATION

(I) Major Types of Tax and Tax Rates

Type	Tax basis	Tax rate
Value added tax	Sales of goods, taxable labor income and taxable services income	6%, 16% (Note 1)
Urban construction and maintenance tax	Actual payment of turnover tax	5%, 7%
Education fee surcharges	Actual payment of turnover tax	3%
Local education surcharges	Actual payment of turnover tax	2%

Note 1: Value added tax ("VAT")

Output tax of taxable income from business operations such as sales of machine tools, spare parts, contract processing and tangible movable property leasing was calculated at a rate of 16%, and the VAT was paid based on the difference after deducting the input tax amount which is allowed to be deducted in the current period. Output tax of technical advisory services was calculated at a rate of 6% and the VAT was paid based on the difference after deducting the input tax amount which is allowed to be deducted in the current period.

V. TAXATION *(Continued)*

(I) Major Types of Tax and Tax Rates *(Continued)*

Description of income tax rate for different taxpayers:

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

(II) Preferential Tax Policies and the basis

As at the date of approval of the financial statements, the Company has obtained the HNTE certificate no. CR201553000161. The date of issue of the certificate was 17 July 2015 and the period of validity was three years. As at 31 December 2018, relevant department has not yet approved the new HNTE certificate.

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash at bank and on hand

Item	31 December 2018	31 December 2017
Cash on hand	173,066.00	158,990.67
Cash at bank	70,784,613.08	90,104,324.80
Other monetary funds	4,548,660.46	884,728.91
Total	75,506,339.54	91,148,044.38
Of which, total amount of funds deposited overseas		

The details of the restricted cash at bank and on hand are as follows:

Item	31 December 2018	31 December 2017
Security deposit for bank acceptance bills	7.15	7.11
Deposit for letter of credit	1,606,126.26	82.17
Deposit for letter of guarantee	2,942,527.05	884,639.63
Frozen bank deposit	9,350,492.02	
Total	13,899,152.48	884,728.91

2. Bills receivable and Accounts receivable

Item	31 December 2018	31 December 2017
Bills receivable	27,816,999.24	29,684,093.00
Accounts receivable	193,651,561.61	254,544,796.00
Total	221,468,560.85	284,228,889.00

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

2. Bills receivable and Accounts receivable *(Continued)*

(I) Bills receivable

(1) Classification of Bills receivable

Item	31 December 2018	31 December 2017
Bank acceptance notes	23,172,999.24	28,334,093.00
Commercial acceptance notes	4,644,000.00	1,350,000.00
Total	27,816,999.24	29,684,093.00

(2) The Company had no pledged bills receivable at the end of the year

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

Item	Amount derecognized at the end of the year	Amount recognized at the end of the year
Bank acceptance notes	226,602,438.11	
Commercial acceptance notes		210,000.00
Total	226,602,438.11	210,000.00

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

(II) Accounts receivable

(1) Disclosure of accounts receivable by category

	2018				
	Carrying amount		Provision for bad debts		
Type	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Accounts receivable with individual expected credit losses	22,527,757.01	4.31	22,527,757.01	100.00	
Accounts receivable with excepted credit losses by combination	486,005,815.42	92.88	292,354,253.81	60.15	193,651,561.61
Of which: Combination 1 Aging group	412,222,067.16	78.78	292,354,253.81	70.92	119,867,813.35
Combination 2 related parties	73,783,748.26	14.10		Not making	73,783,748.26
Individually not significant but with individual bad debt provision	14,731,911.42	2.82	14,731,911.42	100.00	
Total	523,265,483.85	100.00	329,613,922.24	62.99	193,651,561.61

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

2. Bills receivable and Accounts receivable *(Continued)*

(II) Accounts receivable (Continued)

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

	2017				
	Carrying amount		Provision for bad debts		
Type	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Accounts receivable with individual expected credit losses	22,527,757.01	3.94	22,527,757.01	100.00	–
Accounts receivable with excepted credit losses by combination	535,168,306.00	93.49	280,623,510.00	52.44	254,544,796.00
Of which: Combination 1 Aging group	461,337,065.35	80.59	280,623,510.00	60.83	180,713,555.35
Combination 2 related parties	73,831,240.65	12.90	–	Not making	73,831,240.65
Individually not significant but with individual bad debt provision	14,731,911.42	2.57	14,731,911.42	100.00	–
Total	572,427,974.43	100.00	317,883,178.43	55.53	254,544,796.00

(2) Accounts receivable with individual expected credit losses

	2018			
Business unit	Accounts receivable	Provision for bad debts	Proportion (%)	Reasons for making provision
Shaanxi Ao Wei Qian Yuan Chemical Co., Ltd.	22,527,757.01	22,527,757.01	100.00	no expected to recover the amount
Total	22,527,757.01	22,527,757.01	100.00	–

(3) Accounts receivable with excepted credit losses by combination

(a) In the combination, making bad debt provision for accounts receivable by aging analysis

	2018		
Aging	Accounts receivable	Provision for bad debts	Proportion (%)
Within one year	66,232,730.68	3,311,636.53	5.00
1-2 years	51,056,271.20	15,316,881.36	30.00
2-3 years	18,459,074.55	11,075,444.73	60.00
Over three years	276,473,990.73	262,650,291.19	95.00
Total	412,222,067.16	292,354,253.81	–

(b) In the combination, no provision for bad debts was made for related parties

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

2. Bills receivable and Accounts receivable *(Continued)*

(II) Accounts receivable (Continued)

(4) Disclosure of accounts receivable by aging

Aging	31 December 2018	31 December 2017
Within 1 year	140,016,478.94	185,405,285.44
1 to 2 years	51,056,271.20	31,250,160.01
2 to 3 years	18,459,074.55	105,478,450.80
Over 3 years	313,733,659.16	250,294,078.18
Total	523,265,483.85	572,427,974.43

(5) The withdrawal, recovery and reversal of provision for bad debts during the year

		Changes in the year				
Type	Opening balance	Provision	Recover or reversal	Write-off	Other changes	Closing balance
Accounts receivable with individual expected credit losses	22,527,757.01					22,527,757.01
Accounts receivable with excepted credit losses by combination	280,623,510.00	21,209,243.65		1,962,516.68	7,515,983.16	292,354,253.81
Of which: Combination 1	280,623,510.00	21,209,243.65		1,962,516.68	7,515,983.16	292,354,253.81
Combination 2						
Individually not significant but with individual bad debt provision	14,731,911.42					14,731,911.42
Total	317,883,178.43	21,209,243.65		1,962,516.68	7,515,983.16	329,613,922.24

(6) Actually written off accounts receivable during the reporting period

Item	Write-off amount
Actually written off accounts receivable	1,962,516.68

Of which, Important accounts receivable write-offs are as follows:

Name	Nature of accounts receivable	Write-off amount	Reasons for write-off	Fulfilled write-ff procedure	Whether caused by related party transaction
CISDI Engineering Co., Ltd.	Payment for goods	749,533.68	Debt restructuring	Company approval	No
Hangzhou Feng Yuan Industrial Co., Ltd.	Payment for goods	650,000.00	Debt restructuring	Company approval	No
Total	–	1,399,533.68	–	–	

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

2. Bills receivable and Accounts receivable *(Continued)*

(II) Accounts receivable (Continued)

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

Name	31 Dec 2018	Percentage of the accounts receivable at 31 Dec 2018	Provisions for bad debts
Yunnan CY Group	69,414,000.00	13.27	–
Kunming Yunnei Power Co., Ltd.	32,973,521.32	6.30	31,268,178.59
Shaanxi Ao Wei Qian Yuan Chemical Co., Ltd.	22,527,757.01	4.31	22,527,757.01
Hangzhou Feng Yuan Industrial Co., Ltd.	11,127,825.00	2.13	6,379,338.75
Shandong Longma Heavy Technology Co., Ltd.	9,660,000.00	1.85	483,000.00
Total	145,703,103.33	27.86	60,658,274.35

3. Prepayments

(1) Presentation of prepayments according to aging analysis

	2018		2017	
Aging	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	10,505,822.76	45.82	25,966,891.92	68.13
1 to 2 years	1,773,003.22	7.73	9,178,631.94	24.08
2 to 3 years	8,399,045.19	36.64	1,624,887.80	4.26
Over 3 years	2,248,221.79	9.81	1,344,494.34	3.53
Total	22,926,092.96	100.00	38,114,906.00	100.00

(2) Explanation on reasons for prepayments with an aging over one year and significant amount not settled in time

Name	31 December 2018	Aging	Reasons for not settled in time
Shenyang Rui Shi Da International Trade Co., Ltd. ("Shenyang Rui Shi Da")	6,332,457.73	1-2 years RMB111,164.10, 2-3 years RMB6,221,293.63	Contract not completed
Jiangsu Jianghai Hydraulic & Lubrication Equipment Co., Ltd.	669,200.00	Over 3 years	Contract not completed
Total	7,001,657.73	–	–

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

3. Prepayments *(Continued)*

(3) Top five balances of prepayments by prepaid item as at 31 December 2018

Name	31 December 2018	Percentage of the prepayments (%)	Time of prepayment	Reasons for not settled
Shenyang Rui Shi Da	6,332,457.73	27.62	1-2 years RMB111,164.10, 2-3 yeas RMB6,221,293.63	Contract not completed
Beijing Zhengke Scie-Tech Co., Ltd	1,597,606.84	6.97	Within 1 year	Contract not completed
Chongqing JIe Deng Scie-Tech Co., Ltd.	1,109,999.80	4.84	Within 1 year	Contract not completed
Henan Weihua Heavy Machinery Co., Ltd.	1,046,314.96	4.56	Over 1 year	Contract not completed
Shanghai Seabridge Import and Export Co., Ltd.	856,476.51	3.74	Within 1 year	Contract not completed
Total	10,942,855.84	47.73	–	–

4. Other receivables

Item	31 December 2018	31 December 2017
Interest receivable		
Dividends receivable		
Other receivables	12,398,524.76	19,794,921.53
Total	12,398,524.76	19,794,921.53

(I) Other receivables

(1) Other receivables classified by nature of payment

Nature of payment	31 December 2018	31 December 2017
Petty cash	1,909,684.64	2,388,852.45
Expenses on behalf of other parties	3,917,009.26	4,079,937.72
Tax to be deducted	1,606,647.85	1,348,667.10
Current account with related parties	3,895,539.98	1,275,491.11
Deposit for bidding	1,159,519.42	1,911,550.00
Deposits should be recovered	10,057,218.83	11,105,543.00
Long-term other receivables for equipment	749,248.00	808,350.00
Long-term other receivables transferred from prepayment	1,247,350.00	2,840,958.92
Others	3,226,546.17	3,393,586.27
Total	27,768,764.15	29,152,936.57

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

4. Other receivables *(Continued)*

(I) Other receivables (Continued)

(2) Disclosure of other receivables by category

2018

Type	Carrying amount Amount	Carrying amount Proportion (%)	Provision for bad debts Amount	Provision for bad debts Proportion (%)	Book value
Other receivables individually significant with expected credit loss	1,735,461.71	6.25	1,735,461.71	100.00	
Other receivables with excepted credit losses by combination	24,280,586.57	87.44	11,882,061.81	48.94	12,398,524.76
Of which: Combination 1 aging group	20,385,046.59	73.41	11,882,061.81	58.29	8,502,984.78
Combination 2 related party group	3,895,539.98	14.03		Not making	3,895,539.98
Other receivables individually not significant but with individual bad debt provision	1,752,715.87	6.31	1,752,715.87	100.00	
Total	27,768,764.15	100.00	15,370,239.39	55.35	12,398,524.76

2017

Type	Carrying amount Amount	Carrying amount Proportion (%)	Provision for bad debts Amount	Provision for bad debts Proportion (%)	Book value
Other receivables individually significant with expected credit loss					
Other receivables with excepted credit losses by combination	28,776,030.15	98.71	9,358,015.04	32.52	19,418,015.11
Of which: aging group	27,500,539.04	94.33	9,358,015.04	34.03	18,142,524.00
related party group	1,275,491.11	4.38	–	No provision	1,275,491.11
Other receivables individually not significant but with individual bad debt provision	376,906.42	1.29	–	–	376,906.42
Total	29,152,936.57	100.00	9,358,015.04	32.10	19,794,921.53

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

4. Other receivables *(Continued)*

(I) Other receivables (Continued)

(3) Other receivables with individually excepted credit loss

	31 December 2018			
Name	**Carrying amount**	**Provision for bad debts**	**Proportion (%)**	**Reasons for provision**
Xue Huan	1,167,986.04	1,167,986.04	100.00	Longer aging
Hou Jun	457,475.67	457,475.67	100.00	Longer aging
Zhao Juan	110,000.00	110,000.00	100.00	Longer aging
Total	1,735,461.71	1,735,461.71	–	–

(4) Expected credit loss for other receivables by combination

(a) Aging group

	2018		
Aging	**Carrying amount**	**Provision for bad debts**	**Proportion (%)**
Within 1 year	4,540,188.77	227,009.44	5.00
1-2 years	8,379,610.90	4,189,805.45	50.00
2-3 years	3,863,457.12	3,863,457.12	100.00
Over 3 years	3,601,789.80	3,601,789.80	100.00
Total	20,385,046.59	11,882,061.81	–

(b) No provision for bad debts was made for related parties.

(5) Disclosure of other receivables by aging

Aging	**2018**	**2017**
Within 1 year	8,435,728.75	16,720,687.04
1-2 years	8,379,610.90	6,939,175.76
2-3 years	3,863,457.12	530,431.47
Over 3 years	7,089,967.38	4,962,642.30
Total	27,768,764.15	29,152,936.57

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

4. Other receivables *(Continued)*

(I) Other receivables (Continued)

(6) The withdrawal, recovery and reversal of provision for bad debts during the reporting period

Type	Opening balance	Changes in the period: Provision	Recovery or reversal	Write-off	Other changes	Closing balance
Other receivables individually significant with expected credit loss		1,735,461.71				1,735,461.71
Other receivables with excepted credit losses by combination	9,358,015.04	2,773,609.84			249,563.07	11,882,061.81
Of which: Combination 1	9,358,015.04	2,773,609.84			249,563.07	11,882,061.81
Combination 2	–					
Other receivables individually not significant but with individual bad debt provision	–	1,752,715.87				1,752,715.87
Total	9,358,015.04	6,261,787.42			249,563.07	15,370,239.39

(7) Top five other receivables by debtor as at the end of the reporting period

Name	Nature	31 Dec 2018	Aging	Percentage of Other receivables at 31 Dec 2018 (%)	provision for bad debts at the end of the period
Kunming Rail Transit Group Co., Ltd.	Deposit	6,000,000.00	1-2 years	21.52	3,000,000.00
Shenyang Machine Tool Co., Ltd. Welding Company ("Welding Company")	Funding transactions	3,935,939.98			
Bureau of human resources and social security of Songming County	Deposit	2,274,000.00	2-3 years 1,934,000.00, Over 3 years 340,000.00	8.16	2,274,000.00
China Kangfu International Leasing Co., Ltd.	Deposit	1,185,600.00	2-3 years	4.25	1,185,600.00
Xue Huan	Petty cash	1,167,986.04	2-3 years	4.19	1,167,986.04
Total		14,563,526.02		38.12	7,627,586.04

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

5. Inventories

(1) Inventories by category

Item	2018 Carrying amount	2018 Provision for diminution of inventories	2018 Book value	2017 Carrying amount	2017 Provision for diminution of inventories	2017 Book value
Raw materials	98,261,543.92	17,857,131.17	80,404,412.75	100,760,168.28	26,764,615.39	73,995,552.89
Work in progress	221,629,689.92	6,653,914.49	214,975,775.43	335,826,537.58	69,151,635.28	266,674,902.30
Finished goods	125,263,025.53	23,149,822.45	102,113,203.08	241,376,811.47	26,992,597.00	214,384,214.47
Goods delivered	4,452,189.62		4,452,189.62			
Consumables				6,766,676.74		6,766,676.74
Total	449,606,448.99	47,660,868.11	401,945,580.88	684,730,194.07	122,908,847.67	561,821,346.40

(2) Provision for diminution in value of inventories

Item	Opening balance	Increase during the period: Provision	Increase during the period: Others	Decrease during the period: Reversal	Decrease during the period: Write-off	Decrease during the period: Others	Closing balance
Raw materials	26,764,615.39			1,062,676.46	2,040,201.41	5,804,606.35	17,857,131.17
Work in progress	69,151,635.28				12,872,469.38	49,625,251.41	6,653,914.49
Finished goods	26,992,597.00	2,829,315.79		590,930.67	6,081,159.67		23,149,822.45
Goods delivered							
Consumables							
Total	122,908,847.67	2,829,315.79		1,653,607.13	20,993,830.46	55,429,857.76	47,660,868.11

Note: The other decrease of provision for diminution in value of inventories was due to Changsha Ser not included in the consolidation scope.

6. Other Current assets

(1) Other current assets are presented by items

Item	31 December 2018	31 December 2017
To be deductible VAT	5,686,355.64	11,806,576.23
Others		6,358,893.26
Total	5,686,355.64	18,165,469.49

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

7. Available-for-Sale Financial Assets

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

Item	31 December 2018 Carrying amount	31 December 2018 Provision for diminution in value	31 December 2018 Book value	31 December 2017 Carrying amount	31 December 2017 Provision for diminution in value	31 December 2017 Book value
Available-for-sale equity instruments				2,612,000.00	2,000,000.00	612,000.00
Measured at fair value						
Measure by cost				2,612,000.00	2,000,000.00	612,000.00
Total				2,612,000.00	2,000,000.00	612,000.00

8. Long-term equity investments

Invested company	31 Dec 2017	Changes in equity for the period: Additional investment	Decrease investment	Investment income recognized under the equity method	Other Comprehensive Income adjustment
Associate companies					
Xi'an Ruite	10,039,220.02			-1,291,970.81	
Total	10,039,220.02			-1,291,970.81	

Invested company	Changes in equity for the period: Movement of other equity	Declared cash dividends or profits	Provision for impairment	others	Closing balance	Impairment provision as at 31 Dec 2018
Associate companies						
Xi'an Ruite					8,747,249.21	
Total					8,747,249.21	

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

9. Other non-current financial assets

Item	31 Dec 2018	31 Dec 2017
Sub-total of other non-current financial assets measured at fair value and its changes included in the current profits and losses	612,000.00	
Debt instrument investment		
Equity instrument investment	612,000.00	
Others		
Sub-total of other non-current financial assets specified to be measured at fair value and its changes included in the current profits and losses		
Debt instrument investment		
Others		
Total	612,000.00	

Description of other non-current financial assets:

Changsha Ser was in the process of liquidation and the Company could not control it and it had no significant impact during the reporting period.

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

10. Investment properties

(1) Information of Investment properties

Item	Building and structures	Land use rights	Construction in progress	Total
I. Cost				
1. Opening balance	18,427,823.95			18,427,823.95
2. Addition during the period				
Acquisition				
Increased by other reasons				
3. Decrease during the year				
Disposal				
Decreased by other reasons				
2. Closing balance	18,427,823.95			18,427,823.95
II. Accumulated depreciation or amortization				
1. Opening balance	3,601,130.95			3,601,130.95
2. Addition during the period	438,437.28			438,437.28
Provision during the year	438,437.28			438,437.28
Increased by other reasons				
3. Decrease during the year				
Disposal				
Decreased by other reasons				
4. Closing balance	4,039,568.23			4,039,568.23
III. Impairment provision				
1. Opening balance				
2. Addition during the period				
Provision during the year				
Increased by other reasons				
3. Decrease during the year				
Disposal				
Decreased by other reasons				
4. Closing balance				
IV. Carrying amount				
1. At the end of the period	14,388,255.72			14,388,255.72
2. At the beginning of the period	14,826,693.00			14,826,693.00

(2) The Company had no investment properties with pending certificates of ownership.

11. Fixed assets

Item	31 December 2018	31 December 2017
Fixed assets	373,161,637.67	409,396,449.93
Fixed assets in liquidation/		
Total	373,161,637.67	409,396,449.93

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

11. Fixed assets *(Continued)*

(I) Fixed assets

(1) Details of fixed assets

Item	Building and structures	Mechanical equipment	Transportation equipment	Electronic equipment	Total
I. Cost					
1. Opening balance	227,667,618.44	589,800,033.23	24,868,711.11	18,725,694.88	861,062,057.66
2. Addition during the period					
Acquisition	1,330,598.35	39,096,289.08		163,461.92	40,590,349.35
Transfer from construction in progress					
Other increase					
3. Decrease during the year					
Disposal	496,629.83	23,380,032.77	597,048.00	213,365.40	24,687,076.00
Decreased by other reasons	39,576,162.38	31,794,429.69	1,112,206.00	2,993,846.59	75,476,644.66
3. Closing balance	188,925,424.58	573,721,859.85	23,159,457.11	15,681,944.81	801,488,686.35
II. Accumulated depreciation					
1. Opening balance	46,942,541.19	359,500,298.15	18,548,817.81	15,668,268.01	440,659,925.16
2. Addition during the period					
Reclassification					
Depreciation during the period	6,485,326.66	33,672,410.02	1,355,889.41	756,874.20	42,270,500.29
Other increase					
3. Decrease during the year					
Disposal		9,264,240.69	571,856.08	195,587.92	10,031,684.69
Decreased by other reasons	21,846,750.25	29,226,358.10	1,061,558.01	2,684,329.04	54,818,995.40
4. Closing balance	31,581,117.60	354,682,109.38	18,271,293.13	13,545,225.25	418,079,745.36
III. Impairment provision					
1. Opening balance	–	10,964,316.64	–	41,365.93	11,005,682.57
2. Addition during the period					
Provision during the period					
Other increase					
3. Decrease during the year					
Disposal		758,379.25			758,379.25
Decreased by other reasons					
5. Closing balance		10,205,937.39		41,365.93	10,247,303.32
IV. Carrying amount					
1. At the end of the period	157,344,306.98	208,833,813.08	4,888,163.98	2,095,353.63	373,161,637.67
2. At the beginning of the period	180,725,077.25	219,335,418.44	6,319,893.30	3,016,060.94	409,396,449.93

Note: Other decrease of fixed assets during the period was due to Changsha Ser not included in the consolidation scope.

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

11. Fixed assets *(Continued)*

(I) Fixed assets (Continued)

(2) Particulars of temporarily idle fixed assets

Item	Original carrying amount	Accumulated depreciation	Provision for impairment	Book value	Remark
Mechanical equipment	2,288,041.88	701,166.33	2,700.00	1,584,175.55	
Total	2,288,041.88	701,166.33	2,700.00	1,584,175.55	

(3) At the end of the period, no fixed assets acquired under finance leases.

(4) At the end of the period, no fixed assets were leased by way of operating lease.

(5) Fixed assets with pending certificates of ownership

Item	Carrying amount	Reasons for fixed assets with pending certificates of ownership
Building and structures	92,825,114.51	Failure to the fire inspection, relevant department was considering and approval.
Total	92,825,114.51	–

12. Construction in progress

Item	31 December 2018	31 December 2017
Construction in progress	70,645,813.07	54,044,868.15
Total	70,645,813.07	54,044,868.15

(I) Construction in progress

(1) Information of construction in progress

Item	Closing balance Book balance	Impairment provision	Book value	Opening balance Book balance	Impairment provision	Book value
Yanglin base	70,250,376.08		70,250,376.08	53,393,705.86		53,393,705.86
Other projects	395,436.99		395,436.99	651,162.29		651,162.29
Total	70,645,813.07		70,645,813.07	54,044,868.15		54,044,868.15

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

Item	As at 31 Dec 2017	Additions during the period	Transfer to fixed assets during the period	Decrease during the period	As at 31 Dec 2018
Yanglin Base	53,393,705.86	18,262,224.75		1,405,554.53	70,250,376.08
Total	53,393,705.86	18,262,224.75		1,405,554.53	70,250,376.08

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

12. Construction in progress *(Continued)*

(I) Construction in progress (Continued)

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

Item	Budget (RMB'0000)	Investment percentage to total budget (%)	Project Progress (%)	Accumulated amount of interest capitalized	Of which, amount of interest capitalized during the period	Interest capitalization rate of the year (%)	Source of the fund
Yanglin Base	65,400.00	47.26	61.00				Self-financing and budgetary investment of central government
Total	65,400.00	47.26	61.00				

13. Intangible assets

(1) Information of intangible assets

Item	Land use rights	Software	Patent rights	Others	Total
I. Cost					
1. Opening balance	113,414,667.82	20,527,073.28	77,488,010.20	22,458,423.23	233,888,174.53
2. Addition during the year			67,860.94	336,021.52	403,882.46
Acquisition			67,860.94	336,021.52	403,882.46
Internal R&D					
3. Decrease during the year					
Disposal					
Decrease by other reasons	14,192,913.34	959,637.62			15,152,550.96
4. Closing balance	99,221,754.48	19,567,435.66	77,555,871.14	22,794,444.75	219,139,506.03
II. Accumulated depreciation					
1. Opening balance	12,392,652.10	13,277,704.35	16,190,929.15	13,241,249.41	55,102,535.01
2. Addition during the year	2,221,279.56	1,642,367.38	3,868,944.65	1,423,718.34	9,156,309.93
Depreciation	2,221,279.56	1,642,367.38	3,868,944.65	1,423,718.34	9,156,309.93
Increase by other reasons					
3. Decrease during the year	3,979,251.14	227,269.17			4,206,520.31
Disposal					
Decrease by other reasons	3,979,251.14	227,269.17			4,206,520.31
4. Closing balance	10,634,680.52	14,692,802.56	20,059,873.80	14,664,967.75	60,052,324.63
III. Impairment provision					
1. Opening balance					
2. Addition during the year					
Provision					
Increase by other reasons					
3. Decrease during the year					
Transfer					
Decrease by other reasons					
Other transfer out					
4. Closing balance					
IV. Carrying amounts					
1. At the end of the year	88,587,073.96	4,874,633.10	57,495,997.34	8,129,477.00	159,087,181.40
2. At the beginning of the year	101,022,015.72	7,249,368.93	61,297,081.05	9,217,173.82	178,785,639.52

Note: Other decrease of intangible assets during the period was due to Changsha Ser not included in the consolidation scope.

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

14. Development expenditure

Item	Opening balance	Increase during the period: Internal development expenditure	Increase during the period: Others	Transfer out during the period: Recognized in current profit and loss	Transfer out during the period: Recognized as intangible assets	Closing balance
THM-μ series precision horizontal machining center		2,701,093.65		2,701,093.65		
Research on key technical standards and test platform of high-grade CNC machine tool, CNC system and functional component		680,168.08				680,168.08
Key technology for design and manufacture of high precision jig boring machines	125.42			125.42		
Complete equipment of large aeroengine engine brake		8,386,012.04		8,386,012.04		
Research and application of key technologies on high precision CNC jig boring machine for processing of precision box-type parts	4,150,289.71	26,273,163.87				30,423,453.58
Application and verification demonstration line for the largescale complex structural parts of domestic high-end CNC machine tools in thermal insulation		7,013,188.11				7,013,188.11
Reliability assurance technology research and application for manufacturing process of 2016zx04004005 machine tool (Chongqing University Project)		1,818,438.61		1,818,438.61		
Others (not yet projectized expenses)		21,586.28		21,586.28		
Total	4,150,415.13	46,893,650.64		12,927,256.00		38,116,809.77

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15. Goodwill

(1) *Original value of goodwill*

Name of invested company or item goodwill formed	Opening balance	Increase during the period: Formed by enterprises combination	Increase during the period: Others	Decrease during the period: Disposal	Decrease during the period: Others	Closing balance
Xi'an Ser	7,296,277.00					7,296,277.00
Total	7,296,277.00					7,296,277.00

(2) *Impairment provision for goodwill*

Name of invested company or item goodwill formed	Opening balance	Increase during the period: Provision	Increase during the period: Others	Decrease during the period: Disposal	Decrease during the period: Others	Closing balance
Xi'an Ser	7,296,277.00					7,296,277.00
Total	7,296,277.00					7,296,277.00

Note: Impairment provision was charged in prior years

16. Long-term deferred expenses

Item	Opening balance	Increase during the period	Amortization during the period	Other decrease	Closing balance
Sandbox		1,126,339.07	268,241.29		858,097.78
Wood mold		4,240,795.90	405,935.55		3,834,860.35
Total		5,367,134.97	674,176.84		4,692,958.13

17. Deferred tax assets and deferred tax liabilities

(1) *Un-offset deferred tax assets*

Item	Closing balance: Deductible temporary difference	Closing balance: Deferred assets	Opening balance: Deductible temporary difference	Opening balance: Deferred assets
Provision for asset impairment	7,004,340.00	1,751,085.00	7,933,544.32	1,983,386.08
Estimated liabilities	905,818.25	226,454.56	1,109,186.67	277,296.67
Provision for diminution in value of inventories	530,259.78	132,564.95	530,259.78	132,564.94
Deductible losses	1,691,604.79	422,901.20		
Total	10,132,022.82	2,533,005.71	9,572,990.77	2,393,247.69

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

17. Deferred tax assets and deferred tax liabilities *(Continued)*

(2) Breakdown of deductible temporary difference of unrecognized deferred tax assets

Item	Closing balance	Opening balance
Provision for asset impairment	394,645,029.75	475,122,668.50
Estimated liabilities	8,027,259.29	
Deductible losses	1,237,672,945.15	851,834,243.66
Total	1,640,345,234.19	1,326,956,912.16

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

Year	Closing balance	Opening balance	Remark
2018		8,716,883.91	
2019	140,974,352.12	140,974,352.12	
2020	157,854,123.12	157,854,123.12	
2021	201,325,328.18	201,325,328.18	
2022	342,963,556.33	342,963,556.33	
2023	394,555,585.40		
Total	1,237,672,945.15	851,834,243.66	

18. Other non-current assets

Item	Closing balance	Opening balance
Prepayments for land use rights	4,116,091.08	4,116,091.08
Total	4,116,091.08	4,116,091.08

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

19. Short-term borrowings

(1) Classification of short-borrowings

Item	Closing balance	Opening balance
Loans secured by mortgage	132,000,000.00	21,433,036.94
Guaranteed loans	109,000,000.00	342,250,000.00
Total	241,000,000.00	363,683,036.94

Description of classification of short-term loans:

Shenyang Machine Tool (Group) Company Limited ("Shenyang Group") provided guarantee for the Group's financing facilities to Bank of Communications' and the Company also provided 102 machine equipment as collateral (book balance of the machine equipment was RMB23,539,018.19, and evaluation of the machine equipment was RMB31,551,239.00) to obtain banking facilities. As at 31 December 2018, Bank of Communications provided RMB132 million banking facilities to the Company (31 December 2017, RMB141 million). On 26 June 2018, the Company borrowed RMB132 million short- term loan to repay the existing loan.

Shenyang Group provided guarantee for the Company's financing facilities to Hengfeng Bank. As at 31 December 2018, banking facilities was RMB70 million (31 December 2017: RMB70 million), the balance of short-term loan used by the Company was RMB70 million as at 31 December 2018 (31 December 2017: RMB70 million).

The subsidiary of the Company, Kunming Kunji General Machine Co., Ltd. provided guarantee for the Company's financing facilities to China Guangfa Bank. As at 31 December 2018, the banking facilities was RMB39 million (31 December 2017: RMB40 million), the balance of short-term loan used by the Company was RMB39 million as at 31 December 2018 (31 December 2017: RMB40 million).

(2) There were no overdue outstanding short-term loans in the period.

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

20. Bills payable and accounts payable

Item	Closing balance	Opening balance
Bills payable		
Accounts payable	303,528,115.97	320,626,464.70
Total	303,528,115.97	320,626,464.70

(I) Accounts payable

Item	Closing balance	Opening balance
Related parties not included in the scope of consolidation	22,106,351.93	16,411,898.30
Accounts payable for material	253,941,230.12	281,684,503.60
Accounts payable for construction	3,378,164.49	5,213,316.59
Other accounts receivable	24,102,369.43	17,316,746.21
Total	303,528,115.97	320,626,464.70

(1) Significant accounts payable with aging over one year

Item	Closing balance	Reason for unpaid or carry -over
Yunnan CY Group	6,095,143.36	Contract not completed
Bo Sen Technology Development Co., Ltd. at Yantai Development Zone	4,390,023.69	Contract not completed
Kunming Da Ban Qiao Forging Co., Ltd	3,966,072.91	Contract not completed
Yunnan CY Group Jinhui Spraying Factory	3,095,478.59	Contract not completed
Chongqing Nachuan Heavy industry Equipment Manufacturing Co., Ltd.	2,912,276.28	Contract not completed
Total	20,458,994.83	—

21. Advances from customers

(1) Information of advances from customers

Item	Closing balance	Opening balance
Advances sales payment		282,852,805.07
Total		282,852,805.07

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

22. Contract liabilities

(1) Information of contract liabilities

Item	Closing balance	Opening balance
Advances sales payment	310,370,448.64	
Total	310,370,448.64	–

23. Employee benefits payable

(1) Employee benefits payable are as follows:

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term remuneration	19,130,603.57	112,522,270.91	114,240,451.52	17,412,422.96
Post-employment – Defined contribution plan	12,663,811.88	21,500,914.19	10,802,902.74	23,361,823.33
Termination benefits		13,577,814.44	13,577,814.44	
Other benefits due within one year				
Long-term employee benefits payable due within one year	7,244,627.28	14,635,577.47	15,412,072.81	6,468,131.94
Total	39,039,042.73	162,236,577.01	154,033,241.51	47,242,378.23

(2) Short-term remuneration are as follows

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salary, bonus, allowances and subsidies	6,749,579.48	68,736,584.48	74,197,294.13	1,288,869.83
Employee welfare		3,674,453.25	3,674,453.25	
Social insurance	440,066.71	15,560,447.72	14,700,741.40	1,299,773.03
Including: Medical insurance		13,599,644.30	13,599,644.30	
Work injury insurance	19,038.27	931,347.06	827,396.99	122,988.34
Maternity insurance	421,028.44	1,029,456.36	273,700.11	1,176,784.69
Housing fund	4,059,580.50	6,997,314.40	5,515,404.00	5,541,490.90
Union expenses and employees education expenses	7,881,376.88	1,758,393.88	357,481.56	9,282,289.20
Other short-term remuneration		15,795,077.18	15,795,077.18	
Total	19,130,603.57	112,522,270.91	114,240,451.52	17,412,422.96

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

23. Employee benefits payable *(Continued)*

(3) Defined contribution plan

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Basic retirement insurance premiums	12,538,461.33	20,813,955.89	10,138,053.22	23,214,364.00
Unemployment insurance	125,350.55	686,958.30	664,849.52	147,459.33
Enterprise annuity payment				
Total	12,663,811.88	21,500,914.19	10,802,902.74	23,361,823.33

24. Taxes payable

Item	Closing balance	Opening balance
Value added tax	8,037,913.51	2,611,956.99
Corporate income tax		295,363.46
Individual income tax	1,103,276.73	1,297,635.09
Urban maintenance and construction tax	158,422.65	138,283.43
Property tax	450,500.93	5,245,661.00
Land use tax	2,378,871.93	1,827,278.16
Education surcharges	105,889.38	86,886.17
Stamp duty	99,968.30	131,972.50
Others	354.93	8,496.04
Total	12,335,198.36	11,643,532.84

25. Other payables

Item	Closing balance	Opening balance
Interests payable	2,442,933.66	390,593.75
Dividends payable	135,898.49	135,898.49
Other payables	534,261,151.39	388,757,750.80
Total	536,839,983.54	389,284,243.04

(I) Interests payable

Item	Closing balance	Opening balance
Interests payable on bank loans	2,442,933.66	390,593.75
Total	2,442,933.66	390,593.75

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

25. Other payables *(Continued)*

(II) Dividends payable

Item	Closing balance	Opening balance	Reasons for unpaid over one year
Ordinary shares dividend	135,898.49	135,898.49	the Company has losses and could not pay the dividends
Total	135,898.49	135,898.49	—

(III) Other payables

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

Nature of payment	Closing balance	Opening balance
Travel expenses	3,872,924.81	2,335,345.81
Withholding and payment on behalf of others	16,217,777.43	8,692,532.77
Personal borrowing	6,019,630.18	33,414,817.92
Current account with related parties	386,669,152.46	260,576,058.31
Audit fee	1,830,000.00	3,702,619.20
Payables for projects	15,468,786.76	31,943,232.04
Commissions and business promotion fees	8,702,022.00	10,297,936.00
Shipping cost	16,691,836.56	18,187,065.91
Housing fund	12,521,259.90	6,600,233.98
Rent	35,158,166.03	
Others	31,109,595.26	13,007,908.86
Total	534,261,151.39	388,757,750.80

(2) Significant other payables with aging over one year

Item	Closing balance	Reasons for unpaid or carry-over
Shenyang Group	202,682,564.12	Borrowing
Zeng Fanbin	4,299,916.67	Borrowing
Yunnan Construction Steel Structure Engineering Co., Ltd.	6,057,595.48	project fund
Yunnan Yanglin Industrial Develop Zone Management Committee	3,315,000.00	project fund
Yunnan Construction Engineering Second Construction Co., Ltd.	3,445,027.60	project fund
Total	219,800,103.87	—

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

26. Non-current liabilities due within one year

Item	Closing balance	Opening balance
Mortgage loans due within one years	–	45,000,000.00
Total	–	45,000,000.00

27. Long-term borrowings

Type of borrowing	Closing balance	Opening balance
Pledge loans	–	–
Mortgage loans	–	46,665,275.66
Less: long-term loans due within one year	–	45,000,000.00
Total	–	1,665,275.66

28. Long-term payables

Item	Closing balance	Opening balance
Long-term payables	–	–
Special payables	20,947,539.29	20,947,539.29
Total	20,947,539.29	20,947,539.29

(I) Special payables

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

Note:

Pursuant to the stipulations of the "Notice from the Ministry of Finance, National Development Reform Commission, China Customs, State Administration of Taxation on Import Duties Policy Related to Several Opinions on the Acceleration of Revitalising the Equipment Manufacturing Industry" (Cai Guan Shui [2007] No. 11), the tax refund will be treated as state investment, and should convert into state capital within the specified time. If an enterprise cannot convert the tax refund into state capital within the specified time, it should return the refund to state treasury on time. The Company committed that it would directly issue shares to its state-owned substantial shareholders Shenji Group and Yunnan Industrial Investment within two years after receiving the tax refund and complete the procedure of converting tax refund into state capital. Before that time, the Company will treat it as special payables according to accounting standards. As at 31 December 2018, the procedure of converting tax refund into state capital was not completed and the commitment period was exceeded.

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

29. Long-term employee benefits payable

Item	Closing balance	Opening balance
Post-employment benefits- defined benefit plan, net liabilities		
Long-term termination benefits	49,746,685.81	41,689,562.44
Less: Undiscounted long-term employee benefits payable due within one year	12,742,568.90	
Total	37,004,116.91	41,689,562.44

Note:

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

30. Estimated liabilities

Item	Closing balance	Opening balance	Causes
Warranty	8,285,682.40	10,513,913.91	Note
Pending litigation	647,395.14		
Total	8,933,077.54	10,513,913.91	–

Note:

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

31. Deferred income

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance	Causes
Government grants related to assets	34,423,333.96		1,680,000.00	32,743,333.96	See the table below
Government grants related to income	160,779,580.06	10,088,100.00	16,938,488.24	153,929,191.82	See the table below
Total	195,202,914.02	10,088,100.00	18,618,488.24	186,672,525.78	

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

31. Deferred income *(Continued)*

(1) Deferred income related to government grants

Liabilities items	Opening balance	Additional grants during the year	Amount recognized as other income during the year	Other changes	Closing balance	Related to assets/ income
Special subsidies for innovation ability construction of provincial high-tech enterprises	50,000.00				50,000.00	Related to income
Efficient precision gear grinding machine (the Company participated in the national major special projects of Qinchuan, Shaaxi in 2011)	775,380.20				775,380.20	Related to income
THM-μ series precision horizontal machining center	4,280,000.00				4,280,000.00	Related to income
Technology innovation platform of precision vertical and horizontal machining center	27,593,674.00				27,593,674.00	Related to income
Key technology for design and manufacture of high precision jig boring machines (863 Program in 2012)	8,380,000.00				8,380,000.00	Related to income
Research on key technical standards and test platform of high-grade CNC machine tool, CNC system and functional component (participated in the national quality inspection center)	4,650,000.00				4,650,000.00	Related to income
Common frontier technology platform for box-type precision work machine tool (participated in Tianda 863 Project in 2012)	900,000.00				900,000.00	Related to income
Standard test method for box-type precision work machine tool and technology promotion (participated in Precision Machinery & Engineering 863 Project in 2012)	1,665,000.00				1,665,000.00	Related to income
Optical fiber bus open-end high-end CNC system, precision measurement system, servo device and motor technology and complete product system engineering	1,000,000.00				1,000,000.00	Related to income
KHC100/2 double-station precision horizontal machining center	13,793,345.47		13,678,919.54		114,425.93	Related to income
Application of domestic high-end CNC machine tools and CNC systems in processing units such as aircraft rib beams (participated in Chengdu Aircraft in 2013)	600,000.00		557,425.70		42,574.30	Related to income

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

31. Deferred income *(Continued)*

(1) Deferred income related to government grants (Continued)

Liabilities items	Opening balance	Additional grants during the year	Amount recognized as other income during the year	Other changes	Closing balance	Related to assets/ income
National key new products -FMS(flexible manufacturing system)	100,000.00				100,000.00	Related to income
Industrialization of series products of precision horizontal machining center	1,700,000.00				1,700,000.00	Related to income
Improvement of innovation ability of Yunnan Precision Machine Tool Engineering Technology Research Center	1,000,000.00				1,000,000.00	Related to income
XH2740	2,600,000.00				2,600,000.00	Related to income
XH700	2,600,000.00				2,600,000.00	Related to income
Testing technology research and pilot application of high-speed spindle unit of machine tool	364,300.00		364,300.00			Related to income
Research on precision maintaining technology of CNC machine tool	405,200.00		405,200.00			Related to income
Complete equipment of large aero-engine engine brake	1,234,420.00	7,711,600.00			8,946,020.00	Related to income
Yunling industrial technology leading talent fund	578,069.39	200,000.00			778,069.39	Related to income
Innovation ability construction project of Technology Center in Shenji Group Kunming Machine Tool Co., Ltd.	5,000,000.00				5,000,000.00	Related to income
Application demonstration base of aircraft structural parts on flexible production line and production unit of domestic 5-axis CNC machine tool	310,000.00	40,000.00			350,000.00	Related to income
Research and application of key technologies on high precision CNC jig boring machine for processing of precision box-type parts (2016ZX04004-002)	55,026,501.00			1,932,643.00	53,093,858.00	Related to income
Undertaking international R&D tasks for the development and trial production of Horimill horizontal machining center developed by Schiess Tech, German	188,590.00				188,590.00	Related to income
Special subsidy for industrial upgrade of Yanglin Industrial Park	20,380,000.00				20,380,000.00	Related to income

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

31. Deferred income *(Continued)*

(1) Deferred income related to government grants (Continued)

Liabilities items	Opening balance	Additional grants during the year	Amount recognized as other income during the year	Other changes	Closing balance	Related to assets/ income
Application and verification demonstration line for the large-scale complex structural parts of domestic high-end CNC machine tools in thermal insulation	5,386,600.00	48,800.00			5,435,400.00	Related to income
Reliability assurance technology research and application for manufacturing process of 2016zx04004005 machine tool (Chongqing University Project)	198,500.00	2,087,700.00			2,286,200.00	Related to income
Precision testing platform research and product validation (Changchun Yuheng Optics project 2017 YFF 0105305)	20,000.00				20,000.00	Related to income
Infrastructure subsidies of Yanglin Base (200mu land use right)	12,483,333.96		280,000.00		12,203,333.96	Related to assets
Phase one of the CNC heavy and precision machine tool manufacturing project (Yanglin Base)	16,000,000.00				16,000,000.00	Related to assets
Project of plant and supporting facilities construction of heavy casting workshop (Yanglin Base)	2,750,000.00				2,750,000.00	Related to assets
Engineering Department: receiving of the subsidy for the investment in fixed assets of the industrial and information industry in 2017 from the Financial Bureau of Songming County and Kunming	1,550,000.00				1,550,000.00	Related to assets
The second batch of special funds for strategic emerging industries and new industrialization in 2016 of Hunan	400,000.00			400,000.00		Related to assets
Subsidy for tackling key problems in science and technology of strategic emerging industries and major scientific and technological achievements transformation project in 2015 of Hunan	1,000,000.00			1,000,000.00		Related to assets
Special subsidy	240,000.00				240,000.00	Related to assets
Total	195,202,914.02	10,088,100.00	15,285,845.24	3,332,643.00	186,672,525.78	

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

32. Share capital

Item	31 Dec 2017	Increase (+)/decrease (-) for the period: Issuance of new shares	Capital reserve converted to shares	Subtotal	31 Dec 2018
RMB Ordinary shares – Domestic listed A shares	390,186,228.20				390,186,228.20
Overseas listed foreign shares – Hong Kong listed H shares	140,894,874.80				140,894,874.80
Total	531,081,103.00	–	–	–	531,081,103.00

33. Capital reserve

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	19,206,777.12			19,206,777.12
Other capital reserves	558,254.05			558,254.05
Total	19,765,031.17			19,765,031.17

34. Surplus reserve

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserve	117,077,019.33			117,077,019.33
Total	117,077,019.33			117,077,019.33

35. Retained earnings

Item	Amount	Withdrawal or distribution proportion (%)
Retained earnings as at the end of the last period before adjustment	-706,144,182.57	–
Total of adjusting opening balance of retained earnings (increase +, decrease -)		–
Retained earnings as at the beginning of the period after adjustment	-706,144,182.57	–
Add: Net profit attributable to shareholders of the Company	-250,809,459.68	–
Less: Allocation of statutory surplus reserve		
Allocation of discretionary surplus reserve		
Dividends payable to ordinary shares		
Retained earnings at the end of the period	-956,953,642.25	

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

36. Operating income and operating costs

(1) Operating income and operating costs

Item	Amount incurred in the period		Amount incurred in the last period	
	Income	Cost	Income	Cost
Operating income from principal activities	468,276,093.16	457,734,971.90	525,952,460.04	547,986,257.15
Other operating income	26,328,840.11	25,309,187.01	34,446,777.32	34,303,917.18
Total	494,604,933.27	483,044,158.91	560,399,237.36	582,290,174.33

37. Business taxes and surcharges

Item	Amount incurred in the period	Amount incurred in the last period
Urban maintenance and construction tax	3,756,537.07	372,258.27
Education fee surcharges	2,769,810.70	260,584.81
Property tax	-3,574,283.37	1,929,380.53
Land use tax	3,905,989.48	4,001,866.68
Vehicle and vessel usage tax	36,990.60	51,150.60
Stamp duty	349,075.15	438,081.36
Local water conservancy construction fund	14,407.24	25,640.51
Others	3,424.59	36,327.32
Total	7,261,951.46	7,115,290.08

38. Selling and distribution expenses

Item	Amount incurred in the period	Amount incurred in the last period
Transportation loading and unloading fee	12,469,883.30	13,062,315.13
Staff cost	17,091,001.98	23,064,272.30
Commission	11,409,972.28	9,330,610.31
Advertising and Exhibition expenses	1,498,354.22	521,015.86
Business entertainment expense	1,019,324.62	2,364,076.05
Travel expenses	3,328,104.59	5,978,339.44
Warranty	12,136,955.17	10,667,362.32
Automotive operating expenses	1,606,794.46	1,335,946.01
Office expenses	939,122.73	1,044,456.81
Amortization of intangible assets		2,331,936.63
Material fee	4,992,205.58	12,349,650.12
Others	3,701,714.71	3,143,815.02
Total	70,193,433.64	85,193,796.00

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

39. General and administrative expenses

Item	Amount incurred in the period	Amount incurred in the last period
Staff cost	66,826,394.81	76,499,762.66
Maintenance	803,989.60	2,606,280.41
Taxes	4,631.11	40,251.81
Depreciation of fixed assets	19,091,155.91	17,491,241.45
Amortization of intangible assets	8,888,382.72	7,426,823.05
Rental fees	24,281,435.65	30,428,612.15
Office expenses	3,226,308.40	3,065,148.08
Consulting fees	2,344,848.15	3,426,261.31
Audit's fee	797,726.52	4,104,811.31
Utilities	5,050,759.42	4,494,337.58
Others	3,825,054.39	14,690,359.42
Total	135,140,686.68	164,273,889.23

40. Research and development expenses

Item	Amount incurred in the period	Amount incurred in the last period
Reliability assurance technology research and application for manufacturing process of 2016zx04004005 machine tool (Chongqing University Project)	1,818,438.61	928.49
KHC100/2 double-station precision horizontal machining center		3,343,254.27
THM-μ series precision horizontal machining center	2,701,093.65	476,476.88
Complete equipment of large aeroengine engine brake	8,386,012.04	598,297.74
Technology innovation platform of precision vertical and horizontal machining center		1,048,624.84
Others	21,711.70	271,660.21
Total	12,927,256.00	5,739,242.43

41. Financial expenses

Item	Amount incurred in the period	Amount incurred in the last period
Interest expense	27,533,651.81	45,865,072.60
Less: Interest income	777,229.74	916,045.62
Exchange income	1,334,304.44	11,146,025.67
Bank charges	108,354.39	364,895.65
Other financial expenses	149,142.00	9,544.75
Total	28,348,222.90	56,469,493.05

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

42. Assets impairment losses

Item	Amount incurred in the period	Amount incurred in the last period
Bad debt loss		23,207,006.46
Loss on diminution in value of inventories	1,175,708.66	-12,741,681.25
Loss on impairment of long-term equity investment		
Loss on fixed assets impairment		7,593,848.31
Total	1,175,708.66	18,059,173.52

43. Credit impairment loss

Item	Amount incurred in the period	Amount incurred in the last period
Bad debt loss	27,326,664.53	
Total	27,326,664.53	

44. Other income

(1) Detail information of other income

Sources of other income	Amount incurred in the period	Amount incurred in the last period
Government grants	16,795,895.16	8,883,770.03
Total	16,795,895.16	8,883,770.03

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

44. Other income *(Continued)*

(2) Government grants included in other income

Item	Amount incurred in the period	Amount incurred in the last period	Related to assets/ income
Transferred from deferred income	15,285,845.24	280,000.01	—
Export incentive bonus for July to Sept. of 2017 provided by Panlong District Bureau of Economic Trade and Investment promotion of Kunming	15,000.00		Related to income
The steady growth bonus of last group provided by Panlong District Bureau of Economic Trade and Investment Promotion of Kunming	4,500.00		Related to income
The special funds for the development of foreign trade from central government provided by Panlong District Bureau of Economic Trade and Investment Promotion of Kunming	15,000.00	138,800.00	Related to income
Fund subsidy for use of cycled water provided by Plan water supply and water conservation office of Kunming City	31,731.00	33,621.00	Related to income
Funding for 2018 R&D investment in science and technology projects subsidy provided by Kunming Science and Technology Bureau	920,000.00	1,290,360.00	Related to income
2017 taxpayers'production and operation support funds	85,500.00		Related to income
The incentive support funds for stable growth policy measures provided by Panlong District	69,700.00		Related to income
Grant in the third quarter of 2017 (promotion of production subsidies) provided by Panlong District Bureau of Economic Trade and Investment Promotion of Kunming	60,000.00	40,000.00	Related to income
Promotional production reward of the second quarter of 2017	80,000.00		Related to income
Handling fees for withholding personal income tax	101,318.92		Related to income
The steady growth support funds of 2017 provided by Panlong District Bureau of Economic Trade and Investment Promotion of Kunming	10,000.00		Related to income
Received subsidy for 2017 product promotion and recommendation	50,000.00		Related to income
Project funding of design and development of WHR13 CNC table-type boring and milling machine tool	50,000.00		Related to income

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

44. Other income *(Continued)*

(2) Government grants included in other income

Item	Amount incurred in the period	Amount incurred in the last period	Related to assets/ income
Received export incentive bonus for July to Sept. of 2017 provided by Development Zone Management Committee	15,000.00		Related to income
Received stable growth imp & exp incentive funds provided by Development Zone Management Committee	2,300.00		Related to income
Subsequent subsidy funds for development and application demonstration of high-end CNC lathe manufacturing digital workshop project (2013 intelligent manufacturing projects)		6,000,000.00	Related to income
Finance Department: receiving of 2016 taxpayers' production and operation support funds allocated by the Finance Bureau of Panlong District		79,816.00	Related to income
Receiving of 2017 employment subsidy allocated by the Office of Unemployment Insurance Committee of Kunming City		660,173.02	Related to income
Discount interest funds		300,000.00	Related to income
[Bureau of human resources and social security of Kunming City received the project funding of "WFN180HS high speed planer milling machining center"		61,000.00	Related to income
Total	16,795,895.16	8,883,770.03	

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

45. Government grants

(1) Information of government grants

Item	Amount incurred in the period	Amount included in current profit and loss	Remark
Government grants included in deferred income	10,088,100.00		See Note 31
Government grants included in other income	1,510,049.92	1,510,049.92	See Note 44
Government grants included in non-operating income			
Total	11,598,149.92	1,510,049.92	

46. Investment income

(1) Details of investment income

Item	Amount incurred in the period	Amount incurred in the last period
Investment income from long-term equity investments measured by equity method	-1,291,970.81	-3,107,018.80
Investment income Changsha Ser no longer included consolidation scope	1,482,385.88	
Total	190,415.07	-3,107,018.80

47. Income from disposal of assets

Item	Amount incurred in the period	Amount incurred in the last period
Income/loss from disposal of fixed assets	931,849.77	802,737.87
Total	931,849.77	802,737.87

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

48. Non-operating income

Item	Amount incurred in the period	Amount incurred in the last period	Amount included in current extraordinary gains and losses
Gain on debt restructuring	61,412.80	495,619.02	61,412.80
Compensation for breach of contract	810,000.00	896,897.00	810,000.00
Recovery fund by winning case	674,818.00		674,818.00
Return dividends by Shanghai Stock Exchange	470,388.62		470,388.62
Payables write-off for long-term account	436,194.85		436,194.85
Others	165,324.94	436,458.45	165,324.94
Total	2,618,139.21	1,828,974.47	2,618,139.21

49. Non-operating expenses

Item	Amount incurred in the period	Amount incurred in the last period	Amount included in current extraordinary gains and losses
Losses on disposal of non-current assets		161,913.63	
Compensation expenditure	800,000.00	55,407.15	800,000.00
Fines	1,187,936.66		1,187,936.66
Litigation expenditure	647,395.14		647,395.14
Others	558,374.47	835,526.73	558,374.47
Total	3,193,706.27	1,052,847.51	3,193,706.27

50. Income tax expenses

(1) Table of income tax expenses

Item	Amount incurred in the period	Amount incurred in the last period
Current income tax expenses		705,388.63
Deferred income tax expenses	-139,758.02	41,867.69
Total	-139,758.02	747,256.32

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

50. Income tax expenses *(Continued)*

(2) Reconciliation process of accounting profit and income tax expenses

Item	Amount incurred in the period
Total profit	-253,470,556.57
Income tax expenses calculated according to the appropriate/applicable tax rates	-49,756,617.47
The impact of subsidiaries applied to different tax rates	-273,231.28
The impact of adjustment of income tax in previous periods	
The impact on non-taxable income	100,000.00
The impact of non-deductible costs, expenses and losses	3,086,404.66
The impact of use of the deductible loss of deferred income tax assets unrecognized in the previous period	
The impact of the deductible temporary difference or the deductible loss of the deferred tax assets unrecognized in the current period	70,150,511.39
R & D expenditure	-23,446,825.32
Income tax expenses	-139,758.02

51. Items of cash flow statement

(1) Cash received relating to other operating activities

Item	Amount incurred in the period	Amount incurred in the last period
Government grants	4,705,231.00	59,515,874.00
Related party transactions (Transactions inside the Group)	–	100,909,014.22
Insurance payouts, employee rewards and allowances	2,195,821.54	
Deposit, security deposit	4,851,764.00	
Daily expenses	2,862,887.56	
Others	37,161,857.96	11,783,413.45
Total	51,777,562.06	172,208,301.67

(2) Cash paid relating to other operating activities

Item	Amount incurred in the period	Amount incurred in the last period
Others	28,205,517.17	46,593,227.74
Out-of-pocket expenses	78,755,915.15	138,875,339.58
Total	106,961,432.32	185,468,567.32

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

51. Items of cash flow statement *(Continued)*

(3) Cash paid relating to other investing activities

Item	Amount incurred in the period	Amount incurred in the last period
Disposal of Changsha Ser	830,717.23	
Total	830,717.23	

(4) Cash received relating to other financing activities

Item	Amount incurred in the period	Amount incurred in the last period
Received temporary borrowing(s)	154,665,275.66	82,717,500.00
Received returning dividends	470,388.62	
Total	155,135,664.28	82,717,500.00

(5) Cash paid relating to other financing activities

Item	Amount incurred in the period	Amount incurred in the last period
Cash paid for temporary borrowing(s)	33,400,000.00	55,000,000.00
Total	33,400,000.00	55,000,000.00

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

52. Related information of cash flow statement

(1) Supplementary information for consolidated cash flow statement

Item	Amount incurred in the period	Amount incurred in the last period
1.Reconciliation of net profit to cash flows from operating activities		
Net profit	-253,330,798.55	-352,133,461.54
Add: Provision for asset impairment	28,502,373.19	22,479,574.10
Depreciation of fixed assets, oil and gas assets and productive biological assets	42,270,500.29	43,925,275.01
Amortization of intangible assets	9,156,309.93	9,852,217.72
Amortization of long-term prepaid expenses	674,176.84	
Loss on disposal of fixed assets, intangible assets and other long-term-assets ("-" for gain)	-5,841.91	-640,824.24
Loss on fixed assets scrapped ("-" for gain)		
Loss on changes in fair value ("-" for gain)		
Finance expense ("-" for gain)	28,867,956.25	56,629,937.04
Investment loss ("-" for gain)	-190,415.07	3,107,018.80
Decrease in deferred tax assets ("-" for increase)	-139,758.02	41,867.69
Increase in deferred tax liabilities ("-" for decrease)		
Decrease in inventories ("-" for increase)	100,273,911.78	206,186,725.49
Decrease in operating receivables ("-" for increase)	11,273,861.21	54,662,711.06
Increase in operating payables ("-" for decrease)	18,457,701.21	-44,932,021.94
Others		
Net cash flows from operating activities	-14,190,022.85	-820,980.81
2.Major investing and financing activities not involving cash settlements:		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Fixed assets acquired under finance lease arrangement		
3.Net change in cash and cash equivalents:		
Closing balance of cash	61,607,187.06	90,263,315.47
Less: Opening balance of cash	90,263,315.47	325,599,849.77
Add: cash equivalents closing balance		
Less: cash equivalents opening balance		
Net increase in cash and cash equivalents	-28,656,128.41	-235,336,534.30

(2) No net cash was paid to acquire subsidiary in the period.

(3) No net cash was received for disposal of subsidiary in the period.

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

52. Related information of cash flow statement *(Continued)*

(4) Composition of cash and cash equivalents

Item	2018	2017
I. Cash		
Including: Cash on hand	173,066.00	158,990.67
Bank deposits available on demand	61,434,121.06	90,104,324.80
Other monetary funds available on demand		
Deposit in central bank available on demand		
Interbank deposits		
Lending to other banks		
2.Cash equivalents	61,607,187.06	90,263,315.47
Including: Bond investments due within 3 months		
3.Closing balance of cash and cash equivalents	61,607,187.06	90,263,315.47
Including: Cash and cash equivalents with restricted use of the parent company or the subsidiaries of the Group		

53. Assets with restricted ownership or use right

Item	Closing balance	Reasons for restriction
Cash at bank or on hand	13,899,152.47	Security deposit, frozen
Fixed assets	23,539,018.19	Mortgage
Total	37,438,170.66	

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

54. Foreign currency monetary items

(1) Foreign currency monetary items

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

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

Item	Closing balance of foreign currency	Exchange rate	Closing balance in RMB
Cash at bank and on hand			
Of which: EUR	3,280.87	7.8473	25,745.97
USD	514,849.60	6.8632	3,533,515.77
JPY			
HKD	42,529.13	0.8762	37,264.02
Accounts receivable			
Of which: EUR	58,969.45	7.8473	462,750.96
USD	153,250.75	6.8632	1,051,790.55
Accounts payable			
Of which: EUR	199,750.00	7.8473	1,567,498.18
Prepayments			
Of which: JPY	7,721,000.00	0.0619	477,929.90
Advances from customers			
Of which: EUR	49,760.23	7.8473	390,483.45
USD	478,950.30	6.8632	3,287,131.69
Other payables			
Of which: EUR	21,875,949.52	7.8473	17,1667,138.67

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

Item	Average rate		Intermediate exchange rate on the reporting date	
	Current period	Last period	At the end of the period	At the beginning of the period
EUR	7.8248	7.8023	7.8473	7.8023
USD	6.6987	6.7356	6.8632	6.5342
JPY	0.0598	0.0586	0.0618	0.0579
HKD	0.8561	0.8652	0.8762	0.8359

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

55. Director's remuneration

(1) Details of director's remuneration for the year ended 31st December 2018:

(Unit:RMB'000)

Personnel	Director's fee	Salaries, allowance and benefits in kind	Retirement scheme contribution	Discretionary bonus	Total
Executive directors:					
Wang He	92.69	241.80	87.11		421.59
Zhang Xiaoyi	77.24	244.20	86.12		407.56
Peng Liangfeng	61.79	244.36	85.46		391.61
Xu Juan	40.46	206.10	51.91		298.47
Non-executive directors:					
Liu Chunshi					
Xia Changtao					
Wu Yu					
Ding Side					
Supervisors:					
Lv Jianbo					
Wei Aixue					
Su Jiao					
Cai Zhemin					
Union Chairman, Employee Supervisor					
Zhou Guoxing	46.34	205.80	85.44		337.58
Independent non-executive directors:					
Na Chaohong		85.71			85.71
Chi Yilin		85.71			85.71
Jin Mei		85.71			85.71
Tian Ruihua		85.71			85.71
Vice president					
Zhu Xiang		207.36	85.47		292.83
Secretary to the Board:					
He Xi		337.80			337.80
Total		2030.26	481.51		2830.28

56. Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, three (2017: three) are directors whose emolument are disclosed in note VI. 55. The aggregate of the emoluments in respect of the remaining individuals are as follows:

(Unit:RMB'000)

Item	2018	2017
Salaries and other emoluments	756.30	540
Retirement scheme contributions	177.84	76
Total	934.14	616

VII. CHANGE IN THE SCOPE OF CONSOLIDATION

During the reporting period, the former sub-subsidiary, Changsha Ser, was not included in the scope of consolidation since it was taken over by the bankruptcy administrator in August 2018 due to bankruptcy reorganization.

VIII. DISCLOSURE OF EQUITY IN OTHER ENTITIES

(I) Interests in subsidiaries

1. Composition of the Group

Name of subsidiary	Principal place of business	Place of registration	Nature of business	Percentage of shareholding (%) Directly	Indirectly	Method of acquisition
Xi'an Ser	Xi'an	Xi'an	Development, design, production and sales of compressor series products and accessories	45.00		Business combination not under common control
Shenzhen Wardstone	Shenzhen	Shenzhen	/		100.00	Established through investments
Kunming TOS	Kunming	Kunming	Development, design, production and sales of machine tool series products and accessories	50.00		Business combination not under common control
General Machine	Kunming	Kunming	Development, design, production and sales of machine tool series products and accessories	100.00		Established through investments

(!) Reasons for the percentage of shareholdings held in the subsidiaries different from the percentage of voting rights

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

VIII. DISCLOSURE OF EQUITY IN OTHER ENTITIES *(Continued)*

(I) Interests in subsidiaries *(Continued)*

2. *Principal financial information of major non wholly-owned subsidiaries*

Item	Closing balance Kunming TOS	Closing balance Xi'an Ser
Current assets	98,537,463.33	40,609,375.23
Non-current assets	4,575,881.86	2,182,524.16
Total assets	103,113,345.19	42,791,899.39
Current liabilities	22,424,647.49	114,737,133.65
Non-current liabilities	905,818.25	240,000.00
Total liabilities	23,330,465.74	114,977,133.65
Operating income	39,736,680.60	42,268,702.13
Net profit	-1,592,312.13	-3,136,696.00
Total comprehensive income	-1,592,312.13	-3,136,696.00
Cash flow from operating activities	-23,041,380.70	57,635,481.60

Item	Opening balance Kunming TOS	Opening balance Xi'an Ser
Current assets	99,180,087.89	129,916,507.81
Non-current assets	4,773,235.52	33,448,756.99
Total assets	103,953,323.41	163,365,264.80
Current liabilities	18,993,873.52	227,167,018.91
Non-current liabilities	1,109,186.67	1,640,000.00
Total liabilities	20,103,060.19	228,807,018.91
Operating income	73,007,488.42	42,212,516.90
Net profit	-5,543,607.85	-3,114,332.44
Total comprehensive income	-5,543,607.85	-3,114,332.44
Cash flow from operating activities	6,498,773.49	92,985,812.57

(II) Interests in joint ventures or associates

1. *Significant joint ventures or associates*

Name of associate enterprise	Principal Place of business	Place of registration	Nature of business	Percentage of shareholdings Directly	Percentage of shareholdings Indirectly	Accounting method for investments
Xi'an Ruite	Xi'an	Xi'an	Production and sales of laser prototyping machine	23.33		Equity method

VIII. DISCLOSURE OF EQUITY IN OTHER ENTITIES *(Continued)*

(II) Interests in joint ventures or associates *(Continued)*

2. Principal financial information of the major associated company

Item	Closing balance/ amount incurred in the period Xi'an Ruite
Current assets	46,201,688.25
Non-current assets	73,967,740.98
Total assets	120,169,429.23
Current liabilities	29,330,789.15
Non-current liabilities	48,863,660.00
Total liabilities	78,194,449.15
Non-controlling interests	6,497,122.19
Equity attributable to shareholders of the Company	35,477,857.89
Share of net assets calculated based on percentage of shareholding	8,278,048.58
Adjusting items	
– goodwill	
– unrealized profit resulting from intragroup trade	
– others	469,200.63
Carrying amount of investment in associates	8,747,249.21
The fair value of the equity investments in joint ventures which exist the public offer	
Operating income	36,015,874.44
Net profit	-5,882,581.38
Net profit from discontinued operations	
Other comprehensive income	
Total comprehensive income	-5,882,581.38
Dividends received from associated company this year	

VIII. DISCLOSURE OF EQUITY IN OTHER ENTITIES *(Continued)*

(II) Interests in joint ventures or associates *(Continued)*

2. Principal financial information of the major associated company (Continued)

Item	Opening balance/ amount incurred in the period Xi'an Ruite
Current assets	53,725,945.09
Non-current assets	68,289,427.16
Total assets	122,015,372.25
Current liabilities	31,933,863.13
Non-current liabilities	40,751,983.00
Total liabilities	72,685,846.13
Non-controlling interests	6,841,110.29
Equity attributable to shareholders of the Company	42,488,415.83
Share of net assets calculated based on percentage of shareholding	11,106,547.33
Adjusting items	
– goodwill	
– unrealized profit resulting from intragroup trade	
– others	
Carrying amount of investment in associates	10,039,220.02
The fair value of the equity investments in joint ventures which exist the public offer	
Operating income	41,494,751.91
Net profit	-16,321,828.07
Net profit from discontinued operations	
Other comprehensive income	
Total comprehensive income	-16,321,828.07
Dividends received from associated company this year	

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Company's principal financial instruments include monetary funds, equity investment, debt investments, borrowings, accounts receivable etc.. Risks of various financial instruments are faced in daily activities, which include credit risk, liquidity risk and market risk. The risks associated with these financial instruments and the risk management policies adopted by the Company to mitigate these risks are described as follows:

The Board of Directors is responsible for planning and establishing the risk management structure of the Company, formulating risk management policies and related guidelines and supervising the implementation of risk management measures. The Company has established risk management policies to identify and analyze the risks the Company exposed to. The risk management policies have clearly defined specific risks, covering market risk, credit risk and liquidity risk management, etc. To update the risk management policies and systems, the Company regularly assesses the changes in its operating activities and the market environment. The risk management committee carries out the risk management in accordance with the policies approved by the Board of Directors. The risk management committee identifies, evaluates and circumvents related risks through close cooperation with other business units of the Company. The internal audit department of the Company conducts regular audits on risk management controls and procedures, and reports the audit results to the audit committee of the Company. The Company disperses the risks related to financial instruments through appropriate diversified investments and business portfolio and develops corresponding risk management policies to reduce the risks concentrated on any single industry, specified area or specified counterparty.

(I) Credit risk

Credit risk refers to the risk of financial losses to the Company as a result of the failure of performance of contractual obligations by the counterparties. The management has developed proper credit policies and continuously monitors credit risk exposures.

The Company has adopted the policy of transacting with creditworthy counterparties only. In addition, the Company evaluates the credit qualification of customers and sets up corresponding credit term based on the financial status of customers, the possibility of obtaining guarantees from third parties, credit records and other factors such as current market conditions. The Company monitors the balances and recovery of bills and accounts receivable, and contract assets on a continual basis. As for bad credit customers, the Company will use the written reminders, shorten the credit term or cancel the credit term to ensure that the Company is free from material credit losses. In addition, the Company reviews the recovery of financial assets on each balance sheet date to ensure adequate expected credit loss provision is made for relevant financial assets.

The Company's other financial assets include currency funds and other receivables. The credit risk relating to these financial assets arises from the default of counterparties, but the maximum exposure to credit risk is the carrying amount of each financial asset in the balance sheet.

The currency funds held by the Company are mainly deposited with financial institutions such as state-owned banks and other large and medium-sized commercial banks. The management believes that these commercial banks have a higher reputation and assets, so there is no major credit risk and the Company would not have any significant losses caused by the default by these institutions. The Company's policy is to control the amount deposited with these famous financial institutions based on their market reputation, operating size and financial background, to limit the credit risk amount of any single financial institution.

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

(I) Credit risk *(Continued)*

As a part of its credit risk asset management, the Company assesses impairment loss of accounts receivable and other receivables by using aging. The Company's accounts receivable and other receivables relate to a large number of customers, so aging information can give a view of the solvency and bad debts risk of these customers in respect of accounts receivable and other receivables. The Company calculates the historical actual bad debt rates for different aging periods based on historical data, and makes adjustment thereto so as to derive the expected loss rate by considering the current and future projections on economic situations, such as the growth rate of GDP, total investment amount for infrastructure, national monetary policies and other forward looking information. For contract assets and long-term receivables, the Company makes adjustment thereto and conducts reasonable assessment on expected credit losses by considering the settlement term, agreed-upon payment term of contract, financial status of debtor, and the economic trend in the industry where the debtor operates, as well as the aforesaid forward- looking information.

As at 31 December 2018, the book balance and expected credit impairment losses of related assets are as follows:

Aging	Book balance	Impairment provision
Accounts receivable	523,265,483.85	328,877,326.67
Other receivables	27,883,352.98	15,375,968.83
Total	551,148,836.83	344,253,295.50

As at 31 December 2018, 27.847% (31 December 2017: 24.94%) of the total accounts receivable was due from the Company's top five buyers. As at 31 December 2018, 52.23% (31 December 2017: 41.92%) of the total other receivables was due from the Company's top five buyers.

(II) Liquidity risk

Liquidity risk refers to the risk of short of funds when an enterprise performs its duty related to financial liabilities. The Company's subordinate enterprises are responsible for their respective cash flow projections. Based on the results thereof, the Company continually monitors its short-term and long-term capital needs at the company level to ensure adequate cash reserves; in the meantime, continually monitors the compliance with loan agreements and secures undertakings for sufficient reserve funds from major financial institutions, to address its short-term and long-term capital needs. In addition, the Company signs banking facility agreements with principal bankers to underpin the Company's discharging of its obligations concerning commercial bills.

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

(II) Liquidity risk *(Continued)*

As at 31 December 2018, the financial liabilities and off-balance sheet guarantee projects owned by the Company are presented as undiscounted contractual cash flows on the remaining contract period as follows:

	Closing balance			
Item	**Immediate repayment**	**Within 1 year**	**Over 1 year**	**Total**
Non-derivative financial liabilities:				
Short-term borrowings	241,000,000.00	241,000,000.00		241,000,000.00
Bills payable and accounts payable	303,528,115.97	303,528,115.97		61,377,623.73
Other payables	536,839,983.54	536,839,983.54		536,839,983.54
Long-term borrowings				
Contract liabilities	310,370,448.64	310,370,448.64		310,370,448.64
Other non-current liabilities				
Sub-total of non- derivative financial liabilities:	1,391,738,548.15	1,391,738,548.15		1,391,738,548.15
Derivative financial liabilities:				
Total	1,391,738,548.15	1,391,738,548.15		1,391,738,548.15

	Opening balance			
Item	**Immediate repayment**	**Within 1 year**	**Over 1 year**	**Total**
Non-derivative financial liabilities:				
Short-term borrowings	363,683,036.94	363,683,036.94		363,683,036.94
Bills payable and accounts payable	320,626,464.70	320,626,464.70		320,626,464.70
Other payables	388,757,750.80	388,757,750.80		388,757,750.80
Long-term borrowings	1,665,275.66		1,665,275.66	1,665,275.66
Advances from customers	282,852,805.07	282,852,805.07		282,852,805.07
Non-current liabilities due within one year	45,000,000.00	45,000,000.00		45,000,000.00
Sub-total of non- derivative financial liabilities:	1,402,585,333.17	1,400,920,057.51	1,665,275.66	1,402,585,333.17
Derivative financial liabilities:				
Total	1,402,585,333.17	1,400,920,057.51	1,665,275.66	1,402,585,333.17

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

(III) Market risk

1. *The risk of foreign exchange rate*

The main business of the Company is in China, and the main business is settled in RMB. The Company has confirmed that the foreign currency assets and liabilities and future transactions in foreign currency still exists the risk of exchange rate. The financial department of the Company is responsible for monitoring the scale of foreign currency transactions and foreign currency assets and liabilities of the Company to minimize the risk of exchange rate.

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

	Closing balance				
Item	**USD**	**EUR**	**HKD**	**JPY**	**Total**
Foreign currency financial assets:					
Monetary funds	3,533,515.77	25,745.97	37,264.02		3,596,525.76
Accounts receivable	1,051,790.55	462,750.96			1,514,541.51
Prepayments				477,929.90	477,929.90
Sub-total	4,585,306.32	488,496.93	37,264.02	477,929.90	5,588,997.17
Foreign currency financial liabilities:					
Short-term borrowings					
Accounts payable		1,567,498.18			1,567,498.18
Advances from customers	3,287,131.69	390,483.45			3,677,615.14
Other payables		171,668,273.14			171,668,273.14
Sub-total	3,287,131.69	173,626,254.77			176,913,386.46

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

(III) Market risk *(Continued)*

1. The risk of foreign exchange rate (Continued)

(1) *(Continued)*

Item	USD	EUR	Opening balance HKD	JPY	Total
Foreign currency financial assets:					
Monetary funds	506,992.89	148,252.44	2,302,258.64	0.06	2,957,504.03
Foreign currency financial assets:	68,602.57	286,486.96			355,089.53
Sub-total	575,595.46	434,739.40	2,302,258.64	0.06	3,312,593.56
Foreign currency financial liabilities:					
Short-term borrowings					
Accounts payable		288,193.56			288,193.56
Other payables		170,456,848.10			170,456,848.10
Sub-total		170,745,041.66			170,745,041.66

(2) Sensitivity analysis

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

Item	Equity	Net profit
As at 31 December 2018		
EUR	-1,731,377.58	-1,731,377.58
USD	12,981.75	12,981.75
JPY	4,779.30	4,779.30
HKD	372.64	372.64
Total	-1,713,243.89	-1,713,243.89
As at 31 December 2017		
EUR	1,447,625.41	1,447,625.41
USD	-4,892.52	-4,892.52
JPY		
HKD	-19,569.03	-19,569.03
Total	1,423,163.85	1,423,163.85

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

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

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

(III) Market risk *(Continued)*

2. Interest rate risk

The interest rate risk of the Company mainly arises from bank loans, etc. Financial liabilities with floating interest rates expose the Company to cash flow interest rate risk. Financial liabilities with fixed interest rates expose the Company to fair value interest rate risk. The Company decides a relative proportion between contracts with floating interest rates and contracts with fixed interest rates according to the then prevailing market environment.

The Company's finance department continuously monitors its interest rate position. An increase in interest rates will increase the cost of new interest-bearing debts and the interest expenses with respect to the Company's outstanding floating rate debts, and therefore could have a material adverse effect on the Company's financial results. The management will make timely adjustments with reference to the latest market conditions. These adjustments may be arrangements for interest rate swap to minimize interest rate risk.

During the year, the Company had no arrangement for interest rate swap.

(1) Sensitivity analysis:

As at 31 December 2018, if the loan rate calculated at floating interest rate has increased or decreased by 25 base points, with other factors unchanged, the Company's net profit will decrease or increase by about RMB131,206.92.

The above sensitivity analysis assumes that the interest rate has changed on the balance sheet date and has been applied to all loans obtained by the Company at floating interest rates.

X. FAIR VALUE

(I) Financial instruments measured at fair value

AS at 31 December 2018, the Company had no financial instruments measured at fair value.

The Company exposed the book value on 31 December 2018 of financial asset instruments measured at fair value at three levels which is based on the lowest level of the three levels of the important input values used in the measurement of fair value. The three levels are defined as following:

First level: Unadjusted quotations of the same assets or liabilities that can be obtained on the day of measurement in the active market.

Second level: An input value directly or indirectly observable except for the first level of input value.

Input values in second level included: 1) Quotations similar to assets or liabilities in active markets. 2) Quotations of the same or similar assets or liabilities in an inactive market. 3) Other observable input values other than quotations, such as: The interest rate and yield curve, implied volatility and credit margin that can be observed during the normal quotation interval. 4) Input value of market verification.

Third level: The unobservable input value of the related assets or liabilities.

X. FAIR VALUE *(Continued)*

(II) Measurement of fair value at the end of the period

1. Continues fair value measurement:

	Th e Fair Value at 31 December 2018			
Item	**The first level**	**The second level**	**The third level**	**Total**
Other non-current financial assets			612,000.00	612,000.00
Total assets			612,000.00	612,000.00

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION

(I) Information of the parent company of the enterprise

Name of parent company	Registration place	Business nature	Registered capital	Percentage of Shareholding in the Company (%)	Percentage of voting right in the Company (%)
Shenyang Group	China	Production and sales of machine tools	RMB1,556,480,000	25.08	25.08

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

(II) Please see Note VIII. (I) for the information of equity in subsidiaries of the Company.

(III) Joint ventures and associates

Please see Note VIII. (II) for the information of equity in associated companies of the Company.

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION *(Continued)*

(IV) Information on other related parties

Name of other related parties	Related relationship with the Company
Yunnan Industrial Investment Holding Group Co Ltd.	The second largest shareholder of the Company
Yunnan Yun Ji Group Import and Export Co., Ltd. ("Yun Ji I & E Co.")	Subsidiary of the largest shareholder of the Company
Yunnan CY Group Co., Ltd. ("Yunnan CY Group")	Subsidiary of the largest shareholder of the Company
Kunming Kunji Group Co., Ltd. ("Kunji Group Co.")	Subsidiary of the second largest shareholder of the Company
Yunnan State-owned Assets Property Management Co., Ltd. ("Yunnan State-owned Assets Property")	Subsidiary of the second largest shareholder of the Company
Yunnan CY (Group) Company Jinhui Spraying Factory ("Jinhui Spraying Factory")	Subsidiary of the largest shareholder of the Company
Yunnan CY Group Co., Ltd., Mechanical and Electrical Products Trading Centre ("Trading Centre")	Subsidiary of the largest shareholder of the Company
Shenyang Zhongjie Machine Tool Co., Ltd. ("Zhongjie machine tool")	Subsidiary of the largest shareholder of the Company
Shenyang Machine Tool Company Limited ("Shenyang Machine Tool")	Subsidiary of the largest shareholder of the Company
Shiess GmbH, Germany ("Shiess")	Subsidiary of the largest shareholder of the Company
Shenyang Machine Tool Complete Sets Equipment Co., Ltd. ("Complete Sets Equipment")	Subsidiary of the largest shareholder of the Company
Shenyang Group (Hong Kong) Co., Ltd. ("Shenyang Group Hong Kong")	Subsidiary of the largest shareholder of the Company
Shenyang Group Design & Research Institute Co., Ltd. ("Shenyang Group Design & Research Institute")	Subsidiary of the largest shareholder of the Company
Yunnan CY (Group) Industry & Trade Co., Ltd. ("CY Group Industry & Trade")	Subsidiary of the largest shareholder of the Company
Shenyang Rui Shi Da	Subsidiary of the largest shareholder of the Company
Shenji Industrial Co., Ltd	Subsidiary of the largest shareholder of the Company
Welding Company	Subsidiary of the largest shareholder of the Company
Shenji International Trade Co., Ltd. ("Shenji International")	Subsidiary of the largest shareholder of the Company
Xi'an Ruite	The associated enterprise of the Company

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION *(Continued)*

(V) Related parties' transactions

1. The transactions between subsidiaries that have control relations and have been incorporated into the Company's consolidated financial statements and parent company have been offset.

2. Purchase of goods, providing and receiving services

Related party	Content of the related party transaction	Amount incurred in the period	Amount incurred in the last period
Shenji International	Purchase of goods		433,705.66
Welding Company	Receiving services		5,499,972.45
Shenyang Group	Interest on borrowings	2,279,151.38	1,400,000.00
Total	—	2,279,151.38	7,333,678.11

3. Sales of goods and providing services

Related party	Content of the related party transaction	Amount incurred in the period	Amount incurred in the last period
Shenyang Machine Tool	Sales of goods	3,043,398.17	
Welding Company	Sales of goods	2,516,940.04	
Yunnan CY Group	Sales of goods	4,000.00	
Welding Company	Providing service	207,070.09	
Yun Ji I & E Co.	Purchase of goods		5,299.15
Yunnan CY Group	Providing service		4,298,592.30
CY Group Industry & Trade	Providing service		3,573,794.00
Total	—	5,771,408.30	7,877,685.45

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION *(Continued)*

(V) Related parties' transactions *(Continued)*

4. Lease

(1) The Company as lessor

Lessee	Type of leased assets	Recognized rental income in the current period	Recognized rental income in the last period
Welding Company	Plant	463,171.41	142,514. 29
Welding Company	Equipment	397,654.00	121,709.40
Total	–	860,825.41	264,223.69

(2) The Company as lessee

Lessor	Type of leased assets	Recognized rental income in the current period	Recognized rental income in the last period
Kunming Kunji	Land & Plant		5,250,000.00
Total	—	—	5,250,000.00

5. Guarantee to related parties

(1) The Company as Guarantor

Beneficiary	Amount	Commencement	Expiration	Whether the guarantee completed
Shenyang Group	141,665,300.00	2018.02.11	2019.03.22	No
Shenyang Group	50,000,000.00	2017.12.26	2019.03.22	No

Description of related party guarantee:

The Company as the guarantor, and the loan was lent to the Company by Shenyang Group after it obtaining the loan.

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION *(Continued)*

(V) Related parties' transactions *(Continued)*

5. Guarantee to related parties (Continued)

(2) The Company as beneficiary

Guarantor	Amount	Commencement	Expiration	Whether the guarantee completed
Shenyang Group	30,000,000.00	2017/6/26	2018/6/26	Yes
Shenyang Group	30,000,000.00	2017/6/29	2018/6/29	Yes
Shenyang Group	30,000,000.00	2017/7/5	2018/7/5	Yes
Shenyang Group	30,000,000.00	2017/7/10	2018/7/10	Yes
Shenyang Group	15,000,000.00	2017/7/12	2018/7/12	Yes
Shenyang Group	70,000,000.00	2017/7/14	2018/7/13	Yes
Shenyang Group	95,000,000.00	2017/7/7	2018/7/6	Yes
Shenyang Group	20,000,000.00	2017/10/26	2018/10/25	Yes
Shenyang Group	20,000,000.00	2017/11/2	2018/11/1	Yes
Shenyang Group	22,500,000.00	2015/2/15	2018/2/15	Yes
Shenyang Group	15,230.78	2015/2/15	2018/8/15	Yes
Shenyang Group	17,208,905.37	2015/6/18	2018/8/15	Yes
Shenyang Group	4,281,436.30	2015/10/9	2018/8/15	Yes
Shenyang Group	994,427.55	2016/2/5	2018/8/15	Yes
Shenyang Group	132,000,000.00	2018/6/28	2019/6/21	No
Shenyang Group	70,000,000.00	2018/7/17	2019/7/16	No
Shenyang Group	39,000,000.00	2018/11/12	2019/11/11	No

6. Related party providing/receiving fund

(1) Borrowing funds from related party

Related party	Amount of borrowing	Commencement	Expiration	Explanation
Shenyang Group	199,265,275.66	2015/10/9	2018/8/15	Interest rate 4.75-4.9875%
Total	199,265,275.66	—	—	—

7. Emoluments of key management staff

Item	Amount incurred in this period	Amount incurred in the last period
Emoluments of key management staff	3,106,394.82	3,306,394.82

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION *(Continued)*

(V) Related parties' transactions *(Continued)*

8. Receivables and payables from/to related party

(1) Receivables from related parties

		Closing balance		Opening balance	
Item	Related parties	Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable					
	Welding Company	3,650,158.20		3,951,020.23	
	Yunnan CY Group	69,414,000.00		69,414,000.00	
	SCHIESS GMBH	287,211.18		268,720.42	
	Shenyang Machine Tool Sales Co., Ltd	30,000.00		30,000.00	
	Xi'an Ruite	167,500.00		167,500.00	
	Changsha Ser	234,878.88			
Prepayments					
	Shenyang Rui Shi Da	6,332,457.73		6,539,363.93	
Other receivables					
	Kunji Group			647,631.96	
	Welding Company	3,895,539.98		627,859.15	

(2) Payables to related parties

item	Related parties	Closing balance	Opening balance
Accounts payable			
	Welding Company	8,499,440.83	4,046,471.49
	Shenyang Group Design & Research Institute	2,332,328.00	2,332,328.00
	Yunnan CY Group	6,095,143.36	6,095,143.36
	Jinhui Spraying Factory	3,095,478.59	2,923,502.85
	Shenji International	436,120.00	436,120.00
	Shenyang Machine Tool Co., Ltd. Electric Equipment Branch	1,647,841.15	
	Shiess		578,332.60
Other payables			
	Shenyang Group Hong Kong	183,703,758.29	194,969,928.12
	Shenyang Group Hong Kong	202,682,564.12	53,417,288.46
	Xi'an Ser	280,000.00	
	Yunnan Industry & Investment assets management CO., Ltd. (former property management Co., Ltd.)	1,853.25	
	Kunji Group	976.80	10,778,690.44
	Shiess		1,400,289.26
	Yunnan State-owned Property Management Co., Ltd.		9,862.03
Advances from customers			
	Shiess	137,264.00	113,840.24
	Yunnan CY Group	2,800.00	4,640.00

XII. SHARE BASED PAYMENT

The Company did not have any share-based payment during the reporting period.

XIII. COMMITMENTS AND CONTINGENCIES

(I) Significant commitments

1. Capital commitment

Item	Closing balance	Opening balance
Construction contract signed but not implemented or not fully implemented	8,425,748.54	12,251,909.65
Construction contract authorized but not signed or not implemented or not fully implemented	95,134,240.00	95,134,240.00
Proprietary technology and patent licensing contract signed and implementing or proposed to implement	25,127,430.72	25,245,487.58
Total	128,687,419.26	132,631,637.2

2. Operating Lease commitments

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

Item	Closing balance	Opening balance
Minimum lease payments under irrevocable operating leases:		
The first year after balance sheet date		30,460,000.00
The second year after balance sheet date		
The third year after balance sheet date		
In the years thereafter		
Total	–	30,460,000.00

Except for the above commitments, as at 31 December 2018, the Company had no other significant commitments should be disclosed without disclosure.

(II) Important contingencies existed on the balance sheet date

1. Details of contingencies related to investment in joint ventures and associates, see "Note VIII EQUITY IN OTHER ENTITIES."

2. *Pending proceeding or arbitration of contingencies and their financial implications*

   (1) In 2017, the Company was published by the China Securities Regulatory Commission ("CSRC") because of financial irregularities. Such financial irregularities maybe published by the Stock Exchange of Hong Kong Limited or will be subject to claims by investors in the future. As at the date of the auditors' report, the Company was unable to predict the impact of such matters on the Company's future financial statements.

   (2) Except for the above contingencies, as at 31 December 2018, the Company had no other significant contingencies should be disclosed without disclosed.

XIV. SUBSEQUENT EVENT TO THE BALANCE SHEET DATE

(1) Beijing Machine Tool Switchgear Co., Ltd. sued the Company to require payment for goods of RMB785,230.47. The trial of the case will be on 22 April 2019.

(2) Yunnan Pang Xiong Economic and Trade Co., Ltd. submitted an application to Kunming Aritration Commission to require the Company to pay the remaining payment for equipment purchase of RMB104,420.00 and interest of RMB22,686.00. As at the date of this report, the court has yet to commence.

(3) Yunnan Tong Li Environmental ART Engineering Co., Ltd. sued the Company to require payment for the work of RMB116,455.97 and interest of RMB50,503.00. As at the date of this report, the court has yet to commence.

XV. OTHER SIGNIFICANT EVENTS

(I) Discontinued operation

Item	Amount incurred in the period	Changsha Ser Amount incurred in the last period
Income from discontinued operation	18,871,640.11	17,627,639.61
Discontinued operation expenses	5,278,974.33	9,005,461.84
Total profit from discontinued operation	-1,818,877.25	-1,729,652.32
Discontinued operation income tax expenses		
Net profit from discontinued operation	-1,818,877.25	-1,729,652.32
Of which: net profit from discontinued operation attributable to shareholders of parent company		
Total gains or losses from disposal of discontinued operation	11,482,385.88	
Discontinued operation income tax expenses (income)	-2,870,596.47	
Net profit and loss from disposal of discontinued operation	8,611,789.41	
Of which: net profit and loss from discontinued operation attributable to shareholders of parent company	3,875,305.23	
Net cash flow from discontinued operation	43,672.73	787,044.50
Of which: net cash flow from operating activities	1,313,213.63	12,332,584.58
Net cash flow from investing activities		-6,452.99
Net cash flow from financing activities	-1,269,540.90	-15,470,114.89

XV. OTHER SIGNIFICANT EVENTS *(Continued)*

(II) Segment information

1. *Basis for determination and accounting policies*

The operating segments are determined based on the structure of the Company's internal organization, management requirements and internal reporting system. The operating segment refers to a component of the Company (the "Component") which satisfies the following conditions at the same time:

(1) The Component can generate revenues and incur expenses in daily activities;

(2) The management of the Company assesses the operating results of the segments regularly in order to allocate resources to the segments and evaluates their performance;

(3) The financial status, operating results and cash flow etc. accounting information of the segments can be obtained;

The Company determines the reporting segment based on the operating segment, and the operating segment that satisfies one of the following conditions is determined to be the reporting segment:

(1) The segment revenue of operating segment accounts for 10% or more of the total revenue of all segments;

(2) The absolute amount of the profit (loss) of the operating segment accounts for 10% or more of the absoluter amount of the total profit of all profit segments or total losses of all losses segments, whichever is bigger.

When the total amount of external transaction income of the operating segments of the reporting segments as determined by the above accounting policies accounts for less than 75% of the total consolidated income or total corporate income, the Company should increase the number of reporting segments; include other operating segments which are not included in the reporting segments into the scope of the reporting segments according to the description below, until the proportion reaches 75%.:

(1) Identifying the operating segments which are considered by the management that disclosure of such operating segments information is useful to users of accounting information as reporting segments;

(2) The operating segment is combined with one or more other operating segments as a reporting segment, such operating segments have similar economic characteristics and meet the conditions for the consolidation.

The inter-segment transfer price is determined by reference to the market price, and the assets and related expenses for which reporting segment are jointly used are allocated in proportion of income to different segment.

2. *The Company determines the considered factors, the types of products and services of the reporting segment,*

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

XV. OTHER SIGNIFICANT EVENTS *(Continued)*

(II) Segment information *(Continued)*

3. Financial information of the reporting segment

Item	Boring machines 2018	Boring machines 2017	Turbo machines 2018	Turbo machines 2017	Elimination between segments 2018	Elimination between segments 2017	Unallocated items 2018	Unallocated items 2017	Total 2018	Total 2017
Operating income from external customers	452,336,231.14	527,577,656.21	42,268,702.13	32,548,458.93					494,604,933.27	560,399,237.36
Inter segment operating income		-551,037.74				-551,037.74				–
Income from investment in associates and jointly controlled enterprises										
Assets impairment loss	34,239,023.93	24,757,217.86	-5,736,650.74	-6,698,044.34					28,502,373.19	18,059,173.52
Depreciation and amortization	51,435,049.38	50,278,430.13	665,937.68	3,499,062.60					52,100,987.06	53,777,492.73
Interest income form bank deposit	775,118.34	891,187.80	2,111.40	24,857.82					777,229.74	916,045.62
Interest expenses	26,524,190.57	44,099,697.08	1,009,461.24	2,316,413.26					27,533,651.81	46,416,110.34
Income before income tax ("-"for loss)	-250,333,860.57	-345,148,148.96	-3,136,696.00	-6,238,056.26					-253,470,556.57	-351,386,205.22
Income tax expense ("-" for tax benefit)	-139,758.02	747,256.32							-139,758.02	747,256.32
Net income ("-" for net losses)	-250,194,102.55	-353,873,095.89	-3,136,696.00	-6,238,056.26					-253,330,798.55	-352,133,461.54
Total assets	1,384,207,422.53	1,547,223,039.55	42,791,899.39	154,898,831.19	-10,966,865.54	-10,483,669.42			1,416,032,456.38	1,691,638,201.32
Total liabilities	1,578,929,385.07	1,508,684,630.62	114,977,133.65	223,947,369.44	-10,966,865.54	-10,483,669.42			1,704,873,384.26	1,722,148,330.64
Other items:	–									–
– Operating income	426,007,391.03	493,404,001.11	42,268,702.13	32,548,458.93		-551,037.74			468,276,093.16	525,952,460.04
– Operating cost	423,872,223.14	507,792,372.32	33,892,203.24	40,193,884.83					457,764,426.38	547,986,257.15
– Long-term equity investment in associates and financial assets available for sale	457,764,426.38								457,764,426.38	10,039,220.02
– The amounts of additions/(decrease) to non-current assets other than long-term equity investments	30,294,580.88	-41,209,342.19	-31,266,232.83	-3,261,879.67					-971,651.95	-44,471,221.86

XV. OTHER SIGNIFICANT EVENTS *(Continued)*

(III) Other significant transactions and events that have an impact on investors' decisions

On 22 May 2018, the Company received the Decision on Termination of Listing of the Shares of Shenji Group Kunming Machine Tool Company Limited issued by the Shanghai Stock Exchange. The Shanghai Stock Exchange decided to terminate the listing of the Shares of the Company. According to relevant regulations of the Listing Rules of Shanghai Stock Exchange, from 30 May 2018, the Company's A Shares entered the delisting preparatory period.

On 30 August 2018, the bankruptcy reorganization application of Changsha Ser Turbine Machinery Co., Ltd., which was a wholly owned subsidiary of Xi'an Ser, was accepted by Changsha Intermediate People's Court, Hunan Province.

The Company ("Part B") and Kunming Rail Transit Group Company Limited ("Part A") signed the Buildings and Land Lease Agreement (the "Lease Agreement") in 2016. According to the Lease Agreement, the lease period was effective from the date on which the Lease Agreement entered into force to 30 November 2018. Prior to the expiry of the lease period, Part A may elect to extend the lease period to a date not later than 31 December 2018 based on the progress of the construction of the railway line. If Part A elects not extend the lease period, Part B must surrender and effect delivery of possession of the Buildings and Fixtures to Part A before expiration of lease period. As at the date of the announcement, according to the Lease Agreement, the lease period expired. Given that the Company's financial constraints, Yanglin base did not meet the relocation conditions, therefore, the Company could not relocate on schedule. The Company will negotiate with the lessor on the extension of the lease as soon as possible. However, whether the lessor willing to renew the lease to the Company as operation location is still unable to judge. As at the date of the announcement, Kunming Rail Transit Group Company Limited did not give a clear reply.

XVI. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY

1. Accounts receivable and bills receivable

Item	31 December 2018	31 December 2017
Bills receivable	4,460,000.00	10,552,823.00
Accounts receivable	268,832,120.00	308,723,821.26
Total	273,292,120.00	319,276,644.26

(I) Bills receivable

(1) Classification of Bills receivable

Item	31 December 2018	31 December 2017
Bank acceptance notes	4,460,000.00	10,552,823.00
Total	4,460,000.00	10,552,823.00

(2) The Company had no pledged bills receivable at the end of the year

XVI. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY *(Continued)*

1. Accounts receivable and bills receivable *(Continued)*

(I) Bills receivable (Continued)

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

Item	Amount derecognized at the end of the year	Amount recognized at the end of the year
Bank acceptance notes	217,043,993.21	
Commercial acceptance notes		210,000.00
Total	217,043,993.21	210,000.00

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

(II) Accounts receivable

(1) Disclosure of accounts receivable by category

	2018				
	Carrying amount		Provision for bad debts		
Type	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Accounts receivable with individual expected credit losses					
Accounts receivable with excepted credit losses by combination	508,150,604.00	97.18	239,318,484.00	47.10	268,832,120.00
Of which: Combination 1 Aging group	343,242,777.92	65.64	239,318,484.00	69.72	103,924,293.92
Combination 2 related parties	164,907,826.08	31.54		No provision	164,907,826.08
Individually not significant but with individual bad debt provision	14,731,911.42	2.82	14,731,911.42	100.00	
Total	522,882,515.42	100.00	254,050,395.42	48.59	268,832,120.00

XVI. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY *(Continued)*

1. Accounts receivable and bills receivable *(Continued)*

(II) Accounts receivable (Continued)

(1) Disclosure of accounts receivable by category

	2017				
	Carrying amount		Provision for bad debts		
Type	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Accounts receivable with individual expected credit losses					
Accounts receivable with excepted credit losses by combination	519,316,895.39	97.24	210,593,074.13	40.55	308,723,821.26
Of which: Combination 1 Aging group	362,502,124.89	67.88	210,593,074.13	58.09	151,909,050.76
Combination 2 related parties	156,814,770.50	29.36	–	Not making	156,814,770.50
Individually not significant but with individual bad debt provision	14,731,911.42	2.76	14,731,911.42	100.00	–
Total	534,048,806.81	100.00	225,324,985.55	42.19	308,723,821.26

(2) Accounts receivable with excepted credit losses by combination

(a) Aging Group

		2018	
Aging	Carrying amount	Provision for bad debts	Proportion (%)
Within one year	59,326,743.67	2,966,337.18	5.00
1-2 years	44,755,283.14	13,426,584.94	30.00
2-3 years	12,220,433.35	7,332,260.01	60.00
Over three years	226,940,317.76	215,593,301.87	95.00
Total	343,242,777.92	239,318,484.00	—

(b) In the combination, no provision for bad debts was made for related parties

(3) Disclosure of accounts receivable by aging

Aging	31 December 2018	31 December 2017
Within 1 year	224,234,569.75	252,548,148.83
1 to 2 years	44,755,283.14	21,035,641.69
2 to 3 years	12,220,433.35	97,002,105.50
Over 3 years	241,672,229.18	163,462,910.79
Total	522,882,515.42	534,048,806.81

XVI. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY *(Continued)*

1. Accounts receivable and bills receivable *(Continued)*

(II) Accounts receivable (Continued)

(4) The withdrawal, recovery and reversal of provision for bad debts during the year

Type	Opening balance	Changes in the year: Provision	Changes in the year: Recover or reversal	Changes in the year: Write-off	Other changes	Closing balance
Accounts receivable with individual expected credit losses						
Accounts receivable with excepted credit losses by combination	210,593,074.13	29,670,392.87		944,983.00		239,318,484.00
Of which: aging group	210,593,074.13	29,670,392.87		944,983.00		239,318,484.00
Individually not significant but with individual bad debt provision	14,731,911.42					14,731,911.42
Total	225,324,985.55	29,670,392.87		944,983.00		254,050,395.42

Actually written off accounts receivable during the reporting period

Item	Write-off amount
Actually written off accounts receivable	944,983.00

Of which, Important accounts receivable write-offs are as follows:

Name	Nature of accounts receivable	Write-off amount	Reasons for write-off	Fulfilled write-off procedure	Whether caused by related party transaction
Hangzhou Feng Yuan Industrial Co., Ltd.	Payment for goods	650,000.00	Debt restructuring	Company approval	No
Total		650,000.00			

XVI. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY *(Continued)*

1. Accounts receivable and bills receivable *(Continued)*

(II) Accounts receivable (Continued)

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

Name	31 Dec 2018	Percentage of the accounts receivable at 31 Dec 2018	Provisions for bad debts
Yunnan CY Group	69,414,000.00	13.00	
Kunming Yunnei Power Co., Ltd.	32,973,521.32	6.17	31,268,178.59
Shaanxi Ao Wei Qian Yuan Chemical Co., Ltd.	22,527,757.01	4.22	22,527,757.01
Hangzhou Feng Yuan Industrial Co., Ltd.	11,127,825.00	2.08	6,379,338.75
Shandong Longma Heavy Technology Co., Ltd.	9,660,000.00	1.81	483,000.00
Total	145,703,103.33	27.28	60,658,274.35

2. Other receivables

Item		
Interest receivable		
Dividends receivable	11,000,000.00	11,000,000.00
Other receivables	29,825,980.48	53,709,323.75
Total	40,825,980.48	64,709,323.75

(I) Other receivables

(1) Dividends receivable

Invested company	31 December 2018	31 December 2017
Xi'an Ser	11,000,000.00	11,000,000.00
Total	11,000,000.00	11,000,000.00

XVI. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY *(Continued)*

2. Other receivables

(I) Other receivables

(2) Significant dividends receivable with aging over one year

Invested company	31 December 2018	Aging	Reason for uncollected	Whether impairment occurred and its causes
Xi'an Ser	11,000,000.00	Over 3 years	invested company had financial difficulties	No. No provision for impairment was charged for related parties
Total	11,000,000.00			

(II) Other receivables

(1) Other receivables by nature

Nature	31 December 2018	31 December 2017
Petty cash	163,500.00	413,909.77
Expenses on behalf of other parties		2,964,252.00
Tax to be deducted	1,548,411.78	971,760.68
Deposit for bidding	1,105,400.00	1,795,700.00
Deposits should be recovered	9,582,460.00	10,761,660.00
Current account with related parties	14,390,901.23	39,951,432.35
Others	7,083,254.03	4,370,076.53
Total	33,873,927.04	61,228,791.33

(2) Disclosure of other receivables by category

	2018				
	Carrying amount		Provision for bad debts		
Type	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Other receivables individually significant with expected credit loss					
Other receivables with excepted credit losses by combination	33,873,927.04	100.00	11,771,830.78	34.75	22,102,096.26
Of which: aging group	19,483,025.81	57.52	11,771,830.78	60.42	7,711,195.03
Related party group	14,390,901.23	42.48		Not marking	14,390,901.23
Total	33,873,927.04	100.00	11,771,830.78	34.75	22,102,096.26

XVI. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY *(Continued)*

2. Other receivables *(Continued)*

(II) Other receivables (Continued)

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

	2017				
	Carrying amount		Provision for bad debts		
Type	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Other receivables individually significant with expected credit loss					
Other receivables with excepted credit losses by combination	61,228,791.33	100.00	7,519,467.58	12.33	53,709,323.75
Of which: aging group	21,277,358.98	34.75	7,519,467.58	34.53	13,757,891.40
Related party group	39,951,432.35	65.25	–	Not making	39,367,332.35
Total	61,228,791.33	100.00	7,519,467.58	12.28	53,709,323.75

(3) Expected credit loss for other receivables by combination

(a) Aging group

	2018		
Aging	Carrying amount	Provision for bad debts	Proportion (%)
Within 1 year	3,706,725.87	185,336.29	5.00
1-2 years	8,379,610.90	4,189,805.45	50.00
2-3 years	3,833,241.74	3,833,241.74	100.00
Over 3 years	3,563,447.30	3,563,447.30	100.00
Total	19,483,025.81	11,771,830.78	—

(b) No provision for bad debts was made for related parties.

(4) Disclosure of other receivables by aging

Aging	2018	2017
Within 1 year	18,097,627.10	51,210,974.97
1-2 years	8,379,610.90	6,122,651.83
2-3 years	3,833,241.74	438,835.32
Over 3 years	3,563,447.30	3,456,329.21
Total	33,873,927.04	61,228,791.33

XVI. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY *(Continued)*

2. Other receivables *(Continued)*

(II) *Other receivables (Continued)*

(5) The withdrawal, recovery and reversal of provision for bad debts during the reporting period

		Changes in the year				
Type	Opening balance	Provision	Recovery or reversal	Write-off	Other changes	Closing balance
Other receivables individually significant with expected credit loss						
Other receivables with excepted credit losses by combination	7,519,338.98	4,252,491.80				11,771,830.78
Of which: aging group	7,519,338.98	4,252,491.80				11,771,830.78
Related party group						
Total	7,519,338.98	4,252,491.80				11,771,830.78

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

Name	Nature	31 Dec 2018	Aging	Percentage of other receivables at 31 Dec 2018 (%)	Provision for bad debts at the end of the period
Xi'an Ser	Receivables from related parties	11,270,965.54	Over 3 years	18.41	
General Machine	Receivables from related parties	8,026,113.37	Within 1 year	13.11	
Kunming Rail Transit Group Co., Ltd.	Deposits should be recovered	6,000,000.00	1-2 years	9.80	3,000,000.00
Kunming TOS	Receivables from related parties	3,039,560.78	Within 1 year	4.96	
Bureau of human resources and social security of Songming County	Deposits should be recovered	2,274,000.00	Over 2 years	3.71	2,274,000.00
Total		30,610,639.69		49.99	5,274,000.00

XVI. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY *(Continued)*

3. Long-term equity investments

Item	Closing balance Carrying amount	Closing balance Provision for impairment	Closing balance Book value	Opening balance Carrying amount	Opening balance Provision for impairment	Opening balance Book value
Investments in subsidiaries	116,925,600.05	21,693,265.85	95,232,334.2	70,126,236.86	23,693,265.85	46,432,971.01
Investments in joint ventures and associates	8,747,249.21		8,747,249.21	10,039,220.02		10,039,220.02
Total	125,672,849.26	21,693,265.85	103,979,583.41	80,165,456.88	23,693,265.85	56,472,191.03

(1) *Investments in subsidiaries*

Subsidiaries	Initial investment cost	Opening balance	Increase during the period	Decrease during the period	Closing balance	Provision for impairment during the period	Closing balance of impairment provision
Kunming TOS		43,432,971.01			43,432,971.01		
Xi'an Ser		21,693,265.85			21,693,265.85		21,693,265.85
General Machine		3,000,000.00	48,799,363.19		51,799,363.19		
Total		68,126,236.86	48,799,363.19		116,925,600.05		21,693,265.85

(2) *Investments in associates*

Invested company	Opening balance	Changes in equity during the period: Additional investment	Decrease investment	Investment income recognized under the equity method	Other Comprehensive Income adjustment
Associate companies					
Xi'an Ruite	10,039,220.02			-1,291,970.81	
Total	10,039,220.02			-1,291,970.81	

Invested company	Changes in equity for the period: Movement of other equity	Declared cash dividends or profits	Provision for impairment	others	Closing balance	Impairment provision as at 31 Dec 2018
Associate companies					8,747,249.21	
Total					8,747,249.21	

XVI. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY *(Continued)*

4. Operating income and operating costs

(1) Operating incoming and operating costs

Item	Amount incurred in the period		Amount incurred in the last period	
	Income	Cost	Income	Cost
Operating income from principal activities	406,679,224.61	413,276,263.12	432,655,091.17	474,334,884.78
Other operating income	20,702,355.30	17,974,803.17	31,558,079.57	30,967,230.90
Total	427,381,579.91	431,251,066.29	464,213,170.74	505,302,115.68

5. Investment income

Item	Amount incurred in the period	Amount incurred in the last period
Long-term equity investment income accounting under equity method	-1,291,970.81	-3,107,018.80
Investment income arising from disposal of long-term equity investment		
Dividends distribution	5,000,000.00	2,500,000.00
Total	3,708,029.19	-607,018.80

XVII SUPPLEMENTARY INFORMATION

(I) Details of extraordinary profit & loss

Item	Amount	Explanation
Gain or loss on disposal of noncurrent assets	931,849.77	
Tax return/exemption with ultra vires approval/or no official approval		
Government grants recognized through profit & loss in the period (except for those having closely relationship with the Company's operation and enjoyed in fixed amount or quantity according national standards)	16,795,895.16	
Fund appropriation fees charged on non-financial enterprise taken into profit & loss of the period		
Gain generated when cost of investment is less than fair value of identifiable net assets acquired when acquiring subsidiary, associates, or joint venture		
Gain or loss of non-monetary asset swap		
Gain or loss on entrusting third party to invest or manage asset		
Provision for impairment on assets due to force majeure, e.g. natural disaster		
Gain or loss on debts restructuring	51,000.00	
Expenses on reorganization of enterprise, e.g. expenditures on staff placement and integration costs		
Gain or loss in excess of the portion of the fair value generated from transactions with the transactional price obviously unfair		
Net profit or loss arising from business combination under common control in relation to the period from the beginning of the year to the date of combination		
Profit & loss by contingent events non-related to normal business of the company		
Except for effective hedging related to the operation of the company, profit & loss arising from fair value change on financial assets or liabilities held for trading, disposal of financial assets or liabilities held for trading or available-for-sale securities		
Reversal of impairment of receivables on individually impairment test		
Gain or loss from entrusted loans to outside parties		
Gain or loss from changes in the fair value of investment properties using the fair value model as a subsequent measurement		
Impact on gain or loss from onetime adjustments on current gain or loss in accordance with the requirements under tax, accounting etc. laws and regulations		
Custody income earned from entrusted operation		
Other non-operating income and expenses except for the abovementioned items	-626,567.06	
Gain or loss from other extraordinary items		
Les: Effects of income tax	4,339,318.15	
Effect of non-controlling interests (after tax)	191,062.89	
Total	12,621,796.83	

XVII SUPPLEMENTARY INFORMATION *(Continued)*

(II) Return on net assets and earnings per share

	Weighted average	Earnings per share	
Profit for the period	**return on net assets (%)**	**Basic earnings per share**	**Diluted earnings per share**
Net profit attributable to ordinary shareholders of the Company	153.28	-0.47	-0.47
Net profit excluding extraordinary gains and losses attributable to equity shareholders of the Company	161.00	-0.50	-0.50

DOCUMENTS AVAILABLE FOR INSPECTION

1. Financial statements signed and sealed by the legal representative of the Company, the person in charge of accounting affairs and the head of the accounting department;

2. Original of the auditors' report sealed by the accounting firms and signed and sealed by certified public accountants;

3. Originals of all documents and manuscripts of announcements disclosed by the Company in designated information disclosure platform in 2018.

The above documents are available for inspection at the office of the Board of the Company located at 23 Ciba Road, Kunming City, Yunnan Province, the PRC.