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 2017

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 0.4% to approximately RMB9,292,600,000
- Gross profit decreased by approximately 2.5% to approximately RMB1,007,673,000
- Profit attributable to shareholders decreased by approximately 26.3% to approximately RMB325,047,000
- Earnings per share was approximately RMB0.09

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 2017 and the comparative figures for the corresponding period of 2016 as follows:

* *For identification purposes only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000 (Restated) Note 2
Revenue	3	**9,292,600**	9,255,032
Cost of sales	6	**(8,284,927)**	(8,221,557)
Gross profit		**1,007,673**	1,033,475
Distribution costs	6	**(248,724)**	(244,613)
Administrative expenses	6	**(963,696)**	(816,271)
Other gains, net	4	**346,592**	226,634
Other income	5	**70,855**	79,005
Operating profit		**212,700**	278,230
Finance income		**17,729**	19,642
Finance costs		**(120,038)**	(119,646)
Finance costs, net	7	**(102,309)**	(100,004)
Share of post-tax profit of a joint venture		**264,283**	251,019
Share of post-tax profits of associates		**102,199**	100,609
Profit before income tax		**476,873**	529,854
Income tax expense	8	**(102,454)**	(27,182)
Profit for the year		**374,419**	502,672

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000 (Restated) Note 2
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
– Remeasurements of retirement and termination benefit obligations		**7,740**	2,016
– Income tax relating to remeasurements of retirement and termination benefit obligations		**(604)**	(243)
Items that may be reclassified to profit or loss			
– Fair value gains/(losses) on available-for-sale financial assets		**2,773**	(495)
– Income tax relating to available-for-sale financial assets		**(693)**	74
– Fair value gains on disposal of available-for-sale financial assets and induded in other gains, net of nex		**(3,172)**	–
– Net investment hedge		**4,635**	(13,351)
– Currency translation differences		**1,825**	17,517
– Share of other comprehensive income of investments accounted for using the equity method		**1,295**	529
Other comprehensive income for the year, net of tax		**13,799**	6,047
Total comprehensive income for the year		**388,218**	508,719
Profit attributable to:			
Owners of the Company		**325,047**	440,834
Non-controlling interests		**49,372**	61,838
		374,419	502,672
Total comprehensive income attributable to:			
Owners of the Company		**338,846**	446,881
Non-controlling interests		**49,372**	61,838
		388,218	508,719
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
– Basic and diluted	9	**0.09**	0.12

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December **2017** *RMB'000*	2016 *RMB'000* (Restated) *Note 2*
ASSETS			
Non-current assets			
Property, plant and equipment		**3,523,076**	3,985,047
Investment properties		**90,137**	27,995
Lease prepayments		**442,338**	531,580
Intangible assets		**308,050**	307,926
Investments in associates		**698,685**	709,102
Investment in a joint venture		**348,023**	337,236
Trade and other receivables	*11*	**129,564**	86,467
Deferred income tax assets		**68,506**	90,709
Available-for-sale financial assets		**–**	7,267
Other non-current assets		**43,664**	54,591
		5,652,043	6,137,920
Current assets			
Inventories		**1,399,591**	1,445,756
Trade and other receivables	*11*	**6,431,669**	5,197,417
Dividends receivable		**260,528**	245,557
Amounts due from customers for contract work		**641,365**	589,744
Available-for-sale financial assets		**152,773**	150,000
Cash and cash equivalents		**1,174,540**	1,392,941
Restricted cash		**484,155**	407,631
		10,544,621	9,429,046
Total assets		**16,196,664**	15,566,966
EQUITY			
Equity attributable to owners of the Company			
Share capital		**3,684,640**	3,684,640
Retained earnings		**3,616,719**	3,441,480
Other reserves		**(676,094)**	(548,506)
		6,625,265	6,577,614
Non-controlling interests		**400,263**	580,596
Total equity		**7,025,528**	7,158,210

	Note	As at 31 December 2017 RMB'000	2016 RMB'000 (Restated) Note 2
LIABILITIES			
Non-current liabilities			
Borrowings		**1,512,155**	1,553,715
Deferred income		**490,844**	502,356
Deferred income tax liabilities		**58,346**	70,761
Long-term employee benefit obligations		**15,968**	145,987
		2,077,313	2,272,819
Current liabilities			
Trade and other payables	*12*	**4,928,394**	4,663,711
Dividends payable		**30,077**	27,052
Amounts due to customers for contract work		**18,082**	13,018
Current income tax liabilities		**124,286**	35,728
Borrowings		**1,925,222**	1,307,604
Deferred income		**48,985**	42,307
Current portion of long-term employee benefit obligations		**2,189**	30,533
Provision for warranty		**16,588**	15,984
		7,093,823	6,135,937
Total liabilities		**9,171,136**	8,408,756
Total equity and liabilities		**16,196,664**	15,566,966

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Share capital *RMB'000*	Retained earnings *RMB'000*	Other reserves *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2016 (As previously reported)	3,684,640	3,100,167	(678,400)	6,106,407	448,395	6,554,802
Business combination under common control	–	10,565	66,228	76,793	35,737	112,530
Balance at 1 January 2016 (As restated)	3,684,640	3,110,732	(612,172)	6,183,200	484,132	6,667,332
Comprehensive income						
Profit for the year	–	440,834	–	440,834	61,838	502,672
Changes in fair value of available-for-sale financial assets, net of tax	–	–	(421)	(421)	–	(421)
Share of other comprehensive income of investments accounted for using the equity method	–	–	529	529	–	529
Remeasurements of retirement and termination benefit obligations, net of tax	–	–	1,773	1,773	–	1,773
Net investment hedge	–	–	(13,351)	(13,351)	–	(13,351)
Currency translation differences	–	–	17,517	17,517	–	17,517
Total other comprehensive income, net of tax	–	–	6,047	6,047	–	6,047
Total comprehensive income	–	440,834	6,047	446,881	61,838	508,719
Transactions with owners in their capacity as owners						
Dividends relating to 2015	–	(92,116)	–	(92,116)	–	(92,116)
Transfer to reserves	–	(17,970)	17,970	–	–	–
Dividends to non-controlling interests	–	–	–	–	(11,572)	(11,572)
Capital contribution from non-controlling interests	–	–	–	–	46,400	46,400
Contribution from CQMEHG	–	–	40,000	40,000	–	40,000
Disposal of subsidiaries	–	–	–	–	(553)	(553)
Others	–	–	(351)	(351)	351	–
Total transactions with owners in their capacity as owners	–	(110,086)	57,619	(52,467)	34,626	(17,841)
Balance at 31 December 2016 (As restated)	3,684,640	3,441,480	(548,506)	6,577,614	580,596	7,158,210

	Attributable to owners of the Company					
	Share capital *RMB'000*	Retained earnings *RMB'000*	Other reserves *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2017 (As previously reported)	3,684,640	3,433,583	(654,383)	6,463,840	553,367	7,017,207
Business combination under common control	–	7,897	105,877	113,774	27,229	141,003
Balance at 1 January 2017 (As restated)	3,684,640	3,441,480	(548,506)	6,577,614	580,596	7,158,210
Comprehensive income						
Profit for the year	–	325,047	–	325,047	49,372	374,419
Changes in fair value of available-for-sale financial assets, net of tax	–	–	2,080	2,080	–	2,080
Disposal of available-for-sale financial assets, net of tax	–	–	(3,172)	(3,172)	–	(3,172)
Share of other comprehensive income of investments accounted for using the equity method	–	–	1,295	1,295	–	1,295
Remeasurements of retirement and termination benefit obligations, net of tax	–	–	7,136	7,136	–	7,136
Net investment hedge	–	–	4,635	4,635	–	4,635
Currency translation differences	–	–	1,825	1,825	–	1,825
Total other comprehensive income, net of tax	–	–	13,799	13,799	–	13,799
Total comprehensive income	–	325,047	13,799	338,846	49,372	388,218
Transactions with owners in their capacity as owners						
Dividends relating to 2016	–	(128,963)	–	(128,963)	–	(128,963)
Transfer to reserves	–	(20,845)	20,845	–	–	–
Dividends to non-controlling interests	–	–	–	–	(103,958)	(103,958)
Capital contribution from non-controlling interests	–	–	–	–	5,360	5,360
Disposal of subsidiaries	–	–	(4,163)	(4,163)	–	(4,163)
Business combination under common control	–	–	(147,109)	(147,109)	–	(147,109)
Acquisition of additional interests of subsidiaries	–	–	(10,960)	(10,960)	(131,107)	(142,067)
Total transactions with owners in their capacity as owners	–	(149,808)	(141,387)	(291,195)	(229,705)	(520,900)
Balance at 31 December 2017	3,684,640	3,616,719	(676,094)	6,625,265	400,263	7,025,528

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
		Note 2
Cash flows from operating activities		
Cash used in operations	**(749,495)**	(17,401)
Interest paid	**(146,802)**	(167,460)
Income tax paid	**(48,355)**	(77,458)
Net cash used in operating activities	**(944,652)**	(262,319)
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	**(147,109)**	(38,496)
Purchase of available-for-sale financial assets	**(150,000)**	(150,000)
Proceeds from disposal of available-for-sale financial assets	**156,055**	–
Government grants received relating to assets	**51,911**	46,364
Purchase of property, plant and equipment, and investment properties	**(468,558)**	(555,410)
Purchases of intangible assets	**(8,034)**	(7,635)
Investments in associates	**(6,058)**	(23,512)
Net loans granted to a joint venture	**–**	(42,000)
Proceeds from disposal of property, plant and equipment, lease prepayments and intangible assets	**295,744**	228,908
Interest received	**15,735**	16,967
Dividends received	**337,004**	426,217
Increase in lease prepayments	**–**	(4,190)
Proceeds from disposal of associates	**63,473**	–
Net cash inflow on disposal of subsidiaries	**318,760**	59,740
Net loans proceeds from associates	**–**	50,068
Repayment loans from related parties	**–**	18,000
Net cash generated from investing activities	**458,923**	25,021
Cash flows from financing activities		
Proceeds from borrowings	**2,083,527**	2,293,882
Repayments of borrowings	**(1,553,347)**	(2,162,792)
Finance lease payments	**(36,607)**	(34,020)
Proceeds from sale and leaseback transactions	**139,046**	4,249
Contribution from parent company	**–**	40,000
Contribution from minority shareholders	**5,360**	46,400
Transaction with non-controlling interests	**(142,067)**	–
Dividends paid to Company's shareholders	**(128,963)**	(92,116)
Dividends paid to non-controlling interests	**(100,933)**	(10,810)
Net cash generated from financing activities	**266,016**	84,793
Net decrease in cash and cash equivalents	**(219,713)**	(152,505)
Cash and cash equivalents at beginning of the year	**1,392,941**	1,549,160
Exchange gains/(losses) on cash and cash equivalents	**1,312**	(3,714)
Cash and cash equivalents at end of the year	**1,174,540**	1,392,941

NOTES:

1. GENERAL INFORMATION

Chongqing Machinery & Electric Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in manufacturing and sales of vehicle parts and components, power equipment, general machinery and machinery tools. The Group has operations mainly in the People's Republic of China (the "PRC" or "China").

The Company was established in the PRC on 27 July 2007 as a joint stock company with limited liability as part of the reorganisation of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. ("CQMEHG") in preparation for a listing of the Company's H shares on the Main Board of The Stock Exchange of Hong Kong Limited. CQMEHG is a state-owned enterprise established in the PRC and has been directly under the administration and control of the State-owned Assets Supervision and Administration Commission of Chongqing Municipal Government. The address of the Company's registered office is No. 60, Huangshan Road Central, Northern New District, Chongqing 401123, the PRC.

The H shares of the Company began to list on the Main Board of The Stock Exchange of Hong Kong Limited on 13 June 2008.

These consolidated financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors of the Company on 29 March 2018.

2. BASIS OF PREPARATION

Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd. ("CMEIM") and Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd. ("CMETRC") were established by CQMEHG in August 2015 and November 2011, respectively. In November 2017, the Group acquired the entire equity interests in CMEIM and CMETRC for a cash consideration of approximately RMB132,720,000 and RMB14,389,000, respectively (the "Acquisition").

CMEIM, CMETRC and the Group were ultimately controlled by CQMEHG before and after the Acquisition. Accordingly, the aforesaid transactions were regarded as business combinations under common control and applied to Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These consolidated financial statements incorporated the results of CMEIM and CMETRC as if CMEIM, CMETRC and the Group had always been combined. The financial statements for the year ended 31 December 2016 have been restated to reflect this common control transaction accordingly. Details of the adjustments for the common control combinations on the Group's financial position as at 31 December 2017 and 2016 and the Group's results for the years then ended are disclosed in the annual report.

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

The consolidated financial statements have been prepared on a historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and available-for-sale financial assets, which are carried at fair value, and certain employee benefits which are valued annually by independent qualified actuaries.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the annual report.

2.1 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

Standards	Subject of amendment
Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKAS 12	Disclosure of Interest in Other Entities

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

2.2 New standards, amendments to existing standards and interpretations not yet adopted

Certain new accounting standards, amendments to existing standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group:

Standards	Subject of amendment	Effective for annual periods beginning on or after
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
HKFRS 9 *(Note (i))*	Financial Instruments	1 January 2018
HKFRS 15 *(Note (ii))*	Revenue from Contracts with Customers	1 January 2018
HK(IFRIC) – Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to HKAS 40	Transfers of Investment Property	1 January 2018
Amendments to HKFRS 1 and HKAS 28	Annual Improvements 2014-2016 Cycle	1 January 2018
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16 *(Note (iii))*	Leases	1 January 2019
HK(IFRIC) – Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group's assessment of the impact of these new standards, amendments to existing standards and interpretations is set out below.

(i) HKFRS 9, "Financial Instruments"

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018: The financial assets held by the Group include equity instruments that are currently classified as available-for-sale financial assets for which a fair value through other comprehensive income ("FVOCI") election is available and hence there will be no change to the accounting for these assets.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group has confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect significant increase or decrease in the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

(ii) HKFRS 15, "Revenue from Contracts with Customers"

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has assessed the effects of applying the new standard on the Group's financial statements and does not expect a significant impact on the recognition of revenue.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

(iii) HKFRS 16, "Leases"

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB89,007,000. The Group estimates those related to payments for short-term and low value lease which will be recognised on straight-line basis as an expense in profit or loss are insignificant.

The Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by the Group

The adoption of this standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the operating management committee that are used to make strategic decisions.

The operating management committee considers the business from a product perspective. From a product perspective, management assesses the performance of engines, gear boxes, hydroelectric generation equipment, electrical wires and cables, general machinery, financial services, machinery tools, high-voltage transformers and materials sales. The results of other products operations are included in the "other segments" column.

The operating management committee assesses the performance of the operating segments based on a measure of operating profit.

Sales between segments are carried out in the ordinary course of business and in accordance with the term of the underlying agreements. The revenue from external parties reported to the operating management committee is measured in a manner consistent with that in the statement of comprehensive income.

The segment information for the year ended 31 December 2017 is as follows:

	Engines *RMB'000*	Gear boxes *RMB'000*	Hydroelectric generation equipment *RMB'000*	Electrical wires and cable *RMB'000*	General machinery *RMB'000*	Financial services *RMB'000*	Machinery tools *RMB'000*	High-voltage transformers *RMB'000*	Materials sales *RMB'000*	Other segments *RMB'000*	Total *RMB'000*
Total segment revenue	–	235,566	446,545	1,456,101	1,775,910	112,357	878,618	–	4,363,058	1,203,336	10,471,491
Inter-segment revenue	–	–	–	(5,728)	–	(45,047)	(12,624)	–	(1,046,017)	(69,475)	(1,178,891)
Revenue from external customers	–	235,566	446,545	1,450,373	1,775,910	67,310	865,994	–	3,317,041	1,133,861	9,292,600
Operating (loss)/profit	–	(129,229)	119,889	96,702	67,230	33,408	(12,646)	(427)	872	36,901	212,700
Finance income	–	124	528	291	2,195	–	2,267	10	144	12,170	17,729
Finance costs	–	(140)	(81)	(5,909)	(11,986)	–	(18,989)	–	(1,782)	(81,151)	(120,038)
Share of post-tax profits of associates and a joint venture	264,283	956	–	–	1,698	(13,944)	(1,777)	79,591	–	35,675	366,482
Profit before income tax											476,873
Income tax expense	–	558	(60,543)	(8,966)	255	(9,338)	(15,248)	–	–	(9,172)	(102,454)
Profit for the year											374,419
Other items											
Depreciation on property, plant and equipment and investment properties	–	31,346	14,020	23,356	70,639	96	70,670	41	16	40,979	251,163
Amortisation of lease prepayments and intangible assets	–	2,355	2,060	741	7,382	287	13,083	–	–	2,318	28,226
Write down of inventories	–	35,013	–	705	–	–	836	–	–	6,312	42,866
Provision for/(reversal of) impairment of trade and other receivables	–	2,366	36,063	15,839	633	10,416	(4,240)	–	905	8,681	70,663
Segment assets	348,023	–	2,240,654	712,962	3,259,389	2,060,885	3,204,001	315,442	439,503	3,615,805	16,196,664
Segment assets include:											
Investments in associates and a joint venture	348,023	–	–	–	15,159	–	50,809	298,625	–	334,092	1,046,708
Additions to non-current assets (other than financial instruments and deferred income tax assets)	–	27,818	244,090	3,696	212,102	223	89,081	–	5	78,096	655,111

The segment information for the year ended 31 December 2016 is as follows:

	Engines *RMB'000*	Gear boxes *RMB'000*	Hydroelectric generation equipment *RMB'000*	Electrical wires and cables *RMB'000*	General machinery *RMB'000*	Financial services *RMB'000*	Machinery tools *RMB'000*	High-voltage transformers *RMB'000*	Materials sales *RMB'000*	Other segments *RMB'000* *(Restated)*	Total *RMB'000* *(Restated)*
Total segment revenue	–	386,242	405,852	1,227,146	1,798,492	98,930	693,403	–	4,261,878	989,704	9,861,647
Inter-segment revenue	–	–	(11)	(4,015)	–	(43,033)	(14,305)	–	(545,251)	–	(606,615)
Revenue from external customers	–	386,242	405,841	1,223,131	1,798,492	55,897	679,098	–	3,716,627	989,704	9,255,032
Operating (loss)/profit	–	(72,894)	3,000	211,137	78,029	21,593	(60,882)	(88)	179	98,156	278,230
Finance income	–	171	1,048	453	988	–	5,698	20	139	11,125	19,642
Finance costs	–	(365)	(631)	(14,589)	(8,787)	–	(42,926)	–	(1,395)	(50,953)	(119,646)
Share of post-tax profits of associates and a joint venture	251,019	(1,457)	–	–	2,195	(7,399)	–	74,466	–	32,804	351,628
Profit before income tax											529,854
Income tax expense	–	8,981	(93)	(32,151)	(3,192)	(5,420)	10,145	–	–	(5,452)	(27,182)
Profit for the year											502,672
Other items											
Depreciation on property, plant and equipment and investment properties	–	20,924	8,607	9,414	70,981	197	66,763	7	50	41,158	218,101
Amortisation of lease prepayments and intangible assets	–	2,569	2,249	735	6,796	270	12,165	–	–	2,870	27,654
Write down/(write back) of inventories	–	10,329	–	3,664	(119)	–	19,393	–	–	6,302	39,569
Provision for/(reversal of) impairment of trade and other receivables	–	999	1,332	946	1,905	11,335	(6,925)	–	(2,182)	38,366	45,776
Provision for impairment on property, plant and equipment	–	–	–	3,927	6,071	–	–	–	–	–	9,998
Segment assets	337,236	1,284,691	1,758,634	672,757	2,551,649	2,525,561	3,153,304	318,514	104,174	2,860,446	15,566,966
Segment assets include:											
Investments in associates and a joint venture	337,236	2,720	9,548	–	22,331	85,935	19,097	306,813	–	262,658	1,046,338
Additions to non-current assets (other than financial instruments and deferred income tax assets)	–	59,754	156,870	9,034	199,425	164	142,574	–	–	70,431	638,252

Except for Holroyd Precision Limited, Precision Components Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited, PTG Deutschland GmbH ("PTG six entities"), Precision Technologies Group (US) Ltd., Precision Technologies Group Inc., Holroyd Precision Rotors Inc., Precision Technologies Group Investment Development Company Limited ("PTGHK") and Precision Technologies Group (PTG) Limited, the other entities of the Group are domiciled in the PRC. The Group's total revenue from external customers located in the PRC for the year ended 31 December 2017 is approximately RMB9,076,755,000 (2016: RMB8,941,161,000), and the Group's total revenue from external customers located in other countries is approximately RMB215,845,000 (2016: RMB313,871,000).

As at 31 December 2017, the total of non-current assets other than financial instruments and deferred income tax assets located in the PRC was RMB5,325,856,000 (2016: RMB5,772,372,000), and the total of non-current assets located in other countries was RMB257,681,000 (2016: RMB267,572,000).

4. OTHER GAINS, NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Gains on disposal of lease prepayments, investment properties and property, plant and equipment	**225,066**	141,715
Gains on disposal of available-for-sale financial assets	**4,960**	–
Gains on disposal of associates	**5,024**	–
Gains on disposal of subsidiaries	**100,732**	59,831
Changes in fair value of equity interest owned before business combination	**–**	19,185
Others	**10,810**	5,903
	346,592	226,634

5. OTHER INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Government grants in relation to		
– Tax refunds *(a)*	**1,376**	18,031
– Further development of manufacturing technology *(b)*	**33,250**	27,204
– Relocation for environmental protection *(b)*	**14,679**	16,994
– Others	**21,550**	16,776
	70,855	79,005

(a) These tax refunds were granted by local tax authorities in relation to the sales of the Group's certain products.

(b) During the years ended 31 December 2017 and 2016, the Group received certain grants from local government for compensating of the Group's expenditures on further development of manufacturing technology and relocation for environmental protection.

6. EXPENSES BY NATURE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Depreciation on property, plant and equipment	**248,176**	215,392
Depreciation on investment properties	**2,987**	2,709
Amortisation of lease prepayments	**12,154**	13,304
Amortisation of intangible assets	**16,072**	14,350
Amortisation of deferred income on sell and leaseback transactions	**(120)**	(215)
Employee benefit expenses	**923,435**	872,504
Changes in inventories of finished goods and work in progress	**53,539**	430,027
Raw materials and consumables used	**7,531,516**	6,887,021
Transportation costs	**71,186**	72,705
Research and development costs	**198,720**	173,755
Utilities	**99,277**	97,708
Repairs and maintenance expenditure on property, plant and equipment	**29,806**	28,095
Operating lease rentals	**46,771**	51,368
Write-down of inventories	**42,866**	39,569
Provision for impairment of receivables *(Note 11)*	**70,663**	45,776
Provision for impairment of property, plant and equipment	**–**	9,998
Provision for warranty	**32,265**	28,947
Auditors' remuneration		
– Audit services	**3,500**	3,500
Other expenses	**114,534**	295,928
Total cost of sales, distribution costs and administrative expenses	**9,497,347**	9,282,441

7. FINANCE COSTS, NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Finance income		
– Interest income on bank deposits	**17,729**	19,642
Finance costs:		
– Bank borrowings	**(118,660)**	(98,686)
– Corporate bonds	**(37,651)**	(51,836)
– Finance lease liabilities	**(78)**	(100)
– Net exchange gains/(losses)	**2,435**	(7,591)
Less: amounts capitalised in qualifying assets	**33,916**	38,567
	(120,038)	(119,646)
Net finance costs	**(102,309)**	(100,004)

8. TAXATION

The amount of income tax expense charged to profit or loss represents:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Current income tax	**136,913**	49,277
Deferred income tax	**(34,459)**	(22,095)
Income tax expense	**102,454**	27,182

9. EARNINGS PER SHARE

	Year ended 31 December	
	2017	2016 (Restated)
Profit attributable to owners of the Company *(RMB'000)*	**325,047**	440,834
Weighted average number of ordinary shares in issue *(thousands)*	**3,684,640**	3,684,640
Basic and diluted earnings per share *(RMB per share)*	**0.09**	0.12

Diluted earnings per share is equal to basic earnings per share as there was no potential dilutive ordinary shares outstanding for both years presented.

10. DIVIDENDS

The dividends paid in 2017 and 2016 were RMB128,963,000 (RMB0.035 per share) and RMB92,116,000 (RMB0.025 per share) in respect of final dividends for the years ended 2016 and 2015 respectively. A dividend in respect of the year ended 31 December 2017 of RMB0.030 per share, amounting to a total dividend of RMB110,539,000 is to be proposed at the annual general meeting on 28 June 2018. These financial statements do not reflect this dividend payable.

	2017	2016
	RMB'000	*RMB'000*
Dividends not recognised at the end of the reporting period		
Proposed final dividend of RMB0.030 (2016: RMB0.035) per share	**110,539**	128,963
	110,539	128,963

11. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Trade and bills receivables *(a)*	**4,199,062**	3,505,005
Less: provision for impairment of trade receivables	**(315,747)**	(273,941)
Trade and bills receivables, net	**3,883,315**	3,231,064
Deposits paid	**95,474**	92,635
Less: provision for impairment of deposits paid	**(11,844)**	(11,726)
Deposits paid, net	**83,630**	80,909
Loans	**1,475,200**	1,262,499
Less: provision for impairment of loans	**(29,128)**	(18,712)
Loans, net	**1,446,072**	1,243,787
Prepayments	**434,916**	236,202
Staff advances	**35,861**	32,274
Others	**718,535**	500,932
Less: provision for impairment of receivables other than trade receivables, loans and deposits paid	**(41,096)**	(41,284)
Others, net	**677,439**	459,648
	6,561,233	5,283,884
Less: long-term receivables	**(670)**	(1,138)
long-term loans	**(129,989)**	(85,989)
provision for impairment of long-term loans	**1,095**	660
Less: long-term loans and receivables, net	**(129,564)**	(86,467)
Current portion	**6,431,669**	5,197,417

As at 31 December 2017, all loans were provided to related parties. The effective interest rates of these loans ranged from 1.20% to 5.75% for the year ended 31 December 2017 (2016: 1.20% to 6.02%).

The Group transferred certain trade receivables to a third party with a total amount of RMB350,000,000 in December 2016.

(a) Ageing analysis of the trade and bills receivables at respective balance sheet dates are follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Less than 30 days	**1,508,895**	1,051,915
31 days to 90 days	**600,747**	605,989
91 days to 1 year	**1,158,159**	1,172,164
1 year to 2 years	**491,819**	301,492
2 years to 3 years	**137,712**	124,551
Over 3 years	**301,730**	248,894
	4,199,062	3,505,005

As at 31 December 2017, trade and bills receivables of approximately RMB1,751,036,000 (2016: RMB1,515,453,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The analysis of ageing, which were counted from the day of recognition of trade receivables, is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
91 days to 1 year	**1,152,199**	1,154,733
1 year to 2 years	**428,983**	271,415
2 years to 3 years	**107,920**	89,305
Over 3 years	**61,934**	–
	1,751,036	1,515,453

As at 31 December 2017, trade receivables of approximately RMB338,384,000 (2016: RMB331,648,000) were impaired. The amount of provision was approximately RMB315,747,000 as at 31 December 2017 (2016: RMB273,941,000). The individually impaired receivables mainly relate to certain customers, which are in difficult financial situations. It was assessed that a portion of the receivables is expected to be recovered based on the past collection history under similar circumstances. The ageing of these receivables is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
91 days to 1 year	**5,960**	17,431
1 year to 2 years	**62,836**	30,077
2 years to 3 years	**29,792**	35,246
Over 3 years	**239,796**	248,894
	338,384	331,648

(b) There is no concentration of credit risk with respect to the Group's trade receivables, as the Group has a large number of customers which are widely dispersed.

(c) The carrying amounts of the current portion of trade and other receivables approximate their fair value.

(d) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
RMB	**6,404,313**	5,200,051
GBP	**43,763**	35,300
USD	**94,232**	8,043
EUR	**2,844**	29,366
HKD	**16,081**	11,124
	6,561,233	5,283,884

(e) Movements on the provision for impairment of trade and other receivables are as follows:

Trade receivables

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**273,941**	283,672
Provision for impairment of receivables	**60,063**	10,124
Disposal of subsidiaries	**(17,679)**	(12,943)
Receivables written off during the year as uncollectible	**(578)**	(6,912)
At end of the year	**315,747**	273,941

Deposits paid

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
At beginning of the year	**11,726**	12,349
Provision for impairment of deposits paid	**118**	1
Disposal of subsidiaries	**–**	(624)
At end of the year	**11,844**	11,726

Short-term loans

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**18,052**	6,952
Provision for impairment of short-term loans	**9,981**	11,100
At end of the year	**28,033**	18,052

Long-term loans

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**660**	424
Provision for impairment of long-term loans	**435**	236
At end of the year	**1,095**	660

Others

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**41,284**	16,969
Provision for impairment of receivables other than trade receivables, loans and deposits paid	**66**	24,315
Disposal of subsidiaries	**(28)**	–
Receivables written off during the year as uncollectible	**(226)**	–
At end of the year	**41,096**	41,284

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in profit or loss (Note 6).

(f) The general credit period granted to customers is up to 90 days.

(g) As at 31 December 2017, the Group's bills receivables with carrying value of approximately RMB17,000,000 were secured for the Group's borrowings.

(h) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. Loans to related parties of approximately RMB81,500,000 (2016: RMB52,750,000) were secured by certain property, plant and equipment with an aggregate fair value of approximately RMB161,240,000 (2016: RMB75,364,000) as at 31 December 2017.

(i) The other classes within trade and other receivables do not contain impaired assets.

12. TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Deposit taking	**877,057**	1,100,010
Trade and bills payables *(a)*	**2,759,082**	2,357,028
Other taxes payable	**97,120**	107,625
Other payables	**468,905**	425,481
Interest payable	**11,251**	10,759
Accrued payroll and welfare	**55,504**	74,283
Advances from customers	**659,475**	588,525
	4,928,394	4,663,711

As at 31 December 2017, all deposit taking were due to related parties. The effective interest rates of current deposit taking ranged from 0.37% to 2.89% for the year ended 31 December 2017 (2016: 0.37% to 3.02%).

(a) As at 31 December 2017 and 2016, the ageing analysis of the trade and bills payables of the Group was as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Less than 30 days	**519,077**	605,674
31 days to 90 days	**508,858**	629,494
91 days to 1 year	**1,413,390**	868,000
1 year to 2 years	**168,659**	151,529
2 years to 3 years	**87,494**	55,695
Over 3 years	**61,604**	46,636
	2,759,082	2,357,028

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 2017 (the "Period" or the "Year"). The Group's annual results have been audited by the Company's auditor, PricewaterhouseCoopers. 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 into 2017, the global economy continued recovery with continuous economic expansion and overall mild inflation. With strong recovery of the U.S. economy, continuous economic reform in Eurozone and overall stabilization of the U.K. economy, the inflationary pressure increased and the Japanese economy was in modest recovery. The emerging marketing economy saw rapid growth but was still exposed to adjustment and transformation pressure. The policy of supply side reform of Chinese economy gradually released benefits, and the mixed-ownership reform of state-owned enterprises and international cooperation in respect of production capacity were continuously enhanced. The rise of middle class and consumption upgrade supported new economy to become a new growth engine. Economic growth achieved new progress in respect of change from quantity increase to quality improvement and the GDP of the year maintained a growth of 6.9%. By implementing the new "321" development strategy and closely centering on the general working idea of "reform in difficult areas, innovation and quality improvement, efficiency in respect of management and control, and comprehensive enhancement of corporate economic benefits and core competitiveness", the Group vigorously developed the domestic and overseas markets with the focus placed on continuous innovation, refined internal management and intensified risk control. While normalizing corporate governance, the Group implemented the measure of "one policy for one enterprise" with a view to refinement of indicators and classification of management and control. On the basis of overcoming the effects posed by continuous price rise of raw materials and logistics transportation, uneven development of the industry, obvious differentiation and other unfavorable factors, the economic operation maintained improvement amidst stabilization, along with boosted confidence in the market and structural improvement. The objectives and tasks for the whole year were accomplished.

Total revenue of the Group for the year ended 31 December 2017 was approximately RMB9,292.6 million (2016: RMB9,255.0 million), representing an increase of approximately RMB37.6 million or approximately 0.4% over last year. Gross profit was approximately RMB1,007.7 million (2016: RMB1,033.5 million), representing a slight decrease of approximately RMB25.8 million or approximately 2.5% over last year. Profit attributable to the shareholders of the Company amounted to approximately RMB325.0 million (2016: RMB440.8 million), representing a decrease of approximately RMB115.8 million or approximately 26.3% over last year.

During the Period, the Group's administrative expenses accounted for approximately 10.4% of the revenue while distribution and selling expenses accounted for approximately 2.7%. The administrative expenses and distribution and selling expenses was slightly higher than last year for approximately 14.3% in general. The Group maintained a stable financial position during the Period. As at 31 December 2017, total cash and bank deposits of the Group amounted to approximately RMB1,658.7 million, representing a decrease of approximately 7.9% as compared to the same period of last year.

Earnings per share for the Period were approximately RMB0.09 (2016: approximately RMB0.12). Total assets as at 31 December 2017 amounted to approximately RMB16,196.7 million (31 December 2016: RMB15,567.0 million), while total liabilities amounted to approximately RMB9,171.1 million (31 December 2016: RMB8,408.8 million); and net asset value per share was approximately RMB1.91 (31 December 2016: RMB1.94).

BUSINESS REVIEW AND OUTLOOK

Automobile parts and components (transmission systems, steering systems)

In 2017, according to the data published by the China Association of Automobile Manufacturers, the production and sales volume of automobiles reached approximately 29.02 million and 28.88 million units, representing an increase of approximately 3.2% and 3.0% respectively over last year, continuously maintaining an overall stable growth. Sales volume of heavy trucks and large and medium passenger vehicles, which are closely related to the Group, reached 1,120,000 and 168,000 units respectively, representing an increase of approximately 52.4% and 13.8% as compared with last year. Driven by the implementation of China V emission standard, new regulations on control of overrun vehicles and other policies, the heavy truck market saw explosive growth throughout the year. The production and sales volume of steering systems recorded new highs. The Group continued to stabilise the cooperation with large domestic finished automobile enterprises including Chang'an Automobile and Jiangling Motors and achieved stable growth in the year. On the contrary, affected by the drop in sales volume of large and medium passenger vehicles, hysteresis of product development and market exploration, and rapid popularization of high-speed train and new energy vehicles, etc., the operating conditions of transmission system business of the Group were not improved and the automobile parts and components business of the Group recorded a turnover of approximately RMB601.6 million for the whole year, representing a decrease of approximately 16.5% from the same period of last year.

Looking into 2018, with the gradual decrease in the introduction of emission and overrun control policies, the production and sales volume of heavy trucks of the PRC is expected to decline slightly. The Group will exert more efforts on product marketing and structural adjustment and strengthen cooperation with finished automobile enterprises. The segment is expected to achieve stable growth in 2018.

In addition, Chongqing Cummins Engine Company Limited ("Chongqing Cummins"), a joint venture of the Company, is principally in high-horsepower diesel engine. In respect of the diesel engine business, Chongqing Cummins proactively accelerated the marketing of high-horsepower products and implemented internal fine management, contributing to stable improvement of operating results. At present, the market share of engines of over 500 horsepower was approximately 21% in the domestic market, maintaining a leading position and stable market share. The construction project of high-horsepower engine technology "R&D center" is expected to be completed in 2018 and meanwhile the high-horsepower engine new factory project was launched. The business is expected to achieve good growth in 2018.

Power equipment (hydroelectric generation equipment, electrical wires and cables)

In 2017, benefiting from the promotion of clean energy by the government of China, smart grid projects and "One Belt, One Road" construction opportunity, the Group increased development efforts for hydropower equipment business in Southeast Asia, South Asia, Africa and Middle East markets, and successfully won 2 orders of equipment for EPC hydropower stations and achieved an increase in orders of 53% throughout the year. The wire and cable business was rapidly expanded to domestic and overseas new markets, and the Group completed the construction of a distributor management information system and achieved stable growth of orders. The operating results of this segment maintained stable as a whole. The power equipment business of the Group recorded turnover of approximately RMB1,899.0 million for the whole year, representing a year-on-year increase of approximately 16.5%.

The EPC project of Macklon Hydropower Station (EGAT7), a key hydropower construction project of Thailand, jointly undertaken by Chongqing Water Turbine Works Co., Ltd. ("Chongqing Water Turbine"), a subsidiary of the Group, and the SG Company and STPE Company of Thailand passed inspection and acceptance, marking a great achievement in technological innovation in respect of bulb tubular unit.

In 2018, with the advancement of "One Belt, One Road" initiated by the Government of China, there are increasing demands for the development of overseas market. In particular, the investment in the Southeast Asia and South Asia markets is active with great demand; driven by the national power grid construction, urban rail transit construction, high-speed train construction and real estate construction, the segment is expected to see good growth.

General machinery (industrial pumps, refrigeration machines, industry blower, gas compressors, wind power blades)

In 2017, the mean PMI index of the manufacturing industry of China topped 52.4%. The stabilization of orders and gradual recovery of investment enthusiasm in the general machinery related industries promoted the overall stabilization and recovery of general machinery. Stimulated by the increase in orders, the results of industrial pump business continued stable growth; the orders of refrigeration machine business recorded a historical new high; underpinned by the new efficient and energy-saving blowers, the results of industry blower business kept rapid growth; affected by the rapid increase in demand of LNG market, the results of gas compressors business maintained stable; under the effects of the decrease in national subsidy, wind power curtailment, grid connection of wind power, and other factors, the newly installed capacity of the industry declined significantly, resulting in failure of meeting target expectations of wind power blades business. The general machinery business of the Group recorded revenue of approximately RMB2,350.9 million for the whole year, representing an increase of approximately 1.0% from the same period of 2016.

The industrial pump business passed the assessment and examination by the expert group of national "integration of information technology and industrialization" management system; the HSD150-80 charging pump independently developed by the Group was successfully applied in the 1000MW pressurized water reactor power plant with two stages of units. The 5D reciprocating pump and reactor cavity cooling injection pump were widely used in oilfield exploitation, etc. The over-ground air supply system of gas compressor independently developed by the Group successfully guaranteed the launch of "Long March 5" and "Long March 7". The energy-efficient blower products and system application technologies independently developed in respect of the industry blower business broke a number of technological bottlenecks in terms of energy conservation and emission reduction for industry blowers in the fields of cement, iron & steel, etc. and reached international advanced level among similar products. The product transformation and upgrade have generated obvious effects.

In 2018, the State will further increase policy support and investment for the environmental protection and clean energy industries. The industry will continue to recover, the new and old kinetic energy will further shift and the industry will present a situation of overall stable operation. Stimulated by the increment products and increment market of wind power and nuclear power, the segment of the Group is expected to maintain rapid growth.

CNC machine tools (gear-producing machines, intelligent manufacturing, precision screw machines, agricultural machinery, complex precision metal-cutting fools, CNC lathes and machine centres and cotton picker, etc.)

In 2017, thanks to the stable growth of the production and sales volume of the automobile industry, the gear-producing machine business saw rapid recovery in respect of order. In particular, there was a good situation of great demand for new gear grinding machine and dry-cutting gear hobbing machine and the business realized rapid restorative growth; the precision screw factory in the U.S. was successfully put into production and recorded sales revenue; as to agricultural machinery, the Group was engaged in new fields and made breakthroughs therein. The CNC machine tools business of the Group recorded revenue of approximately RMB866.0 million for the whole year, representing an increase of approximately 27.5% from the same period of 2016.

In 2018, the State will continue to drive manufacturing upgrade, product upgrade and industrial transformation and promote market expansion and demand growth. The segment is expected to present the characteristics of progress amidst stabilisation. The Group will vigorously "perfect one business and develop three emerging fields" and highlight market development, new products research and development, and fine management. The segment of the Group is expected to experience rapid growth in 2018.

Intelligent Manufacturing

In 2017, thanks to the accelerated intelligent manufacturing of the State, the Group actively developed the intelligent manufacturing business with orders growing rapidly. During the year, the parent company transferred its 100% equity interests in Intelligent Manufacturing to the Company to strengthen the upgrade of intelligent manufacturing products. The Group has firstly entered into the strategic cooperation agreement with EATON, the leader of electrical industry of the U.S.A., to exert the advantages of mega data platform, together with its own advantages, to collaboratively promote the extension and development of the products and services of both parties, enhance the competitiveness in the brand market. The intelligent manufacturing business will achieve relatively rapid growth, which will boost the equipment manufacturing industry to develop boomingly and create a new situation of technology-driven manufacturing. The revenue from the intelligent manufacturing business of the Group during the year amounted to approximately RMB190.8 million. It is expected that this segment business in 2018 will grow faster.

Trade Business

In 2017, the bulk commodity procurement platform of the Group increased the types of procurement, directly reduced procurement cost of the Group by approximately RMB12.2 million. The total revenue of this segment amounted to approximately RMB3,317.0 million, representing a year-on-year decrease of approximately 10.8%.

In 2018, the Group will continue to expand the types and scope of the bulk commodity procurement, promote procurement through e-commerce platforms, further reduce the costs for bulk commodity procurement, streamline supply chain and logistics management, close foreign trade business of a low gross profit and strengthen risk control.

Financial Business

In 2017, benefited from the expansion of capital accumulation scale and the increase of interest income, the annual turnover amounted to approximately RMB67.3 million, representing an increase of approximately 20.4% as compared to the same period of last year.

In 2018, new business and capital accumulation will be actively expanded to maintain steady development.

DEVELOPMENT FOUNDATION AND ADVANTAGES

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

Regional advantages of “One Belt and One Road”, “Yangtze River Economic Belt” and Chongqing Free Trade Area will be taken advantage of to bring favorable development opportunities for the Group to tap potential markets. Meanwhile, the Group benefits from preferential policies such as western development and enjoys special tax advantages.

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

The Group has many state-level enterprise technical centers, Chinese brands, Chinese well-known trademarks, Chongqing technical centers, Chongqing famous brands and many patented technologies and keeps continuous investment in research and development.

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

The Group has perfect 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 2018 are as follows:

I. Development strategies

2018 is the first year for implementation of the spirit of the 19th National Congress of the Communist Party of China and a critical year playing a role of connection in the "Thirteenth Five-year" plan of the State. The Group will further implement the "321" development strategy with the stress laid on quality and efficiency enhancement and progress amidst stabilization. Following the general requirements of "one focus, three guarantees, three reductions and one enhancement", i.e. "focus on market, quality guarantee, delivery guarantee and service guarantee, reduction of costs, reduction of 'accounts receivable and inventory' and reduction of liabilities, and enhancement of core competitiveness (一抓三保三降一增強)", the Group will engage in high-level innovation, high-efficiency reform and high-quality development, lead adjustment to industrial structure and drive corporate transformation and upgrade to enhance operating benefits and quality and comprehensively heighten the Group's core competitiveness.

II. Work priorities

Highlight "one focus, three guarantees and three reductions (一抓三保三降)", focus on operation quality and benefits

The Group will spare no effort to develop the market and proactively promote network marketing, group marketing and integration marketing. By leveraging on the development opportunity of "military and civilian integration", the Group strives to achieve breakthroughs in respect of orders of new air source truck, high pressure nitrogen generating equipment, secondary nuclear pump, refrigeration compressor for ships, low pressure safety injection pump, etc.; through seizing the strategic opportunity of "One Belt, One Road", the Group will rely on the mature hydroelectric generation equipment business and marketing channels of overseas companies to drive more businesses and develop the Southeast Asia, South Asia and new international markets.

With an online monitoring and operation maintenance platform, the Group will strengthen the process control of whole life cycle quality management of products and further enhance all staff's quality awareness to ensure obvious improvement in respect of quality control to achieve a year-on-year decrease in the quality loss of annual RMB100 sales income by 6%. The product design, production organization and production process control will be integrated. More efforts will be exerted to dynamic follow-up of sales personnel and order customers to reasonably balance and arrange internal production organization plan. The Group will urge and supervise the enterprises with a long production cycle to ensure the delivery time. In addition, while solving critical and difficult problems in terms of finance, operation, management, etc. and thinning and decomposing responsibility goals, the Group will prepare the operable assignment book and roadmap to improve operation quality, set up the idea of "all-round and whole-process services (全方位全過程服務)", and perfect the pre-sales and after-sales service system and management system to ensure notable improvement of after-sales service level and quality.

The focus of cost reduction is to improve the electronic trading platform and promote full coverage of centralized procurement, striving to reduce the procurement cost by approximately RMB15 million throughout the year; the gross profit margin will be improved through intensified quota management for production process and reduction of manufacturing costs by intelligent and automated means and energy performance contracting; strict budget management will be implemented to ensure reasonable control of expenses incurred in the period. The priority of reduction of "accounts receivable and inventory" is to control contract quality and implement strict internal assessment to reduce bad and doubtful debts; the inventory management system will be optimised to reduce the inventory of raw materials and supporting materials and the Group will intensify the connection between sales and production to dispose sluggish materials in a timely manner and control inventory in a reasonable range. The stress of reduction of liabilities will be laid on promoting optimization of product structure, increase of market share and improvement of profitability; the Group will beef up efforts for credit and debt settlement to quicken turnover of capital and enhance the ability to pay; moreover, the Group will integrate resources and carry out equity financing; the liability ratio will be under reasonable control, striving to control the overall liabilities in a reasonable range with the decrease in the size of both loans and financing.

Strengthen innovation driving capacity, stimulate endogenous power for qualitative change

The Group will proactively give play to the leading role of intelligent manufacturing and Equipment Research Institute to enhance the digital design, intelligent production and information based management capacity and level; industrial big data, internet and other technologies will be capitalized to gradually achieve full life cycle management for product design, production, sales, service and other processes. The Group will perfect and implement the action plan on big data intelligent industrial development and form a batch of products or plans with proprietary intellectual property rights through research & development and application of remote operation and maintenance, intelligent warehousing, industrial robots, software integration, artificial intelligence and other technologies. Automated and intelligentized technical transformation will be adopted to build intelligent factors and digital workshops to boost transformation and upgrade.

Reinforce research and development production technology. The focus will be placed on patent for invention and investment proportion of R&D. The Group will go all out to boost the development, improvement and industrialization of a batch of new products including low-vibration and low-noise centrifugal fan, offshore 5MW wind power blades, high voltage slurry diaphragm pump, large diameter mixed-flow hydroelectric generating sets, industrial feed gas compressor, robotic motion controller of multiple degrees of freedom, intelligent warehousing, and detection robot.

Continue to exert great efforts for capital operation, integrate and vitalize stock resources

To highlight principal businesses and key development directions, promote coordinated development of industries and enhance the Group's value, the Group will adjust the original five business segments into three, i.e. green energy equipment, high-end intelligent equipment and modern manufacturing services; a number of industry leading enterprises will be reinforced and optimized through expansion, merger and acquisition, etc.; mixed reform of a batch of businesses will be impelled through investment attraction and reorganization to stimulate operation vitality; a batch of non-principal businesses will be eliminated in order through adjustment to the principal business and key development direction.

Constantly optimise management, consolidate the foundation through efforts in many aspects

The Group will continue to implement "one policy for one enterprise" and intensify compliant operation, financial management, human resources, information construction, etc.; great efforts will be exerted on safety production and the Group will proceed with periodic review of safety standardization, and screening and governance of hidden dangers to prevent major accidents in terms of safety, environmental protection and occupational health.

Intensify internal risk control, adhere to corporate governance according to laws and regulations

The Group will promote the inclusion of risk control early warning indicators in the information-based system to achieve real-time early warning of operational risks and financial risks. The construction of comprehensive risk management system, internal control evaluation and risk analysis will be carried out to promote the implementation of risk control. Furthermore, the Group will conduct legal analysis and argumentation on major decisions and major projects.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Operation Analysis

Automobile parts and components business

In 2017, according to the data published by the China Association of Automobile Manufacturers, the production and sales volume of automobiles reached approximately 29.02 million and 28.88 million units, representing an increase of approximately 3.2% and 3.0% respectively over the corresponding period of last year, continuously maintaining an overall stable growth. Sales volume of heavy trucks and large and medium passenger vehicles, which are closely related to the Group, reached 1,120,000 and 168,000 units respectively, representing an increase of approximately 52.4% and 13.8% as compared with last year. Driven by the implementation of China V emission standard, new regulations on control of overrun vehicles and other policies, the heavy truck market saw explosive growth throughout the year. The production and sales volume of steering systems recorded new highs. The Group continued to stabilise the cooperation with large domestic finished automobile enterprises including Chang'an Automobile and Jiangling Motors and achieved stable growth in the year. On the contrary, affected by the drop in sales volume of large and medium passenger vehicles, hysteresis of product development and market exploration, and rapid popularization of high-speed train and new energy vehicles, etc., the operating conditions of transmission system business of the Group were not improved and the automobile parts and components business of the Group recorded a turnover of approximately RMB601.6 million for the whole year, representing a decrease of approximately 16.5% from the same period of last year.

Power equipment business

In 2017, benefiting from the promotion of clean energy by the government of China, smart grid projects and "One Belt, One Road" construction opportunity, the Group increased development efforts for hydropower equipment business in Southeast Asia, South Asia, Africa and Middle East markets, and successfully won 2 orders of equipment for EPC hydropower stations and achieved an increase in orders of 53% throughout the year. The wire and cable business was rapidly expanded to domestic and overseas new markets, and the Group completed the construction of a distributor management information system and achieved stable growth of orders. The power equipment business of the Group recorded turnover of approximately RMB1,899.0 million for the whole year, representing a year-on-year increase of approximately 16.5%.

General machinery business

In 2017, the mean PMI index of the manufacturing industry of China topped 52.4%. The stabilization of orders and gradual recovery of investment enthusiasm in the general machinery related industries promoted the overall stabilization and recovery of general machinery. Stimulated by the increase in orders, the results of industrial pump business continued stable growth; the orders of refrigeration machine business recorded a historical new highs; underpinned by the new efficient and energy-saving blowers, the results of industry blower business kept rapid growth; affected by the rapid increase in demand of LNG market, the results of gas compressors business maintained stable; under the effects of the decrease in national subsidy, wind power curtailment, grid connection of wind power, and other factors, the newly installed capacity of the industry declined significantly, resulting in failure of meeting target expectations of wind power blades business. The general machinery business of the Group recorded revenue of approximately RMB2,350.9 million for the whole year, representing an increase of approximately 1.0% from the same period of 2016.

CNC machine tools business

In 2017, thanks to the accelerated intelligent manufacturing of the State and stable growth of the production and sales volume of the automobile industry, the Group proactively developed intelligent and automation equipment manufacturing business and gear-producing machine business saw rapid recovery in respect of order. In particular, there was a good situation of great demand for new gear grinding machine and dry-cutting gear hobbing machine and the business realized rapid restorative growth; intelligent manufacturing business achieved rapid growth; the precision screw factory in the U.S. was successfully put into production and recorded sales revenue; as to agricultural machinery, the Group was engaged in new fields and made breakthroughs therein. The CNC machine tools business of the Group recorded revenue of approximately RMB866.0 million for the whole year, representing an increase of approximately 27.5% from the same period of 2016.

Intelligent manufacturing business

In 2017, thanks to the accelerated intelligent manufacturing of the State, the Group actively developed the intelligent manufacturing business with orders growing rapidly. During the year, the parent company transferred its 100% equity interests in Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd. to the Company to strengthen the upgrade of intelligent manufacturing products. The Group has firstly entered into the strategic cooperation agreement with EATON, the leader of electrical industry of the U.S.A., to exert the advantages of mega data platform, together with its own advantages, to collaboratively promote the extension and development of the products and services of both parties, enhance the competitiveness in the brand market. The intelligent manufacturing business will achieve relatively rapid growth, which will boost the equipment manufacturing industry to develop boomingly and create a new situation of technology-driven manufacturing. The revenue from the intelligent manufacturing business of the Group during the year amounted to approximately RMB190.8 million.

Trade business

In 2017, the bulk commodity procurement platform of the Group increased the types of procurement, directly reduced procurement cost of the Group by approximately RMB12.2 million. The total revenue of this segment amounted to approximately RMB3,317.0 million, representing a decrease of approximately 10.8% as compared to the same period of last year.

Financial business

In 2017, benefiting from the expansion of capital accumulation scale and the increase of interest income, the annual turnover amounted to approximately RMB67.3 million, representing an increase of approximately 20.4% as compared to the same period of last year.

SALES

For the year ended 31 December 2017, the Group's total revenue amounted to approximately RMB9,292.6 million, an increase of approximately RMB37.6 million or approximately 0.4% as compared with approximately RMB9,255.0 million for the same period of 2016. As compared with 2016, the revenue of automobile parts and components was approximately RMB601.6 million (accounting for approximately 6.5% of total revenue), a decrease of approximately 16.5%; revenue of power equipment was approximately RMB1,899.0 million (accounting for approximately 20.4% of total revenue), an increase of approximately 16.5%; revenue of general machinery was approximately RMB2,350.9 million (accounting for approximately 25.3% of total revenue), an increase of approximately 1.0%; revenue of CNC machine tools was approximately RMB866.0 million (accounting for approximately 9.3% of total revenue), an increase of approximately 27.5%; revenue of intelligent manufacturing business was approximately RMB190.8 million (accounting for approximately 2.1% of total revenue); revenue of trade business was approximately RMB3,317.0 million (accounting for approximately 35.7% of total revenue), a decrease of approximately 10.8%; and revenue of financial services was approximately RMB67.3 million (accounting for approximately 0.7% of total revenue), an increase of approximately 20.4%. In view of the above, revenue of other business segments recorded a growth as a whole, except that the revenue of the automobile parts and components segment was decreased and affected by the decline of demand in the market and the revenue of trade business was affected by the adjustment of the foreign trade business with lower gross margin.

Since the Group has ceased the foreign trade business of Chongqing Shengpu Materials Co. Ltd ("Shengpu Company") with lower gross profit since 2018, the revenue of physical businesses of the Group maintained stable growth in 2018. It is expected that the revenue of physical businesses of the Group will achieve better growth in 2018.

GROSS PROFIT

The gross profit for 2017 was approximately RMB1,007.7 million, decreased by approximately RMB25.8 million or approximately 2.5%, as compared with approximately RMB1,033.5 million for the same period of 2016. Gross profit margin was approximately 10.8%, slightly decreased 0.4 percentage points as compared with 11.2% of the same period last year, mainly due to the further increase in proportion of the trade business with lower gross profit and the negative gross profit of transmission system business.

OTHER INCOME AND GAINS

The other income and gains for 2017 were approximately RMB417.4 million, an increase of approximately RMB111.8 million or approximately 36.6%, as compared with approximately RMB305.6 million for the same period of 2016, mainly attributable to the income from land disposal by Chongqing Water Turbine and the gains from disposal of equity interest in subsidiaries during the Period.

DISTRIBUTION AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for 2017 were approximately RMB1,212.4 million, a significant increase of approximately RMB151.5 million or approximately 14.3%, as compared with approximately RMB1,060.9 million for the same period of 2016. The proportion of the selling and administrative expenses in total sales increased to approximately 13% from approximately 11.5% of the same period last year. The distribution expenses increased by approximately RMB4.1 million as compared with the same period last year, mainly due to the increase in marketing expenses; the administrative expenses significantly increased by approximately RMB147.4 million as compared with the same period last year, mainly due to the increase in depreciation of fixed assets of approximately RMB31.1 million and labour costs of approximately RMB83.2 million, including the one-off provision of long-term employee benefit obligations of the transmission system business.

OPERATING PROFIT

The operating profit for 2017 was approximately RMB212.7 million, a decrease of approximately RMB65.5 million or approximately 23.5%, as compared with approximately RMB278.2 million for the same period of 2016.

NET FINANCE COSTS

Net interest expense for 2017 amounted to approximately RMB102.3 million, an increase of approximately RMB2.3 million or approximately 2.3%, as compared with approximately RMB100.0 million for the same period of 2016, mainly due to the increase in the interest expense resulting from the increase in bank interest as a result of addition of short-term bank loans.

SHARE OF POST-TAX PROFITS OF ASSOCIATES

The Group's share of post-tax profits of associates for the year ended 31 December 2017 was approximately RMB102.2 million, an increase of approximately RMB1.6 million or 1.6%, as compared with approximately RMB100.6 million for the same period of 2016. During the Period, the results of Chongqing ABB Power Transformer Co., Ltd., Chongqing Hongyan Fangda Automotive Suspension Co., Ltd. (重慶紅岩方大汽車懸架有限公司) and KnorrBremse Systems for Commercial Vehicles (Chongqing) Ltd. (克諾爾商用車系統(重慶)有限公司) increased by approximately RMB42.4 million, RMB5.8 million and RMB5.9 million, respectively. In contrast, Chongqing Liangjiang New Area Machinery and Electronic Microcredit Co., Ltd. (重慶市兩江新區機電小額貸款有限公司) recorded an increase in loss of approximately RMB6.5 million, and Chongqing Jiangbei Machinery Co., Ltd. (重慶江北機械有限責任公司) recorded a loss of approximately RMB0.4 million turning from gain, represented by a decrease of approximately RMB4.9 million, and WPG Company in Italy recorded a loss of approximately RMB3.6 million.

SHARE OF POST-TAX PROFIT OF A JOINT VENTURE

The Group's share of post-tax profit of a joint venture for the year ended 31 December 2017 was approximately RMB264.3 million, an increase of approximately RMB13.3 million or approximately 5.3%, as compared with approximately RMB251.0 million for the same period last year. Such increase was due to the steady rise of sales of high-horsepower products of Chongqing Cummins Engine Co., Ltd.

INCOME TAX EXPENSES

The income tax expenses for the year ended 31 December 2017 were approximately RMB102.5 million, an increase of approximately RMB75.3 million, or approximately 277%, as compared with approximately RMB27.2 million for the same period of 2016, mainly because there was an increase of approximately RMB38.5 million resulted from increase of tax losses for which no deferred income tax asset was recognised and an increase of approximately RMB42.8 million resulted from change of applicable tax rate.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year ended 31 December 2017 was approximately RMB325.0 million, a decrease of approximately RMB115.8 million or approximately 26.3% as compared with approximately RMB440.8 million for the same period of 2016. Earnings per share amounted to approximately RMB0.09, decreased by approximately 25% as compared with approximately RMB0.12 of the same period of 2016.

DISTRIBUTABLE RESERVES

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

The Company's reserves available for distribution as at 31 December 2017 under HKFRSs and CAS were RMB1,462,998,000 and RMB1,649,152,000 respectively. Thus, as at 31 December 2017, the Company's distributable reserve attributable to shareholders of the Company amounted to RMB1,649,152,000.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.030 per share (tax inclusive) for the year ended 31 December 2017 (for the year ended 31 December 2016: RMB0.035 per share), which is calculated based on the total share capital of 3,684,640,154 shares for the year ended 31 December 2017, totaling RMB110,539,204.62 (totaling RMB128,962,405.39 for the year ended 31 December 2016). Subject to approval by shareholders at the Annual General Meeting to be convened on 28 June 2018, the proposed final dividend will be paid on 31 July 2018 to shareholders whose names appear on the Register of Members of the Company on 10 July 2017 ("Record Date").

In order to ascertain the list of the shareholders entitled to receive the proposed final dividend, the register of members of the Company will be closed from Thursday, 5 July 2018 to Tuesday, 10 July 2018 (both days inclusive), during which period no transfer of shares will be registered. All transfer documents accompanied by share certificates of the holders of H shares of the Company must be lodged at 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 Wednesday, 4 July 2018.

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 (Guo Shui 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 dividends payable to resident corporate shareholders 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 time 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 Group'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 4 July 2018. 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 4 July 2018. 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 shareholders entitled to attend and vote on the Annual General Meeting, the register of members of the Company will be closed from Tuesday, 29 May 2018 to Thursday, 28 June 2018 (both days inclusive), during which period 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 Monday, 28 May 2018.

CASH FLOW

As at 31 December 2017, the cash and bank deposits (including restricted cash) of the Group amounted to approximately RMB1,658.7 million (31 December 2016: approximately RMB1,800.6 million), representing a decrease of approximately RMB141.9 million or approximately 7.9%, mainly due to the increase of investment in plant and equipment, the slowing down of collection of receivables and the significant loss arising from Qijiang Gear which led the enlargement of operating cash outflow in results.

During the Period, the Group had a net cash outflow from operating activities of approximately RMB944.7 million (for the year ended 31 December 2016: net cash outflow of approximately RMB262.3 million), a net cash inflow from investing activities of approximately RMB458.9 million (for the year ended 31 December 2016: a net cash inflow of approximately RMB25.0 million), and a net cash inflow from financing activities of approximately RMB266.0 million (for the year ended 31 December 2016: a net cash inflow of approximately RMB84.8 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 2017, the total assets of the Group amounted to approximately RMB16,196.7million, representing an increase of approximately RMB629.7 million as compared with approximately RMB15,567.0 million as at 31 December 2016. Total current assets amounted to approximately RMB10,544.6 million, representing an increase of approximately RMB1,115.6 million as compared with approximately RMB9,429.0 million as at 31 December 2016, accounting for approximately 65.1% of total assets. However, total non-current assets amounted to approximately RMB5,652.0 million, representing a decrease of approximately RMB485.9 million as compared with approximately RMB6,137.9 million as at 31 December 2016, accounting for approximately 34.9% of total assets.

As at 31 December 2017, total liabilities of the Group amounted to approximately RMB9,171.1 million, representing an increase of approximately RMB762.3 million as compared with approximately RMB8,408.8 million as at 31 December 2016. Total current liabilities were approximately RMB7,093.8 million, representing an increase of approximately RMB957.9 million as compared with approximately RMB6,135.9 million as at 31 December 2016, accounting for approximately 77.3% of total liabilities. However, total non-current liabilities were approximately RMB2,077.3 million, representing a decrease of approximately RMB195.6 million as compared with approximately RMB2,272.9 million as at 31 December 2016, and accounting for approximately 22.7% of total liabilities.

As at 31 December 2017, net current assets of the Group were approximately RMB3,450.8 million, representing an increase of approximately RMB157.7 million as compared with approximately RMB3,293.1 million as at 31 December 2016.

CURRENT RATIO

As at 31 December 2017, current ratio (the ratio of current assets to current liabilities) of the Group was 1.49:1 (31 December 2016: 1.54:1).

GEARING RATIO

As at 31 December 2017, by dividing the borrowing by the total capital, the gearing ratio of the Group was 32.9% (31 December 2016: 28.6%).

INDEBTEDNESS

As at 31 December 2017, the Group had an aggregate bank and other borrowings of approximately RMB3,437.4 million, representing an increase of approximately RMB576.1 million as compared with approximately RMB2,861.3 million as at 31 December 2016.

Borrowings repayable by the Group within one year were approximately RMB1,925.2 million, representing an increase of approximately RMB617.6 million as compared with approximately RMB1,307.6 million as at 31 December 2016. Borrowings repayable after one year were approximately RMB1,512.2 million, representing a decrease of approximately RMB41.5 million as compared with approximately RMB1,553.7 million as at 31 December 2016.

SECURED ASSETS

As at 31 December 2017, approximately RMB484.2 million of the Group was deposited with the banks with pledge or restricted for use (31 December 2016: approximately RMB407.6 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 RMB686.9 million as at 31 December 2017 (31 December 2016: approximately RMB746.1 million).

CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no significant contingent liabilities.

SIGNIFICANT EVENTS

Events in the Period

(1) On 27 April 2017, the Company entered into the Equity Transfer Agreement with Industrial Trust, pursuant to which, Industrial Trust agreed to transfer 19% equity interest in Finance Company held by it to the Company at the consideration of RMB142,067,000. Upon completion of the Equity Transfer, the Company will hold 70% equity interest in Finance Company and Industrial Trust shall no longer hold any equity interest in Finance Company. For details, please refer to the announcement of the Board of the Company dated 27 April 2017 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

(2) On 28 December 2017, the Company's wholly-owned subsidiary Machine Tools Group entered into a Finance Lease Agreement with Kunlun Leasing in relation to the leasing target with a total purchase price amount of RMB210,000,000.0 and the aggregate pre-leasing interest and rental payment amounting to approximately RMB244,379,114.6. For details, please refer to the announcement of the Board of the Company dated 28 December 2017 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

(3) On 27 November 2017, the Company held the Annual General Meeting to consider and approve the following matters:

(I) The equity transfer agreements entered into between the Company and Chongqing Machinery and Electronics Holding (Group) Co., Ltd. were as followings:

1) The Company transferred 100% equity interest in Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear") to the Parent Company with a consideration of approximately RMB255,465,400;

2) A total of 35% equity interests in Chongqing Liangjiang New Area Machinery and Electronic Microcredit Co., Ltd.(重慶兩江新區機電小額貸款有限公司) ("Loan Company") held by the Company and its subsidiary, Qijiang Gear, were transferred to the Parent Company with a consideration of approximately RMB61,015,700;

3) The Parent Company transferred 100% equity interest held by it in Intelligent Manufacturing to the Company with a consideration of approximately RMB132,719,700;

4) The parent company transferred 100% equity interest held by it in Equipment Research Institute to the Company with a consideration of approximately RMB14,388,800.

(II) Mr. Wei Fusheng ("Mr. Wei") resigned as a non-executive Director of the Company due to work adjustment, which became effective since Mr. Dou Bo ("Mr. Dou") was appointed as the new non-executive director. The tenure of Mr. Dou took effect from the date of the EGM until the expiration of the tenure of the Board. The Board was authorized to determine the service agreement on and subject to appropriate terms and conditions pursuant to the remuneration standard for non-executive Directors passed at the 2015 annual general meeting, and to do all such acts and things to give effect to such matters.

For details, please refer to the circular of the Board of the Company dated 7 November 2017 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

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

SUBSEQUENT EVENTS

(1) On 15 December 2017, the Company issued the announcement of continuing connected transactions regarding the provision of Loans and Guarantees to Qijiang Gear. Upon the approval of the first 2017 extraordinary general meeting of the Company, the Company transferred the entire equity interest in Qijiang Gear to the Parent Company. Before the completion of the above equity transfer, the Company has offered a loan amounting to RMB394,416,000 and a guarantee amounting to RMB180,000,000 to Qijiang Gear, respectively. After the completion of the equity transfer, the aforesaid financial assistance would constitute a continuing connected transaction under the Listing Rules. Upon the negotiation between the Parent Company and Qijiang Gear, Qijiang Gear commits that they would repay the loans totalling RMB75,416,000 to the Company before 31 December 2017, and repay the loans totalling RMB319,000,000 before 31 January 2018, and the Parent Company agreed to supervise and assist Qijiang Gear to make early repayment to the Company. In addition, the Parent Company agreed to replace the Company as the guarantor of the Guarantee Agreements before 31 December 2017. For details, please refer to the announcement of the Board of the Company dated 15 December 2017 as set out on the website of the Hong Kong Stock Exchange and the Company's website. Qijiang Gear repaid the loans totaling RMB75,416,000 to the Company on 27 December 2017, and repaid the loans totaling RMB319,000,000 on 17 January 2018. Besides, the beneficiary of the loan guarantees totaling RMB180,000,000 provided by the Company to Qijiang Gear had been changed into the Parent Company on 26 December 2017.

(2) On 18 January 2018, the Company decided to terminate the external trading business with low gross profit of Shengpu Company, a wholly-owned subsidiary of the Company since 2018. For details, please refer to the announcement of the Board of the Company dated 18 January 2018 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

(3) On 26 January 2018, the Company transferred 51% equity interest held by it in Chongqing RSDA Power Science & Technology Co., Ltd. ("RSDA") and 20% equity interest held by Equipment Research Institute (a wholly-owned subsidiary of the Company) in RSDA to the Parent Company at the consideration of RMB1, respectively. Upon the completion of transaction, the Company and Equipment Research Institute no longer hold any equity interest in RSDA. Meanwhile, the Parent Company holds 71% equity interest in RSDA. For details, please refer to the announcement of the Board of the Company dated 26 January 2018 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

(4) On 14 March 2018, Chongqing Water Turbine, a wholly-owned subsidiary of the Company, and Nepal Peoples Energy entered into the EPC General Contracting Agreement in relation to the KHIMTI-2 hydropower station project in Nepal with an agreement amount of USD88,004,220. For details, please refer to the announcement of the Board of the Company dated 14 March 2018 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

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

CAPITAL EXPENDITURE

As at 31 December 2017, the total capital expenditure of the Group was approximately RMB655.1 million, which was principally used for environmental relocation, plant expansion, production technology improvement and equipment upgrade (31 December 2016: approximately RMB638.3 million).

CAPITAL COMMITMENT

As at 31 December 2017, the Group had capital commitments of approximately RMB143.3 million (31 December 2016: approximately RMB472.9 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 the HK dollars and US dollars. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group's functioning currency. Management has set up a management system of foreign exchange hedges, requiring all subsidiaries of the Group to manage the foreign exchange risk against their functional currency and adopt foreign exchange tools recognized by the Group.

As at 31 December 2017, the bank deposits of the Group included HK dollars valued at approximately RMB0.08 million, US dollars valued at approximately RMB3.1 million, GBP valued at approximately RMB38.19 million and EUR valued at approximately RMB3.16 million (31 December 2016: HK dollars valued at approximately RMB0.09 million, US dollars valued at approximately RMB4.99 million, GBP valued at approximately RMB2.39 million, and EUR valued at approximately RMB8.25 million). Save as the aforesaid, the Group was not exposed to any significant risk of foreign exchange.

EMPLOYEES

As at 31 December 2017, the Group had a total of 10,691 employees (31 December 2016: 11,217 employees). The Group will continue the upgrade of its technical talent base, foster and recruit technical and management personnel possessed with extensive professional experiences, optimise the distribution system that links with the remunerations and performance reviews of our management and employees, improve training on safety so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

OTHER CORPORATE INFORMATION

Competition and Conflict of Interests

As at 31 December 2017, the non-competition agreement entered into between Chongqing Machinery and Electronic Holding (Group) Co., Ltd., the Parent Company, and the Company in 18 January 2008 remained effective. Please refer to the Prospectus for details of such undertakings.

CONNECTED TRANSACTIONS

During the Period and thereafter, the Board of the Company has decided to approve the following connected transactions:

1. On 27 April 2017, the Company entered into the Equity Transfer Agreement with Industrial Trust, pursuant to which, Industrial Trust agreed to transfer 19% equity interest in Finance Company held by it to the Company at the consideration of RMB142,067,000. Upon completion of the Equity Transfer, the Company will hold 70% equity interest in Finance Company and Industrial Trust shall no longer hold any equity interest in Finance Company. For details, please refer to the announcement of the Board of the Company dated 27 April 2017 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

2. Equity Transfer Agreement entered into between the Company and the Parent Company:

    1) The Company transferred the entire 100% equity interest in Qijiang Gear to the Parent Company with a consideration of approximately RMB255,465,400;

    2) A total of 35% equity interests in Chongqing Liangjiang New Area Machinery and Electronic Microcredit Co., Ltd.(重慶兩江新區機電小額貸款有限公司) held by the Company and its subsidiary, Qijiang Gear, were transferred to the Parent Company with a consideration of approximately RMB61,015,700;

3) The Parent Company transferred 100% equity interest held by it in Intelligent Manufacturing to the Company with a consideration of approximately RMB132,719,700;

4) The parent company transferred 100% equity interest held by it in Equipment Research Institute to the Company with a consideration of approximately RMB14,388,800.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2017, the summary of the connected party transactions is set out in notes to the consolidated financial statements, where a majority of the transactions constituted continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules.

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

Master Sales Agreement

On 7 April 2016, a master sales agreement (the "Master Sales Agreement") was renewed by and between the Company and Chongqing Machinery and Electronics Holding (Group) Co., Ltd. (hereinafter 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 successive term of three years by giving notice at least three months prior to the expiry of the initial term. The approved annual caps of sales for each of the years ended 31 December 2017, 2018 and 2019 (annual general meeting was held on 28 June 2016) were set at RMB180 million, RMB180 million and RMB190 million respectively.

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

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

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

(iii) If the aforesaid prices are not applicable, according to the cost plus method to determine price (tax price), i.e.: the tax price = cost * (1+ cost profit rate), which the cost profit rate is not lower than 10%, while the cost profit rate of 10% is determined based on the average gross margin per cent of the group of similar products in the past three years. Except that the cost profit rate of the raw materials procured by Shengpu Materials Co., Ltd. and resold to the parent group was 1%, as the Company's handling fees.

For the year ended 31 December 2017, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB117.9 million (for the year ended 31 December 2016: RMB68.6 million).

Master Supplies Agreement

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

Additionally, in case where there are material fluctuations in the prices of any or all of the products, the parties shall re-negotiate the terms of the Master Supplies Agreement in good faith by way of entering into a supplemental agreement or a new master supplies agreement. The Master Supplies Agreement is valid for a period of three years from the date of the agreement and can be renewed by the Company for successive term of three years by giving notice at least three months prior to the expiry of the initial term. The approved annual caps of supplies for each of the years ended 31 December 2017, 2018 and 2019 (the Directors' Meeting on 29 March 2016) were set at RMB80 million, respectively.

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

(i) Through the industry website quoted prices or query of at least two independent third party market (i.e. the supplier (except the parent company and its contacts) in the price of the same or similar products in the same area in daily operations on normal commercial terms to provide to the independent third party);

(ii) If there is no market price determined by an independent third party, the transaction price between the company and its Affiliated Companies and the independent third party;

(iii) If the above price is not applicable, according to the cost plus method to determine price (tax price), namely: the tax price = cost * (1+ profit), which cost profit rate is less than 10%.

For the year ended 31 December 2017, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB40.3 million (for the year ended 31 December 2016: RMB53.7 million).

Master Leasing Agreement

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

The Parent Group leases land and buildings to the Group as the Group's offices, production facilities, workshops and staff quarters. Accordingly, for the years ended 31 December 2017, 2018 and 2019, (the Directors' Meeting on 29 March 2016), it was approved that the annual cap of the lease for three years was set to be RMB45 million, respectively.

For the year ended 31 December 2017, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB24.4 million (for the year ended 31 December 2016: RMB30.8 million).

FINANCIAL SERVICES FRAMEWORK AGREEMENT

(I) Parent Group Financial Services Framework Agreement

The Company's subsidiary Chongqing Electrical Holdings Group Finance Company Limited (the "Finance Company") and the Parent Company entered into the Framework of Financial Service Framework Agreement on 7 April 2016 (the "Parent Group Financial Services Framework Agreement"), (i) As approved at the Annual General Meeting held on 28 June 2016, the approved proposed annual cap for loan services for the years ended 31 December 2017, 2018 and 2019 were RMB2,500 million, RMB2,800 million and RMB3,000 million respectively; (ii) As approved at the Directors' Meeting on 29 March 2016, the approved proposed annual caps for guarantee for each of the years ended 31 December 2017, 2018 and 2019 were RMB100 million (including corresponding handling fees); (iii) As approved at the Directors' Meeting held on 29 March 2016, the approved proposed annual caps for financial services for the years ended 31 December 2017, 2018 and 2019 were RMB27.5 million, RMB33 million and RMB38.5 million respectively.

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

Loan services

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

The Company will choose at least two banks from the national commercial banks in the PRC and the local commercial banks in Chongqing that have business relations with the Company and make inquiries as to the loan services of the same type and under similar terms to the Parent Group (the companies under the Parent Group carry the same credit ratings as a result of the implementation of a unified credit policy throughout the Parent Group by the banks), 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 third party on the Parent Group for the same types of services.

For the year ended 31 December 2017, pursuant to the Parent Group 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 RMB1,351.9 million, the transaction amount in respect of guarantee services was approximately RMB0 million and the transaction amount of other financial services was approximately RMB1.5 million (For the year ended 31 December 2016: the daily maximum limit amount in respect of loan services was approximately RMB1,502.8 million, the transaction amount in respect of guarantee services was approximately RMB0 million and the transaction amount of other financial services was approximately RMB2.2 million).

(II) Group Financial Services Framework Agreement

The Finance Company entered into a financial services framework agreement (the "Group Financial Services Framework Agreement") with the Company on 7 April 2016, (i) as approved at the Annual General Meeting held on 28 June 2016, the approved proposed annual caps for the transactions in respect of the deposit services for each of the years ended 31 December 2017, 2018 and 2019 were RMB2,600 million, RMB3,000 million and RMB3,500 million respectively; (ii) as approved at the Directors' Meeting held on 29 March 2016, the approved proposed annual caps for the transactions in respect of other financial services for each of the years ended 31 December 2017, 2018 and 2019 were RMB29 million, RMB34 million and RMB39 million respectively.

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

Deposit services

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

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

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

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

For the year ended 31 December 2017, 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 RMB1,504.8 million and the other financial services was approximately RMB4.7 million (For the year ended 31 December 2016: the daily maximum limit amount in respect of deposit services was approximately RMB1,491.5 million and other financial services was approximately RMB6.9 million).

Loan Agreements

On 27 November 2017, the Company transferred 100% equity interest in Qijiang Gear to the Parent Company. Upon completion of the transaction, the Company continued to provide six Loan Agreements of approximately RMB394.4 million and eight Financial Guarantee Agreements of approximately RMB180 million to Qijiang Gear. Qijiang Gear shall pay the interest as stipulated in the respective Loan Agreement and repay the principal due. The Parent Company agreed to replace the Company as the guarantor of the Guarantee Agreements before 31 December 2017. For details, please refer to the announcement of the Board of the Company dated 15 December 2017 as set out on the website of the Hong Kong Stock Exchange and the Company's website.

Qijiang Gear repaid the loans totaling RMB75,416,000 to the Company on 26 December 2017, and repaid earlier the two loans with maturity in 2018 and 2019 respectively totaling approximately RMB319,000,000 on 17 January 2018. Besides, the guarantor of the loan guarantees totaling approximately RMB180 million provided by the Company to Qijiang Gear had been changed to the Parent Company on 26 December 2017.

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 believe that:

a. nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

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

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

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

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

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company believes that the continuous improvement of its standard of corporate governance is the underlying cornerstone for safeguarding the interests of shareholders and investors as well as enhancing the corporate value of the Company. In compliance with the Company Law of the People's Republic of China, the Listing Rules, the Articles of Association and other relevant laws and regulations, and taking into consideration its own characteristics and needs, the Company has been making enormous 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 2017 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 Company has established an Audit and Risk Management committee with terms of reference, which clearly defined the powers and duties of the committee. The major duties of the Audit and Risk Management Committee are to review and supervise the financial reporting process and internal control systems of the Company, as well as providing opinion and recommendation to the directors of the Company.

The Audit and Risk Management Committee comprises three independent non-executive directors and one non-executive director, namely Mr. Lo Wah Wai, Mr. Jin Jingyu, Mr. Liu Wei and Mr. Deng Yong. Mr. Lo Wah Wai is the chairman of the Audit and Risk Management Committee. The Audit and Risk Management Committee has reviewed the Company's results for the period under review and respective recommendation and opinion have been made.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company consists of three independent non-executive directors (Mr. Ren Xiaochang, Mr. Lo Wah Wai and Mr. Jin Jingyu) and one non-executive director (Mr. Huang Yong). 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.

NOMINATION COMMITTEE

Chaired by the Chairman, the Nomination Committee of the Company consists of one executive director (Chairman) and three independent non-executive directors, namely, Mr. Wang Yuxiang, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei. The Nomination Committee is responsible for the identification and evaluation of candidates for appointment or reappointment as directors and senior management, as well as the development and maintenance of the Company's overall corporate governance policies and practices.

STRATEGIC COMMITTEE

A strategic committee of the Board has been established by the Board of the Company based on the Company's needs for strategic development. The Strategic Committee of the Company comprises three executive directors, namely Mr. Wang Yuxiang, Ms. Chen Ping, and Mr.Yang Quan, one non-executive director, Mr. Huang Yong, and three independent non-executive directors, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei. Mr. Wang Yuxiang serves as the chairman of the Strategic Committee. The Strategic Committee is mainly in charge of studying and proposing suggestions on the Company's long-term development strategies and material investment decisions and providing decision-making references to the Board.

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises five supervisors, namely Mr. Xiang Hu, Ms. Wu Yi, Mr. Huang Hui, Mr. Zhang Mingzhi, and Mr. Xia Hua. The Supervisory Committee of the Company is responsible for supervising the financial activities of the Company and the performance of the Board and its members as well as the senior management of their duties, so as to safeguard the interests of shareholders.

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 2017.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2017, none of the Company 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 27 April 2018 and will be dispatched to shareholders of the Company thereafter according to the means they choose to receive communications.

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

Chongqing, the PRC
29 March 2018

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