CQME

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

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

ANNOUNCEMENT OF GROUP RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 15.4% to approximately RMB6,366,965,831.92 yuan
- Gross profit increased by approximately 26.6% to approximately RMB1,314,527,280.72 yuan
- Profit attributable to shareholders decreased by approximately 1.0% to approximately RMB182,967,706.60 yuan
- Earnings per share was approximately RMB0.05 yuan

ANNUAL RESULTS

The board of directors (the "Board") of Chongqing Machinery & Electric Co., Ltd.* (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2020 and the comparative figures for the corresponding period of 2019 as follows:

* *For identification purposes only*

CONSOLIDATED INCOME STATEMENT

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

Items	*Notes*	**For The Year 2020**	For The Year 2019
1. Total operating revenue	4.1	**6,366,965,831.92**	5,516,812,105.87
Including: Operating revenue	4.1	**6,306,226,106.65**	5,439,335,101.44
Interest income	4.1	**60,720,320.56**	77,451,736.38
Transaction fees and commission income	4.1	**19,404.71**	25,268.05
2. Total operating cost		**6,422,753,750.86**	5,855,552,796.45
Including: Operating cost	4.1	**5,042,997,530.22**	4,467,009,491.11
Interest expenses	4.1	**9,256,054.14**	11,006,384.78
Transaction cost and commission fees	4.1	**184,966.84**	123,001.27
Business taxes and surcharges		**59,106,924.79**	57,996,330.33
Selling and distribution expenses	4.2	**285,384,867.38**	308,120,591.52
Administrative expenses	4.3	**545,332,994.86**	544,178,374.13
Research and development expenses	4.4	**354,659,262.93**	308,915,489.59
Financial expenses	4.5	**125,831,149.70**	158,203,133.72
Including: Interest expenses		**113,912,617.77**	133,915,851.96
Interest income		**33,898,571.70**	36,845,305.60
Add: Other income	4.6	**135,561,781.12**	227,230,135.88
Investment income (Loss listed with "-")	4.7	**350,090,775.20**	295,372,688.12
Including: Income from investments in associates and joint ventures		**348,240,568.55**	283,867,094.72
Gain arising from the changes in fair value (Loss listed with "-")		**(44,793.92)**	(134,308.57)
Impairment loss of credit (Loss is listed by "-")		**(105,340,325.10)**	(69,673,119.31)
Impairment loss of assets (Loss is listed by "-")		**(37,434,468.67)**	(4,288,527.68)
Gain on disposal of assets (Loss listed with "-")	4.8	**12,283,826.09**	131,720,191.68
3. Operating profit (Loss listed with "-")		**299,328,875.78**	241,486,369.54
Add: Non-operating income	4.9	**16,646,338.96**	12,740,116.51
Less: Non-operating expenses	4.10	**48,495,709.15**	11,280,249.97
4. Total profit (Total loss listed with "-")		**267,479,505.59**	242,946,236.08
Less: Income tax expenses	4.11	**50,651,741.51**	39,031,257.93

Items	*Notes*	**For The Year 2020**	For The Year 2019
5. Net profit (Net loss listed with "-")		**216,827,764.08**	203,914,978.15
(1) Classification by continuing or discontinued operation		**216,827,764.08**	203,914,978.15
1. Net profit attributable to continuing operation (Net loss listed with "-")		**216,827,764.08**	203,914,978.15
2. Net profit attributable to discontinued operation (Net loss listed with "-")		**–**	–
(2) Classification by ownership		**216,827,764.08**	203,914,978.15
1. Net profit attributable to shareholders of the controlling company	4.12	**182,967,706.60**	184,834,923.25
2. Net profit attributable to non-controlling interests		**33,860,057.48**	19,080,054.90
6. Net other comprehensive income after tax		**15,997,353.49**	(9,432,447.54)
Net other comprehensive income after tax attributable to shareholders of the Company		**14,543,855.99**	(9,537,786.54)
(1) Other comprehensive incomes that cannot be reclassified into profit or loss		**(120,340.00)**	(8,228,716.00)
1. Changes from recalculation of defined benefit plan		**(120,340.00)**	(861,339.00)
2. Transfer changes of defined benefit plan to retained earnings		**–**	(12,988,336.88)
3. Changes in fair value of other equity instrument investments		**–**	5,620,959.88
(2) Other comprehensive income that can be reclassified into profit or loss		**14,664,195.99**	(1,309,070.54)
1. Effective part of cash flow hedging		**4,219,017.50**	–
2. Effective portion of net investment hedging gains and losses		**3,220,037.26**	1,261,528.40
3. Translation differences of financial statements in foreign currencies		**7,225,141.23**	(2,570,598.94)
Net other comprehensive income after tax attributable to non-controlling interests		**1,453,497.50**	105,339.00

Items	*Notes*	**For The Year 2020**	For The Year 2019
7. Total comprehensive income		**232,825,117.57**	194,482,530.61
1. Total comprehensive income attributable to shareholders of the Company		**197,511,562.59**	175,297,136.71
2. Total comprehensive income attributable to non-controlling interests		**35,313,554.98**	19,185,393.90
8. Earnings per share			
1. Basic earnings per share	4.13	**0.05**	0.05
2. Diluted earnings per share	4.13	**0.05**	0.05

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

Items	*Notes*	**31 December 2020**	31 December 2019
Current assets			
Cash and cash equivalents	4.14	**1,737,526,602.70**	2,094,619,648.56
Financial assets held for trade		**219,242.46**	269,494.13
Notes receivable	4.15	**508,675,368.55**	296,071,386.86
Accounts receivable	4.16	**2,623,772,992.86**	2,688,114,256.49
Receivable financing		**977,468,569.47**	470,685,913.42
Prepayments		**218,888,089.37**	266,180,611.67
Other receivables		**1,098,972,212.13**	1,203,555,781.66
Including: Dividends receivable		**482,280,138.64**	436,478,069.56
Loans and advances to customers		**898,672,611.56**	921,848,681.16
Inventories		**2,292,719,154.54**	1,981,484,606.34
Contract assets		**323,250,213.57**	368,454,512.15
Non-current assets due within one year		**17,400,000.00**	17,500,000.00
Other current assets		**40,755,760.73**	41,915,619.38
Total current assets		**10,738,320,817.94**	10,350,700,511.82
Non-current assets			
Loans and advances to customers		**60,527,271.21**	117,000,000.00
Long-term receivables		**78,300,000.00**	95,700,000.00
Long-term equity investments		**1,103,316,449.72**	996,391,965.41
Other equity instruments investment		**52,314,020.88**	52,314,020.88
Investment properties		**55,555,414.08**	78,047,637.67
Property, plant and equipment		**2,753,799,792.80**	2,838,969,790.21
Construction in progress		**204,123,781.19**	207,448,578.58
Right-to-use assets		**296,486,965.36**	358,581,230.46
Intangible assets		**590,314,813.12**	656,254,825.20
Development expenditures		**6,305,952.44**	16,610,242.60
Goodwill		**143,312,435.00**	143,312,435.00
Long-term deferred expenses		**162,541,861.93**	232,876,050.24
Deferred tax assets		**117,185,785.25**	121,906,877.97
Other non-current assets		**261,820,859.07**	251,701,138.83
Total non-current assets		**5,885,905,402.05**	6,167,114,793.05
Total assets		**16,624,226,219.99**	16,517,815,304.87

Items	*Notes*	**31 December 2020**	31 December 2019
Current liabilities			
Short-term loans		**802,345,391.39**	1,156,886,625.41
Due to customers, banks and other financial institutions		**826,570,999.28**	1,117,908,116.74
Notes payable	4.17	**1,015,895,479.13**	1,202,637,121.55
Accounts payable	4.18	**1,785,659,572.44**	1,686,336,446.82
Contract liabilities		**1,250,324,181.63**	807,469,495.64
Repurchase agreements			49,949,000.00
Employee benefits payables		**90,077,883.60**	65,766,577.42
Taxes and levies payables		**222,132,567.45**	186,244,866.97
Other payables		**424,586,757.63**	456,796,531.42
Including: Dividends payable		**32,120,215.21**	28,451,140.35
Non-current liabilities due within one year		**586,277,882.55**	281,511,419.08
Other current liabilities		**90,095,305.15**	3,259,736.35
Total current liabilities		**7,093,966,020.25**	7,014,765,937.40
Non-current liabilities			
Long-term loans		**1,600,546,574.35**	1,642,606,224.02
Lease liabilities		**37,690,483.75**	127,703,443.23
Long-term payables		**3,068,589.72**	4,505,143.84
Long-term employee benefits payable		**6,276,000.00**	6,759,000.00
Provisions		**22,916,284.17**	21,754,527.73
Deferred revenue		**282,456,486.60**	301,172,088.60
Deferred tax liabilities		**101,553,480.94**	109,458,767.32
Total non-current liabilities		**2,054,507,899.53**	2,213,959,194.74
Total liabilities		**9,148,473,919.78**	9,228,725,132.14

Items	*Notes*	**31 December 2020**	31 December 2019
Shareholder's equity			
Share capital		**3,684,640,154.00**	3,684,640,154.00
Capital reserves		**67,546,968.20**	50,311,968.20
Other comprehensive income		**36,058,496.54**	21,514,640.55
Surplus reserves		**406,895,352.07**	364,663,370.96
Retained profits		**2,826,706,511.09**	2,723,290,866.87
Total equity attributable to shareholders of the Company		**7,021,847,481.90**	6,844,421,000.58
Non-controlling interests		**453,904,818.31**	444,669,172.15
Total shareholder's equity		**7,475,752,300.21**	7,289,090,172.73
Total liabilities and shareholder's equity		**16,624,226,219.99**	16,517,815,304.87

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Items	For The Year 2020												
	Equity attributable to the equity holders of the controlling Company												
		Other equity instruments											
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained profits	Non-controlling interests	Total equity
1. Balance at 31 December 2019	3,684,640,154.00	-	-	-	50,311,968.20	-	21,514,640.55	-	364,663,370.96	-	2,723,290,866.87	444,669,172.15	7,289,090,172.73
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-			-
Correction of prior-period errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2020	3,684,640,154.00	-	-	-	50,311,968.20	-	21,514,640.55	-	364,663,370.96	-	2,723,290,866.87	444,669,172.15	7,289,090,172.73
3. Increase/Decrease for the year (Decrease listed with "-")	-	-	-	-	17,235,000.00	-	14,543,855.99	-	42,231,981.11	-	103,415,644.22	9,235,646.16	186,662,127.48
(1) Total comprehensive income	-	-	-	-	-	-	14,543,855.99	-	-	-	182,967,706.60	35,313,554.98	232,825,117.57
(2) Capital contribution and reduction from shareholders	-	-	-	-	17,235,000.00	-	-	-	-	-	-	(128,478.22)	17,106,521.78
1. Common stock capital contribution from shareholders	-	-	-	-	-	-	-	-	-	-	-	6,870,000.00	6,870,000.00
2. Capital contribution from holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Equity increase from Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	17,235,000.00	-	-	-	-	-	-	(6,998,478.22)	10,236,521.78
(3) Profit appropriations	-	-	-	-	-	-	-	-	42,231,981.11	-	(79,552,062.38)	(25,949,430.60)	(63,269,511.87)
1. Appropriation to statutory reserve	-	-	-	-	-	-	-	-	42,231,981.11	-	(42,231,981.11)	-	-
2. Appropriation to staff bonus and welfare	-	-	-	-	-	-	-	-	-	-	(473,679.73)	-	(473,679.73)
3. Appropriation to shareholders	-	-	-	-	-	-	-	-	-	-	(36,846,401.54)	(25,949,430.60)	(62,795,832.14)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-

For The Year 2020

Items	Share capital	Other equity instruments: Preferred shares	Other equity instruments: Perpetual bond	Other equity instruments: Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained profits	Non-controlling interests	Total equity
	Equity attributable to the equity holders of the controlling Company												
(4) Transfer	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer of capital reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer of surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves transfer to make up for losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Transfer other comprehensive income to retained earnings	-	-	-	-	-	-		-	-	-	-	-	-
5. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Used	-	-	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	-	-			-
4. Balance at 31 December 2020	3,684,640,154.00	-	-	-	67,546,968.20	-	36,058,496.54	-	406,895,352.07	-	2,826,706,511.09	453,904,818.31	7,475,752,300.21

For The Year 2019

Items	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained profits	Non-controlling interests	Total equity
	Equity attributable to the equity holders of the controlling Company												
		Other equity instruments											
1. Balance at 31 December 2018	3,684,640,154.00	-	-	-	50,311,968.20	-	31,052,427.09	-	334,373,473.12	-	2,708,521,621.81	420,762,299.14	7,229,661,943.36
Add: Changes in accounting policies	-	-	-	-	-	-		-	-	-	(4,927,467.14)	(515,895.4)	(5,443,362.57)
Correction of prior-period errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2019	3,684,640,154.00	-	-	-	50,311,968.20	-	31,052,427.09	-	334,373,473.12	-	2,703,594,154.67	420,246,403.71	7,224,218,580.79
3. Increase/Decrease for the year (Decrease listed with "-")	-	-	-	-	-	-	(9,537,786.54)	-	30,289,897.84	-	19,696,712.20	24,422,768.44	64,871,591.94
(1) Total comprehensive income	-	-	-	-	-	-	3,450,550.34	-	-	-	184,834,923.25	19,185,393.90	207,470,867.49
(2) Capital contribution and reduction from shareholders	-	-	-	-	-	-	-	-	-	-	-	36,000,000.00	36,000,000.00
1. Common stock capital contribution from shareholders	-	-	-	-	-	-	-	-	-	-	-	36,000,000.00	36,000,000.00
2. Capital contribution from holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Equity increase from Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit appropriations	-	-	-	-	-	-	-	-	30,289,897.84	-	(178,126,274.36)	(24,699,291.70)	(172,535,668.22)
1. Appropriation to statutory reserve	-	-	-	-	-	-	-	-	30,289,897.84	-	(30,289,897.84)	-	-
2. Appropriation to staff bonus and welfare	-	-	-	-	-	-	-	-	-	-	(450,770.36)	-	(450,770.36)
3. Appropriation to shareholders	-	-	-	-	-	-	-	-	-	-	(147,385,606.16)	(24,699,291.70)	(172,084,897.86)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-

For The Year 2019

Items	Equity attributable to the equity holders of the controlling Company											Non-controlling interests	Total equity
	Share capital	Other equity instruments			Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained profits		
		Preferred shares	Perpetual bond	Others									
(4) Transfer	–	–	–	–	–	–	(12,988,336.88)	–	–	–	12,988,336.88	–	–
1. Transfer of capital reserves to share capital	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Transfer of surplus reserves to share capital	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Surplus reserves transfer to make up for losses	–	–	–	–	–	–	–	–	–	–	–	–	–
4. Transfer other comprehensive income to retained earnings	–	–	–	–	–	–	(12,988,336.88)	–	–	–	12,988,336.88	–	–
5. Others	–	–	–	–	–	–	–	–	–	–	–	–	–
(5) Special reserves	–	–	–	–	–	–	–	–	–	–	–	–	–
1. Appropriation	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Used	–	–	–	–	–	–	–	–	–	–	–	–	–
(6) Others	–	–	–	–	–	–	–	–	–	–	(273.57)	(6,063,333.76)	(6,063,607.33)
4. Balance at 31 December 2019	3,684,640,154.00	–	–	–	50,311,968.20	–	21,514,640.55	–	364,663,370.96	–	2,723,290,866.87	444,669,172.15	7,289,090,172.73

CONSOLIDATED STATEMENT OF CASH FLOWS

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

Items	**For The Year 2020**	For The Year 2019
1. Cash flows from operating activities		
Cash received from sales of goods and rendering of services	**5,925,678,468.27**	5,764,272,319.37
Net increase in customer deposits and interbank deposits	**(291,220,418.52)**	(220,597,205.84)
Net increase in central bank payments	**–**	(10,000,000.00)
Net increase in interbank payments	**–**	(30,000,000.00)
Cash received from interest, surcharges and commission fee	**65,514,245.32**	82,298,566.20
Net increase in repurchase agreements	**(49,949,000.00)**	49,949,000.00
Cash received from tax refund	**29,170,901.42**	18,103,339.73
Cash received relating to other operating activities	**390,216,026.83**	591,668,948.07
Sub-total of cash inflows from operating activities	**6,069,410,223.32**	6,245,694,967.53
Cash paid for goods and services	**4,299,981,549.72**	4,331,813,455.12
Net increase in loans and advances to customers	**(81,715,652.12)**	(125,569,906.13)
Net increase in central bank and interbank payments	**(53,471.07)**	(21,728,871.32)
Cash paid for interest, surcharges and commission fee	**3,705,297.97**	10,362,787.69
Cash paid to and on behalf of employees	**926,521,134.63**	989,860,944.69
Payments of taxes and surcharges	**329,998,326.30**	298,056,103.68
Cash paid relating to other operating activities	**419,448,463.04**	642,734,935.85
Sub-total of cash outflows from operating activities	**5,897,885,648.47**	6,125,529,449.58
Net cash flows from operating activities	**171,524,574.85**	120,165,517.95
2. Cash flows from investment activities		
Cash received from return of investments	**154,000,000.00**	494,000,000.00
Cash received from investments income	**208,479,043.25**	257,822,921.23
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**147,128,215.31**	116,538,402.05
Cash received relating to other investing activities	**73,016,035.18**	58,025,047.91
Sub-total of cash inflows from investing activities	**582,623,293.74**	926,386,371.19

Items	For The Year **2020**	For The Year 2019
Cash paid to acquire fixed assets, intangible assets and other long-term assets	**101,320,631.22**	175,441,428.69
Cash paid for investments	**164,120,069.00**	492,030,472.70
Cash paid relating to other investing activities	**99,937,623.08**	232,407,287.51
Sub-total of cash outflow from investing activities	**365,378,323.30**	899,879,188.90
Net cash flows from investing activities	**217,244,970.44**	26,507,182.29
3. Cash flows from financing activities		
Cash received from investments	**23,245,000.00**	–
Including: cash received by subsidiaries from investment of non-controlling interests	**6,010,000.00**	–
Cash received from loans granted	**1,923,428,455.00**	2,676,529,520.00
Cash received relating to other financing activities	**46,843,579.53**	73,310,106.86
Sub-total of cash inflows from financing activities	**1,993,517,034.53**	2,749,839,626.86
Cash paid for repayment of borrowings	**2,008,195,870.00**	2,506,545,330.22
Cash paid for dividends, profits or payments of interests	**174,860,155.48**	304,999,203.74
Including: dividends and profits paid to non-controlling interests by subsidiaries	**16,083,208.62**	23,767,842.85
Cash paid relating to other financing activities	**387,939,390.94**	117,332,521.06
Sub-total of cash outflows from financing activities	**2,570,995,416.42**	2,928,877,055.02
Net cash flows from financing activities	**(577,478,381.89)**	(179,037,428.16)
4. Effects of changes in exchange rate on cash and cash equivalents	**(21,569,137.30)**	(411,572.55)
5. Net increase in cash and cash equivalents	**(210,277,973.90)**	(32,776,300.47)
Add: opening balance of cash and cash equivalents	**1,537,567,094.59**	1,570,343,395.06
6. Balance of cash and cash equivalents at the end of this period	**1,327,289,120.69**	1,537,567,094.59

NOTES:

I. GENERAL INFORMATION

Chongqing Machinery & Electric Co., Ltd. (the "Company") was established on 27 July 2007 as a joint share company with limited liability by Chongqing Machinery & Electronics Holding (Group) Co., Ltd. ("CQMEHG"), Chongqing Yufu Capital Operation Group co., ltd ("Yufu company", previously called Chongqing Yufu Assets Management Co., Ltd), China Huarong Assets Management Co., Ltd. ("Huarong company"), and Chongqing Construction Engineering Group Co. Ltd. ("CCEG", previously named Chongqing Construction Engineering Group Co., Ltd). The address of the Company's registered office is No. 60, Huangshan Road Central, Northern New District, Chongqing, the PRC. The Company's headquarter is located in Chongqing, PRC. The parent company and the ultimate controlling shareholder is Chongqing Machinery & Electronics Holding (Group) Co. Ltd. The Group was established with a registered capital of RMB2,679,740,154 yuan (RMB1 per share).

On 13 June 2008, the Group publicly issued 1,004.90 million H shares to foreign investors with approval of the Circular "Zhengjian Xuke [2008] No. 285" of the China Securities Regulatory Commission, and the shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). After issuing the shares, the total share capital increased to RMB3,684,640,154 yuan.

As of the end of the year, the registered capital of the Group was RMB3,684,640,154 yuan. The Group and its Subsidiaries (hereinafter collectively referred to as "the Group") are mainly engaged in the manufacturing, sales and services of clean energy equipment and high-end intelligent equipment.

The consolidated financial statements have been approved for issue by the Board of Directors of the Group on 25 March 2021.

2. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of preparation

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

(2) Going concern

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

3. SEGMENT INFORMATION

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

The Group has 9 reportable segments as follows:

Engine: in charge of production and sales of engines;

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

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

General machinery: production and sales of general machinery;

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

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

Material Sales: in charge of sales of material;

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

Other segments: producing and selling other products;

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

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

3.1 Financial information of reportable segments of the current year as follows:

Items	Engines	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
Total segment revenue	-	241,724,997.21	1,383,037,345.79	2,340,567,120.41	109,256,267.77	715,678,877.82	-	72,062,363.95	1,637,782,964.42	-	6,500,109,937.37
Inter-segment revenue	-	(198,285.31)	(9,083,861.30)	(6,733,893.84)	(48,516,542.50)	(8,462,041.45)	-	(28,338,286.06)	(31,811,194.99)	-	(133,144,105.45)
Revenue from external customers	-	241,526,711.90	1,373,953,484.49	2,333,833,226.57	60,739,725.27	707,216,836.37	-	43,724,077.89	1,605,971,769.43	-	6,366,965,831.92
Operating costs	-	221,616,606.83	1,177,129,616.40	1,878,849,533.01	32,299,000.05	571,272,711.83	-	70,043,015.73	1,204,368,502.49	-	5,155,578,986.34
Inter-segment transaction cost	-	(26,856.74)	(9,083,861.30)	(7,974,581.74)	(22,857,979.07)	(4,847,786.02)	-	(28,064,542.14)	(30,284,828.13)	-	(103,140,435.14)
External transaction cost	-	221,589,750.09	1,168,045,755.10	1,870,874,951.27	9,441,020.98	566,424,925.81	-	41,978,473.59	1,174,083,674.36	-	5,052,438,551.20
Gross profit rates (%)	-	8.25	14.99	19.84	84.46	19.91	-	3.99	26.89	-	20.65
Operating (loss)/profit	243,097,153.45	(115,941,559.76)	103,906,101.92	61,355,238.52	43,908,665.74	(133,017,621.82)	50,992,504.87	(66,109,253.85)	111,137,646.71	-	299,328,875.78
Interest income	-	724,107.70	127,898.64	9,292,702.06	-	4,022,581.03	-	(1,061,412.72)	20,792,694.99	-	33,898,571.70
interest costs	-	2,223,524.01	8,045,100.10	23,112,019.09	-	40,874,717.54	-	99,725.52	39,557,531.51	-	113,912,617.77
Investment income from associates and joint ventures	243,097,153.45	-	-	(5,663,843.04)	-	656,816.40	50,992,504.87	-	59,157,936.87	-	348,240,568.55
Total profit	243,097,153.45	(115,793,989.70)	103,945,121.99	23,245,716.41	43,861,101.74	(132,768,897.51)	50,992,504.87	(65,827,796.11)	116,728,590.45	-	267,479,505.59
Income tax expense	-	277,263.28	12,287,479.57	4,174,861.86	5,302,285.79	74,471.52	-	-	28,535,379.49	-	50,374,478.23
Net profit	243,097,153.45	(116,071,252.98)	91,657,642.42	19,070,854.55	38,558,815.95	(132,843,369.03)	50,992,504.87	(65,827,796.11)	88,193,210.96	-	216,827,764.08
Depreciation of Property, plant and equipment and investment peoperty	-	22,047,152.17	14,728,876.69	38,901,519.66	724,168.00	55,386,101.49	-	2,979.68	42,331,604.32	-	174,122,402.01
Amortisation of intangible assets	-	2,251,882.29	676,480.68	26,399,467.09	336,445.72	13,990,814.33	-	-	4,903,614.74	-	48,558,704.85
Provision on inventory	-	-	4,105,805.60	2,691,164.52	-	(972,924.58)	-	-	29,136,899.38	-	34,960,944.92
Provision for/(reversal of) impairment of accounts and other receivables	-	(4,188,151.86)	3,091,376.25	(19,950,244.28)	1,066,397.03	51,706,072.98	-	(119,861,613.46)	193,068,427.64	-	104,932,264.30
Additions to non-current assets (other than financial instruments, long term equity investments and deferred income tax assets)	-	(92,813,342.87)	(10,898,998.32)	(122,667,677.13)	(2,781,184.63)	(120,649,468.84)	-	(735,088.95)	16,000,507.41	-	(334,545,253.33)

3.2 Financial information of reportable segments of the last year as follows:

Items	Engines	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
Total segment revenue	–	559,396,579.42	1,480,573,654.98	1,310,071,830.11	121,813,432.68	592,319,415.79	–	177,343,730.52	1,500,984,405.16	–	5,742,503,048.66
Inter-segment revenue	–	20,372,919.88	(19,894,353.04)	(6,123,489.17)	(44,336,428.25)	(35,908,328.38)	–	(114,018,983.47)	(25,782,280.36)	–	(225,690,942.79)
Revenue from external customers	–	579,769,499.30	1,460,679,301.94	1,303,948,340.94	77,477,004.43	556,411,087.41	–	63,324,747.05	1,475,202,124.80	–	5,516,812,105.87
Operating costs	–	423,107,851.60	1,271,985,836.57	1,191,214,585.72	27,974,473.73	491,384,958.89	–	166,510,887.71	1,126,967,726.32	–	4,699,146,320.54
Inter-segment transaction cost	–	(465,260.36)	(19,894,353.04)	(6,123,489.17)	(16,845,087.68)	(35,908,328.38)	–	(107,054,261.79)	(34,716,662.96)	–	(221,007,443.38)
External transaction cost	–	422,642,591.24	1,252,091,483.53	1,185,091,096.55	11,129,386.05	455,476,630.51	–	59,456,625.92	1,092,251,063.36	–	4,478,138,877.16
Gross profit rates (%)	–	27.10	14.28	9.12	85.64	18.14	–	6.11	25.96	–	18.83
Operating (loss)/profit	279,213,561.46	40,311,832.37	124,225,611.56	-55,707,043.56	52,205,967.96	(293,697,280.26)	5,301,113.55	(6,273,868.99)	97,429,671.44	(1,523,195.99)	241,486,369.54
Interest income	–	872,530.42	234,902.37	1,514,809.17	–	12,730,348.46	–	36,098.24	21,456,616.94	–	36,845,305.60
interest costs	–	2,938,802.57	5,400,946.87	7,998,500.01	–	36,790,469.37	–	311,642.67	80,475,490.47	–	133,915,851.96
Investment income from associates and joint ventures	279,213,561.46	–	–	–	–	(8,061,868.26)	5,301,113.55	–	7,414,287.97	–	283,867,094.72
Total profit	279,213,561.46	43,238,342.70	124,508,133.63	(56,154,471.91)	51,332,644.33	(293,523,774.76)	5,301,113.55	(6,359,425.66)	96,913,308.73	(1,523,195.99)	242,946,236.08
Income tax expense	–	(518,065.03)	16,952,089.70	1,245,945.98	13,880,860.79	(9,582,324.60)	–	–	17,052,751.09	–	39,031,257.93
Net profit	279,213,561.46	43,756,407.73	107,556,043.93	(57,400,417.89)	37,451,783.54	(283,941,450.16)	5,301,113.55	(6,359,425.66)	79,860,557.64	(1,523,195.99)	203,914,978.15
Depreciation of Property, plant and equipment and investment peoperty	–	33,833,675.57	15,815,068.63	40,988,367.42	319,468.85	75,077,120.62	–	1,325.96	23,482,192.28	–	189,517,219.33
Amortisation of intangible assets	–	1,984,948.94	676,480.68	10,186,097.83	337,219.05	13,894,448.28	–	–	2,570,649.48	–	29,649,844.26
Provision on inventory	–	–	1,721,251.75	(2,483,989.66)	–	8,532,831.72	–	–	(3,481,566.13)	–	4,288,527.68
Provision for/(reversal of) impairment of accounts and other receivables	–	(7,445,953.50)	(2,746,443.02)	(6,253,783.54)	(593,398.45)	25,302,761.30	–	1,169,664.85	6,172,362.57	(2,997,500.00)	12,607,710.21
Additions to non-current assets (other than financial instruments, long term equity investments and deferred income tax assets)	–	216,403,482.04	(9,214,457.60)	91,219,649.99	7,558,873.77	(36,811,432.82)	–	1,164,416.79	(134,666,587.00)	–	135,653,945.17

3.3 Assets and liabilities of each segment

31 Dec 2020	Engines	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
Total assets	382,217,759.01	1,921,314,953.17	1,053,513,084.46	4,012,803,842.53	3,330,115,212.53	2,974,178,955.83	274,851,188.78	208,946,436.75	11,344,526,957.87	(8,878,242,170.94)	16,624,226,219.99
Total liabilities	-	1,483,294,344.31	694,366,014.68	3,197,140,006.57	2,440,936,768.75	2,077,447,154.40	-	316,655,411.79	3,385,247,275.57	(4,446,613,056.29)	9,148,473,919.78
Investment of associates or joint ventures	382,217,759.01	-	-	-	-	82,337,194.34	274,851,188.78	-	363,910,307.59	-	1,103,316,449.72

(Continued)

31 Dec 2019	Engines	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
Total assets	372,295,425.76	2,059,111,928.88	934,280,544.96	3,909,592,126.66	3,687,080,399.51	3,174,086,215.06	222,799,259.31	173,545,305.91	10,725,287,015.52	(8,740,262,916.72)	16,517,815,304.85
Total liabilities	–	1,507,400,886.10	573,968,663.97	3,095,086,668.18	2,856,576,164.13	2,343,853,774.49	–	149,084,295.45	3,218,570,322.67	(4,515,815,643.34)	9,228,725,131.65
Investment of associates or joint ventures	372,295,425.76	–	–	–	–	81,680,377.94	224,207,687.31	–	318,208,474.40	–	996,391,965.41

4.1 OPERATING REVENUE & OPERATING COST

(1) Operating revenue & operating cost

Items	Amount of the year		Amount of last year	
	Revenue	Cost	Revenue	Cost
Main operations	**6,193,573,923.87**	**4,986,576,653.48**	5,339,473,769.49	4,437,625,338.98
Other operations	**112,652,182.78**	**56,420,876.74**	99,861,331.95	29,384,152.13
Interest	**60,720,320.56**	**9,256,054.14**	77,451,736.38	11,006,384.78
Transaction fees and commission income	**19,404.71**	**184,966.84**	25,268.05	123,001.27
Total	**6,366,965,831.92**	**5,052,438,551.20**	5,516,812,105.87	4,478,138,877.16

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

(2) Income from contracts

Classification of contract	High-end intelligent equipment business	Clean energy equipment business	Industrial service business	**Total**
Classified by region	**1,536,213,181.38**	**4,719,589,450.23**	**111,163,200.31**	**6,366,965,831.92**
Including: Mainland of China	1,390,427,778.10	4,701,080,395.34	111,163,200.31	6,202,671,373.75
Others	145,785,403.28	18,509,054.89	–	164,294,458.17
Types of contracts	**1,536,213,181.38**	**4,719,589,450.23**	**111,163,200.31**	**6,366,965,831.92**
Including: Equipment sales contract	1,182,939,748.04	3,266,148,353.51	1,273,220.71	4,450,361,322.26
Service contract	310,783,484.36	47,160,584.72	66,165,901.71	424,109,970.79
Materials sales contract	42,489,948.98	1,406,280,512.00	43,724,077.89	1,492,494,538.87
Classified by time of revenue recognition	**1,536,213,181.38**	**4,719,589,450.23**	**111,163,200.31**	**6,366,965,831.92**
Including: Recognizes revenue at a point in time	1,310,453,581.04	4,722,863,991.87	43,724,077.89	6,077,041,650.80
Recognizes revenue over time	225,759,600.34	(3,274,541.64)	67,439,122.42	289,924,181.12
Classified by sales channel	**1,536,213,181.38**	**4,719,589,450.23**	**111,163,200.31**	**6,366,965,831.92**
Including: Direct sales	1,505,021,139.03	4,663,978,825.65	111,163,200.31	6,280,163,164.99
Distribution	31,192,042.35	55,610,624.58	–	86,802,666.93
Internet sales	–	–	–	**–**

(3) Information related to performance obligations

The Group's transaction types involving performance obligations are sales of goods, provision of services and sales of materials. The Group fulfills its performance obligations under the contract, that is, when the customer obtains control of the relevant goods or services, the revenue is recognized.

The Group recognizes the revenue from the performance obligations of the project for the performance contract related to the provision of the hydropower station's EPC project construction contract and some machine tool business contracts in accordance with the guidelines, which is determined to be performed within a certain period of time. The contract costs actually incurred plus the contract gross profit are recognized as project business contract revenue.

The usual time of performance is about 3-4 days to 2 years. According to the type of customer and the relevant terms of performance, the Group required to collect part of contract price for inputting production materials. When the goods are completed, the Group collect part of the contract price for shipping the goods. Usually, the control over the goods are transferred once the goods have been delivered to the carrier.

The hydropower station EPC project has a long contractual performance period. The contract stipulates the term of payment by stages. The two parties of the contract will confirm the settlement according to the progress of completion of the contract. The warranty period is usually 2 years after the completion of the project.

(4) Information about the transaction price allocated to the remaining performance obligations

The amount of revenue corresponding to the performance obligations of the Group that have signed the contract at the end of this period but have not been fulfilled or not yet fulfilled is RMB1,883,238,173.40 yuan (of which the revenue corresponding to the performance obligations that have been signed but not yet fulfilled is RMB1,549,643,423.18 yuan and the signed but not yet The amount of income corresponding to the performance of performance obligations is RMB333,594,750.22 yuan).

4.2 SELLING AND DISTRIBUTION EXPENSES

Items	**Amount of the year**	Amount of last year
Employee benefits	**78,451,126.06**	69,289,849.43
Transportation expense	**63,589,858.50**	72,168,030.24
Traveling expenses	**41,896,650.05**	53,714,643.43
After-sale service fee	**28,959,812.21**	27,155,194.61
"3-Aspect-Warranty" fee	**20,858,397.12**	26,438,255.25
Business entertainment fee	**5,627,354.58**	5,315,843.15
Advertising expense	**6,569,565.82**	12,868,232.41
General office expenses	**4,105,177.41**	5,126,186.75
Service fee	**4,011,581.17**	1,842,783.09
Storage fee	**3,014,532.11**	3,353,011.60
Others	**28,300,812.35**	30,848,561.56
Total	**285,384,867.38**	308,120,591.52

4.3 ADMINISTRATIVE EXPENSES

Items	**Amount of the year**	Amount of last year
Employee benefits	**294,746,384.69**	289,571,544.32
Depreciation expenses	**67,205,772.27**	66,298,386.72
Service fee	**14,432,430.94**	8,989,861.58
Amortization of intangible assets	**18,536,473.28**	18,109,935.55
consulting fee	**13,519,536.25**	11,604,981.45
Staff placement fee	**12,084,080.47**	10,351,619.50
Property management fees	**10,869,267.35**	10,923,902.51
General office expenses	**13,223,585.02**	6,913,069.76
Repair charges	**11,335,246.26**	14,334,721.73
Insurance expenses	**2,923,487.91**	20,067,856.44
Rental fee	**6,439,856.54**	4,857,985.40
Business entertainment fee	**4,165,369.21**	6,029,543.23
Relocation costs	**4,043,997.76**	–
Travel expenses	**3,871,728.61**	6,141,070.66
Transportation expense	**2,998,743.86**	1,252,140.29
Amortization of long term deferred expenses	**1,282,555.03**	1,807,548.64
Others	**63,654,479.41**	66,924,206.35
Total	**545,332,994.86**	544,178,374.13

4.4 RESEARCH AND DEVELOPMENT EXPENSES

Items	**Amount of the year**	Amount of last year
Employee benefits	**114,778,494.89**	117,139,221.20
Material fee	**146,698,084.36**	122,561,527.21
Amortization of intangible assets	**19,246,610.02**	10,031,812.10
Power expenses	**3,077,854.77**	6,288,246.88
Depreciation expenses	**8,094,636.59**	9,002,884.20
Consulting fee	**37,371,980.48**	28,678,826.86
Traveling expenses	**2,439,442.78**	3,430,996.44
General office expenses	**860,715.28**	967,332.31
Design fee	**2,178,904.29**	1,872,066.94
Business entertainment fee	**276,481.10**	135,988.66
Others	**19,636,058.37**	8,806,586.79
Total	**354,659,262.93**	308,915,489.59

4.5 FINANCIAL EXPENSES

Items	**Amount of the year**	Amount of last year
Interest expenditure	**137,554,522.08**	156,208,389.84
Less: capitalized interest	**23,641,904.31**	22,292,537.88
Interest expenses	**113,912,617.77**	133,915,851.96
Less: Interest income	**33,898,571.70**	36,845,305.60
Add: Exchange loss	**28,220,606.32**	4,085,980.60
Add: Bill discount expense	**2,120,492.30**	33,836,749.05
Add: Other expenditure	**8,816,383.81**	10,971,986.40
Less: financial discount interest	**–**	–
Add: Amortization of lease liabilities	**6,659,621.20**	12,237,871.31
Total	**125,831,149.70**	158,203,133.72

4.6 OTHER INCOME

Items	**Amount of the year**	Amount of last year
Innovative development project grants	**37,990,218.80**	10,189,000.00
Subsidies related to assets are transferred from deferred income	**59,911,499.15**	147,825,849.88
Research and development subsidy	**13,646,665.00**	30,151,138.85
Job stabilization and social security subsidy	**9,516,040.20**	29,151,528.25
Three supplies and one industry	**7,012,375.89**	–
Various awards related to business operation	**3,391,775.00**	3,993,855.00
additional tax credit	**337,775.03**	–
Tax returns	**186,155.77**	4,107,907.78
Others	**3,569,276.28**	1,810,856.12
Total	**135,561,781.12**	227,230,135.88

4.7 INVESTMENT INCOME

Items	**Amount of the year**	Amount of last year
Investment income from long-term equity investments under equity method	**348,240,568.55**	283,867,094.72
Investment income from disposal of trading financial assets	**2,954,359.75**	11,038,010.45
Dividends from other equity instruments	**1,470,150.00**	–
Investment income from disposals of long-term equity investments	**(8,427.50)**	467,582.95
Others	**(2,565,875.60)**	–
Total	**350,090,775.20**	295,372,688.12

4.8 GAINS ON DISPOSALS OF ASSETS

Items	**Amount of the year**	Amount of last year	Amount recorded in extraordinary profit and loss
Gains on disposals of non-current assets which are not classified as held for sale	**12,283,826.09**	127,048,030.71	12,283,826.09
Including: Gains on disposals of PP&E	**12,283,826.09**	59,643,347.93	12,283,826.09
Gains on disposals of intangible assets	**–**	67,404,682.78	–
Gain on disposal of non-current assets classified as held for sale	**–**	4,672,160.97	–
Including : Gains on disposals of property, plant and equipment	**–**	3,947,342.13	–
Gains on disposals of intangible assets	**–**	724,818.84	–
Total	**12,283,826.09**	131,720,191.68	12,283,826.09

4.9 NON-OPERATING INCOME

Items	**Amount of the year**	Amount of last year	Amount recorded in extraordinary profit and loss
Gains from debt restructuring	**–**	300,000.00	–
Penalty incomes, default fine and compensation	**11,074,696.33**	707,356.20	11,074,696.33
Government grants	**380,625.78**	88,000.72	380,625.78
Unpayable payables	**2,288,143.03**	6,111,678.41	2,288,143.03
Others	**2,902,873.82**	5,533,081.18	2,902,873.82
Total	**16,646,338.96**	12,740,116.51	16,646,338.96

4.10 NON-OPERATING EXPENSES

Items	**Amount of the year**	Amount of last year	Amount recorded in extraordinary profit and loss
Loss from Debt Restructuring	**–**	4,374,463.06	–
Donation for Public welfare	**1,371,578.00**	100,000.00	1,371,578.00
Loss from damage and Scrapping of non-current assets	**18,057,081.96**	1,947,313.89	18,057,081.96
Penalty and overdue surcharge	**1,475,877.72**	1,812,315.22	1,475,877.72
Discount and quality deduction	**9,026,259.38**	2,280,101.54	9,026,259.38
Lease penalty and compensation	**16,681,904.47**	–	16,681,904.47
Others	**1,883,007.62**	766,056.26	1,883,007.62
Total	**48,495,709.15**	11,280,249.97	48,495,709.15

4.11 INCOME TAX EXPENSE

Items	**Amount of the year**	Amount of last year
Current income tax calculated according to tax law and provision	**55,329,055.96**	25,350,811.42
Deferred income tax	**(4,677,314.45)**	13,680,446.51
Total	**50,651,741.51**	39,031,257.93

4.12 RETAINED EARNINGS

Items	**31 Dec 2020**	31 Dec 2019
Ending balance of last year (Before adjustment)	**2,723,290,866.87**	2,708,521,621.81
Add: Adjustment of beginning balance	**–**	(4,927,467.14)
Beginning balance of current year (After adjustment)	**2,723,290,866.87**	2,703,594,154.67
Add: Net profit attributable to shareholders of the Company	**182,967,706.60**	184,834,923.25
Change in defined benefit plan carried forward to retained earnings	**–**	12,988,336.88
Business combination under the same control reduces undistributed profits	**–**	(273.57)
Less: Appropriation to statutory reserve	**42,231,981.11**	30,289,897.84
Appropriation to staff bonus and welfare	**473,679.73**	450,770.36
Declared ordinary share dividends	**36,846,401.54**	147,385,606.16
Ending Balance	**2,826,706,511.09**	2,723,290,866.87

Note 1: According to the Group's 2019 Annual General Meeting held on June 18, 2020, the Group reviewed and approved the Group's 2019 profit distribution plan, namely the distribution of RMB0.01 (including tax) per share, based on 3,684,640,154 shares issued. A dividend of RMB36,846,401.54 yuan was paid. The Group has distributed the above dividends to shareholders in July 2020.

Note 2: According to the "Administrative Measures for the Provision of Provisions for Financial Enterprise Reserves" (Caijin [2012] No. 20) by the Ministry of Finance, Chongqing Mechanical and Electrical Holdings Group Finance Co., Ltd., a subsidiary of the Group, established a general risk reserve on the basis of withdrawing asset impairment provisions. Make up for potential losses related to risky assets that it has not identified. This general risk reserve is treated as profit distribution and is a component of owner's equity. In principle, it should not be less than 1.5% of the year-end balance of risk assets. At the same time, the method stipulates that: the proportion of the general reserve balance of financial enterprises to the closing balance of risky assets, which is difficult to reach 1.5% at one time, can be divided into years, and in principle should not exceed 5 years. The ending balance of Chongqing Mechanical & Electrical Holdings Group Finance Co., Ltd.'s general risk reserve withdrawal ratio is 1.5% (2019: 1.5%)

On 31 Dec 2020, the Group's undistributed profit included the amount of RMB42,518,473.55 yuan withdrawn by the subsidiary Chongqing Mechanical and Electrical Holdings Group Finance Co., Ltd. (the beginning of the year was RMB47,419,154.64 yuan).

4.13 RETURN ON NET ASSETS AND EARNINGS PER SHARE

In accordance with the requirements of the "Preparation Rules for Information Disclosures by Companies Offering Securities to the Public No.9 – Calculations and Disclosures for Return on Net Assets and Earnings Per Share (Revised in 2010)" issued by the China Securities Regulatory Commission, the weighted average return on net assets, basic earnings per share and diluted earnings per share of the Group in 2020 are as follows:

Profit for the reporting year	Amount	Weighted average return on equity attributable to parent company (%)	Earnings per share Basic earnings per share	Earnings per share Diluted earnings per share
Net profit attributable to the shareholders of the Company	182,967,706.60	–	–	–
Amount of weighted average net assets attributable to the parent company	6,954,564,894.52	2.63	–	–
Number of common shares outstanding	3,684,640,154.00	–	0.05	0.05
Amount of non-recurring profit or loss attributable to the parent company	106,378,786.43	–	–	–
Net profit attributable to the shareholders of the Company (excluding: extraordinary profit and loss)	76,588,920.17	1.10	–	–

4.14 CASH AND CASH EQUIVALENTS

Items	**31 Dec 2020**	31 Dec 2019
Cash in hand	**238,170.58**	589,731.55
Cash at bank	**1,392,997,944.11**	1,536,977,363.04
Other cash equivalents	**338,992,966.66**	557,052,553.97
Accrued interest	**5,297,521.35**	–
Total	**1,737,526,602.70**	2,094,619,648.56
Including: cash deposited abroad	**39,208,169.98**	64,767,665.24

Note: There is no limit on the remittance of the group's overseas deposits.

Restricted cash at the end of the year

Items	**31 Dec 2020**
Deposits for bank acceptance bills	**121,018,555.80**
Deposits for letters of credit	**8,279,893.87**
Guarantee deposit	**86,537,478.17**
Statutory reserve	**117,565,519.14**
Pledge of Deposits	**70,338,513.68**
Judicial Freeze	**1,200,000.00**
Total	**404,939,960.66**

4.15 NOTES RECEIVABLE

Items	**31 Dec 2020**	31 Dec 2019
Bank acceptance bills	**453,963,197.36**	184,217,929.12
Commercial acceptance bills	**54,912,860.42**	117,905,218.88
Less: provision for bad debts	**200,689.23**	6,051,761.14
Total	**508,675,368.55**	296,071,386.86

Note: The aging of ending balances of notes receivable are all within one year.

4.16 ACCOUNTS RECEIVABLE

Items	**31 Dec 2020**	31 Dec 2019
Accounts receivable	**3,084,197,831.23**	3,111,334,932.31
Less: provision for bad debts	**460,424,838.37**	423,220,675.82
Carrying amount	**2,623,772,992.86**	2,688,114,256.49

Note: The Group's receivables are mainly generated through the sale of commodities, the provision of technology and related services, and construction engineering operations, and are settled in accordance with the terms stipulated in the relevant transaction contracts. Relevant warranty receivables usually expire within one to two years after product delivery and project completion. The Group's accounts receivable are non-interest bearing.

(1) According to the date of invoice, the age of accounts receivable is analyzed as follows

	31 Dec 2020		
Aging	**Book Balance**	**Provision for bad debts**	**Percentage(%)**
Within 1 year	**1,795,788,086.39**	**30,250,090.49**	**1.68**
1-2 years	**384,604,704.15**	**15,425,895.42**	**4.01**
2-3 years	**439,927,162.23**	**63,087,056.60**	**14.34**
3-4 years	**148,973,919.47**	**71,884,238.54**	**48.25**
4-5 years	**51,225,725.52**	**31,354,099.28**	**61.21**
Over 5 years	**263,678,233.47**	**248,423,458.04**	**94.21**
Total	**3,084,197,831.23**	**460,424,838.37**	**14.93**

(Continued)

	31 Dec 2019		
Aging	Book Balance	Provision for bad debts	Percentage(%)
Within 1 year	1,664,374,985.96	22,925,677.43	1.38
1-2 years	719,522,822.77	33,877,477.99	4.71
2-3 years	273,614,987.60	59,732,520.37	21.83
3-4 years	176,666,099.28	41,602,334.14	23.55
4-5 years	74,699,506.04	66,628,774.28	89.20
Over 5 years	202,456,530.66	198,453,891.61	98.02
Total	3,111,334,932.31	423,220,675.82	13.60

4.17 ACCOUNTS PAYABLE

Notes Payable

Items	**31 Dec 2020**	31 Dec 2019
Bank acceptance bill	**905,925,289.07**	1,179,791,670.55
Commercial acceptance bill	**109,970,190.06**	22,845,451.00
Total	**1,015,895,479.13**	1,202,637,121.55

Note 1: The age of notes payable of the Group at the end of this period is within one year.

Note 2: The Group has no bills payable due and unpaid at the end of this year.

4.18 ACCOUNTS PAYABLE

(1) The types of accounts payable

Items	**31 Dec 2020**	31 Dec 2019
Material payable	**1,716,645,655.72**	1,639,910,599.59
Freight payable	**30,236,144.71**	15,345,833.23
Equipment payable	**9,273,525.45**	3,934,920.00
Others	**29,504,246.56**	27,145,094.00
Total	**1,785,659,572.44**	1,686,336,446.82

Note: The Group's accounts payable are non-interest bearing.

(2) The aging analysis of account payable based on its invoice date:

Aging	**31 Dec 2020**	31 Dec 2019
Within 1 year	**1,230,532,995.21**	1,176,710,351.08
1-2 years	**212,031,740.15**	275,740,715.71
2-3 years	**155,551,256.63**	128,349,991.86
More than 3 years	**187,543,580.45**	105,535,388.17
Total	**1,785,659,572.44**	1,686,336,446.82

CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to announce the annual results of the Group for the year ended 31 December 2020 (the "Period" or the "Year"). The Group's annual results have been audited by the Company's auditor, ShineWing Certified Public Accountants (Special General Partnership). It is my pleasure to present the annual results of the Group as well as its sustainable development strategy and outlook to shareholders.

RESULTS REVIEW

Looking back at 2020, the COVID-19 epidemic broke out unexpectedly and continued to spread across the world. The politics, economy, and society of major countries in the world had been significantly impacted. The drastic fluctuations in the international financial market had made the monetary and fiscal policies of major economies enter the mode of crisis response. The global liquidity risk fell but the debt risk was on the rise. The global economy has recovered slowly under the severe influence of the rapid spread of the epidemic, but the pace of recovery varies among major economies. At present, the COVID-19 epidemic has not been effectively controlled around the globe, and the risk of a secondary impact from the epidemic is increasing in major countries in America and Europe. The global epidemic prevention and control situation remains grim. The environment of trade and investment shows no signs of notable improvement. The resurgent of global populism and protectionism has not been reversed. Risks of regional disputes and related geopolitical conflicts break out frequently. All the above factors and the China-US trade tensions contribute to the changes of the world order. The intensification of the competition between China and the United States in multiple areas and Britain's official departure from the European Union have further increased the uncertainty of the global economy and finance, casting a shadow over the recovery of the world economy.

Looking around China, faced with complicated international situation, the Chinese government took decisive measures to prevent the spread of the epidemic, steadily ensured six stabilities (i.e. stability of employment, finance, foreign trade, foreign capital, investment and expectation), fully implemented six guarantees (i.e. security of job, basic living needs, operations of market entities, food and energy safety, stable industrial and supply chains, and the normal functioning of primary-level governments), balanced epidemic prevention and control and economic and social development, continuously optimized the economic structure and regional layout, persevered in the supply-side structural reform, reduced taxes and fees, and promoted the steady recovery of the domestic economy with proactive fiscal policies and sound monetary policies. Since the second quarter of 2020, economic growth has turned from negative to positive, consumption and investment have been stabilized and recovered, production factors have become increasingly active, and the order of production and life has continued to be restored. The GDP growth rate for the year was approximately 2.3%, the total economic output was approximately RMB101.6 trillion, and the GDP per capita exceeded USD10,000 dollar. China became the first major economy in the world to achieve positive growth. With the widening of production recovery, the consolidation of the recovery momentum of consumer demand, and the revitalization of market investment, the national economy had been improved in an orderly manner toward normal operation, and the operating pressure faced by the entire industrial enterprise had gradually alleviated.

The Group had adopted the new "321" development strategy as the guideline and fully implemented the "1334" work measures. The Group continued with the expansion of multiple markets, focused on enhancing operational quality and efficiency, adhered to the innovation-driven strategy, accelerated digital intelligent transformation, prioritized the cultivation of strategic emerging businesses, strengthened risk prevention and control, and introduced and cultivated high-end talents, thereby gathering strength for the Group to achieve high-quality development and creating new growth drivers. The Group overcame a myriad of adversities to meet the expected overall business growth.

Total operating revenue of the Group as at 31 December 2020 was approximately RMB6,367.0 million (2019: RMB5,516.8 million), representing an increase of approximately RMB850.2 million or approximately 15.4% over last year. Gross profit was approximately RMB1,314.5 million (2019: approximately RMB1,038.7 million), representing an increase of approximately RMB275.8 million or approximately 26.6% over last year. Profit attributable to the shareholders of the Company amounted to approximately RMB183.0 million (2019: approximately RMB184.8 million), representing a decrease of approximately RMB1.8 million or approximately 1.0% over last year.

During the Period, the Group's administrative expenses accounted for approximately 8.6% of the revenue while selling expenses accounted for approximately 4.5%. The administrative expenses and selling expenses were lower than last year for approximately 2.5% in general. The Group had maintained a stable financial position during the Period. As at 31 December 2020, total cash and bank deposits of the Group amounted to approximately RMB1,737.5 million, representing a decrease of approximately 17.0% as compared to the same period of last year, mainly due to the repayment of the bank borrowings which are due and settlement of the notes which are due.

Earnings per share for the Period were approximately RMB0.05 (2019: approximately RMB0.05). Total assets as at 31 December 2020 amounted to approximately RMB16,624.2 million (31 December 2019: approximately RMB16,517.8 million), while total liabilities amounted to approximately RMB9,148.5 million (31 December 2019: approximately RMB9,228.7 million); and net asset per share was approximately RMB2.03 (31 December 2019: RMB1.98).

BUSINESS REVIEW AND OUTLOOK

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

In 2020, under the influence of the COVID-19 epidemic, the Group suffered significant impacts from stagnant sales in domestic and overseas markets, mobility control of people and logistics, and suspension of work and production. The Group had conducted risk assessments on the impacts of the COVID-19 epidemic on hydroelectric generation equipment, industry blowers, industrial pumps and other businesses and adopted proactive measures to address the epidemic. The Group fully resumed work and production in late February, but some businesses in this segment deviated to varying degrees. The hydroelectric generation equipment and electrical wires and cables and materials businesses were more severely affected by the epidemic, and their operating income showed a downward trend. However, benefit from the rising domestic demand and the wind power blades market driving, businesses such as wind power blades, industrial pumps, and gas compressors have achieved sound growth, driving the overall operating income of the segment reaching approximately RMB4,719.6 million, representing an increase of approximately 16.6% over the same period of last year. Although the operating results of wind power blades and industrial pumps businesses improved significantly, the overall operating results dropped significantly compared to the same period of last year due to the impact of the suspension of overseas EPC projects of the hydroelectric generation equipment business and the decrease in gains from assets disposal.

In 2020, the wind power blades business seized policy and market opportunities and secure orders of over approximately RMB1,828 million, representing an increase of approximately 44% as compared to the same period of last year. The industrial pumps business secured orders of approximately RMB230 million in nuclear power and other markets, representing an increase of approximately RMB200 million as compared to the same period of last year. In respect of the industrial pumps business, the "VOG circulation pump" was put into operation, the "full life cycle management system" was accepted and applied, a new municipal-level "digital workshop" was awarded, and the "large-scale reciprocating diaphragm pump technological transformation project" was successfully implemented. In the industry blowers business, the "magnetic levitation variable frequency chiller" successfully completed the commissioning test run, filling the gap of localization. In respect of the hydroelectric generation equipment business, the national special project "Digital Workshop New Model" passed the acceptance of the Ministry of Industry and Information Technology, and the "Basic Platform for Remote Operation and Maintenance Center" was completed.

In addition, Chongqing Cummins Engine Company Limited ("Chongqing Cummins"), a joint venture of the Company, is principally engaged in the production of high-horsepower diesel engine. In 2020, Chongqing Cummins' export business was severely affected by the epidemic. To actively respond to the impact of market downturn, Chonggqing Cumins implemented active marketing strategies for the business, and increased its exploration in markets such as power equipment, engineering machinery and ships. However, due to insufficient market demand, the product sales still declined. Moreover, depreciation and R&D expenses increased, leading to a decline in the overall performance of the business. The high-power engine technology R&D center of Chongqing Cummins has been put into use, and the civil construction of phase two of the new plant has been basically completed. The new plant is expected to be officially put into use in May 2021.

Looking forward to 2021, the Group will seize the opportunities of offshore wind power business and stabilize the onshore wind power business; actively promote the expansion of the hydroelectric generation equipment, electrical wires and cables and materials and other businesses in the fields of water conservancy construction, power grid construction, intelligent manufacturing, rail transit, system monitoring and other fields; continuously expand in the markets of metallurgy, cement, electric power, building materials and other industries for the industry blowers business; continue to cultivate the shale gas market for the gas compressors business; accelerate the technological transformation of diaphragm pumps for the industrial pumps business to seize the large diaphragm pump market; substantially complete the industrialization of special electrical wires and intelligent manufacturing technological transformation project for the electrical wires and cables and materials business. It is expected that the segment will achieve better growth.

High-end smart equipment (smart machine tools, smart electronics, etc.)

In 2020, the operations of the overseas screw machine tools business were affected by the large-scale outbreak of the epidemic in the United Kingdom and the strict epidemic ban imposed by the British government, resulting in a semi-stagnation of production lines and a decline in operating income. However, smart machine tools and smart electronics businesses had both achieved growth in the domestic market. Driven by the market recovery of the closely related commercial vehicles, engineering machinery, mining machinery, petroleum machinery and other industries and the increase in the market share of equipment automation and intelligence business, market orders of the intelligent machine tools business grew rapidly, and the operating income rebounded. New products such as smart inflatable switch cabinets and smart light poles independently developed by the intelligent manufacturing business achieved market breakthroughs. The segment had actively expanded new markets and new customers for its electronic communications business, boosting its overall operating income amounted to approximately RMB1,536.2 million, representing an increase of approximately 16.4% as compared to the same period of last year, achieving significantly improved operating results.

In 2020, the intelligent machine tools business secured orders of approximately RMB127 million for gear grinding machine tool, independently innovated the design and manufacturing of friction stir welding machine tool, whereas 2 sets of friction stir welding equipments were sold. The smart light pole, a new product of the intelligent manufacturing business, was launched into the market, receiving orders of approximately RMB18 million. The electronic communications business achieved results in the expansion of new customers, with an order of approximately RMB49 million from China Mobile Internet of Things. In respect of the intelligent machine tools business, the national special project "High-precision CNC Worm Gear Machine" passed the acceptance of the Ministry of Industry and Information Technology. In respect of the intelligent manufacturing business, the "digital workshop management and control cloud platform" achieved project applications.

Looking forward to 2021, the Group will seize the opportunity of rapid development of intelligent manufacturing and continue to promote the expansion of the intelligent machine tools business in incremental markets such as gear grinding, friction stir welding, photovoltaic, wind power, and semiconductors. For the smart electronics business, the Group will continue to strengthen cooperation with scientific research institutions, strengthen new product development, and increase sales of new products such as intelligent energy-saving and energy-consumption management and control systems, and smart meters. It is expected that the segment will achieve better growth.

Industrial services (industrial empowerment, financing, centralized procurement, etc.)

In 2020, as the digital intelligence procurement management platform was officially launched for trial operation and the centralized procurement model was adjusted, the scale of trading business shrank significantly. In response to the national epidemic prevention and relief policy, the financial business reduced interest rates. The operating income of this segment reached approximately RMB108.9 million, representing a decrease of approximately 25.1% as compared with the same period of last year. The industrial empowerment business was awarded the title of Chongqing Industrial Design Center, led the preparation of the parent group's "Three-year Action Plan for Digital Economy", and assisted the Group in researching digital transformation plans and integrating them into the "Fourteenth Five-Year Plan".

Looking forward to 2021, the industrial empowerment business will continue to accelerate the full launch of project platform-related technical services of the Chongqing Rail Line 18 based on the BIM management system, gas compressors informatization project, and digital intelligence procurement management platform, and support the construction of the big data center and the remote operation and maintenance, digital R&D and simulation platform. This segment is expected to remain stable in 2021.

DEVELOPMENT FOUNDATION AND ADVANTAGES

As the largest integrative equipment manufacturing company in western China, the Group will have the following foundation and advantages in the future development:

Regional development plans of "the Belt and Road", "Yangtze River Economic Belt", "Chengdu-Chongqing Economic Circle" and Chongqing Free Trade Area have been taken advantage of, bringing favorable development opportunities for the Group to explore potential markets. Meanwhile, the Group benefits from preferential policies such as western development and enjoys unique industrial policy advantages and tax advantages.

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

The Group possesses 4 state-level enterprises technical centers, 1 famous brand in the PRC, 5 well-known trademarks in the PRC, 17 technical centers in Chongqing and 212 patented technologies and continues to invest in research and development. In 2020, the R&D expense percentage reached 5.6%.

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

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

DEVELOPMENT STRATEGIES

Development strategies and work priorities of the Group in 2021 are as follows:

I. Development Strategies

The year 2021 marks the opening of the "Fourteenth Five-Year Plan". The Group will comply with the outlines of the "Fourteenth Five-Year Plans" of the state and the Company, focus on high-quality development, further implement the innovation-driven strategy, improve the strategic reserve capacity of technical innovation talents, step up the efforts in promoting the in-depth integration of digitalization and the equipment manufacturing business, and strengthen its core principal business. The Group will adhere to adopting the new "321" development strategy as the overall strategy, the supply side structural reform as the main line, the reform and innovation as the driver and creatively implement the "1334" work measures, which is: by focusing on market, quality guarantee, delivery guarantee and safety guarantee, reduction of costs, reduction of "accounts receivable and inventory", reduction of liabilities, enhancement of technological innovative force, enhancement of reformation innovation force, enhancement of risk prevention and control capabilities, and enhancement of cohesiveness and develop consensus. The Group will actively respond to the impacts and risks brought by the complicated external economic environment and seize opportunities such as formulation of new development landscape, focus on expansion of domestic demand, renewal of equipment in the manufacturing industry, and investment in technical transformation, to run a solid start, take a good first step, make early plans, and lay a solid foundation for achieving high-quality development.

II. Work Priorities

(1) Supremacy of orders

First, deepen cooperation on large-scale projects: the Group will promote the business expansion and project cooperation of hydroelectric power generation equipment business, electrical wires and cables business and smart electronics business in the fields of water conservancy construction, power grid construction, intelligent manufacturing, rail transit, and system monitoring. Second, focus on Chengdu-Chongqing Economic Circle and pay attention to key municipal projects: the Group will increase the share of cooperation between the electrical wires and cables business and copper profile companies, promote the cooperation between the smart electronics business and the related industrialization projects of scientific research institutes; follow up on the water resource allocation project and the avionics hub project for the hydroelectric generation equipment business. Third, work as a group to achieve synergy: we will promote wind power generation business, electrical wires and cables and materials business, and smart electronics business to participate in rail transit construction projects as a group. Fourth, continue to regard the supply-side structural reform as the main line, attend to demand-side management, improve inventory, strengthen increments, and strive for more orders.

(2) "Three guarantees" and improve quality

First, ensure quality: maintain that quality is the lifeline of an enterprise, and put quality assurance in a more prominent position. The Group will continue to develop the quality culture of the Company, set up high standards, promote QCC activities, strengthen quality control throughout the process and ensure product quality. Second, ensure delivery and customer satisfaction: strengthen internal management, optimize production bottlenecks process, improve internal collaboration capabilities, rationally arrange production, ensure product delivery strictly according to plan, and improve customer satisfaction. Third, ensure safe production: firmly establish a sense of responsibility and bottom-line mentality, strictly implement the accountability for safety production, and resolutely prevent major safety, environmental protection, and occupational health accidents.

(3) "Three reductions" and enhance efficiency

First, reduce costs: strictly adhere to the cost and expense budget, implement cost-reduction measures in each link, and reduce the proportion of period expense. The Group will urge its subsidiaries to strengthen management of contract quotations and cost accounting, and use tax planning and other means to reduce expenditure. Second, reduce the "accounts receivable and inventory": strengthen the control of receivables, pay close attention to and prevent long-term receivable risks, and strictly manage the contract receipt and payment agreement and other links; strengthen management of inventory and storage, control the backlog of pre-investment, track customer project progress in a timely manner, maintain close communication with customers to achieve timely delivery and reduce inventory. Ensure that the proportion of "accounts receivable and inventory" reaches a reasonable level. Third, reduce debt: control the financing scale, optimize the debt structure, adjust the borrowing period, financing channels and financing methods, make good use of the platform of the financial business, reduce financial costs and risks, and maintain a reasonable level of the debt ratio of the Group.

(4) "Four enhancements" and empowerment

1. Continue innovation and enhance supporting

First, achieve breakthroughs in innovation driver to enhance core competitiveness: the Group will promote the implementation of the "Fourteenth Five-Year Plan" with high-quality by centring on certain projects and focusing on the two main businesses of clean energy equipment and high-end smart equipment; increase the percentage of R&D expenses to accelerate the application of new patents and the development of key products; focus on market demand, strengthen the development of new products, basic generic technologies and major technological innovations. The Group will focus on promoting the development and study of new products such as "nuclear power reciprocating charging pump" of the industrial pumps business, "Hualong One nuclear power centrifugal chiller" of the industry blowers business, "electronic product automatic assembly robot" of the smart electronics business, and "BVR wire" of the electrical wires and cables business; strengthen the construction of a two-level innovation system, build the big data center and the platform for remote operation and maintenance, digital intelligence procurement, digital research and development and simulation platform, enhance coordinated innovation covering "production, study, development and application", and continuously improve core competitiveness.

Second, pay intensive attention to major projects to spearhead transformation and upgrade: the Group will complete the construction of the "large-scale reciprocating diaphragm pump" for the industrial pumps business and high-power engine project, and accelerate the progress of the special electrical cable project of the electrical wires and cables business to put it into production as soon as possible; focus on promoting innovation projects for new products and major technologies such as "nuclear-grade vertical high and low pressure backwash pump" for the industrial pumps business; push forward the planning, demonstration and implementation of large-scale offshore wind power blade development and recycling projects, facilitate the in-depth integration of digital economy and equipment manufacturing, and promote the construction of digital workshops; implement digital action plan projects such as the research and application of key technologies for cloud and platform transformation of key production equipment of the smart electronics business, and the application demonstration of the intelligent manufacturing workshop for the cable industry of the electrical wires and cables business.

2. *Deepen reform and stimulate endogenous power*

Taking the opportunity of the establishment of a state-owned capital investment company by the parent group, the Group will make suitable authorization on hierarchical classification for the reform of the second-level specialized companies; stably promote the reform of mixed ownership among the relatively mature subsidiaries. For key subsidiaries, the Group will take "ensure increment + promote reform + enhance management + revitalize assets" as the main path, and formulate action plans according to the situation of different subsidiaries to ensure that the goals are achieved. The Group will focus on the action plan of "controlling total volume, adjusting the structure, and improving quality" to promote the continuous deepening of human resource reforms in subsidiaries. In key subsidiaries, the Group will carry out classified research on human resource management with a problem-oriented approach and on a bottom-up basis to improve human resource management level. The Group will support the advantageous subsidiaries to set up professional management and technical teams and optimize the human resource structure. The Group will further sort out the inefficient and ineffective assets of all subsidiaries, and speed up the process of revitalizing disposal.

3. Improve the mechanism to prevent and control risks

First, carry out joint supervision and inspection for cross-departmental risk prevention and control, and strengthen the analysis, evaluation and handling of the four major risk areas (investment, operation, finance, and law). The Group will properly implement the market forecast mechanism and carry out risk identification and response; help subsidiaries formulate specific risk management and internal control measures, formulate monitoring system structure guidelines, and optimize the effectiveness of comprehensive prevention and control procedures. Second, conduct various special audits in accordance with the regulatory requirements of the listed company and the parent group on secondary specialized companies. Third, administer enterprises in accordance with the laws and operate in compliance with the regulations. The Group will respond to major commercial litigation cases and strengthen key legal reviews. Fourth, intensify assessment efforts, transfer responsibility pressure, and train and urge subsidiaries to manage and control major risks and epidemic risk assessments.

4. Strengthen governance and standardize powers and responsibilities

First, strictly abide by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and continuously improve the Company's governance capabilities and quality, timely implement the latest regulatory guidelines of the Stock Exchange, strictly perform information disclosure, and properly manage investor relations. Second, achieve institutionalization, standardization and programmability in all aspects of corporate governance. Based on the actual needs of the Group, continue to improve the governance mechanism in which the general meeting, the board meeting, and the general manager's office meeting perform their duties, assume their respective responsibilities, coordinate operations, and effectively check and balance to ensure that no governance body neglects its duties or overstretches its powers.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Operation Analysis

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

In 2020, under the influence of the COVID-19 epidemic, the Group suffered adversities of stagnant sales in domestic and foreign markets, mobility control of people and logistics, and suspension of work and production. Although the Group guided the hydroelectric generation equipment business, industrial pumps business and other business sectors to assess the risk of the COVID-19 epidemic, took active measures to respond to the epidemic, and implemented active response plans, resuming production overall in late February, some businesses in this segment deviated to varying degrees. The hydroelectric generation equipment and electrical wires and cables and materials businesses were more severely affected by the epidemic, and their operating income showed a downward trend. Despite the impacts of the COVID-19 epidemic, benefit from rising domestic investments and market, businesses such as wind power blades, industrial pumps, and gas compressors have achieved sound growth, pushing the overall operating income of the segment to approximately RMB4,719.6 million, representing an increase of approximately 16.6% over the same period of last year. However, the overall operating results was affected by the suspension of overseas EPC projects of the hydroelectric generation equipment business and the decrease in gains from assets disposal, resulting in a substantial decline as compared to the same period of last year.

In 2020, as driven by the policies, the wind power blades business seized opportunities to secure orders of over approximately RMB1,828 million, representing an increase of nearly approximately 44% as compared to the same period of last year. The industrial pumps business secured orders of approximately RMB230 million in nuclear power and other markets, representing an increase of approximately RMB200 million as compared to the same period of last year. The gas compressors business made a breakthrough in the shale gas mining market, achieving orders of approximately RMB60 million. The electrical wires and cables and materials business had made breakthroughs in cooperation with major customers, securing orders of approximately RMB100 million from Dongfang Electric, Harbin Electric and State Grid. The hydroelectric generation equipment business secured an order of approximately RMB116 million for the Lize Shipping Hub Project (利澤航運樞紐工程).

In addition, Chongqing Cummins Engine Company Limited ("Chongqing Cummins"), a joint venture of the Company, is principally engaged in the production of high-horsepower diesel engine. In 2020, Chongqing Cummins' export business was severely affected by the epidemic. To actively respond to the impact of market downturn, Chongqing Cumins implemented active marketing strategy for the business, and increased its exploration in markets such as power equipment, engineering machinery, petroleum machinery and ships. However, due to insufficient market demand, the product sales still declined considerably. Moreover, depreciation of the new plant and R&D expenses on new products increased, leading to a decline in the overall performance of the business. The high-power engine technology R&D center of Chongqing Cummins has been put into use, and the civil construction of phase two of new plant has been basically completed. The new plant is expected to be officially put into use in May 2021.

High-end smart equipment ***(smart machine tools, smart electronics, etc.)***

In 2020, the overseas screw machine tools business was affected by the large-scale outbreak of the epidemic in the United Kingdom and the strict epidemic ban imposed by the British government, resulting in a semi-stagnation state of production lines. However, within the segment, other than the screw machine tools business which suffered from insufficient market demand as it was greatly affected by the epidemic, other businesses had achieved growth. Driven by the market recovery of the year related commercial vehicles, engineering machinery, mining machinery, petroleum machinery and other industries and the increase in the market share of equipment automation and intelligent business, market orders for the intelligent machine tools business saw significantly growth, and the operating income rebounded. New products such as smart inflatable switch cabinets, smart light poles, and smart energy management and control system independently developed by the intelligent manufacturing business achieved market breakthroughs. The new electronic communications business broke the obstacle of high customer concentration and made breakthroughs in new markets and new customers. The overall operating income of this segment amounted to approximately RMB1,536.2 million, an increase of approximately 16.4% as compared to the same period of last year.

In 2020, the intelligent machine tools business secured orders of approximately RMB127 million for gear grinding, independently innovated the design and manufacturing of friction stir welding machine tools, whereas 2 sets of friction stir welding equipment were sold. The smart light pole, a new product of the intelligent manufacturing business, was launched into the market, receiving orders of approximately RMB18 million. In the electronic communications business, the expansion of new customers achieved results, with an order of approximately RMB49 million from China Mobile Internet of Things.

Industrial services ***(industrial empowerment, financing, centralized procurement, etc.)***

In 2020, with the online trial operation of the digital and intelligent procurement management platform, the adjustment to the centralized procurement model, the significant decrease in the trading business scale, and the decrease in the interests as a result of the financing services in response to the national epidemic prevention and relief measures, the operating revenue of this segment reached approximately RMB108.9 million, representing a decrease of approximately 25.1% as compared to that of the same period last year.

SALES

For the year ended 31 December 2020, subsequent to the outbreak of the COVID-19 epidemic, save as the affection on the hydroelectric generation equipment and the smart machine tool business, the remaining businesses had achieved stable growth.

For the year ended 31 December 2020, the Group's operating revenue amounted to approximately RMB6,367.0 million, an increase of approximately RMB850.2 million or approximately 15.4% as compared with approximately RMB5,516.8 million for the same period of 2019. As compared with 2019, the operating revenue of clean energy equipment segment was approximately RMB4,719.6 million (accounting for approximately 74.1% of total revenue), an increase of approximately 16.6%; operating revenue of high-end smart equipment segment was approximately RMB1,536.2 million (accounting for approximately 24.1% of total revenue), an increase of approximately 16.4%; operating revenue of industry service segment was approximately RMB108.9 million (accounting for approximately 1.8% of total revenue), a decrease of approximately 25.1%. In view of the above, it is mainly due to the increase in sales revenue of high-end smart machine tool business and clean energy wind power blades business.

The Group expects that the operating revenue for 2021 will achieve stable growth.

GROSS PROFIT

The gross profit for 2020 was approximately RMB1,314.5 million, increased by approximately RMB275.8 million or approximately 26.6%, as compared with approximately RMB1,038.7 million for the same period of 2019. The gross margin was approximately 20.6%, increased by approximately 1.8 percentage points as compared with approximately 18.8% for the same period last year, mainly due to the rebound in revenue from the wind power blades business and smart machine tool business and the improvement of the gross margin, which resulted in an increase in the gross profit.

OTHER GAINS

The other gains for 2020 were approximately RMB135.6 million, a decrease of approximately RMB91.6 million or approximately 40.3%, as compared with approximately RMB227.2million for the same period of 2019, mainly attributable to the decrease in the revenue from relocation subsidies granted by the government over the same period of last year. Details are set out in Note 4.6 to the financial statements.

GAIN ON DISPOSAL OF ASSET

The gain on disposal of asset for 2020 was approximately RMB12.3 million, a decrease of approximately RMB119.4 million or approximately 90.7%, as compared with approximately RMB131.7 million for the same period of 2019, mainly attributable to the decrease in gain on disposal of land during the period over last year. Details are set out in Note 4.8 to the financial statements.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for 2020 were approximately RMB830.7 million, a decrease of approximately RMB21.6 million or approximately 2.5%, as compared with approximately RMB852.3 million for the same period of 2019. The proportion of the selling and administrative expenses in turnover decreased to approximately 13.0% from approximately 15.4% of the same period last year. The selling expenses represented a decrease of approximately RMB22.7 million from the same period of last year, mainly caused by the significant reduction in travel and transportation expenses due to the epidemic; administrative expenses reached approximately RMB545.3 million, which kept flat with that of the same period of last year; labour costs during the period recorded an increase of approximately RMB5.2 million from the same period of last year, mainly caused by the increase in headcount as a result of the significant increase in the operating income of wind power blades and industrial pumps business. Instead, a reduction in insurance premiums was caused by the reduction and exemption of social security due to the epidemic, representing a decrease of approximately RMB17.1 million from the same period of last year, and other costs were effectively controlled within budget. Details are set out in Note 4.2 and 4.3 to the financial statements.

OPERATING PROFIT

The operating profit for 2020 was approximately RMB299.3 million, representing an increase of RMB57.8 million or 23.9% as compared with approximately RMB241.5 million for the same period of 2019, mainly due to the increase in operating revenue.

NET FINANCE COSTS

The net interest expense for 2020 was approximately RMB125.8 million, decreased by approximately RMB32.4 million or approximately 20.5%, as compared with approximately RMB158.2 million for the same period of 2019, mainly due to the interest reduction in finance costs and the decrease in interest-bearing liabilities for the Period.

INVESTMENT INCOME

Investment income for 2020 amounted to approximately RMB350.1 million, an increase of approximately RMB54.7 million as compared with approximately RMB295.4 million for the same period of 2019, mainly due to the fact that the performance of the braking system business represented an increase of approximately RMB16.9 million, the performance of the suspension system business represented an increase of approximately RMB29.9 million, and the performance of the transformer business represented an increase of approximately RMB45.7 million. In contrast, the operating performance of high-horsepower diesel engine business represented a decrease of approximately RMB36.1 million over the same period of last year due to the epidemic. Details are set out in Note 4.7 to the financial statements.

INCOME TAX EXPENSES

The income tax expenses for the year ended 31 December 2020 were approximately RMB50.7 million, an increase of approximately RMB11.7 million, or approximately 30%, as compared with approximately RMB39.0 million for the same period of 2019, mainly due to the increase in current accrued income tax.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders for the year ended 31 December 2020 amounted to approximately RMB183.0 million, representing a decrease of approximately RMB1.8 million or approximately 1.0% as compared with approximately RMB184.8 million for the same period of 2019. Earnings per share amounted to approximately RMB0.05, which remained flat with that of the same period of 2019.

DISTRIBUTABLE RESERVES

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

As at 31 December 2020, the Company's distributable reserves attributable to shareholders of the Company amounted to RMB 2,826.7 million.

FINAL DIVIDEND

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

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

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

The Board has recommended the payment of a final dividend of RMB0.01 per share (tax inclusive) for the year ended 31 December 2020 (for the year ended 31 December 2019: RMB0.01 per share (tax inclusive)), which is calculated based on the total share capital of 3,684,640,154 shares for the year ended 31 December 2020, totaling RMB36,846,401.54 (totaling RMB36,846,401.54 for the year ended 31 December 2019). Subject to the approval by Shareholders at the forthcoming Annual General Meeting to be convened on 24 June 2021, the proposed final dividend will be paid on 28 July 2021 to Shareholders whose names appear on the Register of Members of the Company on 8 July 2021 (the "Record Date").

In order to ascertain the entitlements of the Shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Wednesday, 30 June 2021 to Thursday, 8 July 2021 (both days inclusive), during which no transfer of shares will be registered. All transfer documents accompanied by share certificates of the Shareholders of the Company must be lodged with our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 29 June 2021.

WITHHOLDING OF ENTERPRISE INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS

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

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

If any resident enterprise (as defined in the EIT Law) whose name appears on the H Share Register of Members which is duly incorporated in the PRC or under the laws of a foreign country (or a territory) but with a PRC-based de facto management body does not wish to have the 10% enterprise income tax to be withheld by the Company, it should lodge all transfers with and submit a legal opinion issued by a PRC certified lawyer (with affixation of common seal of the law firm thereto) that establishes its resident enterprise status to the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 29 June 2021. Any natural person investor whose H shares are registered in the name of any such non-individual shareholders and who does not wish to have any enterprise income tax to be withheld by the Company may consider transferring the legal title of the relevant H shares into his or her own name and lodging all relevant transfer instruments accompanied by the H share certificates with the Company's H Share Registrars for registration no later than 4:30 p.m. on 29 June 2021. Shareholders are recommended to consult their tax advisors regarding tax issues in respect of the ownership and disposal of H shares in the PRC and Hong Kong and other tax effects.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements of the Shareholders to attend and vote in the Annual General Meeting, the register of members of the Company will be closed from Saturday, 19 June 2021 to Thursday, 24 June 2021 (both days inclusive), during which no transfer of shares will be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 18 June 2021.

CASH FLOW

As at 31 December 2020, the cash and bank deposits (including restricted cash) of the Group amounted to approximately RMB1,737.5 million (31 December 2019: approximately RMB2,094.6 million), representing a decrease of approximately RMB357.1 million or approximately 17.0%, mainly due to the repayment of the bank borrowings which are due and settlement of the notes which are due.

During the Period, the Group had a net cash inflow from operating activities of approximately RMB171.5 million (for the year ended 31 December 2019: net cash inflow of approximately RMB120.2 million), a net cash inflow from investing activities of approximately RMB217.2 million (for the year ended 31 December 2019: a net cash inflow of approximately RMB26.5 million), and a net cash inflow from financing activities of approximately RMB-577.5 million (for the year ended 31 December 2019: a net cash inflow of approximately RMB-179.0 million). Directors believe that the Group is financially sound and has sufficient resources to meet its operating capital needs and fund any predictable capital expenditure.

ASSETS AND LIABILITIES

As at 31 December 2020, the total assets of the Group amounted to approximately RMB16,624.2 million, representing an increase of approximately RMB106.4 million as compared with approximately RMB16,517.8 million as at 31 December 2019. Total current assets amounted to approximately RMB10,738.3 million, representing an increase of approximately RMB387.6 million as compared with approximately RMB10,350.7 million as at 31 December 2019, accounting for approximately 64.6% of total assets. However, total non-current assets amounted to approximately RMB5,885.9 million, representing a decrease of approximately RMB281.2 million as compared with approximately RMB6,167.1 million as at 31 December 2019, accounting for approximately 35.4% of total assets.

As at 31 December 2020, total liabilities of the Group amounted to approximately RMB9,148.5 million, representing a decrease of approximately RMB80.2 million as compared with approximately RMB9,228.7 million as at 31 December 2019. Total current liabilities were approximately RMB7,094.0 million, representing an increase of approximately RMB79.2 million as compared with approximately RMB7,014.8 million as at 31 December 2019, accounting for approximately 77.5% of total liabilities. However, the total non-current liabilities were approximately RMB2,054.5 million, representing a decrease of approximately RMB159.5 million as compared with approximately RMB2,214.0 million as at 31 December 2019, and accounting for approximately 22.5% of total liabilities.

As at 31 December 2020, the net current assets of the Group were approximately RMB3,644.4 million, representing an increase of approximately RMB308.5 million as compared with approximately RMB3,335.9 million as at 31 December 2019.

CURRENT RATIO

As at 31 December 2020, the current ratio (the ratio of current assets to current liabilities) of the Group was 1.51:1 (31 December 2019: 1.48:1).

GEARING RATIO

As at 31 December 2020, by dividing the borrowing by the total capital, the gearing ratio of the Group was 38.9% (31 December 2019: 41.2%).

INDEBTEDNESS

As at 31 December 2020, the Group had an aggregate bank and other borrowings of approximately RMB2,905.7 million, representing a decrease of approximately RMB99.8 million as compared with approximately RMB3,005.5 million as at 31 December 2019.

Borrowings repayable by the Group within one year were approximately RMB1,305.1 million, representing a decrease of approximately RMB57.8 million as compared with approximately RMB1,362.9 million as at 31 December 2019. Borrowings repayable by the Group after one year were approximately RMB1,600.6 million, representing a decrease of approximately RMB42.0 million as compared with approximately RMB1,642.6 million as at 31 December 2019.

SECURED ASSETS

As at 31 December 2020, approximately RMB404.9 million of the Group was deposited with the banks with pledge or restriction for use (31 December 2019: approximately RMB557.1 million). In addition, certain bank borrowings of the Group were secured by certain land use rights, properties, plant and equipment and investment properties of the Group, and other assets of the Group, which had a net book value of approximately RMB781.6 million as at 31 December 2020 (31 December 2019: approximately RMB1,060.3 million).

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no significant contingent liabilities.

SIGNIFICANT EVENTS

Events in the Period

On 26 August 2020, the Company held the extraordinary general meeting to consider and approve the following matters:

(1) Change of an Executive Director

The Board of the Company received a resignation letter from Mr. Wang Yuxiang, the executive director and chairman, on 7 July 2020. Due to work arrangements, Mr. Wang Yuxiang has applied to resign from the positions as the chairman of the fifth session of the Board, an executive director, chairman of the strategy committee and chairman of the nomination committee of the Company. As the resignation of Mr. Wang Yuxiang would neither result in the number of members of the fifth session of the Board of the Company falling below the required minimum quorum, nor affect the normal operation of the Board of the Company, the resignation of Mr. Wang Yuxiang would take immediate effect from the delivery of his resignation letter to the Board.

Mr. Wang Yuxiang has confirmed that he has no disagreement with the Board or the Board of Supervisors of the Company and there are no other matters that need to be brought to the attention of the shareholders and creditors of the Company. The Company would like to express its sincere gratitude to Mr. Wang Yuxiang for his valuable contributions to the Company during his tenure.

According to the provisions of Article 105 of the Articles of the Company, if the chairman is unable or fails to perform his/her duties, a director jointly elected by more than half members of the Board shall perform the duties of the chairman. A Board meeting was convened by the Company on 7 July 2020 and Ms. Chen Ping was jointly elected by more than half members of the Board to perform the duties of the chairman until the election of a new chairman of the Company. On 7 July 2020, the Company received a nomination of a new executive director from Chongqing Machinery and Electronic Holding (Group) Co., Ltd., the controlling shareholder. Chongqing Machinery and Electronic Holding (Group) Co., Ltd. nominated Mr. Zhang Fulun as the candidate of executive director of the fifth session of the Board of the Company to replace Mr. Wang Yuxiang. The Company held an extraordinary general meeting on 26 August 2020 to elect Mr. Zhang Fulun as an executive director of the fifth session of the Board of the Company.

(2) Appointment of Director and Election of Chairman

Reference is made to the circular of the Company dated 10 July 2020 in relation to, among other things, the change of an executive director. All resolutions set out in the Notice of the EGM of the Company dated 10 July 2020 were duly passed by the shareholders of the Company by way of poll, including the resolution to consider and approve the appointment of Mr. Zhang Fulun as an executive director of the Company. The fifth session of the Board of the Company is pleased to announce that the Board has convened the second meeting for 2020 of the fifth session of the Board on 26 August 2020, wherein the following resolution was considered and passed: to elect Mr. Zhang Fulun, executive director of the Company, as the chairman of the fifth session of the Board of the Company, chairman of the fifth session of strategy committee and chairman of the fifth session of nomination committee. His term of office will take effect from 26 August 2020 until the expiration of the fifth session of the Board.

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

SUBSEQUENT EVENTS

The Group had no significant subsequent events.

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

CAPITAL EXPENDITURE

In 2020, the total capital expenditure of the Group was approximately RMB58.8 million, which was principally used for environmental relocation, plant expansion, improvement of production technology and equipment upgrade (2019: approximately RMB231.5 million).

CAPITAL COMMITMENTS

As at 31 December 2020, the Group had capital commitments of approximately RMB94.9 million (31 December 2019: approximately RMB64.8 million) in respect of fixed assets and intangible assets.

RISK OF FOREIGN EXCHANGE

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

As at 31 December 2020, the bank deposits of the Group included HK dollars valued at approximately RMB0.07 million, US dollars valued at approximately RMB27.1 million and GBP valued at approximately RMB39.2 million (as at 31 December 2019: HK dollars valued at approximately RMB1.5 million, US dollars valued at approximately RMB20.8 million, GBP valued at approximately RMB64.8 million, and CHF valued at approximately RMB0.8 million). Save as the aforesaid, the Group was not exposed to any significant risk of foreign exchange.

EMPLOYEES

As at 31 December 2020, the Group had a total of 8,233 employees (31 December 2019: 8,699 employees). The Group will continue to upgrade its technical talent base, foster and recruit technical and management personnel possessed with extensive professional experiences, optimise the distribution system that links with the remunerations and performance reviews of the management and employees, improve training on safety and strengthen epidemic prevention measures so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

OTHER CORPORATE INFORMATION

Competition and Conflict of Interests

For the year ended 31 December 2020, the non-competition agreement entered into between Chongqing Machinery and Electronics Holding (Group) Co., Ltd., the Parent Company, and the Company remained effective. Please refer to the Prospectus for details.

CONNECTED TRANSACTIONS

During the Period, the Company had no connected transactions.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2020, the summary of the connected party transactions entered into by the Group is set out in the notes to the consolidated financial statements, where a majority of the transactions constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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

Master Sales Agreement

On 1 April 2019, a master sales agreement (the "Master Sales Agreement") was renewed and entered between the Company and Chongqing Machinery and Electronics Holding (Group) Co., Ltd. (hereinafter refer to as the "Parent Company"). Pursuant to the Master Sales Agreement, the Company has agreed to sell certain products such as control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables (the "Products") to the Parent Company and its associates.

Additionally, in case where there are material fluctuations in the prices of any or all of the products, the parties shall re-negotiate the terms of the Master Sales Agreement in good faith by way of entering into a supplemental agreement or a new master sales agreement. The Master Sales Agreement is valid for a period of three years from the date of the agreement and can be renewed by the Company for a successive term of three years by giving notice at least three months prior to the expiry of the initial term. Accordingly, the approved annual caps of sales for the year ended 31 December 2020 (as approved at the Annual General Meeting dated 26 June 2019) was set at RMB344.7 million.

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

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

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

(iii) If none of the above is applicable, the cost plus a percentage mark-up (tax-inclusive) which is not less than 10% (i.e. price = cost x (1 + percentage mark-up)), whereas the 10% mark-up is determined based on the average gross margin of the Group in the past three years, except that the percentage mark-up for raw materials procured by Shengpu and sold to the Parent Group will be 1%, being the handling fee of the Group.

For the year ended 31 December 2020, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB221.0 million (for the year ended 31 December 2019: approximately RMB230.0 million).

Master Supplies Agreement

On 1 April 2019, a master supplies agreement (the "Master Supplies Agreement") was renewed and entered between the Company and the Parent Company. Pursuant to the Master Supplies Agreement, the Parent Company and its associates have agreed to supply the Company with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper (the "Supplies").

Additionally, in case where there are material fluctuations in the prices of any or all of the products, the parties shall re-negotiate the terms of the Master Supplies Agreement in good faith by way of entering into a supplemental agreement or a new master supplies agreement. The Master Supplies Agreement is valid for a period of three years from the date of the agreement and can be renewed by the Company for a successive term of three years by giving notice at least three months prior to the expiry of the initial term. Accordingly, the approved annual caps of supplies for the year ended 31 December 2020 (as approved at the Board meeting dated 20 March 2019) was set at RMB100.0 million.

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

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

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

(iii) If none of the above is not applicable, cost plus a percentage mark-up (tax-inclusive), which shall not exceed 10% (i.e. price = cost x (1 + percentage mark-up)).

For the year ended 31 December 2020, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB33.9 million (for the year ended 31 December 2019: approximately RMB48.1 million).

Master Leasing Agreement

On 1 April 2019, a master leasing agreement (the "Master Leasing Agreement") was entered into between the Company and the Parent Company for the lease of land and buildings by the Parent Company and its associates to the Company for use as offices, production facilities, workshops and staff quarters.

The Parent Group leases land and buildings to the Group as the Group's offices, production facilities, workshops and staff quarters. Accordingly, the approved annual cap of the lease for the year ended 31 December 2020 (as approved at the Board meeting dated 20 March 2019) was set at RMB45 million.

For the year ended 31 December 2020, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB25.7 million (for the year ended 31 December 2019: approximately RMB27.9 million).

FINANCIAL SERVICES FRAMEWORK AGREEMENT

(I) Parent Group Financial Services Framework Agreement

The Company's subsidiary Chongqing Electrical Holdings Group Finance Company Limited (the "Finance Company") and the Parent Company entered into the Financial Service Framework Agreement on 1 April 2019 (the "Parent Group Financial Services Framework Agreement"), under which, (i) the approved proposed annual cap for loan services for the year ended 31 December 2020 (as approved at the Annual General Meeting held on 26 June 2019) was RMB2,350 million; (ii) the approved proposed annual cap for guarantee services for the year ended 31 December 2020 (as approved at the Board meeting held on 20 March 2019) was RMB100 million (including corresponding handling fees); (iii) the approved proposed annual cap for other financial services for the year ended 31 December 2020 (as approved at the Board meeting held on 20 March 2019) was RMB27.5 million.

Loan services

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

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

Guarantee services

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

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

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

For the year ended 31 December 2020, pursuant to the Financial Services Framework Agreement, the daily maximum limit amount in respect of the loan services provided by the Finance Company to the Parent Group was approximately RMB1,044.05 million, the transaction amount in respect of guarantee services was approximately RMB0 million and the transaction amount of other financial services was approximately RMB0.019 million (for the year ended 31 December 2019: the daily maximum limit amount in respect of loan services was approximately RMB1,206.55 million, the transaction amount in respect of guarantee services was approximately RMB0 million and the transaction amount of other financial services was approximately RMB0.18 million).

(II) Group Financial Services Framework Agreement

The Finance Company entered into a financial services framework agreement (the "Group Financial Services Framework Agreement") with the Company on 1 April 2019, under which, (i) the approved proposed annual cap for the transactions in respect of the deposit services for the year ended 31 December 2020 (as approved at the Annual General Meeting held on 26 June 2019) was RMB3,155 million; (ii) the approved proposed annual cap for the transactions in respect of other financial services for the year ended 31 December 2020 (as approved at the Board meeting held on 20 March 2019) was RMB29 million.

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

Deposit services

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

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

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

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

For the year ended 31 December 2020, pursuant to the Financial Services Framework Agreement, the daily maximum limit amount in respect of deposit services provided by the Finance Company to the Group was approximately RMB1,664.49 million and the other financial services was approximately RMB0.5 million (for the year ended 31 December 2019: the daily maximum limit amount in respect of deposit services was approximately RMB1,719.09 million and other financial services was approximately RMB0.66 million).

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

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

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

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

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

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

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

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

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

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

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

For the purpose of continuing connected transactions, the Company has complied with the disclosure requirements of the Listing Rules from time to time, and the value and the transaction terms of the transactions for the year ended 31 December 2020 have been determined in accordance with the pricing policies and guidelines set out in the Stock Exchange's Guidance Letter HKEx-GL73-14.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2020 in compliance with the code provisions under the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

AUDIT AND RISK MANAGEMENT COMMITTEE

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

REMUNERATION COMMITTEE

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

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

NOMINATION COMMITTEE

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

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

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

STRATEGIC COMMITTEE

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

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises five supervisors, namely Mr. Sun Wenguang, Ms. Wu Yi, Mr. Wang Haibing, Mr. Xia Hua and Mr. Li Fangzhong. Mr. Sun Wenguang acts as the Chairman of the Supervisory Committee. To safeguard the interests of the Shareholders, the Company's Supervisory Committee is responsible for the supervision of the Company's financial activities and duty fulfillment of the Board, its members and senior management. In 2020, the Supervisory Committee has reviewed the legality of the Company's financial situation and business. Through convening the meetings of the Supervisory Committee and attending the Board meetings, general meetings and other important meetings and establishing archives, etc., the Supervisory Committee conducted the due diligence on senior management personnel. The Supervisory Committee carefully and thoroughly performed their duties according to the principle of prudence.

SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted procedures governing directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Individual confirmation has been obtained from all Directors to confirm compliance with the Model Code during the year ended 31 December 2020.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2020, none of the Group and its subsidiaries purchased, sold or redeemed any listed securities of the Company.

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

The annual results announcement has been published on the Company's website (http://www.chinacqme.com) and the Stock Exchange's website. The annual report will also be available at the Company's and the Stock Exchange's websites on or around 15 April 2021 and will be dispatched to Shareholders of the Company thereafter according to the means they choose to receive communications.

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

Chongqing, the PRC
25 March 2021

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