



重慶機電股份有限公司

CHONGQING MACHINERY & ELECTRIC CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code: 02722

ANNUAL REPORT 2019



* For identification purposes only

CONTENTS

Corporate Information	2
Financial Highlights	4
Group Structure	5
Results Highlights	6
Chairman's Statement	7
Management's Discussion and Analysis	21
Directors, Supervisors and Senior Management	41
Report of the Board of Directors	57
Report of the Supervisory Committee	83
Corporate Governance Report	86
Risk and Internal Control and Governance Report	105
Environmental, Social and Governance Report	113
Independent Auditor's Report	137
Consolidated Statement of Financial Position	148
Statement of Financial Position of the Company	152
Consolidated Income Statement	155
Income Statement of the Company	158
Consolidated Statement of Cash Flows	160
Cash Flows Statement of the Company	163
Consolidated Statement of Changes in Equity	165
Statement of Changes in Equity of the Company	171
Notes to the Consolidated Financial Statements	175
Supplementary Information to Consolidated Financial Statements	487

Corporate Information

DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Huang Yong
Mr. Zhang Yongchao
Mr. Dou Bo
Mr. Wang Pengcheng

Independent Non-executive Directors

Mr. Lo Wah Wai
Mr. Ren Xiaochang
Mr. Jin Jingyu
Mr. Liu Wei

SUPERVISORS

Mr. Sun Wenguang (*Chairman*)
Ms. Wu Yi
Mr. Wang Haibing
Mr. Xia Hua
Mr. Li Fangzhong

COMMITTEES UNDER BOARD OF DIRECTORS

Members of the Audit and Risk Management Committee

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

Members of the Remuneration Committee

Mr. Ren Xiaochang (*Chairman*)
Mr. Lo Wah Wai
Mr. Jin Jingyu
Mr. Huang Yong

Members of the Nomination Committee

Mr. Wang Yuxiang (*Chairman*)
Mr. Ren Xiaochang
Mr. Jin Jingyu
Mr. Liu Wei

Members of the Strategic Committee

Mr. Wang Yuxiang (*Chairman*)
Ms. Chen Ping
Mr. Yang Quan
Mr. Huang Yong
Mr. Ren Xiaochang
Mr. Jin Jingyu
Mr. Liu Wei

Corporate Information (Continued)

LEGAL REPRESENTATIVE

Mr. Wang Yuxiang

COMPANY SECRETARY

Ms. Chiu Hoi Shan (*Practising Solicitor*)

QUALIFIED ACCOUNTANT

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

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Tel.: 852-2155 4820

ALTERNATE AUTHORIZED REPRESENTATIVE AND CONTACT INFORMATION

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Wanchai, Hong Kong

AUDITORS

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

LEGAL ADVISOR

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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WEBSITE OF THE COMPANY

www.chinacqme.com

PRINCIPAL BANKER

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SHARE INFORMATION

Listing Place

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

Stock Code

02722

FINANCIAL YEAR END

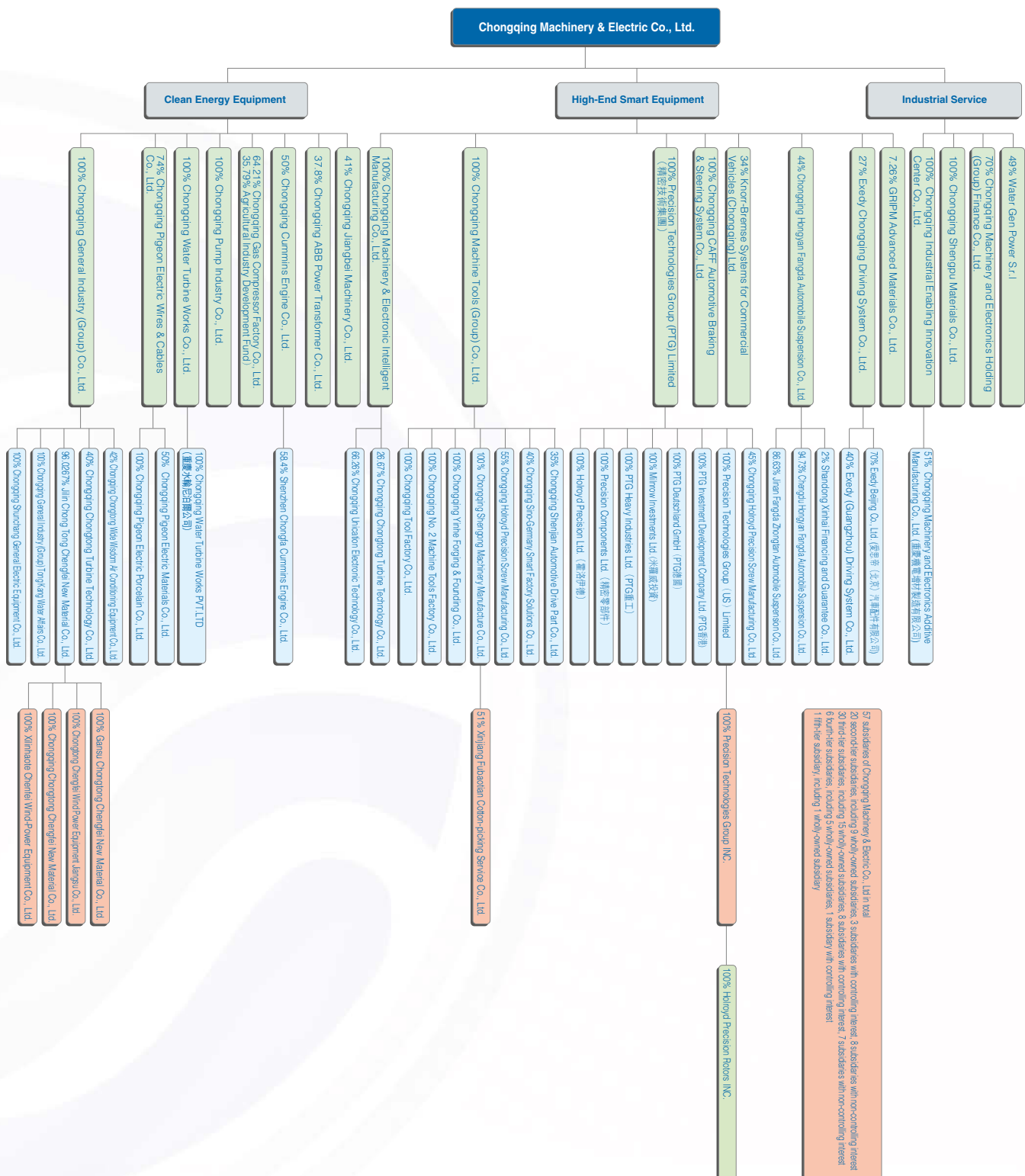
31 December

Financial Highlights

(RMB'000)	2015	2016 (Restated)	2017 (Note)	2018	2019
Revenue and profit					
Revenue	9,010,422	9,255,032	9,292,602	5,284,318	5,516,812
Profit before income tax	523,896	529,854	468,472	555,672	242,946
Income tax expense	(57,311)	(27,182)	(102,454)	(60,500)	(39,031)
Profit for the year	466,585	502,672	366,019	495,172	203,915
Attributable to owners of the Company	417,634	440,834	316,645	444,061	184,835
Non-controlling interests	48,951	61,838	49,374	51,111	19,080
Dividends – proposed final dividends	92,116	128,963	110,539	147,386	36,846
Earnings per share attributable to owners of the Company					
– Basic (RMB)	0.11	0.12	0.09	0.12	0.05
Assets and liabilities					
Non-current assets	5,627,580	6,137,920	5,745,841	5,747,618	6,167,115
Current assets	9,139,491	9,429,046	10,544,832	10,530,066	10,350,701
Current liabilities	6,869,058	6,135,937	7,083,411	6,736,277	7,014,766
Net current assets	2,270,433	3,293,109	3,461,421	3,793,789	3,335,935
Total assets less current liabilities	7,898,013	9,431,029	9,207,262	9,541,407	9,503,049
Non-current liabilities	1,343,211	2,272,819	2,029,276	2,311,745	2,213,959
Net assets	6,554,802	7,158,210	7,177,987	7,229,662	7,289,090
Equity attributable to owners of the Company	6,106,407	6,577,614	6,777,724	6,808,890	6,844,421
Non-controlling interests	448,395	580,596	400,263	420,762	444,669

(Note) According to the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC

Group Structure



Results Highlights

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



The revenue of the Group for the year ended 31 December 2019 amounted to approximately RMB5,516.8 million, representing an increase of approximately RMB232.5 million or approximately 4.4% as compared with approximately RMB5,284.3 million for the same period of 2018.

Profit attributable to the shareholders of the Company for the year ended 31 December 2019 was approximately RMB184.8 million, representing a decrease of approximately RMB259.3 million or approximately 58.4% as compared with approximately RMB444.1 million for the same period of 2018.

Basic earnings per share for the year ended 31 December 2019 amounted to approximately RMB0.05 (2018: approximately RMB0.12).

The board of directors (the “Board”) of the Company proposed to declare a final dividend of RMB0.01 per share (tax inclusive) for the year ended 31 December 2019 (2018: RMB0.04 (tax inclusive)).

Chairman's Statement



Dear Shareholders,

On behalf of the Board, I am pleased to announce the annual results of the Group for the year ended 31 December 2019 (the "Period" or the "Year"). The Group's annual results have been audited by the Company's auditor, ShineWing Certified Public Accountants (Special General Partnership). It is my pleasure to present the annual results of the Group as well as its sustainable development strategy and outlook to shareholders.

RESULTS REVIEW

Looking back at 2019, international unilateralism and trade protectionism have intensified, and geopolitical uncertainties have increased. Although the US economy has achieved growth, the global economy showed a decelerating trend because the political turmoil of Brexit continues, the economics in the Euro zone is stagnant, the economic growth of Japan has slowed down, and the adjustment in emerging economies have continued. As the growth rates of major economies have generally slowed down, especially the ups and

Chairman's Statement (Continued)

downs of China-US economic and trade negotiations, casting shadow over the sluggish international economic and trade environment, the global economic growth has slowed down generally.

Looking around China, the impact of slowdown in the international economy and China-US trade conflicts has started to manifest, economic structural contradictions have become prominent, market demand was weakening, corporate profits were decreasing, the difficulties of real economy were increasing, and economic downward pressure was relatively large. Meanwhile, as the rising pork prices have pushed up consumer prices, China's economy which is in the stage of climbing slope has been tested. Facing the complicated economic situation, the Chinese government adhered to supply side structural reform, implemented proactive fiscal policies and sound monetary policies to promote economic growth, increased investment in infrastructure and industrial credit, accelerated deepening of market-oriented reform, sped up wide application of 5G technology development, innovated and activated development potential, broadened economic driving force of domestic demand, and expanded development opportunities of multilateral trade between countries, coordinating promotion of growth-stabilizing, reform-promoting, structure-adjusting and risk-preventing; improving macro-control to stabilize employment, finance, foreign trade, foreign capital, investment and confidence. The GDP growth rate for the year was approximately 6.1%, the total economic output was RMB99 trillion, and the GDP per capita exceeded USD10,000 dollar.

The Group adopted the new "321" development strategy as the guideline and fully implemented the "1334" work measures. The Group continued to adhere to the expansion of multiple markets, continued technological innovation, and accelerated intelligent transformation, risk-preventing management and introduced and cultivated high-end talents, laying the foundation for the Group to achieve a benign circle as a whole. However, affected by the domestic and foreign downward economy, slowdown in investment and the lack of orders, the overall business growth of the Group was lower than expected.

Total operating revenue of the Group as at 31 December 2019 was approximately RMB5,516.8 million (2018: RMB5,284.3 million), representing an increase of approximately RMB232.5 million or approximately 4.4% over last year. Gross profit was approximately RMB1,038.7 million (2018: approximately RMB1,245.9 million), representing a decrease of approximately RMB207.2 million or approximately 16.6% over last year. Profit attributable to the shareholders of the Company amounted to approximately RMB184.8 million (2018: approximately RMB444.1 million), representing a decrease of approximately RMB259.3 million or approximately 58.4% over last year.

Chairman's Statement (Continued)

During the Period, the Group's administrative expenses accounted for approximately 9.9% of the revenue while selling expenses accounted for approximately 5.6%. The administrative expenses and selling expenses was higher than last year for approximately 4.9% in general. The Group maintained a stable financial position during the Period. As at 31 December 2019, total cash and bank deposits of the Group amounted to approximately RMB2,094.6 million, representing a slight decrease of approximately 3.2% as compared to the same period of last year.

Earnings per share for the Period were approximately RMB0.05 (2018: approximately RMB0.12). Total assets as at 31 December 2019 amounted to approximately RMB16,517.8 million (31 December 2018: approximately RMB16,277.7 million), while total liabilities amounted to approximately RMB9,228.7 million (31 December 2018: approximately RMB9,048.0 million); and net asset per share was approximately RMB1.98 (31 December 2018: RMB1.96).

BUSINESS REVIEW AND OUTLOOK

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

In 2019, the Group fully grasped the opportunity from the recovery of the wind power market. The orders of wind power blades business reached RMB1.27 billion, driving the growth of overall operating income of the segment. Stimulated by large hydropower equipment, stick prop porcelain insulator used for high speed railway, high speed variable frequency direct drive single stage centrifugal blowers, Generation IV nuclear lead cold reactor transfer pump, high pressure oil-free lubricated natural gas compressor and other products, the operating income of business such as hydropower equipment, wire and cable, industrial fans, industrial pumps and gas compressors maintained stable growth. The operating income of clean energy segment reached approximately RMB4,049.4 million, representing an increase of approximately 15.7% from the same period of last year. However, due to the intensified market competition in the wind power blades market, rising raw material costs, increased labor costs and a large decline in gross profit margin, the operating performance of the segment reached approximately RMB248.7 million, representing a decrease of approximately 7.8% from the same period of last year.

Chairman's Statement (Continued)

In 2019, the wire, cable and materials business actively created a “hydropower integration” and “one-stop sales platform”, and increased its market share; the industrial pump business actively expanded overseas market and successfully made sales of HSDZ50-170 charging pump, HSDZ160-65 medium-pressure safety injection pump, H3D6-12/24 boric acid injection pump and H3D5-6/24 hydraulic test pump in Pakistan. Four types of large-scale industrial water pumps suitable for the third generation of PWR nuclear power plants independently developed by the Company, including the chemical container water pump (Class D equipment), “Hualong One” reactor cavity water cooling pump (RCC-M Level 3), auxiliary electric water supply pump (Nuclear Safety Level 3, RCC-M Level 2) and start-up water supply pump, passed the examination of the state-level nuclear power expert group; “centrifugal steam compressor unit used for MVR system” of industry blowers business successfully passed the identification as the city-level key new product.

In addition, Chongqing Cummins Engine Company Limited (“Chongqing Cummins”), a joint venture of the Company, is principally engaged in the production of high-horsepower diesel engine. In 2019, Chongqing Cummins actively responded to the impact of market downturn, implemented active marketing strategy, and increased its exploring in the markets such as power equipment, engineering machinery, petroleum machinery and ships and overseas markets. The sales of engines with more than 500 horsepower still maintained leading position in the market, and its annual performance remained overall stable. The construction project of the high-power engine technology R&D center of Chongqing Cummins has been put into use, and the new high-power engine plant project commenced construction and is expected to be completed and put into operation in 2020. It is expected that the business will remain stable throughout the year of 2020. The annual results of Chongqing Cummins in 2019 are set out in Note VIII, 3 to the consolidated financial statements.

Chairman's Statement (Continued)

Looking forward to 2020, the Group will continue to firmly grasp the opportunity of the recovery of wind power market, strive to expand high-quality EPC hydropower projects, steadily promote market application of key nuclear power equipment, and consolidate market share of electrical wires and cables and materials businesses in real estate, hydropower, urban rail transit, railway and other fields. It is expected that the segment will achieve better growth.

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

Following the State launched "3-Years Action Plan to Accelerate the Development of the New Generation of Artificial Intelligence Industry (2018-2020)", the Group actively developed in-depth coordination and integration of intelligent manufacturing and industrial informatization, actively promoted the rapid development of intelligence level for key equipment, information technology, management software, platform software, industrial Internet and system solutions. The smart electronic business leads the technology innovation and was selected as the first batch of providers of intelligent manufacturing system solutions by the Ministry of Industry and Information Technology. However, affected by the continuous decline in the market demand of automotive industry, as well as the lack of market demand in the machinery industry, petroleum machinery and ships, the market demand for smart machine tool business has declined precipitously, and the operating income and operating performance have decreased significantly. Accordingly, the high-end smart equipment segment recorded overall turnover of approximately RMB1,319.6 million, representing a decrease of approximately 17.5% from the same period of last year. The operating loss of the segment achieved approximately RMB258.1 million, representing a decrease in profit of approximately RMB280.5 million from the same period of last year.

Looking forward to 2020, the Group will take advantage of the opportunities of the rapid development of smart manufacturing to accelerate the development of high-quality development of smart gear machine tools, smart screw machine tools and smart electronics, and will continue to promote the construction of smart technology and applied research centers, 3D printing centers, smart manufacturing displays and experience centers. It is expected that the segment will achieve recovery growth.

Chairman's Statement (Continued)

Industrial services (industrial empowerment, financing, trading, etc.)

In 2019, the “Industrial Internet Development Action Initiative (2018-2020)” and the “Guidance for Industrial Internet Network Construction and Promotion” were issued successively by the PRC. The Group sped up the construction of the intelligent manufacturing ecosystem of the empowerment center, and built two-level collaborative innovation system with corporate technology center; the Group completed the partner confirmation with SAP, and entered into strategic cooperation agreements with Shanghai PLM and other domestic and foreign partners; the centralized procurement of bulk materials directly reduced the procurement cost of the Group by approximately RMB10.0 million; the financial business maintained a stable operation; the operating income of the segment reached approximately RMB145.4 million, representing a decrease of approximately 20.7% from the same period of last year, and the operating results of the segment reached approximately RMB42.1 million, representing an increase of approximately 2.2% from the same period of last year.

Looking forward to 2020, the Group will continue to accelerate the implementation of digital upgrade demonstration projects for hydropower equipment and the construction of digital projects such as e-procurement platform. The Group will promote the research on the application of intelligentized big data operation and the construction of intelligent warning and diagnosis system for ultrahigh-head impact-type hydroelectric turbine generators and life cycle project system of industrial fan products, enabling technologies for digital transformation of enterprises. The overall operating performance of the segment will remain stable throughout the year.

AWARDS

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

- On 2 January 2019, the Notice on Releasing the 2018 (25th Batch) Newly Accredited List and Full List of National Enterprise Technology Centers (Fa Gai Gao Ji [2019] No.36) confirmed that Chongqing Water Turbine Works Co., Ltd. (“Chongqing Water Turbine”), a subsidiary of the Company, was recognized as the National Enterprise Technology Center;
- The “key technology, process equipment and automatic production line of high-speed dry hobbing” project of Chongqing Machine Tools (Group) Co., Ltd. (“Chongqing Machine Tools”), a subsidiary of the Company, was awarded the first prize of Science and Technology Progress Award by China Machinery Industry Federation;

Chairman's Statement (Continued)

- Chongqing Machine Tools and Chongqing Pump Industry Co., Ltd. ("Chongqing Pump"), both subsidiaries of the Company, were included in the first batch of Chongqing digital workshops and smart factories for 2019;
- Chongqing Pump and Chongqing Water Turbine, both subsidiaries of the Company, were included in Chongqing industrial internet (industrial intelligence) demonstration projects in 2019;
- Chongqing Unication Electronic Technology Co., Ltd ("Chongqing Unication"), a subsidiary of the Company, was awarded the " 'Small Giant' Enterprise of Specialty, Excellency, Uniqueness and Innovation for 2018" by the Ministry of Industry and Information Technology, and was included in the Benchmark Enterprises in Intelligent Manufacturing in Chongqing for 2019 and the first batch of Chongqing digital workshops and smart factories for 2019;
- Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd. ("Chongqing Intelligent"), a subsidiary of the Company, was included in the intelligent manufacturing system solution providers of the Ministry of Industry and Information Technology for 2019.

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

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

Chairman's Statement (Continued)

The Group possesses 4 state-level enterprises technical centers, 1 famous brand in the PRC, 5 well-known trademarks in the PRC, 16 technical centers in Chongqing and 190 patented technologies and continues to invest in research and development.

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

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

DEVELOPMENT STRATEGIES

Development strategies and work priorities of the Group in 2020 are as follows:

I. Development Strategies

2020 is the planning year of "Fourteenth Five-Year" Plan. Facing the multiple tests of "acceleration period of domestic manufacturing industry transformation and upgrading", "pilot transformation period of deepening the reform of state-owned capital investment corporations" and "critical stage of comprehensively promoting from stepping into benign cycle to high quality as a whole", the Group will adhere to adopt the new "321" development strategy as the overall strategy, the supply side structural reform as the main line, the reform and efficiency as the focus, and the "1334" work as starting point, which is: by focusing on market, quality guarantee, delivery guarantee and service guarantee, reduction of costs, reduction of "accounts receivable and inventory", reduction of liabilities, enhancement of technological innovative force, enhancement of reformation innovation force, enhancement of risk prevention and control capabilities, and enhancement of cohesiveness and develop consensus, the Group will actively respond to the impacts and risks brought by the complicated external environment and economic downward pressure, and will comprehensively improve profitability and achieve high-quality development.

Chairman's Statement (Continued)

II. Work Priorities

(1) Grab market opportunities

First, fight in groups and coordinated with each other. We will establish a long-term cooperation with large group companies, construction units, design institutes and others, and will bring together subsidiaries with common customer base, so as to realize information exchange and resource sharing, and to seize market opportunities together. Relying on the "One Belt, One Road" policy of the country and leveraging the synergies of overseas high-quality EPC projects of hydropower equipment, we will make our efforts to increase exports of industrial fans, industrial pumps, wires and cables in Southeast Asia and South Asia markets. Second, increase output. In terms of wind power business, we will continue to grasp the tide of wind power installation and strive for more offshore wind power orders; in terms of the wire and cable business, we will step up bidding for rail transit construction projects; in terms of hydropower equipment business, we will make use of the synergy of the Nepal branch to secure EPC orders; in terms of the industrial pump business, we will actively follow up overseas nuclear pump projects; in terms of the smart electronics business, we will strengthen the development of smart products. Besides, we put efforts to develop motor controllers, RFID tags and other products in order to enhance the competitiveness of our smart electronics in the industry; in terms of intelligent gear machine tools, we will speed up product structure adjustment, accelerate research and development of products such as dry-cut gear hobbing machines and gear grinding machines; in terms of steering system business, we will accelerate the development of new products for China VI and achieve mass production. Third, make a transformation in industrial services. We will promote the operation and maintenance model of the aftermarket of the industrial pump business; accelerate the undertaking of the operation and maintenance business of hydropower equipment, the expansion of the spare parts market of automotive braking and steering system, and the transformation of intelligent gear machine tools and equipment, so as to realize the transformation from only manufacturing to "manufacturing + service".

Chairman's Statement (Continued)

(2) “Three guarantees” and improve quality

First, ensure delivery: optimize any bottleneck process in production, improve internal collaboration, adjust production organization and collaboration models. Guide the subsidiaries to form an integrated connection of product design, production organization, process control, customer communication and others; improve the efficiency of product delivery with quality warranty. Second, ensure quality: continue to develop the quality culture of the Company, set up high quality and high standards, promote QC activities, strengthen quality control throughout the process, improve quality control and ensure product quality. Third, ensure service: improve marketing system, optimize the user structure and after-sales service system, pay more attention to customers' satisfaction and after-sales advice tracking, focus on improving customers' dissatisfaction, and ensure that customers' satisfaction reaches the expected goals.

(3) “Three reductions” and enhance efficiency

First, reduce costs: with budget control as the main line, promote subsidiaries to control and reduce costs; continue to do a full coverage of bulk materials centralized procurement to ensure that the subsidiaries of the Group reduce costs and achieve the goals of centralized procurement and cost reduction. Second, reduce the “two funds”: strengthen the control of receivables, pay close attention to and prevent long-term receivable risks, and strictly manage the management of the collection and payment terms of the contract; strengthen inventory and storage, control the backlog of pre-investment, track customer project progress in a timely manner, maintain close communication with customers to achieve timely delivery and reduce inventory. Ensure that the proportion of “two funds” reaches a reasonable level. Third, reduce debt: control the financing scale, adjust the borrowing period, financing channels and financing methods, make good use of the platform of financial companies, reduce financial costs and risks, and maintain a reasonable level of the debt ratio of the Group.

Chairman's Statement (Continued)

(4) “Four enhancements” and empowerment

1. *Continue innovation and enhance supporting*

First, prepare the “Fourteenth Five-Year Plan” of the Group: re-examine the existing industry and product structure, and accelerate the development of big data and intelligent industries. Second, enhance the driving force for technological innovation: increase the proportion of the investment in research and development in technological innovation; speed up the applications for new patents and accelerate the research and development of key products; promote the development of service-oriented manufacturing such as industrial pumps, wind power, and hydropower equipment; carry out remote operation and maintenance services and promote industrial digital development; planning new projects such as new four-nozzle large-capacity high-head hydropower units, development of cloud platform for intelligent manufacturing digital workshop operation control and other new projects. Third, ensure the progress of major construction projects: complete the equipment installation and commissioning for phase II of the new base of high-powered engine project of Chongqing Cummins at the end of the year; start construction of the relocation project for the transformer business in the second half of the year; complete the relocation of the production base of gas compressor business on schedule; promote the industrialization and intelligent manufacturing of special cables for wire and cable business; and start the construction of a large-scale diaphragm pump project. Fourth, strengthen digital application: promote the application capacity of the empowerment center and create an innovation system to achieve two-level collaboration with the corporate technology center; complete the intelligent manufacturing demonstration project for the digital workshop of the hydropower equipment business; promote the application research related to the remote operation and maintenance of industrial pump business based on big data intelligence, promote the construction of intelligent early warning and diagnosis system for ultra-high head impact generator set in hydropower equipment business, and promote the system construction of wind power business products in the whole life cycle, so as to realize the digital transformation of the Group; carry out automatic accounting of financial costs of business units of pilot subsidiaries.

Chairman's Statement (Continued)

2. Speed up reform and increase vitality

First, take advantage and grasp mixed reforms opportunities. Taking the opportunity of setting up a state-owned capital investment company by the parent group, the Group will make good hierarchical authorization for the reform of secondary specialized companies; actively promote the reform of mixed ownership among the relatively mature subsidiaries. Second, "one enterprise and one policy", implement a strategy for each enterprise. For key subsidiaries, we will take "ensure increment + promote reform + enhance management + revitalize assets" as the main path, formulate action plans according to the situation of different subsidiaries, and promote the implementation of the plan in a multi-pronged manner to ensure that the goals are achieved. Third, optimize human resources. Focusing on improving overall labor productivity, we will reduce the staff and increase the efficiency of our subsidiaries, and support the advantageous subsidiaries to set up professional teams and optimize the structure. Fourth, revitalize existing assets. We will further sort out the inefficient and ineffective assets of all sub-subsidiaries, and speed up the process of revitalizing disposal.

3. Improve the mechanism to prevent and control risks

First, prevent and control operational risks. We will strengthen operational process controls, in order to prevent and control significant risks in the current period or minor risks in the future of subsidiaries that are currently in difficulty in production and operation, risks in product quality and delivery of certain businesses, and major risks in safety, environmental, and occupational health. Second, prevent and control financial risks. We will improve the financial system, optimize the structure of assets and liabilities, strengthen the management of "two funds", prevent and control financial data risks, capital and debt risks, asset impairment risks, tax and foreign exchange regulatory and other compliance risks. Third, prevent and control legal risks. We will vigorously promote the management of enterprises according to law, enhance risk awareness, and improve the risk control system; prevent and control non-compliance risk in decision-making procedures, risks in major litigations and risks in major commercial contracts. We will put efforts in the risk control and the construction of a team of legal personnel so as to improve our professional capabilities in risk prevention.

Chairman's Statement (Continued)

4. **Standardize governance and strengthen synergy**

First, make scientific decisions and carry on effective controls. Trial implementation of the system for the appointment of external independent directors and supervisors by subsidiaries; implementation of professional manager selection; implementation of rotation of financial directors of subsidiaries; strengthen the risk prevention and control and execution supervision of overseas subsidiaries. Second, optimize the incentive and constraint mechanism and implement diversified incentive constraints. Third, improve service, strengthen coordination and cooperation, guide and help subsidiaries to solve current operating priorities and difficulties, and form an overall synergy.

SUMMARY

Looking forward to 2020, the novel coronavirus pneumonia epidemic (the "Epidemic") has a short-term effect on China's economic development, and the domestic manufacturing PMI hit a record low to 35.7% in February. The world economy is affected, obviously slowing down and exists many uncertainties by the spread of multi-national epidemic. Furthermore, tensions in global trade, turbulence in financial markets, and escalation of geopolitical tensions all cast a haze on the world economy in 2020. Although positive events, such as the looser monetary policies of major economies, positive news about Sino-US economic and trade negotiations, and the weakening of concerns about Britain's "No-deal Brexit", may play a role in boosting market sentiment, however, continued policy uncertainty, weak business confidence and declining fiscal stimulus in the United States may lead to a slowdown in US economic growth, while the development of manufacturing industry in Europe will continue to be hampered by global uncertainty, therefore, the overall global environment has not changed essentially. 2020 will be the final year for China to build a well-off society in an all-round way and carry out the "Thirteenth Five-Year" Plan. Supported by the proactive fiscal policies and prudent monetary policies, China will continue to adhere to supply-side structural reforms and optimization, accelerate the development of strategic emerging industries, increase investment in infrastructure, and promote high-quality economic development. In addition, due to the steady growth of household consumption, the GDP growth rate of China in 2020 will be basically the same as in 2019, maintaining steady and rapid development. By virtue of the opportunities along with the increase of investment in clean energy, environmental protection, urban rail transit and intelligent manufacturing of China and "One Belt, One Road" initiatives, and with the help of Chongqing's efforts to build an entire industry chain of the core screen core network and build an economic circle of Chongqing and Sichuan, the Group will accelerate the

Chairman's Statement (Continued)

manufacturing and market development of wind power, hydropower, nuclear power, power generation, transmission, distribution and high-end smart equipment, and actively promote the overall entry into a virtuous cycle of development. The Group is taking proactive measures to actively respond, and striving to minimize the impact of the Epidemic.

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

Executive Director and Chairman

Mr. Wang Yuxiang

Chongqing, the PRC
27 March 2020

Management's Discussion and Analysis

OUTLOOK AND PROSPECT

Looking forward to 2020, the novel coronavirus pneumonia epidemic (the "Epidemic") has a short-term effect on China's economic development, and the domestic manufacturing PMI hit a record low to 35.7% in February. The world economy is affected, obviously slowing down and exists many uncertainties by the spread of multi-national epidemic. Furthermore, tensions in global trade, turbulence in financial markets, and escalation of geopolitical tensions all cast a haze on the world economy in 2020. Although positive events, such as the looser monetary policies of major economies, positive news about Sino-US economic and trade negotiations, and the weakening of concerns about Britain's "No-deal Brexit", may play a role in boosting market sentiment, however, continued policy uncertainty, weak business confidence and declining fiscal stimulus in the United States may lead to a slowdown in US economic growth, while the development of manufacturing industry in Europe will continue to be hampered by global uncertainty, and the Epidemic will have a short but rather severe impact on the world economy, therefore it is expected that the overall global environment has no substantial change in recovery trend. There are still certain uncertainties about the economic recovery, and the global GDP growth is expected to slow down flatly.

2020 will be the final year for China to build a well-off society in an all-round way and carry out the "Thirteenth Five-Year" Plan. Supported by the proactive fiscal policies and prudent monetary policies, China will continue to adhere to supply-side structural reforms, accelerate the development of strategic emerging industries, increase investment in infrastructure, and promote high-quality economic development. In addition, due to the steady growth of household consumption, the GDP growth rate of China in 2020 will be expected to keep basically the same as in 2019, maintaining steady development.

The report of the 19th National Congress of the Communist Party of China proposes to actively promote the high-quality development of the manufacturing industry, taking "consolidation, enhancement, promotion and unblocking" as the main line of work, accelerate the transformation and upgrade of the industrial chain and the cultivation of new kinetic energy, and vigorously develop the transformation and upgrading of advanced traditional manufacturing industry, striving to reduce the cost of land, energy, logistics and institutional cost of the enterprise; to accelerate the cultivation of the domestic market and deepen the potential of domestic demand; to improve the business environment, reduce taxes and fees, provide policy support to serve the manufacturing and consumer industries, and increase direct financing for technology-based and technical-based enterprises; and to cultivate a new group of innovative leading enterprises with global competitiveness.

Management's Discussion and Analysis (Continued)

In 2020, by virtue of the opportunities along with the increase of investment in clean energy, environmental protection, urban rail transit and intelligent manufacturing of China and “One Belt, One Road” initiatives, and with the help of Chongqing’s efforts to build an entire industry chain of the core screen core network and build an economic circle of Chongqing and Sichuan guided by the “1334” work measures and with “one policy for one enterprise” as the starting point, the Group will actively respond to the impact and risks of the complex external environment and economic downward pressure; improve our comprehensive analysis capabilities, strengthen implementation of strategies and teamwork; accelerate the manufacturing and market development of wind power, hydropower, nuclear power, power generation, transmission, distribution and high-end smart equipment; increase innovation investment and enhance the core competitiveness. In addition, the Group will also focus on high-quality development and profitability, strengthen the building of talent teams, introduce and cultivate high-end talents, implement active epidemic prevention measures for protecting employees, strengthen anti-risk capabilities, and actively promote the overall entry into a virtuous cycle of development. It is expected that the business of the Group will maintain healthy development in 2020.

BUSINESS REVIEW

Market Development

In 2019, the Group actively optimized its large marketing system and focused on target markets. Orders for wind power business and auto parts business achieved substantial growth, increased by 40% and 30% respectively over the same period of last year; orders for industrial fans, industrial pumps, gas compressors and smart electronics remained stable. However, due to the continued impact of the economic downturn in China and abroad, shrinking market demand and the structural adjustment of the domestic industry, orders for hydropower equipment business and smart gear machine tools business did not meet their annual expectations. During the year, the overall new orders of the Group decreased by 6% year-on-year.

Management's Discussion and Analysis (Continued)

Operational Quality

In 2019, the Group continued to cultivate a quality culture and took the opportunity to launch the third QC competition to strengthen the entire quality control process. Most subsidiaries have set up good quality control, but due to the increased quality loss of the auto parts business and industrial pump business, the quality loss of integrated RMB100 product sales revenue of the Group has slightly increased. The product delivery rate increased steadily, an increase of 4 percentage points over the same period of last year. Among them, the delivery rates of industrial pump and hydropower generation equipment business increased by more than 10%. Through a sound service system and personnel assessment mechanism, our subsidiaries have taken optimization measures from design, process and other sources to grasp the needs of customers in a timely manner. Customer satisfaction was higher, increased by 2 percentage points year-on-year.

Operational Efficiency

In 2019, the Group strengthened the two-level work responsibilities of its headquarters and subsidiaries, and paid close attention to process control. First, reduce the "two funds": the overall accounts receivable and inventory control have fulfilled the expectations of the Board, and operating cash inflows have increased significantly compared to last year. Second, reduce debt: the total financing of the Group is controlled within the budget range, the asset-liability ratio is approximately 1.8 percentage points lower than the expected target of the Board. Third, reduce costs: the average gross profit margin of the Group decreased by approximately 4.8 percentage points from last year. Among them, the gross profit margin of smart gear machine tools, wind power blades, gas compressors and intelligent electronics decreased significantly. The Group enhanced bargaining power against suppliers through centralized procurement platform, achieving cost reduction of approximately RMB10 million.

Management's Discussion and Analysis (Continued)

Technological Innovation

In 2019, the Group focused on the commercialization of innovation results. The R&D investment during the year accounted for 5.6%; 227 authorized patents (including 20 invention patents) were newly added, 106 key new products were developed, and 25 new products passed the municipal-level appraisal, the Group's annual goals were fully fulfilled; SZDP centrifuge pumps, MVR centrifugal steam compressors and other new products and new technologies have been put into operation; a number of innovative projects such as digital workshops and high-end multi-level centrifugal pumps for hydropower equipment business were launched on schedule; Chongqing Industrial Empowerment Center was established, and commenced demonstration project construction; 4 series of high-end pumps such as the chemical container water pump of the nuclear power station for industrial pump business passed the major new product appraisal of China Machinery Industry Federation (中國機械工業聯合會); and 2 municipal enterprise technology centers have been set up. We continuously received support from various innovation policies throughout the year.

Reform and Restructuring

In 2019, the Group completed the liquidation and closure of its subsidiary in industrial pump business namely Yongtong Gas, the phased work of overall asset transfer of Tong Kang Water Affairs, the subsidiary for industrial blower business, and the bankruptcy liquidation of an Italian company ("WGP"); promoted the joint venture and corporation in wind resources development projects of wind power business; completion of the transfer of the land and properties built thereon of Songqiao by-pass for the wire and cable business and land of Yongtong Factory, the subsidiary for the industrial pump business; completed the disposal of part of inefficient assets for the smart gear machine tools business; and deepened the human resources reform. The total number of employees enrolled was under control within the target range during the year, and the number of secondary management departments decreased by 4.4%.

Management's Discussion and Analysis (Continued)

Risk Management

In 2019, the Group improved its risk control and internal control system. The Group revised the "Risk Management Measures", completed the risk control evaluation of the Company and its two subsidiaries, comprehensively carried out corporate legal risk investigation, self-inspection and "review (回頭看)" of internal control, and established a risk prevention and control collaboration mechanism. The Group enhanced the legal guidance for major projects of subsidiaries, to help them properly deal with operational risks and legal risks. The Group also strengthened the audit supervision and risk analysis.

RESULTS OVERVIEW

Operation Analysis

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

In 2019, the Group fully grasped the opportunity of the recovery of the wind power market. The orders of wind power blades business reached RMB1.27 billion, driving the growth of overall operating income of the segment. Stimulated by large hydropower equipment, stick prop porcelain insulator used for high speed railway, high speed variable frequency direct drive single stage centrifugal blowers, Generation IV nuclear lead cold reactor transfer pump, high pressure oil-free lubricated natural gas compressor and other products, the operating income of business such as hydropower equipment, wire and cable, industrial fans, industrial pumps and gas compressors maintained stable growth. The operating income of clean energy segment reached approximately RMB4,049.4 million, representing an increase of approximately 15.7% from the same period of last year. However, due to the intensified market competition in the wind power blades market, rising raw material costs, increased labor costs and a large decline in gross profit margin, the operating performance of the segment reached approximately RMB248.7 million, representing a decrease of approximately 7.8% from the same period of last year.

Management's Discussion and Analysis (Continued)

In 2019, the wire, cable and materials business actively created a “hydropower integration” and “one-stop sales platform”, and increased its market share; the industrial pump business actively expanded overseas market and successfully made sales of HSDZ50-170 charging pump, HSDZ160-65 medium-pressure safety injection pump, H3D6-12/24 boric acid injection pump and H3D5-6/24 hydraulic test pump in Pakistan. Four types of large-scale industrial water pumps suitable for the third generation of PWR nuclear power plants independently developed by the Company, including the chemical container water pump (Class D equipment), “Hualong One” reactor cavity water cooling pump (RCC-M Level 3), auxiliary electric water supply pump (Nuclear Safety Level 3, RCC-M Level 2) and start-up water supply pump, passed the examination of the state-level nuclear power expert group; “centrifugal steam compressor unit used for MVR system” successfully passed the identification as the city-level key new product.

In addition, Chongqing Cummins Engine Company Limited (“Chongqing Cummins”), a joint venture of the Company, is principally engaged in the production of high-horsepower diesel engine. In 2019, Chongqing Cummins actively responded to the impact of market downturn, implemented active marketing strategy, and increased its exploring in the markets such as power equipment, engineering machinery, petroleum machinery and ships and overseas markets. The sales of engines with more than 500 horsepower still maintained leading position in the market, and its annual performance remained overall stable. The construction project of the high-power engine technology R&D center of Chongqing Cummins has been put into use, and the new high-power engine plant project commenced construction and is expected to be completed and put into operation in 2020. It is expected that the business will remain stable throughout the year of 2020. The annual results of Chongqing Cummins in 2019 are set out in Note VIII, 3 to the consolidated financial statements.

Management's Discussion and Analysis (Continued)

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

Following the State launched "3-Years Action Plan to Accelerate the Development of the New Generation of Artificial Intelligence Industry (2018-2020)", the Group actively developed in-depth coordination and integration of intelligent manufacturing and industrial informatization, actively promoted the rapid development of intelligence level for key equipment, information technology, management software, platform software, industrial Internet and system solutions. The smart electronic business leads the technology innovation and was selected as the first batch of providers of intelligent manufacturing system solutions by the Ministry of Industry and Information Technology. However, affected by the continuous decline in the market demand of automotive industry, as well as the lack of market demand in the machinery industry, petroleum machinery and ships, the market demand for smart CNC machine tool business has declined precipitously, and the operating income has decreased significantly. Accordingly, the high-end smart equipment segment recorded overall turnover of approximately RMB1,319.6 million, representing a decrease of approximately 17.5% from the same period of last year. The operating loss of the segment reached approximately RMB258.1 million, representing a decrease in profit of approximately RMB280.5 million from the same period of last year.

Industrial services (industrial empowerment, financing, trading, etc.)

In 2019, the "Industrial Internet Development Action Initiative (2018-2020)" and the "Guidance for Industrial Internet Network Construction and Promotion" were issued successively by the PRC. The Group sped up the construction of the intelligent manufacturing ecosystem of the empowerment center, and built two-level collaborative innovation system with corporate technology center; the Group completed the partner confirmation with SAP, and entered into strategic cooperation agreements with Shanghai PLM and other domestic and foreign partners; the centralized procurement of bulk materials directly reduced the procurement cost of the Group by approximately RMB10.0 million; the financial business maintained a stable operation; the operating income of the segment reached approximately RMB145.4 million, representing a decrease of approximately 20.7% from the same period of last year, and the operating results of the segment reached approximately RMB42.1 million, representing an increase of approximately 2.2% from the same period of last year.

Management's Discussion and Analysis (Continued)

SALES

For the year ended 31 December 2019, the Group's operating revenue amounted to approximately RMB5,516.8 million, an increase of approximately RMB232.5 million or approximately 4.4% as compared with approximately RMB5,284.3 million for the same period of 2018. As compared with 2018, the operating revenue of clean energy equipment segment was approximately RMB4,049.4 million (accounting for approximately 73.4% of total revenue), an increase of approximately 15.7%; operating revenue of high-end smart equipment segment was approximately RMB1,319.6 million (accounting for approximately 23.9% of total revenue), a decrease of approximately 17.5%; operating revenue of industry service segment was approximately RMB145.4 million (accounting for approximately 2.7% of total revenue), a decrease of approximately 20.7%. In view of the above, it is mainly due to the increase in sales revenue of wind power blades business. Conversely, the operating revenue of high-end smart equipment segment was affected by the downturn of domestic and foreign economy, and the smart machine tool business faced insufficient market demand.

It is expected that the outbreak of novel coronavirus pneumonia epidemic at the beginning of the year will have certain negative impact on the Group's business and its operating revenue in 2020. The Group will uphold the expected operation target with an aim to achieve stable growth.

GROSS PROFIT

The gross profit for 2019 was approximately RMB1,038.7 million, decreased by approximately RMB207.2 million or approximately 16.6%, as compared with approximately RMB1,245.9 million for the same period of 2018. The gross margin was approximately 18.8%, decreased by approximately 4.8 percentage points as compared with approximately 23.6% for the same period last year, which was mainly due to the decrease in gross profit which arose from the intensifying market competition, the rising cost of raw materials and staff cost of the wind power blades business and the decrease in operating revenue from the smart CNC machine tool business of the Group.

Management's Discussion and Analysis (Continued)

OTHER GAINS

The other gains for 2019 were approximately RMB227.2 million, an increase of approximately RMB93.6 million or approximately 70.1%, as compared with approximately RMB133.6 million for the same period of 2018, mainly attributable to the subsidies granted by the government and the technology R&D subsidies. Details are set out in Note VI, 55 to the consolidated financial statements.

GAIN ON DISPOSAL OF ASSET

The gain on disposal of asset for 2019 was approximately RMB131.7 million, an increase of approximately RMB31.3 million or approximately 31.2%, as compared with approximately RMB100.4 million for the same period of last year, mainly attributable to the gain on disposal of land and properties during the Period. Details are set out in Note VI, 60 to the consolidated financial statements.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for 2019 were approximately RMB852.3 million, an increase of approximately RMB40.1 million or approximately 4.9%, as compared with approximately RMB812.2 million for the same period of last year. The proportion of the selling and administrative expenses in turnover was in line with that of approximately 15.4% of the same period last year. The selling expenses increased by approximately RMB9.9 million as compared with the same period last year, mainly due to the increase in the cost of sales and after-sales service; the administrative expenses increased by approximately RMB30.2 million as compared with the same period last year, mainly due to the increase of approximately RMB15.6 million in depreciation expenses arising from the application of new computation method due to the change of lease accounting standards, and to the lesser extent, the increase of approximately RMB3.1 million and RMB9.1 million in employee benefits and in insurance expenses respectively. Details are set out in Note VI, 51 and Note VI, 52 to the consolidated financial statements.

OPERATING PROFIT

The operating profit for 2019 was approximately RMB241.5 million, significantly decreased by approximately RMB315.2 million or approximately 56.6%, as compared with approximately RMB556.7 million for the same period of 2018, mainly due to the decrease in gross profit margin of the wind power blades business and the smart CNC machine tool business.

Management's Discussion and Analysis (Continued)

NET FINANCE COSTS

The net interest expense for 2019 was approximately RMB158.2 million, increased by approximately RMB29.3 million or approximately 22.7%, as compared with approximately RMB128.9 million for the same period of 2018, mainly due to the increase in financing scale for the Period.

INVESTMENT INCOME

Investment income for 2019 amounted to approximately RMB295.4 million, a decrease of approximately RMB123.5 million or approximately 29.5% as compared with approximately RMB418.9 million for the same period of 2018, mainly due to the decrease of approximately RMB86.0 million in the share of investment income of associates and joint ventures as compared with the same period of last year. This was because of the decrease in sales of the high-horsepower products of Chongqing Cummins Engine Company Limited, which resulted in a decrease in investment income of approximately RMB36.2 million as compared with the same period last year; to the lesser extent, the decrease of approximately RMB22.0 million and approximately RMB19.1 million respectively in performance of Chongqing ABB Transformer Co., Ltd. and Chongqing Hongyan Fangda Automotive Suspension Co., Ltd. affected by the decline in market demand. Conversely, the performance of Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd. increased by approximately RMB9.0 million as compared with the same period last year, which was due to the adjustment of product structure, and to the lesser extent, the decrease was due to a decrease in gain on equity disposal of approximately RMB48.1 million as compared with the same period last year. Details are set out in Note VI, 56 to the consolidated financial statements.

INCOME TAX EXPENSES

The income tax expenses for the year ended 31 December 2019 were approximately RMB39.0 million, a decrease of approximately RMB21.5 million, or approximately 35.5%, as compared with approximately RMB60.5 million for the same period of 2018, mainly because of the decrease in income tax payables during the Period.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders for the year ended 31 December 2019 amounted to approximately RMB184.8 million, representing a decrease of approximately RMB259.3 million or approximately 58.4% as compared with approximately RMB444.1 million for the same period of 2018. Earnings per share amounted to approximately RMB0.05, decreased by approximately 58.3% as compared with approximately RMB0.12 of the same period of 2018.

Management's Discussion and Analysis (Continued)

DISTRIBUTABLE RESERVES

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

As at 31 December 2019, the Company's distributable reserve attributable to shareholders of the Company amounted to RMB2,675.9 million.

BUSINESS PERFORMANCE

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

	Revenue		Gross Profit		Segment Results	
	Period ended 31 December		Period ended 31 December		Period ended 31 December	
	2019	2018	2019	2018	2019	2018
	(RMB in millions, except for percentage)					
Clean energy equipment business						
Hydroelectric generation equipment	579.8	554.1	157.1	108.2	40.4	8.6
Electrical wires and cables	1,460.7	1,370.9	208.6	236.7	124.2	193.0
General machinery	1,303.9	910.0	118.9	201.9	(55.7)	20.6
Other products	705.0	664.5	251.3	250.0	139.8	47.4
Total	4,049.4	3,499.5	735.9	796.8	248.7	269.6
% of total	73.4%	66.2%	70.9%	64.0%	103.0%	48.4%
High-end smart equipment business						
CNC machine tools	556.4	883.4	101.0	246.2	(293.7)	(12.5)
Steering systems	418.0	410.9	77.3	72.3	12.1	14.3
Other products	345.2	304.9	49.5	57.5	23.5	20.6
Total	1,319.6	1,599.2	227.8	376.0	(258.1)	22.4
% of total	23.9%	30.3%	21.9%	30.2%	(106.9%)	4.0%

Management's Discussion and Analysis (Continued)

	Revenue		Gross Profit		Segment Results	
	Period ended 31 December		Period ended 31 December		Period ended 31 December	
	2019	2018	2019	2018	2019	2018
<i>(RMB in millions, except for percentage)</i>						
Industrial service business						
Trade business	63.3	105.5	3.9	3.5	(6.3)	1.3
Financial services	77.5	69.0	66.3	59.5	52.2	39.8
Other service	4.6	8.9	2.4	7.7	(3.8)	0.1
Total	145.4	183.4	72.6	70.7	42.1	41.2
% of total	2.7%	3.5%	7.0%	5.7%	17.4%	7.4%
Headquarters						
Total	2.4	2.2	2.4	2.3	208.8	223.5
% of total	–%	–%	0.2%	0.2%	86.5%	40.2%
Total	5,516.8	5,284.3	1,038.7	1,245.8	241.5	556.7

CLEAN ENERGY EQUIPMENT BUSINESS

The revenue of the clean energy equipment business for the year ended 31 December 2019 amounted to approximately RMB4,049.4 million, representing an increase of approximately RMB549.9 million or approximately 15.7% as compared with approximately RMB3,499.5 million for the same period of 2018, mainly due to the steady rising in sales revenue of wind power blades as compared with the same period of last year.

The gross profit of the clean energy equipment business for the Period amounted to approximately RMB735.9 million, representing a decrease of approximately RMB60.9 million or approximately 7.6% as compared with approximately RMB796.8 million for the same period of 2018, mainly due to the intensified market competition, rising raw material costs and increased labor costs in the wind power blades market resulting in the decrease in gross profit.

For the year ended 31 December 2019, the overall performance of the clean energy equipment operating segment was approximately RMB248.7 million, representing a decrease of approximately RMB20.9 million or approximately 7.8% as compared with the performance of approximately RMB269.6 million for the same period of 2018, which was mainly due to the decrease in gross profit in wind power blades business.

Management's Discussion and Analysis (Continued)

HIGH-END SMART EQUIPMENT BUSINESS

For the year ended 31 December 2019, the revenue of the high-end smart equipment operating segment was approximately RMB1,319.6 million, representing a decrease of approximately RMB279.6 million or approximately 17.5% compared to approximately RMB1,599.2 million for the same period in 2018. The decrease was due to the downward impact of domestic and foreign economies and insufficient market demand, resulting in a decline in sales revenue of the intelligent CNC machine tool business.

During the Period, the gross profit of the high-end smart equipment operating segment amounted to approximately RMB227.8 million, representing a decrease of approximately RMB148.2 million or approximately 39.4% compared to approximately RMB376.0 million for the same period in 2018, mainly due to the decrease in operating income of the intelligent CNC machine tool business of approximately RMB327.0 million, and its gross profit margin decreased from 27.9% in the same period last year to 18.2%.

The overall performance loss of the high-end smart equipment operating segment for the year ended 31 December 2019 amounted to approximately RMB258.1 million, while the performance profit for the same period in 2018 was approximately RMB22.4 million. The decrease in profit was approximately RMB280.5 million, which was mainly due to the decrease in sales and increase in losses of the intelligent CNC machine tool business.

INDUSTRIAL SERVICE BUSINESS

For the year ended 31 December 2019, the industrial service segment recorded a revenue of approximately RMB145.4 million, representing a decrease of approximately RMB38.0 million or approximately 20.7%, as compared with approximately RMB183.4 million for the same period of 2018, mainly due to the decrease in foreign trade business.

The gross profit of the industrial service segment for the period amounted to approximately RMB72.6 million, representing an increase of approximately RMB1.9 million or approximately 2.7% as compared with approximately RMB70.7 million for the same period of 2018.

Management's Discussion and Analysis (Continued)

The overall performance of the industrial service operating segment for the year ended 31 December 2019 was approximately RMB42.1 million, an increase of approximately RMB0.9 million or approximately 2.2% as compared with approximately RMB41.2 million for the same period of 2018.

CASH FLOW

As at 31 December 2019, the cash and bank deposits (including restricted cash) of the Group amounted to approximately RMB2,094.6 million (31 December 2018: approximately RMB2,164.7 million), representing a decrease of approximately RMB70.1 million or approximately 3.2%.

During the Period, the Group had a net cash inflow from operating activities of approximately RMB120.2 million (for the year ended 31 December 2018: net cash inflow of approximately RMB81.6 million), a net cash inflow from investing activities of approximately RMB26.5 million (for the year ended 31 December 2018: a net cash inflow of approximately RMB902.6 million), and a net cash outflow from financing activities of approximately RMB-179.0 million (for the year ended 31 December 2018: a net cash outflow of approximately RMB-582.7 million). Directors believe that the Group is financially sound and has sufficient resources to meet its operating capital needs and fund any predictable capital expenditure.

TRADE AND OTHER RECEIVABLES

As at 31 December 2019, the trade receivables and other receivables assets of the Group totaled approximately RMB3,891.7 million, representing an increase of approximately RMB326.9 million, as compared with approximately RMB3,564.8 million as at 31 December 2018, mainly due to increase in land receivables, and increase in receivables due to business growth of electrical wires and cables and industrial pumps, and increase in asset receivables for disposal. Please refer to Note VI, 4 and Note VI, 7 to the consolidated financial statements for detailed ageing analysis of the trade receivables.

Management's Discussion and Analysis (Continued)

TRADE AND OTHER PAYABLES

As at 31 December 2019, trade payables and other payables of the Group totaled approximately RMB2,143.1 million, basically the same as compared with approximately RMB2,121.7 million as at 31 December 2018. Please refer to Note VI, 30 and Note VI, 35 to the consolidated financial statements for detailed ageing analysis of the trade and other payables.

ASSETS AND LIABILITIES

As at 31 December 2019, the total assets of the Group amounted to approximately RMB16,517.8 million, representing an increase of approximately RMB240.1 million as compared with approximately RMB16,277.7 million as at 31 December 2018. Total current assets amounted to approximately RMB10,350.7 million, representing a decrease of approximately RMB179.4 million as compared with approximately RMB10,530.1 million as at 31 December 2018, accounting for approximately 62.7% of total assets. However, total non-current assets amounted to approximately RMB6,167.1 million, representing an increase of approximately RMB419.5 million as compared with approximately RMB5,747.6 million as at 31 December 2018, accounting for approximately 37.3% of total assets.

As at 31 December 2019, total liabilities of the Group amounted to approximately RMB9,228.7 million, representing an increase of approximately RMB180.7 million as compared with approximately RMB9,048.0 million as at 31 December 2018. Total current liabilities were approximately RMB7,014.8 million, representing an increase of approximately RMB278.5 million as compared with approximately RMB6,736.3 million as at 31 December 2018, accounting for approximately 76.0% of total liabilities. However, the total non-current liabilities were approximately RMB2,214.0 million, representing a decrease of approximately RMB97.7 million as compared with approximately RMB2,311.7 million as at 31 December 2018, and accounting for approximately 24.0% of total liabilities.

As at 31 December 2019, the net current assets of the Group were approximately RMB3,335.9 million, representing a decrease of approximately RMB457.9 million as compared with approximately RMB3,793.8 million as at 31 December 2018.

Management's Discussion and Analysis (Continued)

CURRENT RATIO

As at 31 December 2019, the current ratio (the ratio of current assets to current liabilities) of the Group was 1.48:1 (31 December 2018: 1.56:1).

GEARING RATIO

As at 31 December 2019, by dividing the borrowing by the total capital, the gearing ratio of the Group was 41.2% (31 December 2018: 29.5%).

INDEBTEDNESS

As at 31 December 2019, the Group had an aggregate bank and other borrowings of approximately RMB3,005.5 million, representing an increase of approximately RMB384.8 million as compared with approximately RMB2,620.7 million (include bond payable) as at 31 December 2018.

Borrowings repayable by the Group within one year were approximately RMB1,362.9 million, representing an increase of approximately RMB384.5 million as compared with approximately RMB978.4 million as at 31 December 2018. Borrowings repayable by the Group after one year were approximately RMB1,642.6 million, representing a slight increase of approximately RMB0.3 million as compared with approximately RMB1,642.3 million (include bond payable) as at 31 December 2018.

SECURED ASSETS

As at 31 December 2019, approximately RMB557.1 million of the Group was deposited with the banks with pledge or restriction for use (31 December 2018: approximately RMB594.3 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 RMB1,060.3 million as at 31 December 2019 (31 December 2018: approximately RMB282.4 million).

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no significant contingent liabilities.

Management's Discussion and Analysis (Continued)

SIGNIFICANT EVENTS

Events in the Period

On 26 June 2019, the Company held the annual general meeting to consider and approve the following matters:

- (I) Re-election of the members of the fifth session of the Board: Mr. Wang Yuxiang, Ms. Chen Ping and Mr. Yang Quan as executive Directors, Mr. Huang Yong, Mr. Zhang Yongchao, Mr. Dou Bo and Mr. Wang Pengcheng as non-executive Directors, Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei as independent non-executive Directors of the Company. The term of the aforesaid Directors commenced from the date of the meeting until expiry of the term of the fifth session of the Board. The Board was authorized to fix the remuneration of each Director pursuant to the remuneration standard for Directors passed at the 2018 annual general meeting and to enter into a service agreement with each of them on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.
- (II) Re-election of the members of the fifth session of the supervisory committee of the Company: Mr. Sun Wenguang, Ms. Wu Yi and Mr. Wang Haibing as the supervisors of the Company. Mr. Xia Hua and Mr. Li Fangzhong were democratically elected as employee representative supervisors. The term of the aforesaid supervisors commenced from the date of the meeting until expiry of the term of the fifth session of the supervisory committee. The Board was authorized to fix the remuneration of each supervisor pursuant to the remuneration standard for supervisors passed at the 2018 annual general meeting and to enter into a service agreement with each of them on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.

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

Management's Discussion and Analysis (Continued)

SUBSEQUENT EVENTS

- (1) On 6 January 2020, Chongqing ABB Transformer Co., Ltd. ("Chongqing ABB"), an associated company of the Company, entered into the Overall Relocation Project of Chongqing ABB–Acquisition Agreement for the Land of Yuqing Temple and Aboveground Buildings in Jiulongpo District of Chongqing ABB Transformer Co., Ltd. (the "Land Acquisition Agreement") with Chongqing Jiulongyuan High-Tech Industry Group Company Limited, to disposal of a land with an area of approximately 42,366 square meters at the consideration of RMB850,000,000.00. For details, please refer to the announcement of the Board of the Company dated 6 January 2020 published on the website of the Stock Exchange and the Company's website.
- (2) Since the outbreak of the new coronavirus (the "Epidemic") nationwide from January 2020, the Group has actively responded to and strictly implemented various regulations and requirements for virus epidemic prevention and control of China, and donated RMB1.5 million to Chongqing Charity Federation immediately after the outbreak of the Epidemic. In order to ensure the prevention and control of the Epidemic and the production and operation, the Group and its subsidiaries have resumed work and production as of 26 February 2020, and supported the country to win the battle of prevention and control against the Epidemic in terms of supply security, social responsibility, internal management and occupational health.

The Group expects that the Epidemic will have a temporary impact on the production and operation of the Group. The extent of the impact will depend on the progress and duration of the epidemic prevention and control, and the implementation of local prevention and control policies, but it will not have a significant negative effect on the Group.

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

Management's Discussion and Analysis (Continued)

CAPITAL EXPENDITURE

In 2019, the total capital expenditure of the Group was approximately RMB231.5 million, which was principally used for environmental relocation, plant expansion, improvement of production technology and equipment upgrade (2018: approximately RMB611.8 million).

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had capital commitments of approximately RMB64.8 million (31 December 2018: approximately RMB53.2 million) in respect of fixed assets and intangible assets.

TREASURY POLICIES

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

RISK OF FOREIGN EXCHANGE

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

Management's Discussion and Analysis (Continued)

As at 31 December 2019, the bank deposits of the Group included HK dollars valued at approximately RMB1.5 million, US dollars valued at approximately RMB20.8 million, GBP valued at approximately RMB64.8 million and CHF valued at approximately RMB0.8 million (31 December 2018: HK dollars valued at approximately RMB0.1 million, US dollars valued at approximately RMB16.0 million, GBP valued at approximately RMB13.4 million, and EUR valued at approximately RMB4.7 million). Save as the aforesaid, the Group was not exposed to any significant risk of foreign exchange.

EMPLOYEES

As at 31 December 2019, the Group had a total of 8,699 employees (31 December 2018: 9,124 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.

Directors, Supervisors and Senior Management

The following table sets out information regarding our Directors:

Name	Age	Position
Wang Yuxiang	58	Executive Director, Chairman
Chen Ping	57	Executive Director, General Manager
Yang Quan	55	Executive Director, Vice General Manager
Huang Yong	57	Non-executive Director
Zhang Yongchao	42	Non-executive Director
Dou Bo	51	Non-executive Director
Wang Pengcheng	52	Non-executive Director
Lo Wah Wai	56	Independent Non-executive Director
Ren Xiaochang	63	Independent Non-executive Director
Jin Jingyu	54	Independent Non-executive Director
Liu Wei	55	Independent Non-executive Director

EXECUTIVE DIRECTORS

Mr. Wang Yuxiang (王玉祥), aged 58, has served as the Chairman, executive Director, chairman of the nomination committee and strategic committee of the Company since 18 June 2013. Mr. Wang was elected as the representative of The Fifth People's Congress of Chongqing Municipality and a Member of the Standing Committee of the Fifth People's Congress of Chongqing Municipality in January 2018. Mr. Wang was elected the representative of the Fifth Congress of the Chongqing Municipality of the Communist Party of China in May 2017. He joined the Parent Group and served as the chairman and Party Committee secretary since April 2013, and has also served as a director and chairman of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. since August 2013. Mr. Wang has over 30 years of experience in business and regional economic management. Mr. Wang served as the deputy director and a member of the Party Committee of Chongqing State-owned Assets Supervision and Administration Commission from June 2009 to April 2013 (and concurrently served as the Party Committee secretary of Chongqing Consultation Research Institute (重慶市諮詢研究院) from November 2011 to April 2013), the deputy director and a member of the Party group of Chongqing Economic and Information Technology Commission (重慶市經濟和信息化委員會) from March 2009 to June 2009, the deputy director and a member of the Party Group of Chongqing Economic Commission (重慶市經濟委員會) from April 2004 to March 2009 (during which he was delegated by three ministries and commissions including the Organization Department of the CPC Central Committee to take a temporary post as the deputy director of the

Directors, Supervisors and Senior Management (Continued)

Marketing Department of China Southern Power Grid from March to October 2006), the secretary of the Disciplinary Inspection Committee of China National Erzhong Group Co. from July 2000 to April 2004 (and concurrently served as the Party Committee secretary of Deyang Heavy Industry Park (德陽重工園區) from November 2000 to April 2004 and took a temporary post as the deputy secretary of Enterprise Work Committee of Chongqing Municipal Party Committee and the deputy secretary of the Communist Party Committee of SASAC of Chongqing City successively), the secretary of the Communist Youth League, vice-section level inspector and section level inspector of the Disciplinary Inspection Committee, Party branch secretary of heavy machinery workshop, office director, deputy plant manager, general Party branch secretary and plant manager of the Heavy Machinery Branch Factory (重機分廠) of China National Erzhong Group Co. from November 1984 to July 2000, and a worker of No. 3 metal workshop and an officer of the Communist Youth League of China National Erzhong Factory (中國第二重型機械廠) from December 1979 to November 1984. Mr. Wang is a senior economist, a senior political scientist, and the Executive Vice President of the Second Council of Chongqing Enterprises Confederation (重慶市企業聯合會), Chongqing Entrepreneurs Association (重慶市企業家協會) and Chongqing Federation of Industrial Economics (重慶市工業經濟聯合會). He is also a member of the Leading Group Office for the Development of Creative Industries in Chongqing (重慶市創意產業發展領導小組辦公室), and a director of the Fourth Council of China Machinery Industry Federation (中國機械工業聯合會). He graduated from Sichuan Cadre Correspondence School (四川幹部函授學院) with an associate degree in Party policy in September 1988, the correspondence course of economic management of the Party School of Sichuan Provincial Committee in December 1995, the program of Master of Business Administration (MBA) of Chongqing University in December 1999, the legal course of Party School of the CPC Central Committee with a bachelor's degree from August 2002 to December 2004 and the program of EMBA in Xiamen University in December 2011. He graduated from the Class of Chongqing Enterprise Leaders of Tsinghua University (one-year term) in December 2013.

Ms. Chen Ping (陳萍), aged 57, is the general manager of the Company. Ms. Chen engages in merger and reorganization of enterprises, equity investment, capital operations and other works, gaining extended experience in corporate management. She was elected as a deputy in the 5th Chongqing Municipality People's Congress of the Communist Party of China in May 2017. She also served as a vice chairman and director of Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd. from October 2016 up to now. She also served as vice chairman and director of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. from August 2016 up to now. She served as a chairman of Chongqing Cummins Engine Co., Ltd. from June 2016 up to now, the chairman of Chongqing Hi-tech Red Horse Capital Management Limited (重慶高新創投紅馬資本管理有

Directors, Supervisors and Senior Management (Continued)

限公司) from May 2015 until now. She was the vice president and a member of the Party Committee of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. from February 2004 to May 2016. She has been the chairman of Chongqing Machinery and Electronic Holding Group Xinbo Investment Management Co., Ltd. (重慶機電控股集團信博投資管理有限公司) from January 2016 to July 2016, the executive director (legal representative) of Chongqing Machinery and Electronic Holding Group Assets Management Co., Ltd. (重慶機電控股集團資產管理有限公司) from July 2009 to October 2014. She served as the assistant to the president of Chongqing Light Textile Holding (Group) Co., Ltd. and the manager of Chongqing Super Excellence Co., Ltd. from December 2002 to February 2004, a manager of assets operation department in Chongqing Light Textile Holding (Group) Co., Ltd. from March 2001 to December 2002, the deputy manager of assets operation department of Chongqing Light Textile Holding (Group) Co., Ltd. and president of Chongqing Longhua Printing Co., Ltd. (重慶龍華印務有限公司) from August 2000 to March 2001, the deputy section officer, section officer and assistant researcher of the enterprise management department of Chongqing Light Industry Bureau from October 1983 to August 2000. Ms. Chen is a senior economist with a Bachelor of Science after graduating with a major in biology from Yuzhou University in August 1983 and obtained a postgraduate degree in business administration from Chongqing Master College of Business Administration (重慶工商管理碩士學院) in July 2001 and a master degree in EMBA (Executive Master of Business Administration) from the school of business and economics of Chongqing University in December 2013.

Mr. Yang Quan (楊泉), aged 55, is an executive Director and Vice General Manager of the Company. He concurrently serves as chairman and director of Precision Technologies Group (PTG) Limited since September 2019, a vice general manager of the Company since May 2012, and an executive Director of the Company since December 2012, a director of Chongqing Shengong Machinery Manufacture Co., Ltd. since February 2018. He has been a director of Chongqing Youyan Smelting New Material Co., Ltd. (重慶有研重冶新材料有限公司) from July 2014 to October 2018. He concurrently serves as a director of Chongqing Hongyan Fangda Automotive Suspension Co., Ltd. (重慶紅巖方大汽車懸架有限公司) from June 2013 up to now and a director of Precision Technology Investment and Development Co., Ltd. (精密技術投資發展有限公司) from April 2012 up to now, a director of Chongqing Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司) from December 2011 to February 2018, and an executive director and general manager of Chongqing Shengpu Materials Co., Ltd. (重慶盛普物資有限公司) from December 2011 up to now. Mr. Yang has over 20 years of experience in enterprise management, once served as the manager of the business management department and assistant to general manager of the Company from August 2007 to May 2012, the head of the economic operation department and head of the business management department of the securities work steering team of Chongqing

Directors, Supervisors and Senior Management (Continued)

Machinery and Electronics Holding (Group) Co., Ltd. (重慶機電控股(集團)公司) from March 2004 to August 2007, the party branch secretary of the foundry workshop, deputy director of the “five-initiative” reform office, secretary and deputy director of the hot plate workshop, chief of the equipment division, managing factory director, and chief economist of Chongqing No. 2 Machine Tools Factory (重慶第二機床廠) from July 1987 to March 2004. Mr. Yang is an engineer, graduated from the College of Mechanical Engineering of Sichuan University with a bachelor’s degree in foundry in July 1987, and studied for EMBA in Xiamen University from November 2011 to June 2013.

NON-EXECUTIVE DIRECTORS

Mr. Huang Yong (黃勇), aged 57, joined the Parent Group in July 1984. Since July 2007, he has been a non-executive Director of the Company. Mr. Huang has been a director and the general manager of the Parent Company since 2004 to now. Since January 2011 to now, Mr. Huang has concurrently served as the chairman of Chongqing General Aviation Industry Group Co., Ltd. (重慶通用航空產業集團有限公司). He has also served as a director of Chongqing Jin Tong Scrap Car Recycling (Group) Co., Ltd. (重慶市金通報廢汽車回收處理(集團)有限公司) since March 2014 to now. Mr. Huang has over 20 years of experience in the automobile industry. Since January 2013 to June 2016, he has concurrently served as the chairman of Enstrom Helicopter Corporation (美國恩斯特龍直升機公司). He was the general manager of Chongqing General Aviation Industry Group Co., Ltd. (重慶通用航空產業集團有限公司) from January 2011 to May 2013 and the vice chairman and general manager of Chongqing Hongyan Motor Co., Ltd from 2003 to 2004. From 2000 to 2004, Mr. Huang was the general manager and thereafter the chairman of Chongqing Heavy Vehicle Group Co., Ltd. From 1984 to 2000, he worked in Sichuan Automobile Manufacturing Plant, and from 1996 to 2000, he served as the deputy plant manager in Sichuan Automobile Manufacturing Plant. Mr. Huang is a senior engineer and a tutor of postgraduate students of Chongqing University of Technology. He graduated from Hunan University with a bachelor’s degree in automobile manufacturing in 1984 and obtained his master’s degree in engineering from Chongqing University in 2000.

Mr. Zhang Yongchao (張永超), aged 42, has been a non-executive Director of the Company since June 2019. He has been the vice general manager of Chongqing Reguarantee Co., Ltd. since January 2019. He has served as employee supervisor and director of asset business department of Chongqing Yufu Assets Management Group Co., Ltd., chairman and secretary of Party branch of Chongqing Guodi Asset Management Co., Ltd. (重慶國地資產經營管理有限公司), chairman and general manager of Chongqing Guochuang Investment and Management Co., Ltd. (重慶國創投資管理有限公司) since January 2019. He served as the director of Risk Compliance Department of Chongqing

Directors, Supervisors and Senior Management (Continued)

Yufu Assets Management Group Co., Ltd. from August 2017 to July 2018 and an employee supervisor of Yufu Group since December 2017. He served as Party Secretary of the Justice Bureau of Banan District, Chongqing from September 2016 to August 2017. He served as the head of the Legislative Affairs Office, deputy director of the Office and member of the Party Committee of the People's Government of Banan District, Chongqing from January 2013 to September 2016. He served as the staff member of the Development Research Department, the assistant director of the Development Research Department and deputy director of the Office of the Board of Supervisors (Legal Affairs Department and Audit Department) and employee supervisor from September 2003 to January 2013. He served as an officer at the Policy and Regulation Division of the Chongqing Municipal Bureau of Land Resources and Housing from July 2001 to September 2003. He studied at the Graduate School of Business Administration of the School of Economics and Business Administration of Chongqing University from September 2005 to June 2008 and obtained a master's degree in business administration. From September 2001 to July 2004, he studied at the Civil and Commercial Law School of Southwest University of Political Science and Law and obtained a master's degree in law. He studied international trade at Department of Economics at the Southwest University of Political Science and Law from September 1997 to July 2004 and obtained a bachelor's degree in economics. He also majored in law and obtained a bachelor's degree in law.

Mr. Dou Bo (竇波), aged 51, has more than 20 years of financial management experience. Mr. Dou has served as secretary of the board and securities general manager of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) (stock code: 600939.SH) from July 2016 to now. He has been the securities general manager of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) from February 2011 to July 2017, and has been the general manager of financial assets department of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) from March 2008 to February 2011 during which he received his Master's degree in Business Administration in Chongqing University from March 2005 to December 2009. He was the chief financial officer of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from March 2007 to March 2008, was appointed as the chief accountant of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from March 2003 to March 2007, was appointed as deputy chief accountant of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from July 2002 to March 2003 and was appointed as deputy director of finance department of Chongqing Second Construction Engineering Company (重慶第二建築工程公司) from July 1996 to July 2002. In April 2000, he was the chief financial officer of Chongqing Tianyou Property Development Co., Ltd. (重慶天友物業發展有限公司) during which he graduated from accounting profession of Chongqing University in December 2001 through self-learning. From October 1988 to July 1996, he was appointed as cashier,

Directors, Supervisors and Senior Management (Continued)

accountant and financial officer of finance section in the fourth branch of Chongqing Construction Engineering Company (重慶第二建築工程公司四分公司). He graduated with the major in infrastructure finance in Chongqing Radio and Television University (重慶廣播電視大學) in September 1986 to July 1988.

Mr. Wang Pengcheng (王鵬程), aged 52, has an MBA degree at Chongqing University. He has served as the deputy general manager of the Chongqing office of China Huarong Asset Management Co., Ltd. from August 2012 up to now and a director of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) (stock code: 600939. SH) from May 2010 up to now, and held the following positions at the Chongqing office of China Huarong Asset Management Co., Ltd.: assistant general manager from November 2010 to July 2012; senior manager of the Innovation Business Department and the Risk Compliance Department from January 2010 to November 2010; senior manager of the Operational Management Department from February 2008 to January 2010; senior manager of the General Department from July 2007 to February 2008; senior deputy manager (in charge) of the General Department from September 2006 to July 2007; senior deputy manager of the General Department from July 2000 to August 2006; and office team leader of the preparation panel from January 2000 to June 2000. He held the following positions at Chongqing branch of Industrial and Commercial Bank of China: deputy chief of organization division of Organization Department (in charge) from September 1997 to December 2000; staff member and deputy chief of the general, cadres deployment, technical cadres management, and cadres management sections of the Personnel Division from September 1992 to August 1997; and guardian, cashier, clerk, accountant, and personnel director of Hongqiezixi sub-branch (紅茄子溪分理處) from June 1990 to August 1992.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Wah Wai (盧華威), aged 56, joined our Company in January 2008 and has been an independent non-executive Director of the Company and the chairman of the Company's Audit and Risk Management Committee since January 2008. He had more than eight years of experience in auditing and business consulting services in an international accounting firm, two years of which were spent in the United States. Mr. Lo was an independent non-executive director of Far East Pharmaceutical Technology Limited (stock code: 399. HK) in September 2004. A petition was filed on 15 September 2004 to wind up Far East Pharmaceutical Technology Limited in respect of the default of a syndicated bank loan and since then, liquidators have been appointed. Mr. Lo was not involved in the arrangement of the syndicated bank loan and his appointment was made after the said default had occurred. Mr. Lo is currently the chairman of the board of directors of BMI group. Mr. Lo is

Directors, Supervisors and Senior Management (Continued)

also an independent non-executive director of Tenfu (Cayman) Holdings Company Limited (stock code: 6868.HK). He is a practising member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lo graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration in 1986 and New Jersey Institute of Technology, the U.S., with a master's degree in science in 1992.

Mr. Ren Xiaochang (任曉常), aged 63, joined the Company in July 2007 and has been an independent non-executive Director of the Company and the chairman of our remuneration committee since then. Mr. Ren has over 30 years of experience in the automobile industry. Mr. Ren has been with Chongqing Research Institute of Automobile (renamed as China Automotive Engineering Research Institute Co., Ltd.(stock code:601965.SH)) since January 1982 to December 2016 and had served as the deputy director of Car Design Department, vice chief, chief, the vice chairman, general manager (superintendent), deputy secretary to the Party Committee, and chairman of the Company. He is in charge of operational management, strategic planning, human resources and assets management, etc. Mr. Ren is also currently an independent director of Chongqing Changan Automobile Co., Ltd. (stock code: 000625.SZ) and Chongqing Zongshen Power Machinery Co., Ltd. (stock code: 001696.SZ) in charge of matters relating to the board of directors. Mr. Ren graduated from Hunan University with a bachelor's degree in engineering in 1981 and the Management School of Wuhan University of Technology with a master's degree in business administration in 2004. Mr. Ren is a senior engineer of researcher's grade, an expert of Machinery Industrial Scientific Technology Specialist of the PRC and an expert with special allowance from the State Council.

Mr. Jin Jingyu (靳景玉), aged 54, joined the Company in June 2012 and has served as an independent non-executive Director of the Company since June 2012. He has been serving as a professor of finance and tutor of postgraduate students of the School of Finance of Chongqing Technology and Business University since March 2009. He has served as an independent director of Chongqing Tourism Investment Group Co., Ltd. (重慶旅遊投資集團有限公司) since November 2019, an independent non-executive director of Bank of Chongqing Co., Ltd.* (stock code:1963.HK) from March 2014 to December 2019. Mr. Jin joined the Chongqing Technology and Business University (known as Chongqing Business School before 2003) since May 1997 and served as the deputy director of the Finance and Investment Department from March 2000 to March 2001 and an associate professor and professor of finance from November 2000 to November 2005. He studied in the Mathematics Department of Henan University from September 1988 to July 1992 as an undergraduate student; studied in the University of Science and Technology of

Directors, Supervisors and Senior Management (Continued)

China majoring in management science from September 1992 to July 1995 and received a master's degree in engineering; studied in the Southwest Jiaotong University majoring in management science and engineering from March 2003 to January 2007 and received a doctorate degree in management. Mr. Jin held several concurrent posts as follows: from September 1997 to September 2002, a business director of the Financing Service Company (融資服務公司) and general manager of the 1st Business Department of Dapeng Securities Company Limited (大鵬證券有限責任公司); from July 2002 to June 2003, a director and secretary to the board of directors of Southwest Synthetic Pharmaceutical Co., Ltd. (西南合成製藥股份公司) (stock code: 000788.SZ); from January 2006 to March 2010, a director and secretary to the board of directors of Chongqing Wanli New Energy Co., Ltd. (stock code 600847.SH, formerly known as Chongqing Wanli Storage Batteries Co., Ltd. (重慶萬里蓄電池股份有限公司)); from June 2005 to February 2010, the chairman of Chongqing Tiandi Pharmaceutical Co., Ltd. (重慶天地藥業有限公司). Mr. Jin served as an independent director of Chongqing Financial Assets Exchange Co. Ltd. from June 2015 to July 2017. Mr. Jin is now a member of Guiding Committee on Education of Financial Majors in Universities and Colleges of Ministry of Education (教育部高等學校金融學類專業教學指導委員會), a member of the China Investment Professional Construction Committee (中國投資專業建設委員會), a member of the Board of the Financial and Technology Special Committee of China Technology and Economy Association (中國技術經濟學會金融科技專業委員會理事會), a member of the Enterprises Operations Branch of the Operations Research Society of China, adjunct researcher of the Research Center of the Economy of the Upper Reaches of Yangtze River (a major research center of humanities and social science of the Ministry of Education), a member of the Evaluation Committee of Professional Titles, the Teaching Steering Committee and the School of Economics of Chongqing Technology and Business University.

Directors, Supervisors and Senior Management (Continued)

Mr. Liu Wei (劉偉), aged 55, has served as an independent non-executive director of the Company since September 2014. He is currently the head, professor and PhD candidate supervisor of the Business Management Department of the School of Economics and Business Administration of Chongqing University, the vice head of Business Administration and Economics Development Research Centre of Chongqing University. He has concurrently served as an independent director of Chongqing Zheng Chuan Medicine Packaging Materials Co., Ltd. (重慶正川醫藥包裝材料股份有限公司 (stock code: 603976.SH), Chongqing Fuling Electric Power Industrial Co., Ltd. (重慶涪陵電力實業股份有限公司) (stock code: 600452.SH), and Chongqing Sanxia Paints Company Limited (重慶三峽油漆股份有限公司) (stock code: 000565.SZ), an external director of Chongqing Iron & Steel (Group) Company Limited and Chongqing Landscaping Construction Investment (Group) Company Limited (重慶園林綠化建設投資(集團)有限公司), and a member of Investment Decision-making Committee of Shanghai Zhongwei Venture Capital Fund (上海中衛創業風險投資基金). Mr. Liu served at Chongqing University since July 1990. He once served as the lecturer, associate professor and assistant to the head of department for Department of Mechanical Engineering, professor of College of Mechanical Engineering, and vice chief of the Industrial Engineering Research Institute. Mr. Liu graduated from Chongqing University with a bachelor's degree in Mining Machinery in July 1984, graduated from Chongqing University with a master's degree in Mechanics in July 1987, and graduated from Chongqing University with a doctorate degree in Mechanical Design and Theory in July 1990. He also conducted post-doctoral research at the University of Manchester Institute of Science and Technology from September 1996 to October 1997. He completed the training for independent directors of listed company by the Securities Association of China in December 2002.

Directors, Supervisors and Senior Management (Continued)

SUPERVISORS

The following table sets out information regarding our Supervisory Committee:

Name	Age	Position
Sun Wenguang	53	Chairman of the Supervisory Committee
Wu Yi	46	Independent Supervisor
Wang Haibing	41	Independent Supervisor
Xia Hua	56	Employee Supervisor
Li Fangzhong	54	Employee Supervisor

Mr. Sun Wenguang (孫文廣), aged 53, has been serving as the chairman of the Supervisory Committee of the Company since October 2018, and the chairman of the Supervisory Committee of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. since April 2018, and has been concurrently serving as the supervisor of Chongqing General Industry (Group) Co., Ltd. since August 2018. He concurrently served as the director of Chongqing Machine Tools (Group) Co., Ltd. from July 2016 to August 2018, concurrently served as the financial controller of Chongqing Power Transformer Co., Ltd. from July 2016 to November 2017, and concurrently served as the director of Precision Technologies Group (PTG) Limited, PTG Investment Development Company Ltd. and Chongqing ABB Power Transformer Co., Ltd. from February 2017 to August 2018. He served as the chief of the Reform and Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (Chongqing Enterprise Merger and Bankruptcy Office (重慶市企業兼併破產工作辦公室)) from July 2010 to June 2016. He served as the deputy chief of the Reform and Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (No. 2 corporate supervision department (企業監管二處)) from August 2005 to July 2010, and worked as chairman and director of Chongqing Luzuofu Equity Fund Management Co., Ltd. (重慶盧作孚股權基金管理有限公司) from March 2010 to June 2016. He served as an assistant researcher of the Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (No. 2 corporate supervision department) from March 2004 to August 2005 and as a senior staff member of the Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (No. 2 corporate supervision department) from November 2003 to March 2004. He served as a senior staff member of the No. 2 corporate department of Chongqing Municipal Finance Bureau from January 1998 to March 2003. He worked as an office clerk, clerk and senior staff member of the No. 1 corporate department of Chongqing Municipal Finance Bureau from August 1987 to January 1998. Mr. Sun is an assistant

Directors, Supervisors and Senior Management (Continued)

accountant. He graduated from Sichuan Provincial Fiscal School majoring in corporate and finance in July 1987 with a technical secondary school education degree and graduated with a bachelor's degree in economic management from the Correspondence School of Party School of the CPC Central Committee in December 1999, and from the MBA Institute of Chongqing University (重慶工商管理碩士學院) with a master's degree in 2009.

Ms. Wu Yi (吳怡), aged 46, has been an independent supervisor of the Company since September 2014. She is currently the director of Chongqing Bestone Law Firm (重慶百事得律師事務所), a member of Chongqing Lawyers Association and the Specially-invited Member of the fourth Committee of Chinese People's Political Consultative Conference of Chongqing. Ms. Wu once served as the lawyer of Chongqing Dongfanglianhe Law Firm (重慶東方聯合律師事務所), Chongqing Zhongzhu Law Firm (重慶中柱律師事務所) and Chongqing Branch of Beijing Kaiwen Law Firm (北京凱文律師事務所重慶分所) from August 1997 to April 2008. Ms. Wu studied at the School of Economic Law of Southwest University of Political Science and Law from September 1993 to July 1997 and graduated with a bachelor's degree and at the Graduate School of Southwest University of Political Science and Law from September 2003 to July 2006 and graduated with a master's degree in law. She studied at Peking University HSBC School of Business from September 2008 to July 2009 and graduated with a master's degree in finance.

Mr. Wang Haibing (王海兵), aged 41, has been an independent supervisor of the Company since June 2019. He has been the independent director, chairman of the audit committee and member of the remuneration and appraisal committee of 重慶燃氣(集團)股份有限公司 since November 2018, the consultant to the Internal Control Standard Committee of the Ministry of Finance since April 2019, the cooperative doctoral tutor of Zhongnan University of Economics and Law since June 2017, the professor of the audit department of Chongqing University of Technology since December 2015, the deputy chief of the financial and accounting research and development center and the president of the Humanistic Internal Control Research Institute of the Key Research Base of Humanities and Social Sciences of Chongqing since March 2013. He has attended the business training at the Humanities and Technology University of Poland (波蘭人文科技大學) from July to October 2016, the backbone tutor training of Chongqing University of Technology at Zhejiang University in July 2015, the accounting leader talents training of Chongqing organized by Shanghai National Accounting Institute from March 2013 to March 2016. He has obtained the leader talent certificate jointly issued by the Finance Bureau, the Municipal Party Committee Organization Department, the Municipal Human Resources and Social Security Bureau of Chongqing and Shanghai National Accounting Institute. He participated in accounting management business training at California State University from July to August 2011. He has been the deputy professor and distinguished professor of the audit department of Chongqing University of Technology from April 2011 to November 2015.

Directors, Supervisors and Senior Management (Continued)

He was a doctorate student at Southwestern University of Finance and Economics from September 2007 to June 2011 and obtained a doctorate degree of management (financial management). He successively acted as the teaching assistant and tutor of Chongqing College of Technology (重慶工學院) from April 2004 to December 2010, the intern editor of the periodical office of Finance and Accounting Monthly from February to April 2004. He graduated from Wuhan University of Technology in April 2004 with a master's degree.

Mr. Xia Hua (夏華), aged 56, has been an employee supervisor of the Company since September 2015. He currently serves as the chairman and party secretary of Chongqing Pigeon Electric Wires & Cables Co., Ltd. (重慶鴿牌電線電纜有限公司), a subsidiary of the Company. Mr. Xia is a senior economist with over 30 years of experience in the power industry. From August 1981 to August 2000, he successively served positions such as the workshop technician, deputy workshop director, deputy head of the branch factory, office director, head of production scheduling division and deputy plant manager of Chongqing Electric Machine Factory (重慶電機廠). From August 2000 to January 2011, he successively served as the office director and department party secretary of Chongqing Machinery and Electronics Holding (Group) Co., Ltd. (重慶機電控股(集團)公司). He has been serving as the chairman and party secretary of Chongqing Pigeon Electric Wires & Cables Co., Ltd. since January 2011. Mr. Xia graduated from Chongqing Second Machinery Manufacturing School (重慶第二機械製造學校) in August 1981, majoring in machine manufacturing. In September 2006, he graduated from the MBA Institute of Chongqing University (重慶工商管理碩士學院) with an MBA degree.

Mr. Li Fangzhong (李方忠), aged 54, has been an employee supervisor of the Company since June 2019. He currently serves as chairman (legal representative) and secretary of the Party Committee of Chongqing Pump Industry Co., Ltd. From May 2017 to February 2019, he served as chairman of the Board (legal representative), general manager and deputy secretary of the Party Committee of Chongqing Pump Industry Co., Ltd. From May 2015 to May 2017, he served as the chairman (legal representative) and general manager of Chongqing Pump Industry Co., Ltd. From January 2012 to May 2015, he served as the general manager of Chongqing Pump Industry Co., Ltd. From November 2007 to January 2012, he served as deputy general manager of Chongqing Pump Industry Co., Ltd. From December 2002 to November 2007, he served as assistant general manager of Chongqing Pump Industry Co., Ltd. From August 1997 to December 2002, he served as deputy director of the Complete Set Division of Chongqing Pump Industry Co., Ltd. From May 1995 to August 1997, he served as designer of the Complete Set Division of Chongqing Pump Industry Co., Ltd. From October 1993 to May 1995, he served as the designer of the design department of Chongqing Pump Industry Co., Ltd. From July 1989 to October 1993, he served as the technician in 3rd workshop of Chongqing Pump Industry Co., Ltd. From September 1985 to July 1989, he studied hydraulic machinery at Department II of

Directors, Supervisors and Senior Management (Continued)

Mechanical Engineering of Gansu University of Technology and obtained a bachelor's degree in engineering. From January 2007 to December 2007, he studied at Senior Economic Management President Training Course of Tsinghua University. From September 2012 to December 2015, he studied at Business Administration Department of Chongqing Master College of Business Administration (重慶工商管理碩士學院).

SENIOR MANAGEMENT

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

Name	Age	Position
Chen Ping	57	General Manager
Yang Quan	55	Vice General Manager
Qin Shaobo	51	Vice General Manager
Zhang Shu	51	Vice General Manager
Deng Rui	45	Secretary to the Board
Liu Zhongtang	50	Vice General Manager, Chief Financial Officer
Kam Chun Ying, Francis	53	Qualified Accountant

Ms. Chen Ping (陳萍), aged 57, is an executive Director and General Manager of the Company. For details regarding Ms. Chen's experience, please refer to "Executive Directors" set out above.

Mr. Yang Quan (楊泉), aged 55, is an executive Director and Vice General Manager of the Company. For details regarding Mr. Yang's experience, please refer to "Executive Directors" set out above.

Mr. Zhang Shu (張舒), aged 51, is a vice general manager of the Company. Mr. Zhang is a senior engineer. He has served as a director of Chongqing Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司) since March 2019. He has served as a director of several companies including Chongqing Water Turbine Works Co., Ltd., Chongqing General Industrial (Group) Co., Ltd., Chongqing Cummins Engine Co., Ltd., Chongqing Jiangbei Machinery Co., Ltd. and Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd. since July 2016; Mr. Zhang had held various positions including the manager of the planning and development department of Chongqing Machinery & Electronics Holding (Group) Co., Ltd., the manager of the foreign business department and the manager of the planning and development department of the Company from March 2014 to June 2016; he served as the deputy chief of the Department of Foreign

Directors, Supervisors and Senior Management (Continued)

Economics and Business, the deputy chief of Planning and Investment Department and the deputy chief (in charge) of the Industrial Department of Chemical Medicine (化工醫藥工業處) in Chongqing Economic and Information Technology Commission from May 2006 to March 2014, and worked as the head of the Coordination Department of Chongqing MDI Headquarters Office (重慶市MDI指揮部辦公室綜合協調部) in charge of daily work of the MDI Office from April 2012 to March 2014; he served as a senior staff member of the food industry department (the food industry office of the municipal government (市政府食品工業辦公室)), a senior staff member of the foreign business department, an assistant researcher of the foreign business department and the deputy chief of the foreign business department in Chongqing Economic and Information Commission from July 1999 to April 2006. He worked in Chongqing Liling Food Factory (重慶立林食品廠) from December 1992 to September 1996, and worked as a technical staff in the drink and food factory and head of Bailibao workshop of Chongqing Jinyunshan Garden Spot (重慶縉雲山園藝場) from July 1988 to December 1992. Mr. Zhang graduated from the Southwest Agricultural University with a diploma in food analysis and inspection in July 1988, and from College of Economics and Trade of Southwest Agricultural University with a master's degree of management majoring in agricultural economics management in July 1999.

Mr. Qin Shaobo (秦少波), aged 51, is a vice general manager of the Company. Mr. Qin is a senior engineer, has served as a vice general manager of the Company since June 2018; he served as the deputy secretary of the Chengkou County Committee of Chongqing from May 2015 to June 2018; he served as the standing committee member and office director of Chongqing Fengdu County Committee from February 2014 to April 2015; he served as the standing committee member of Chongqing Fengdu County Committee and the director of United Front Work Department from February 2012 to February 2014; he served as the standing committee member of Chongqing Fengdu County Committee from March 2011 to February 2012; he served as the standing committee member of Chongqing Fengdu County Committee (as a temporary post) from August 2009 to March 2011; he served as the chief of the Education and Training Division of the Chongqing Economic Commission from October 2005 to August 2009; he served as the deputy chief of High-tech Development and Industrialization Division of the Chongqing Economic Commission from February 2003 to October 2005; he served as the director of Technical Quality Department of Shenzhen North Jianshe Motorcycle Co., Ltd. of China South Industries Group from April 2002 to February 2003; he worked as the vice general manager in Shenzhen North Construction Motorcycle (Chongqing) Manufacturing Company of China South Industries Group from November 2001 to April 2002; he studied in the College of Business Administration in Chongqing University from March 1999 to March 2002 and obtained a master's degree in business administration; he served as the executive deputy director of the National Enterprise Technology Center of Chongqing Jianshe Industry Group of China South Industries Group from October 1999 to November 2001; he served as the deputy director of the Development Department No. 2 of

Directors, Supervisors and Senior Management (Continued)

the state-level enterprise technology center in Chongqing Jianshe Industry Group of China North Industries Corporation from July 1997 to October 1999; he was a visiting scholar at the Department of Industrial Design of Beijing Institute of Technology from September 1996 to July 1997; he worked as an engineer of Chongqing Construction Industrial (Group) Co., Ltd of China North Industries Corporation from March 1992 to September 1996; he worked as a trainee technician at the technology group in No. 22 workshop of Chongqing Construction Machinery Factory of China North Industries Corporation from July 1990 to March 1992.

Mr. Deng Rui (鄧瑞), aged 45, is the secretary to the Board of the Company. Mr. Deng has served as the director of Chongqing Pigeon Electric Wires & Cables Co. Ltd., the director of Exedy Chongqing Driving System Co., Ltd. and the director of Chongqing Pump Industry Co., Ltd. since July 2016. Mr. Deng has been working in corporate leaders and office management for a long career with extensive experience in corporate management. He served as the vice minister and minister of the Organization Department of the Party Committee (the Leader Management Department) of Chongqing Machinery and Electrics Holding (Group) Co., Ltd. from June 2012 to June 2016, and the secretary and vice director of Chongqing Machinery and Electric Holding (Group) Co., Ltd. from June 2009 to May 2012. He served as the secretary and head of office of the Company from July 2007 to August 2009, and worked as the secretary and head of the comprehensive management department of securities leading group (證券領導小組綜合管理部) of Chongqing Machinery & Electronics Holding (Group) Co., Ltd. from February 2006 to July 2007, and secretary of the Communist Youth League, the director of promotion division, and workshop supervisor of Chongqing Bearing Industrial Co., Ltd. (重慶軸承工業公司) from May 1998 to February 2006. Mr. Deng is a senior political scientist and graduated from Chongqing Machinery & Electric College (重慶機電工程技術學校) in bearing processing with a technical secondary school education degree in May 1998, and graduated from the Correspondence School of the Chongqing Municipal Party School (重慶市委黨校函授學院) in December 2008, majoring in economics and management with a bachelor's degree, and graduated from Xiamen University, majoring in international economy and trade with a bachelor's degree in January 2013. He graduated from the EMBA Professional Graduate Program in the School of Management of Xiamen University in December 2014.

Ms. Liu Zhongtang (劉忠堂), aged 50, is a vice general manager and the chief financial officer of the Company. Ms. Liu is a senior accountant and has served as a Vice General Manager and the chief financial officer of the Company since August 2018. She served as the chairman (legal representative), general manager and deputy secretary to the Party Committee of Chongqing General Industrial (Group) Co., Ltd. from May 2017 to August 2018, and served as the chairman (legal representative) and general manager of Chongqing General Industrial (Group) Co., Ltd. from August 2015 to May 2017. She has

Directors, Supervisors and Senior Management (Continued)

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

Mr. Kam Chun Ying, Francis (甘俊英), aged 53, has been appointed as the qualified accountant of our Company since February 2008. He served as the chief risk officer of Precision Technologies Group (PTG) Limited of UK from July 2013 to June 2019. Mr. Kam was the company secretary of Xinming China Holdings Limited (a company listed on the Main Board of the Stock Exchange, Stock Code: 02699.HK) in July 2016 and served as the chief investment officer in January 2017. Prior to joining the Company, Mr. Kam was the financial controller of TFH Management Limited, and was responsible for finance operations and corporate compliance in both the private and listed companies within the group. Between August 1986 and April 1989, Mr. Kam worked for Deloitte Touche Tohmatsu, previously known as Deloitte Haskins Sells, as a senior account assistant. He has over 30 years of experience in corporate and finance management. He has been a member of the Hong Kong Institute of Certified Public Accountants since June 1996 and a fellow of the Chartered Association of Certified Accountants since June 2001. Mr. Kam graduated from Heriot-Watt University in the United Kingdom in November 2004 with a master's degree in business administration.

Report of the Board of Directors

The Board is pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL BUSINESSES

The Group is principally engaged in designing, manufacturing and sales of clean energy equipment, high-end smart manufacturing equipment and industrial services. The principal businesses of its major subsidiaries are set out in Note VI, 50 to the consolidated financial statements.

RESULTS REVIEW

The results of the Group for the year ended 31 December 2019 are set out in the Consolidated Income Statement in this annual report on pages 155 to 157. The business performance regarding the Group required by Schedule 5 to the Hong Kong Companies Ordinance, can be found in the “Chairman’s Statement” set out on pages 7 to 20 and “Management Discussion and Analysis” set out on pages 21 to 40. An indication of likely future developments is set out in “Chairman’s Statement” on pages 14 to 19. The part of contents on “Chairman’s Statement” and “Management Discussion and Analysis” forms part of this “Report of the Board of Directors”.

COMPLIANCE WITH LAWS AND REGULATIONS

Due to the nature of the business of the Group, the Directors are of the opinion that no specific laws and regulations related to environmental protection has significant impact on the operations of the Group. Environmental policies and performance of the Group are set out in “Environmental, Social and Governance Report” on pages 113 to 136.

RELATION WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

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

Report of the Board of Directors (Continued)

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

PRINCIPAL RISKS AND UNCERTAINTIES

(1) The Group Faces Significant Competition and Recession in Each of the Markets in Which It Operates, Which Could Adversely Affect Its Businesses

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

(2) Economic Risk Adversely Affects the Group's Profitability

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

Report of the Board of Directors (Continued)

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

(3) Risk of Foreign Exchange

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

(4) Risk of Interest Rate

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

(5) Uncertainties in Financial Market

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

Report of the Board of Directors (Continued)

(6) Uncertainties in Environmental Policies

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

FINAL DIVIDEND

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

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

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

Report of the Board of Directors (Continued)

The Board has recommended the payment of a final dividend of RMB0.01 per share (tax inclusive) for the year ended 31 December 2019 (for the year ended 31 December 2018: RMB0.04 per share (tax inclusive)), which is calculated based on the total share capital of 3,684,640,154 shares for the year ended 31 December 2019, totaling RMB36,846,401.54 (totaling RMB147,385,606.16 for the year ended 31 December 2018). Subject to approval by shareholders at the forthcoming Annual General Meeting to be convened on 18 June 2020, the proposed final dividend will be paid on 29 July 2020 to shareholders whose names appear on the Register of Members of the Company on 30 June 2020 (the “Record Date”).

In order to ascertain the entitlements of the shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Thursday, 25 June 2020 to Tuesday, 30 June 2020 (both days inclusive), during which no transfer of shares will be registered. All transfer documents accompanied by share certificates of the shareholders of the Company must be lodged with our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 24 June 2020.

WITHHOLDING OF ENTERPRISE INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS

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

Report of the Board of Directors (Continued)

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

If any resident enterprise (as defined in the EIT Law) whose name appears on the H Share Register of Members which is duly incorporated in the PRC or under the laws of a foreign country (or a territory) but with a PRC-based de facto management body does not wish to have the 10% enterprise income tax to be withheld by the Company, it should lodge all transfers with and submit a legal opinion issued by a PRC certified lawyer (with affixation of common seal of the law firm thereto) that establishes its resident enterprise status to the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 24 June 2020. 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 24 June 2020. Shareholders are recommended to consult their tax advisors regarding tax issues in respect of the ownership and disposal of H shares in the PRC and Hong Kong and other tax effects.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements of the shareholders to attend and vote in the Annual General Meeting, the register of members of the Company will be closed from Tuesday, 19 May 2020 to Thursday, 18 June 2020 (both days inclusive), during which no transfer of shares will be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 18 May 2020.

Report of the Board of Directors (Continued)

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2019, equity attributable to the shareholders of the Company amounted to approximately RMB6,844.4 million (31 December 2018: approximately RMB6,808.9 million), representing an increase of approximately RMB35.5 million or approximately 0.5%. During this Period, the Group's working capital was mainly cash flows from operating. As at 31 December 2019, the Group's gearing ratio (calculated as borrowings divided by total capital, total capital comprises equity and borrowings as shown in the consolidated balance sheets) was approximately 41.2% (31 December 2018: approximately 29.5%). The Group's current ratio (being the current assets as a percentage of current liabilities) was approximately 1.48:1 (31 December 2018: approximately 1.56:1).

As at 31 December 2019, cash, bank balances and time deposits (including restricted cash) were approximately RMB2,094.6 million, indicating a stable financial position (31 December 2018: approximately RMB2,164.7 million).

FINANCIAL HIGHLIGHTS

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

Report of the Board of Directors (Continued)

INVESTMENT PROPERTIES, REAL PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group invested approximately RMB231.5 million in acquisition of non-current assets, such as real property, plant and equipment, etc. for business expansion (for the year ended 31 December 2018: approximately RMB611.8 million). Details of the changes in investment property, properties, plant and equipment of the Group during the year are set out in Note VI, 18 and VI, 21 to the consolidated financial statements.

SHARE CAPITAL

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

There was no change in the share capital of the Company as at 31 December 2019, details of which are set out in Note VI, 45 to the consolidated financial statements.

Report of the Board of Directors (Continued)

BONDS

Details of the changes in bonds of the Group during the year under review are set out in Note VI, 39 to the consolidated financial statements.

RESERVES

Details of the changes in reserves of the Group during the year under review are set out in Note VI, 46 to VI, 49 to the consolidated financial statements.

CHARITY DONATIONS

During the Period, the Group's charity donation amounted to approximately RMB100,000 (for the year ended 31 December 2018: approximately RMB40,000).

MAJOR CUSTOMERS AND SUPPLIERS

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

Ming Yang Smart Energy Group., Ltd. (明陽智慧能源集團股份公司)	5.8%
Xinjiang Goldwind Science & Technology Co., Ltd. (新疆金風科技股份有限公司)	3.8%
Guodian United Power Technology Company Limited (國電聯合動力技術有限公司)	2.6%
SAIC-IVECO Hongyan Commercial Vehicle Co., Ltd. (上汽依維柯紅巖商用車有限公司)	2.5%
Chongqing Hikvision Technology Co., Ltd. (重慶海康威視科技有限公司)	1.7%
Total amount of the top five customers	16.4%

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

Report of the Board of Directors (Continued)

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

China Copper International Trade Group Co., Ltd.(中銅國際貿易集團有限公司)	16.6%
Jinchuan Group Wire and Cable Co., Ltd. (金川集團電線電纜有限公司)	3.9%
Yunnan Copper Industry Co, Ltd (雲南銅業股份有限公司)	2.7%
Techstorm Advanced Materials Co., Ltd (道生天合材料科技(上海)有限公司)	2.6%
Taishan Fibreglass Inc. (泰山玻璃纖維有限公司)	2.4%
Total amount of the top five suppliers	28.3%

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

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

COMPETITION AND CONFLICTS OF INTEREST

For the year ended 31 December 2019, the non-competition agreement entered into between Chongqing Machinery and Electronics Holding (Group) Co., Ltd., the Parent Company, and the Company remained effective. Please refer to the Prospectus for details.

Report of the Board of Directors (Continued)

DIRECTORS AND SUPERVISORS

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

Executive Directors

Date of appointment

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

Non-executive Directors

Huang Yong	On 27 July 2007
Dou Bo	On 27 November 2017
Wang Pengcheng	On 28 June 2018
Zhang Yongchao	On 26 June 2019

Independent non-executive Directors

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

Supervisors

Sun Wenguang	On 30 October 2018
Wu Yi	On 29 September 2014
Xia Hua	On 18 September 2015
Wang Haibing	On 26 June 2019
Li Fangzhong	On 26 June 2019

Report of the Board of Directors (Continued)

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTOR'S SERVICE CONTRACTS

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

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

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

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

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of Directors, Supervisors and senior management of the Company are set out on pages 41 to 56 of this annual report.

DIRECTOR'S REMUNERATION

The remuneration of the Directors of the Company are proposed by the Remuneration Committee, considered by the Board and approved by the Annual General Meeting. Other remunerations are determined by the Remuneration Committee based on the position and responsibilities of each Director and the operating results of the Group. Please refer to Note XI, 4 to the consolidated financial statements set out on pages 458 to 463 of this annual report.

Report of the Board of Directors (Continued)

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS AND CONNECTED TRANSACTIONS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the year ended 31 December 2019, none of the Group and its subsidiaries purchased, sold or redeemed any listed securities of the Company.

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

As of 31 December 2019, none of the Directors, chief executive or Supervisors of the Company had any interests or short positions in the shares, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or chief executive are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES AND BONDS

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

Report of the Board of Directors (Continued)

SIGNIFICANT LITIGATION

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

SIGNIFICANT EVENTS

Please refer to page 37 of this annual report.

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

For the year ended 31 December 2019, so far as the Directors of the Company are aware, the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

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

Name of shareholders	Number of shares	Stock category	Status	Notes	Percentage of total issued domestic shares (%)	Percentage of total issued H shares (%)	Percentage of total issued shares (%)
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	1,924,225,189	Domestic shares	Beneficial owner	(1)	74.46 (L)	–	52.22
Chongqing Yufu Assets Management Group Co., Ltd.	92,670,000	H shares	Beneficial owner	(1)	–	8.42 (L)	2.52
Chongqing Construction Engineering Group Co., Ltd.	232,132,514	Domestic shares	Beneficial owner	(1)	8.98 (L)	–	6.30
China Huarong Asset Management Co., Ltd.	232,132,514	Domestic shares	Beneficial owner	(2)	8.98 (L)	–	6.30
Chongqing State-owned Assets Supervision and Administration Commission	195,962,467	Domestic shares	Beneficial owner	(3)	7.58 (L)	–	5.32
Ministry of Finance of the PRC	2,388,490,217	Domestic shares	Controlled corporation interest	(1)	92.42 (L)	–	64.82
	92,670,000	H shares	Beneficial owner	(1)	–	8.42 (L)	2.52
	195,962,467	Domestic shares	Controlled corporation interest	(3)	7.58 (L)	–	5.32

(L) Long Position

Report of the Board of Directors (Continued)

H shares of the Company with par value of RMB1.00 each

Name of shareholders	Number of shares	Status	Notes	Percentage of total issued H shares (%)	Percentage of total issued shares (%)
JPMorgan Chase & Co.	109,831,600 (L) 882,000 (S) 108,949,600 (P)	Investment manager		9.98 (L) 0.08 (S) 9.90 (P)	2.98 (L) 0.00 (S) 2.96 (P)
Templeton Asset Management Ltd.	109,659,300 (L)	Investment manager		9.97 (L)	2.98 (L)
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000 (L) 0 (P)	Custodian		7.93 (L) 0 (P)	2.37 (L) 0 (P)
The Bank of New York Mellon Corporation	87,276,000 (L) 87,276,000 (P)	Corporate interest under the control of major shareholders	(4)	7.93 (L) 7.93 (P)	2.37 (L) 2.37 (P)
GE Asset Management Incorporated	75,973,334 (L)	Investment manager		6.91 (L)	2.06 (L)

(L) means long position

(S) means short position

(P) means lending pool

Notes:

- (1) As Chongqing Machinery and Electronics Holding (Group) Co., Ltd. and Chongqing Yufu Assets Management (Group) Co., Ltd. were wholly owned by Chongqing State-Owned Assets Supervision and Administration Commission (重慶市國有資產監督管理委員會), Chongqing State-Owned Assets Supervision and Administration Commission is deemed to be interested in 1,924,225,189 domestic shares and 92,670,000 H shares as well as 232,132,514 domestic shares of the Company held by the two companies.
- (2) Chongqing Construction Engineering Group Co., Ltd. is held as to 76.53% by Chongqing State-Owned Assets Supervision and Administration Commission (重慶市國有資產監督管理委員會) through its wholly owned Chongqing Construction Investment Holding Co., Ltd. (重慶建工投資控股有限責任公司). Therefore, Chongqing State-Owned Assets Supervision and Administration Commission is deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Engineering Group Co., Ltd.

Report of the Board of Directors (Continued)

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

Save as disclosed above, the Directors of the Company are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2019.

CONNECTED TRANSACTIONS

During the Period, the Company has no connected transactions.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2019, the summary of the connected party transactions is set out in the notes to the consolidated financial statements, where a majority of the transactions constituted continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules.

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

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.



Report of the Board of Directors (Continued)

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

On 20 April 2018, the Company entered into a supplementary sales agreement with the Parent Company to increase annual caps of sales for 2019 from RMB190 million to RMB360 million. The above adjustments were approved at the annual general meeting of the Company on 28 June 2018.

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

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

Report of the Board of Directors (Continued)

For the year ended 31 December 2019, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB230.0 million (for the year ended 31 December 2018: approximately RMB296.5 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 a successive term of three years by giving notice at least three months prior to the expiry of the initial term. Accordingly, the annual caps of supplies for the year ended 31 December 2019 approved at the Board meeting dated 29 March 2016 was set at RMB80 million.

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

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

Report of the Board of Directors (Continued)

For the year ended 31 December 2019, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB48.1 million (for the year ended 31 December 2018: approximately RMB74.7 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, the annual cap of the lease for the year ended 31 December 2019 approved at the Board meeting dated 29 March 2016 was set at RMB45 million.

For the year ended 31 December 2019, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB27.9 million (for the year ended 31 December 2018: approximately RMB17.9 million).

FINANCIAL SERVICES FRAMEWORK AGREEMENT

(I) Parent Group Financial Services Framework Agreement

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

Report of the Board of Directors (Continued)

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

Loan services

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

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

Guarantee services

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

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

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

Report of the Board of Directors (Continued)

For the year ended 31 December 2019, pursuant to the Financial Services Framework Agreement, the daily maximum limit amount in respect of the loan services provided by the Finance Company to the Parent Group was approximately RMB1,206.55 million, the transaction amount in respect of guarantee services was approximately RMB0 million and the transaction amount of other financial services was approximately RMB0.18 million (for the year ended 31 December 2018: the daily maximum limit amount in respect of loan services was approximately RMB1,288.24 million, the transaction amount in respect of guarantee services was approximately RMB0 million and the transaction amount of other financial services was approximately RMB0.3 million).

(II) Group Financial Services Framework Agreement

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

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

Report of the Board of Directors (Continued)

Deposit services

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

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

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

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

For the year ended 31 December 2019, 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 RMB1,719.09 million and the other financial services was approximately RMB0.66 million (for the year ended 31 December 2018: the daily maximum limit amount in respect of deposit services was approximately RMB1,796.2 million and other financial services was approximately RMB0.9 million).

Report of the Board of Directors (Continued)

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

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

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

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

Report of the Board of Directors (Continued)

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

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

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

For the purpose of continuing connected transactions, the Company has complied with the disclosure requirements of the Hong Kong Listing Rules from time to time, and the value and the transaction terms of the transactions for the year ended 31 December 2019 have been determined in accordance with the pricing policies and guidelines set out in the Hong Kong Stock Exchange's Guidance Letter HKEx-GL73-14.

PRE-EMPTIVE RIGHTS

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

Report of the Board of Directors (Continued)

BOARD COMMITTEES

The Board of the Company has established Audit and Risk Management Committee, Remuneration Committee, Nomination Committee and Strategic Committee (“Board Committees”). Details of the Board Committees are set out in the section of Corporate Governance Report on pages 91 to 96 of this annual report.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2019, the Group had a total of 8,699 employees (31 December 2018: 9,124 employees). Their salaries were determined based on market trends and their performance. Welfare benefits included insurance, pension schemes, etc., which were strictly executed in accordance with national regulations.

Remunerations of the Directors of the Company were determined by the Remuneration Committee, taking into consideration the operating results of the Company and comparable market statistics. Please refer to the Report of the Board of Directors set out on page 68 in this annual report.

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

POST BALANCE SHEET DATE EVENTS

After the balance sheet date, please refer to the subsequent events on page 38 of this annual report.

PUBLIC FLOAT

For the year ended 31 December 2019, the Company had 1,100,187,470 H shares of which Chongqing Machinery and Electronics Holding (Group) Co., Ltd. held 92,670,000 H shares in its total share capital of 3,684,640,154 shares. Therefore, public shareholding was 27.34%, indicating a sufficient public float throughout the year.

Report of the Board of Directors (Continued)

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to its owners as at 31 December 2019 were RMB2,675.9 million.

AUDITORS

On 28 June 2018, PricewaterhouseCoopers ZhongTian LLP and PricewaterhouseCoopers have resigned as the independent auditors of the Company (the "Independent Auditor"), and as approved by the 2018 annual general meeting of the Company, ShineWing Certified Public Accountants LLP was appointed as the new Independent Auditor on 28 June 2018 and will hold office until the conclusion of the forthcoming annual general meeting.

As approved by the Company at the 2019 Annual General Meeting, the Company has appointed ShineWing Certified Public Accountants LLP as the auditor for the year ended 31 December 2019. ShineWing Certified Public Accountants LLP has performed audit on the Group's consolidated financial statements prepared in accordance with the PRC Financial Reporting Standards.

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

The annual results announcement has been published on the Company's website (<http://www.chinacqme.com>) and the Stock Exchange's website. The annual report will also be available on the Company's and the Stock Exchange's websites on or around 15 April 2020 and will be dispatched to the shareholders of the Company thereafter according to the means they choose to receive communications.

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

Chongqing, the PRC
27 March 2020

Report of the Supervisory Committee

Dear Shareholders:

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

During the reporting period, the Supervisory Committee seriously implemented the "1334" work arrangement focusing on the annual business objectives in accordance with the Rules of Procedures of the Supervisory Committee of the Company. The committee focused on promoting scientific decision-making, standardized operation and management improvement to supervise and perform duties according to the laws, and made efforts to improve the quality and efficiency of supervision by means of inter-department linkage, combination of supervision and examination, and combination of investigation and inspection. The comprehensive and concrete supervision was effectively implemented through strengthening the collaboration with the internal audit department and interacting with the supervisory committees of subsidiaries. During the year, two of the supervisors were changed, and the new chairman of the Supervisory Committee was appointed and approved by the general meeting of shareholders in accordance with the provisions of the Company Law and the Articles of Association. During the year, the Supervisory Committee concentrated on conducting annual intensive inspections, "good start" supervision, specialized inspections on preparation and implementation of annual budget, trade receivables and its contract management. In respect of daily supervision, it reviewed the interim results and annual financial accounts, financial budget and profit distribution plans of the Company as well as participated in the review of the auditor's report and provided constructive advice through convening three special meetings of Supervisory Committee, attending one general meeting, sitting in seven Board meetings and conducting on-site inspections for relevant matters. The supervision procedures of the Supervisory Committee were effective and standardized, and the supervision and inspection results were effectively utilized.

Report of the Supervisory Committee (Continued)

With respect to the work of the Company in 2019, the Supervisory Committee has the following views:

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

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

Report of the Supervisory Committee (Continued)

The Supervisory Committee is satisfied with the business activities conducted and the efforts made by the Company in 2019, and is confident in the development prospect of the Company.

The Supervisory Committee has duly reviewed and approved the report of the Board, audited financial report and other proposals to be proposed by the Board at the 2019 Annual General Meeting.

By Order of the Supervisory Committee

Mr. Sun Wenguang

Chairman of the Supervisory Committee

Chongqing, the PRC
27 March 2020

Corporate Governance Report

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2019 in compliance with the code provisions under the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Individual confirmation has been obtained from all Directors to confirm compliance with the requirements under the Model Code during the year ended 31 December 2019.

THE BOARD

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

Corporate Governance Report (Continued)

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

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

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

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

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

The Board of the Company consists of 11 Directors, including 3 executive Directors, 4 non-executive Directors and 4 independent non-executive Directors.

Corporate Governance Report (Continued)

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

BOARD DIVERSITY POLICY

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

DIRECTOR NOMINATION POLICY

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

Corporate Governance Report (Continued)

Selection Criteria

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

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

Corporate Governance Report (Continued)

Nomination Procedures

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

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

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

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

Corporate Governance Report (Continued)

Information from Candidate

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

ATTENDANCE OF DIRECTORS TO GENERAL MEETING

From 1 January 2019 to 31 December 2019, the Company held one general meeting.

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

Name of Director	Position	Number of meetings attended/total number of meetings held
Wang Yuxiang	Executive Director, Chairman	1/1
Chen Ping	Executive Director	1/1
Yang Quan	Executive Director	1/1
Huang Yong	Non-executive Director	1/1
Dou Bo	Non-executive Director	1/1
Wang Pengcheng	Non-executive Director	1/1
Zhang Yongchao	Non-executive Director (appointed on 26 June 2019)	1/1
Lo Wah Wai	Independent Non-executive Director	1/1
Ren Xiaochang	Independent Non-executive Director	1/1
Jin Jingyu	Independent Non-executive Director	1/1
Liu Wei	Independent Non-executive Director	1/1

Corporate Governance Report (Continued)

ATTENDANCE OF DIRECTORS TO BOARD MEETING

From 1 January 2019 to 31 December 2019, the Company held seven board meetings.

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

Name of Director Position		Number of meetings attended/total number of meetings held
Wang Yuxiang	Executive Director, Chairman	7/7
Chen Ping	Executive Directors	7/7
Yang Quan	Executive Directors	7/7
Huang Yong	Non-executive Director	7/7
Dou Bo	Non-executive Director	7/7
Wang Pengcheng	Non-executive Director	7/7
Zhang Yongchao	Non-executive Director (appointed on 26 June 2019)	5/7
Lo Wah Wai	Independent Non-executive Director	7/7
Ren Xiaochang	Independent Non-executive Director	7/7
Jin Jingyu	Independent Non-executive Director	7/7
Liu Wei	Independent Non-executive Director	7/7

Biographical details of Directors are set out on pages 41 to 49 of this annual report.

Corporate Governance Report (Continued)

OFFICE TERM OF INDEPENDENT NON-EXECUTIVE DIRECTORS

All the current Independent Non-executive Directors of the Company are appointed at the general meeting with an office term of three years. Upon expiry of the term, each independent non-executive Director may offer himself for re-election at Annual General Meetings. The term of the fifth session of the Board of the Company will expire in June 2022.

REMUNERATION COMMITTEE

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

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

Corporate Governance Report (Continued)

The Remuneration Committee convened two meetings during the year and the attendance record is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Ren Xiaochang (<i>Chairman</i>)	Independent Non-executive Director	2/2
Lo Wah Wai	Independent Non-executive Director	2/2
Jin Jingyu	Independent Non-executive Director	2/2
Huang Yong	Non-executive Director	2/2

NOMINATION COMMITTEE

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

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

Corporate Governance Report (Continued)

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

As of 31 December 2019, the Nomination Committee of the Company convened two meetings during the year and the attendance record is as follows:

Name of Director	Position	Number of
		meetings attended/total number of meetings held
Wang Yuxiang (<i>Chairman</i>)	Executive Director, Chairman	2/2
Ren Xiaochang	Independent Non-executive Director	2/2
Jin Jingyu	Independent Non-executive Director	2/2
Liu Wei	Independent Non-executive Director	2/2

AUDIT AND RISK MANAGEMENT COMMITTEE

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

Corporate Governance Report (Continued)

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

Name of Director	Position	Number of meetings attended/total number of meetings held
Lo Wah Wai (<i>Chairman</i>)	Independent Non-executive Director	4/4
Jin Jingyu	Independent Non-executive Director	4/4
Liu Wei	Independent Non-executive Director	4/4
Dou Bo	Non-executive Director	4/4

During the year, the Audit and Risk Management Committee approved the 2018 Consolidated Financial Report and the 2019 Condensed Consolidated Interim Financial Report of the Company audited by ShineWing Certified Public Accountants (Special General Partnership), considered and discussed the accounting policies as set out in the financial reports and the Company's financial position and internal control with external auditors, qualified accountants and the management of the Company.

STRATEGIC COMMITTEE

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

The Strategic Committee did not convene any meeting during the year.

Corporate Governance Report (Continued)

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises five supervisors, namely Mr. Sun Wenguang, Ms. Wu Yi, Mr. Wang Haibing, Mr. Xia Hua and Mr. Li Fangzhong. During the Period, Mr. Sun Wenguang is appointed as the chairman of the supervisors. To safeguard the interests of the shareholders, the Company's Supervisory Committee is responsible for the supervision of the Company's financial activities and duty fulfillment of the Board of Directors, its members and senior management. In 2019, the Supervisory Committee has reviewed the legality of the Company's financial situation and business, and through convening the meetings of the Supervisory Committee and attending the Board meetings, general meetings and other important meetings as well as establishing archives, etc., conducted the due diligence on senior management personnel. The Supervisory Committee carefully and thoroughly performs their duties according to the principle of prudence.

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

Name of Supervisor	Position	Number of meetings attended/total number of meetings held
Sun Wenguang	Chairman of the Supervisory Committee	3/3
Wu Yi	Independent Supervisor	3/3
Wang Haibing	Independent Supervisor (appointed on 26 June 2019)	2/3
Huang Hui	Independent Supervisor (resigned on 26 June 2019)	1/3
Li Fangzhong	Employee Supervisor (appointed on 26 June 2019)	2/3
Xia Hua	Employee Supervisor	2/3
Zhang Mingzhi	Employee Supervisor (resigned on 26 June 2019)	1/3

Corporate Governance Report (Continued)

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

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

ACCOUNTABILITY AND AUDIT

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

The Company has appointed ShineWing Certified Public Accountants (Special General Partnership) as the independent auditor of the Company. The fees for the services provided by the above auditor to the Group for the year ended 31 December 2019 amounted to approximately RMB3.0 million (2018: approximately RMB3.0 million).

Corporate Governance Report (Continued)

GENERAL MEETINGS

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

RIGHTS OF SHAREHOLDERS

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

Corporate Governance Report (Continued)

CALLING AN EXTRAORDINARY GENERAL MEETING

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

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

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

Corporate Governance Report (Continued)

Procedures to Put Forward Enquiries

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

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

Corporate Governance Report (Continued)

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

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

Procedures to Put Forward Motions at General Meeting

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

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

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

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

Corporate Governance Report (Continued)

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

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

The Company has established a specific department responsible for handling investor relations, and maintaining an on-going and open communication with investors. The Company strictly controls the procedures of information disclosure and insider trading. The Company held a total of 16 meetings with 28 investment and financial institutions or investors in various ways including road shows in Hong Kong and interim results of Shenzhen Roadshow, investor presentations, on-site meetings and telephone interviews. The effective communication with investors strengthened the Group's relationship with investors and allowed them to have a better understanding and enhanced confidence in operations and developments of the Group. In 2019, the Company strengthened the communications and promotions with a number of media including China Industry News, Hong Kong Wen Wei Po, Chongqing Daily, etc. To strengthen the relationship between the Company and investors, and improve the transparency of corporate operations, the Company promoted its development strategy and promising outlook by means of website, publicity pamphlet, image building videos, etc., to draw continuous attention from the public and investors on the growth of the Company.

Corporate Governance Report (Continued)

TRAINING OF DIRECTOR

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

Training of Directors is recorded as follows:

Name of Director	Training content	Attendance
Wang Yuxiang	Function training for new directors	✓
Chen Ping	Function training for new directors	✓
Yang Quan	Function training for new directors	✓
Huang Yong	Function training for new directors	✓
Dou Bo	Function training for new directors, the second training for directors, supervisors and senior management of listed companies in Chongqing municipality	✓
Wang Pengcheng	Function training for new directors	✓
Zhang Yongchao	Function training for new directors, the 51st training of The Hong Kong Institute of Chartered Secretaries	✓
Lo Wah Wai	Function training for new directors	✓
Ren Xiaochang	Function training for new directors	✓
Jin Jingyu	Function training for new directors	✓
Liu Wei	Function training for new directors	✓

Risk and Internal Control and Governance Report

POLICIES AND GOALS

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

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

The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit and Risk Management Committee. During the year ended 31 December 2019, the Audit and Risk Management Committee (on behalf of the Board) oversee management in the design, implementation and monitoring of the risk management and internal control systems.

MAIN FEATURES OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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

The Board

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

Risk and Internal Control and Governance Report (Continued)

Audit and Risk Management Committee

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

Management

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

Risk and Internal Control and Governance Report (Continued)

Internal Audit Team and Risk Management Team

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

PROCESS USED TO IDENTIFY, EVALUATE AND MANAGE SIGNIFICANT RISKS

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

Risk and Internal Control and Governance Report (Continued)

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

Risk Identification

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

Risk Assessment

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

Risk Response

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

Risk Monitoring and Reporting

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

Risk and Internal Control and Governance Report (Continued)

RISK MANAGEMENT, INTERNAL CONTROL AND AUDIT FUNCTIONS

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

Risk Management

Risks on major decision-making projects of the Group were assessed through adopting assessment via various hierarchies such as the business department, risk control and legal affairs department, external legal advisors and the management, so as to ensure effective prevention and control of risks. The risk and legal audit works were reinforced for three key aspects such as rules and policies, economic contracts and major decisions. During the year, a total of 138 copies of contracts were reviewed.

For the supervision on overseas subsidiaries, the Company assigned employees to execute internal control process and system of assessment, monitoring and supervision, and monitored operational activities deficiencies and business risks. For the potential risks identified and assessed from perspective of finance, operation, legal, quality and human resources, the risk management practices shall be reported to the Board.



Risk and Internal Control and Governance Report (Continued)

Internal Control

During the Period, in strict compliance with the requirements of the Listing Rules of the Hong Kong Stock Exchange and the five ministries and commissions of the PRC including the Ministry of Finance, the Group strengthened the risk control and management of its domestic and overseas subsidiaries. Based on the foundation laid which centred upon operation and rectification, the focus of internal control of the Group for the year has been shifted to a new phase featuring in-depth enhancement and continuous improvement. A norm of self-inspection, professional evaluation and continuous improvement has been established within the internal control system. In addition, a professional evaluation team organized evaluation to the effectiveness of internal control and risk management of the headquarter of the Company and some subsidiaries. At the same time, an internal control inspection and risk analysis were conducted on ten subsidiaries of the Group. While carrying out the assessment on the internal control of subsidiaries, the Company also conducted assessment and analysis on the strategic risk, operation risk, financial risk, market risk, legal risk and human resources risk of those companies. The Group has established the risk prevention and control linkage mechanism of four departments i.e. “risk control and legal affairs department, audit department, finance department and office of the Board” and business departments, to examine, prevent and respond to various risks from multiple perspectives. The internal control of the Group has formed the governance characteristics of “full-coverage system, sound process, risk control linkage and scientific mechanism” to achieve a virtuous cycle mechanism of “construction, evaluation, inspection, rectification and improvement” of the internal control system. In general, the internal control system of the Group is effective and the risks have been monitored in time.

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



Risk and Internal Control and Governance Report (Continued)

Internal Audit

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

During the Period, focusing on the business objectives of the Company and the "1334" work measures, the internal audit department adhered to conduct post-investment evaluation, special audit and rectification inspection, economic responsibility review and construction project audit with risks and objectives as the guidance and by means of supervision and services, to effectively perform supervisory responsibilities to prevent major risks of the Company. During the Period, the Group has newly established and revised 5 audit management related systems, completed 141 supervision and examination projects with the audit amount totaled RMB15.1 billion, 246 proposed points were adopted and the amount of construction projects upon auditing deducted by RMB39.67 million. The audit work plan approved by the Board was completed, which fully exerted the effect of the audit in the third line of defense of risk prevention of the Group.

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

Risk and Internal Control and Governance Report (Continued)

INFORMATION DISCLOSURE POLICY

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

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

Environmental, Social and Governance Report

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

GROUP PHILOSOPHY

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

ENGAGEMENT OF STAKEHOLDERS

The Company understands that effective and continuous listening to stakeholders’ opinions and responding to and addressing their concerns are indispensable for its business development and the fulfillment of its corporate social responsibility. As such, we endeavour to get a deep understanding of the concerns of different stakeholders, and build a relationship of mutual trust and mutual benefit with them to promote sustainable development.

According to the requirements of the Listing Rules, we regularly disclose the Company’s operating performance and project progress on the Company’s website (www.chinacqme.com) and the information disclosure website designated by the Stock Exchange (HKEXnews: www.hkexnews.hk). All disclosures are prepared and published in accordance with the requirements of the Listing Rules. In addition, when receiving inquiries from investors, the Company will promptly get in touch with them and invite them to visit the Company or attend teleconferences where the Company will answer their questions to help them understand its operating information. Meanwhile, the Company holds roadshows in various forms such as results presentations to introduce the latest information of the Company from time to time and invites investor representatives, potential investors and analysts to attend the roadshows.

Environmental, Social and Governance Report (Continued)

MATERIALITY ASSESSMENT

The Stock Exchange has set forth four principles for reporting in the ESG Guide: materiality, quantitative, balance and consistency, which should form the basis for preparing the ESG Report. As the HKEX emphasizes, through stakeholder engagement, the Group can understand wide-ranging views and identify material environmental and social issues. During the reporting period, we used questionnaires to understand the concerns of various stakeholders. At the same time, we also learned more about various stakeholders' evaluations and expectations of our social responsibility performance last year, thus helping us to formulate a framework for the report in response to stakeholders' comments.

Based on the results of the questionnaires, the Group's materiality matrix is presented below. The top right-hand corner of the matrix represents the issues that our stakeholders are most concerned about. The top 3 concerned issues is hazardous and non-hazardous waste treatment, the selection procedures of suppliers and the training and development.



Environmental, Social and Governance Report (Continued)

Employees	Environment	Operation Practice and Others
1 Diversity and equal opportunities	8 Sewage discharge	16 Selection procedures of suppliers
2 Employee turnover rate	9 Air pollutant and greenhouse gas emissions	17 Anti-fraud and corruption
3 Occupational safety and health	10 Exhaust emissions	18 Emergency contingency plan
4 Training and development	11 Hazardous and non-hazardous waste treatment	19 Product safety and quality
5 Prevention of child and forced labour	12 Energy and water saving	20 Customer satisfaction and complaint handling
6 Wage package and employment relationship	13 Use of natural resources	21 Protection of trademarks, trade names and other intellectual property rights
7 Employee benefits	14 Suppliers' environmental and social performance assessment	22 Clients' sensitive information and privacy information protection
	15 Carbon trading	23 Product innovation and technology development
		24 Community voluntary activities
		25 Charity donations

ENVIRONMENT

Against the background of deteriorating environmental issues and the transformation and upgrading of traditional manufacturing industries, the Group understands that as a part of the industry, we should take the initiative to assume more environmental responsibilities. The Group adheres to the production principle of “saving energy and reducing emissions” and is committed to building a resource-saving and environmentally-friendly enterprise. The Group advances technological innovations, enhances resource utilization efficiency in its development and promotes energy conservation and emission reduction in its production and development, to explore on an approach featuring low consumption, low emission and high output. During the year ended 31 December 2019, the Group’s pass rate for major pollutant emission indicators and hazardous waste disposal rate reached 100%.

The Company has been strictly in compliance with all applicable environmental laws and regulations, and there were no cases of non-compliance with regulations or codes of conduct identified during the reporting period.

Environmental, Social and Governance Report (Continued)

Emissions

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

The Group is principally engaged in manufacturing machinery equipment and parts, without large quantity of direct emission of waste gas, greenhouse gas, wastewater and other hazardous wastes. The emission mainly comprises solid metal scraps from the machining process. In addition, the Group understands that transportation is one of the main sources of carbon emissions. To reduce greenhouse gas emissions caused by transportation, we provide video and teleconferencing systems and encourage employees to use such systems to reduce greenhouse gas emissions caused by business travel and related transportation.

The sewage treatment system of the Group is in place and under the on-line real time monitoring by government, with all emissions up to the standard. The Group also takes initiatives for full recycling of waste materials to reduce the environmental impact. During the year ended 31 December 2019, the Group generated approximately 8,160 tonnes of metal scraps during operation, which were disposed through public auction with total disposal proceeds of approximately RMB22.6 million. The hazardous wastes produced by the Group mainly composed of waste oil and waste oil wrapping materials, in a total of about 213.358 tonnes, which were collected by qualified professional recycling company for the innocuous treatment.

Environmental, Social and Governance Report (Continued)

Greenhouse Gas Emissions

Summary of Greenhouse Gas Emissions Category	Quality of greenhouse gas (Unit: t)	CO ₂ equivalent of greenhouse gas (Unit: tCO ₂ e)
CO ₂ emissions from the burning of fossil fuels	16,084.67	16,084.67
CO ₂ emissions produced by the electric power under net purchase	104,094.39	104,094.39
Total greenhouse gas emissions of the enterprise (tCO ₂ e)	120,179.06	120,179.06

During the reporting period, the greenhouse gas emissions of the Group were 120,179.06 tCO₂e, and the annual emission intensity was 0.1419 tCO₂e for each RMB10,000 operating revenue. The Group adopted measures such as technological transformation of production equipment, reduction of energy consumption and implementation of energy conservation and emission reduction to reduce greenhouse gas emissions.

Resource Utilization

Responding to the government's call on environment protection and energy saving, the Group has accelerated the elimination and scrapping equipment with high energy consumption. Meanwhile, our new plants are constructed in full compliance with environmental standards, including the design with new energy-efficient equipment and the wide use of green offices based on paperless technology. Based on the contracting energy management with the subsidiary Chongqing Pigeon Electric Wires & Cables Co., Ltd. (重慶鴿牌電線電纜有限公司) on a trial basis, the Group has carried out comprehensive energy-saving research against other subsidiaries, to encourage the staff to effectively utilize energy and to realize energy saving and consumption reducing. Through the optimization, modification and recycling of its critical points with large energy consumption including waste heat, residual pressure and lighting, the rate of emission in terms of standard coal, CO₂, SO₂ and dust will be reduced. For the year ended 31 December 2019, the Group's comprehensive energy consumption per RMB10,000 value addition decreased by approximately 15% year-on-year. Implementation of contract energy management in the year of 2020 will be continued in the selected companies with conditions.

Environmental, Social and Governance Report (Continued)

Resource consumption amount of the Group:

Resource categories	Measuring unit	Total consumption	Consumption per RMB ten thousand
Electric power	Thousand KWH	109,400.31	0.129
Natural gas	Cubic meters	5,137,200	6.07
Gasoline	Ton	203.42	0.0002
Diesel	Ton	1,407.56	0.0017
Water	Ton	3,597,894.8	4.248
Packaging materials	Ton	7,549.358	0.0089

Environment and Natural Resources

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

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

Environmental, Social and Governance Report (Continued)

The Group also actively develops environmentally-friendly and energy-efficient products businesses to fulfill its responsibility in environmental protection. Firstly, the Group attaches importance to noise control and monitors and controls the influence of noise pollution on employees' health and the surrounding environment according to the national noise management standards. We optimize the layout of the production lines and reduce the noise hazards through measures such as physical isolation, green shelter and occupational protection. Secondly, the Group manufactured wind power rotor blades of approximately 1,755MW in 2019, representing annual power generation of 3,685,500 thousand KWH, increasing by approximately 154% compared with that in 2018. The Group has introduced a series of products in the field of nuclear power, including the chemical container water pump of the nuclear power station, "Hualong One" reactor cavity water cooling pump, to actively participate in the construction of nuclear power and development of clean energy. Recycling usage has been achieved in the treatment of municipal sewage, with total sewage treatment of approximately 120,000 cubic meters in January and February 2019. The sewage treatment business has been transferred in March 2019, and the Group ceased to conduct sewage treatment itself thereafter.

Environmental, Social and Governance Report (Continued)

SOCIETY

EMPLOYMENT AND LABOUR PRACTICES

The Group embraces the concept of “paying respect to the dedicated, utilizing the competent, fostering the aspiring and incentivising the innovative” for talents, seeking to provide a safe and sound working environment for employees and cultivating talents experienced in technology and management. By improving the remuneration system and designing career paths, we expect to establish a comprehensive incentive system based on physical, mental, emotional and growth motivations to carry forward a harmonious and stable employment relationship. The Group fully safeguards the rights of its employees, respects employees’ differences, provides a safe and harmonious working environment for each and every employee, and cohesively pursues the realization of employees’ solidarity and sense of belonging through human resources policies, employee benefits, vocational training and related activities. Together we pursue the core values of the Group.

Employees

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

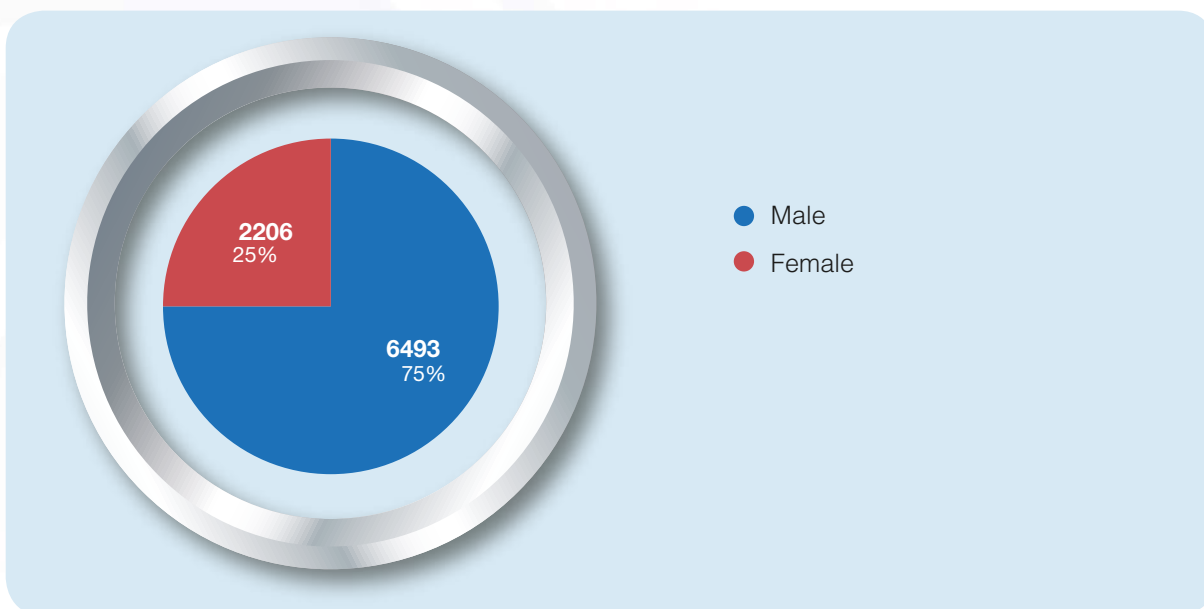
The Group places great emphasis on growth of employees in a harmonious internal atmosphere through structural adjustment, improvement of employee’s comprehensive quality, and creation of good work environment, so as to effectively tap on human resources, fully motivate employees’ enthusiasm and creativity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

Environmental, Social and Governance Report (Continued)

The Group has been strictly in compliance with all relevant local employment laws where the operation is located. During the reporting period, the Group did not have any cases of violation of relevant employment laws and regulations, nor did it receive any complaints related to recruitment.

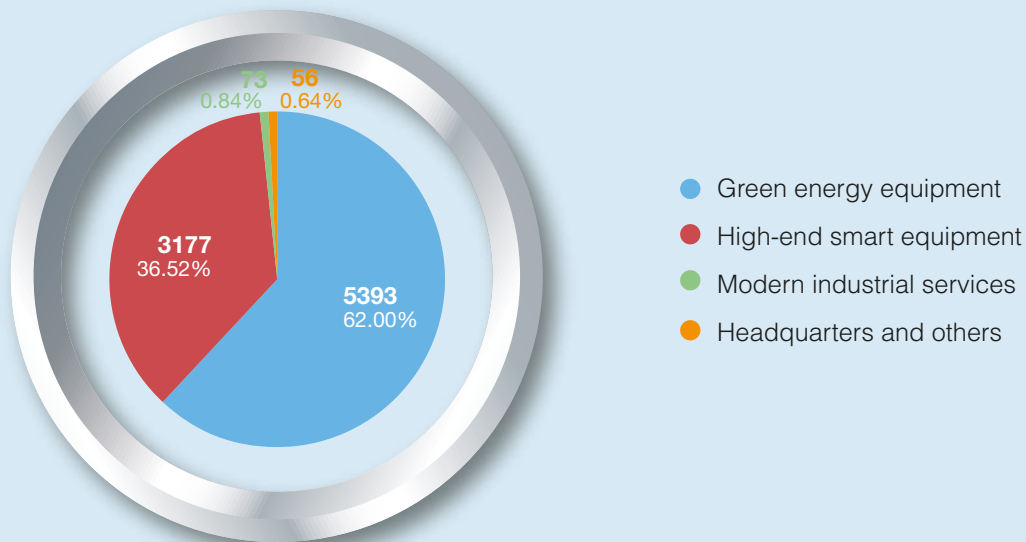
As of 31 December 2019, the Group had 8,699 dedicated employees with a more reasonable mixture of ages and specialties. The composition of the Group's employees by different criteria is set out as follows.

Employees by Gender

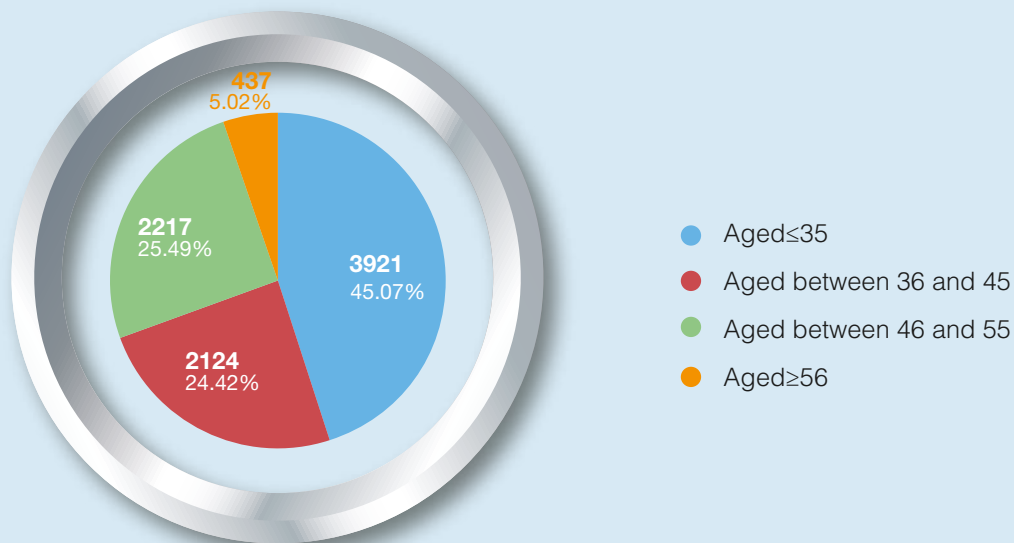


Environmental, Social and Governance Report (Continued)

Employees by Business Segment

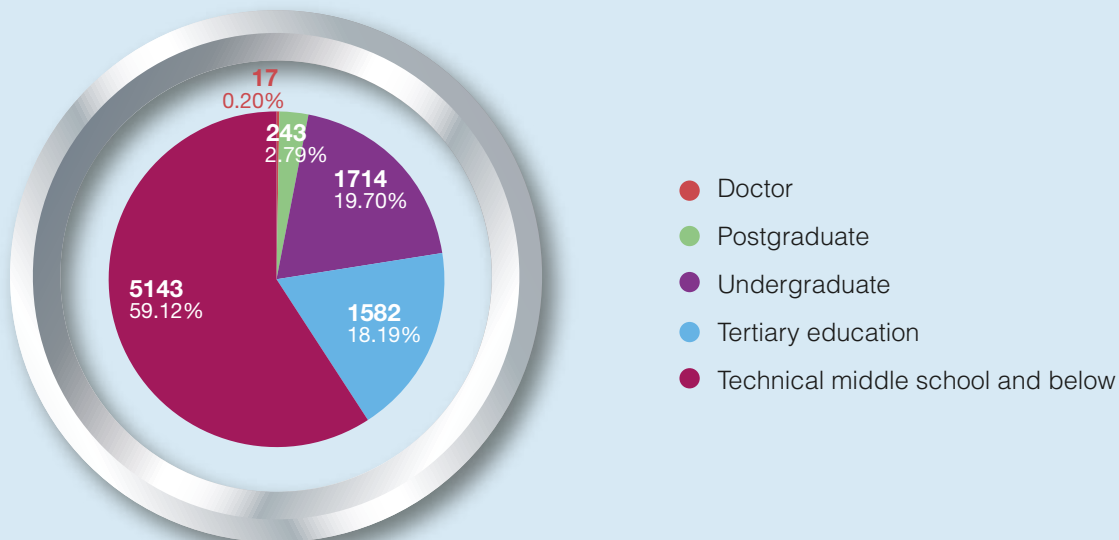


Employees by Age

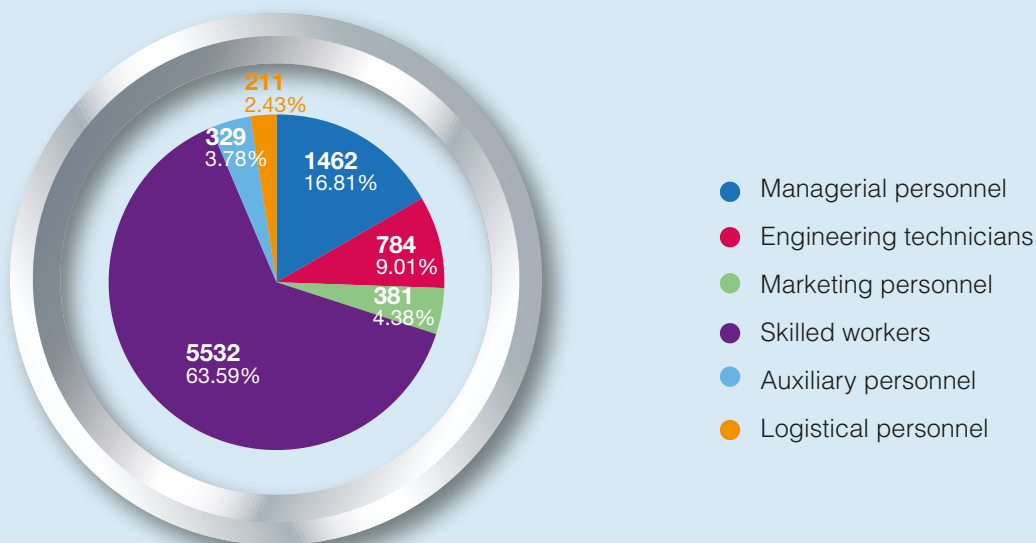


Environmental, Social and Governance Report (Continued)

Employees by Education



Employees by Specialty



Environmental, Social and Governance Report (Continued)

Health and Safety

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

Employees at each business segment are furnished with dust masks, safety glasses, helmets, protective clothing and other special labour supplies by the Group to effectively improve individual protection. Work-related injury insurance and regular health checks also cover each employee to relieve their concerns. For the year ended 31 December 2019, the Group had no work-related death or serious injury, and the work-related minor injury rate was 0.017%, generally below the control target of 2%. The rectification rate of identified safety hazards was 99.43%, and zero additional patient of occupational disease was recorded in the year. Since the Group adopted the rotation and serialization system, it not only met the employees' need of active treatment during the work-related injuries, but also enabled the normal production and operation of the enterprise.

Development and Training

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

Environmental, Social and Governance Report (Continued)

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

Subject	Training content
Quality management training	Held QC Promotion Expert Training Camp of Chongqing Machinery & Electric, each company selected 3 middle-level or technical backbones with professional expertise to participate in the training camp; and QC Management Promotion Expert Training Camp, each company selected 2 management members willing to promote QC management to participate in the training.
Team power pump-building the internal driving force for a high-performance team	Through "experiential training approaches", a series of well-designed extension courses were completed, enhancing the mutual communication of employees in non-working conditions, and promoting employees' sense of responsibility, cohesion and execution.
Special training on "Design of Comprehensive Compensation Management System"	Systematically studied the design concept, plans and skills of the compensation management system, and how to establish and improve the compensation incentive and restraint mechanism in line with the actual situation of the company.



Quality management training

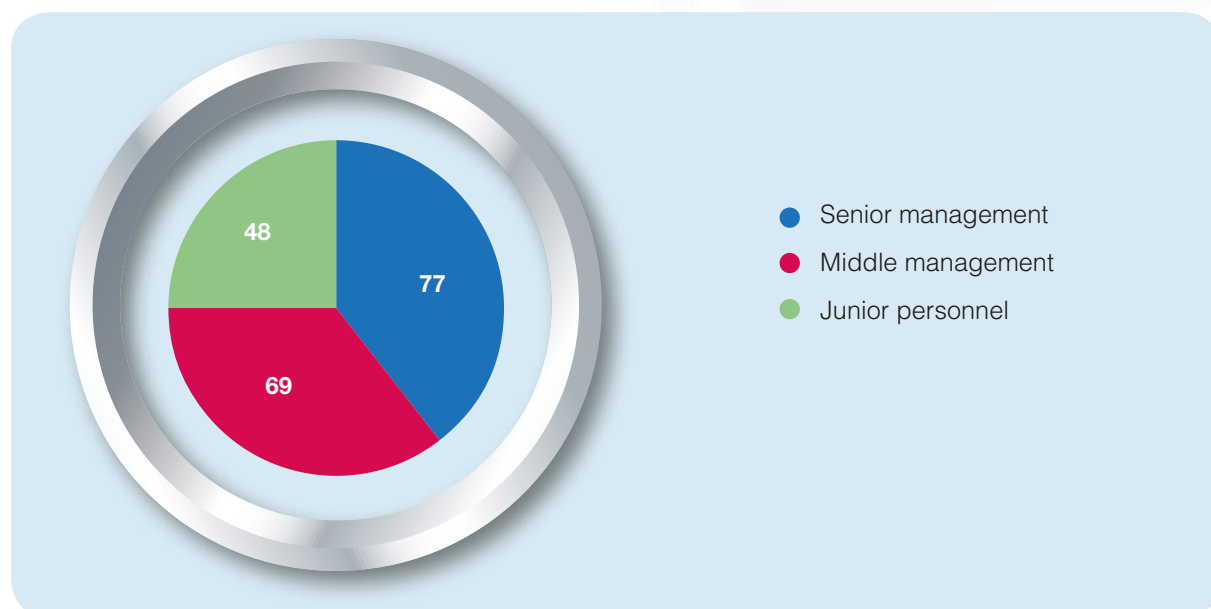
Environmental, Social and Governance Report (Continued)



Team power pump-building the internal driving force for a high-performance team

During the Period, the Group held a total of 930 training sessions primarily covering business skills, expertise, lean manufacturing, corporate culture, employee safety and health, with 16,400 times of participation and about 50 training hours per person at average.

Trained employees by level of senior, middle and junior level



Environmental, Social and Governance Report (Continued)

Labour Standards

The Group strictly observes the Labour Law of the PRC, the Labour Contract Law of the PRC and the laws, regulations and policies against child labour or forced labour, to protect employees' rights and interests under the laws and creates an impartial and legitimate workplace with due respect to human rights. Labour protection measures are in place for female employees in menstruation, pregnancy, maternity and lactation periods, and it is prohibited to arrange females in any work of the fourth-level physical intensity as specified in national regulations or other prohibited work. With well-established procedures in key areas such as employment and recruitment, we ensure compliance throughout the employment process and eliminate use of child labour in practices. Forced labour is prevented and the implementation of labour protection system is supervised by the labour union. During the year ended 31 December 2019, the Group did not involve any violation of standards, rules and regulations on child labour and forced labour.

Equal Opportunities and Diversity and Inclusion

As an employer with equal employment opportunities, the Company has been committed to providing a good working environment for all employees against discrimination and harassment. The Company's employment policies have always adhered to the principle of equal opportunities. The Company does not discriminate against employees based on race, color, belief, ethnicity, gender, age, marital status, family status, or disability, and ensures that employees or candidates will be measured and selected based on their expertise, experiences, abilities and qualifications.

Effectiveness of Human Resources

As of 31 December 2019, the Group continued to offer job opportunities to the public and recruited a total of more than 260 persons. To give better play to human resources and fulfill its social responsibility, the Group has established a human resources management system and operational mechanism catering to knowledge economy, market economy, social responsibility and the Group's development strategy. The Group developed the career paths for its employees. Differentiated remuneration policies were set up to further motivate employees, and a team of management, technology and skilled talents with proven competency has been established to provide strong talent and intelligence supports to our strategic goal.

Environmental, Social and Governance Report (Continued)

The Group has 18 employees forming a team to participate in the Skills Competition of CNC Lathe Workers, Assembly Technicians, Maintenance Electrician and Welders in Chongqing Metallurgical Industry (重慶市機械冶金行業數控車工、裝配鉗工、維修電工、焊工技能大賽) sponsored by Chongqing Trade Union Council, and 3 of them won the first individual prizes, 7 won the second individual prizes and 8 won the third individual prizes.



Pictures of Skills Competition

Environmental, Social and Governance Report (Continued)

Operational Practices

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

Corporate Governance

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

Return to Shareholders

The Company holds analyst meetings, online conferences, road shows and other activities regularly or for major events, to enhance communication with investors and prospective investors; prepare statistics and analysis of the number, composition and change of investors and prospective investors and collect their opinions or suggestions; establish and maintain sound public relations with stock exchanges, industry associations, media, other listed companies and relevant institutions; and monitor online media to timely detect false reports on the Company and safeguard the Company's positive public image. A scientific dividend distribution model has been established considering the Company's sustainable development and return to shareholders. Since the Company's listing in June 2008 up to the end of 2019, the Company has distributed dividends totaling approximately RMB1.691 billion (totaling RMB143 million in 2018 (after tax)), providing an attractive return to its long-term shareholders through the secondary market.

Environmental, Social and Governance Report (Continued)

Supply chain management

The Group is always open to mutual benefit through collaboration with upstream and downstream players in the industry chain. The Group adheres to open, fair and transparent criteria in selecting suppliers, evaluate suppliers every year in terms of price, quality, cost, delivery and after-sales service, and insist the dual-sourcing management to establish a supply chain platform with core competitiveness and vitality. In the procurement of raw materials, the Group deeply implemented green procurement, giving priority to the use of products with low-carbon, environmentally-friendly and low-level environmental damage. In the selection of energy sources, the Group purchased clean energy and vigorously promoted the use of low-grade energy, municipal solid waste, material energy and other non-fossil energy. For daily office supplies and other consumer goods, we try to choose the products with simple packaging that can be easily recycled. In the meantime, the Group continues to assist suppliers in upgrading management and technologies, seeking to consolidate and optimize the sustainable supply chain system for mutual growth with our suppliers. The Group has established a centralised bidding and procurement platform for bulk materials including steel products and bearings. The centralised procurements for the latest 3 years amounted to approximately RMB530 million, representing a direct cost reduction of approximately RMB31.6 million.

The Group strictly pursues product quality and strictly uses high-quality raw material suppliers. We perform bidding management, conduct extensive screening and comparison, check and incorporate the process and result of bidding and tendering, and ensure bidding fairness and equity. As of 31 December 2019, the total number of suppliers of the Group is 1,580, among which there are 3 foreign suppliers and 1,577 domestic suppliers; approximately 521 suppliers are from the eastern China, approximately 789 suppliers from the middle China and approximately 270 suppliers from the western China.

Product liability

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

The customer satisfaction as at 31 December 2019 was 93%, 2 percentage points higher than that of the same period last year.

Environmental, Social and Governance Report (Continued)

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

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

Environmental, Social and Governance Report (Continued)

In respect of services and complaints, the Group has established pre-sales consultation, sales reception and after-sales service system. When we receive customer complaints or inquiries, our staff will deal with them promptly, and the results will be reported to customers immediately. The Group sets up the principle of customer service first and tries its best to avoid legal proceedings. The Group requires that for whatever kind of complaints, regardless of the seriousness of the circumstances, the assignees shall apologize to customers and express their respect to customers. For the year ended 31 December 2019, the Group did not recall any products for safety and health reasons.

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

Intellectual Property

The Group attaches particular importance to maintenance and protection of intellectual property rights, and has entered into strategic partnership with the Intellectual Property Office of Chongqing Municipality to promote the enhancement of enterprise patent level. In 2019, the Group obtained 227 authorized patents, including 20 authorized invention patents, and expanded its patent pool to 2,506 patents, including 190 invention patents. The Intellectual Property Office of Chongqing Municipality collaborates with the public security bureau, the authorities in regard to quality and technical supervision, commerce and industry and other relevant authorities to crack down on counterfeits infringing the Group's products. These intellectual property protection initiatives greatly assist the Group in consolidating market share and maintaining a fair market competition environment.

Environmental, Social and Governance Report (Continued)

Information Security

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

Anti-corruption and Internal Control

The Group attaches great importance to its responsibility in anti-corruption in order to maintain a fair and positive business environment. The Group has formulated the Code of Ethics of Employees under which employees are required to abstain from accepting or offering any money, gift and hospitality that might affect their business decision or independent judgment, or exploiting their positions against the Company's interests. The Anti-Fraud Procedures and Control System is also established to prevent falsification, concealment of truth, fraudulence and other illegal behaviors by insiders or outsiders involved in the Group's activities which might infringe interests of the State, the Company or other parties. In addition to an internal audit system in place to monitor and review all employees as to their compliance with anti-corruption laws and regulations, the Group has established whistle-blowing system and procedures, including a special email address and hotline to accept whistle-blowing reports. Whistle-blowers of verified cases will be rewarded accordingly. As to 31 December 2019, the Group did not identify any corruption or bribe-taking case.

Environmental, Social and Governance Report (Continued)

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

Pursuant to the Basic Rules on Internal Control of Enterprises jointly promulgated by five ministries and commissions including the Ministry of Finance and the Code on Corporate Governance Practices for Listed Companies on the Hong Kong Stock Exchange, the Group has established a sound the internal control system. Through the evaluation and inspection on the operation of the internal control system of the Company and its subsidiaries, as well as the continuous tracking and monitoring of improvement on internal control system, the effectiveness of internal control system has been promoted. In 2019, evaluation or improvement has been conducted on the effectiveness of the internal control system for the Company, and its subsidiaries Chongqing General, Chongqing Machine Tools and Chongqing Pump as well as the improvement on internal control system has been tracked and monitored for Chongqing Pump, Chongqing Gas Compressor and Chongqing Water Turbine.

The Group has established an effective legal risk prevention and treatment framework comprising the Contract Management System and the Management Measures on Legal Affairs. Legal review mechanism has been established for rules and regulations, economic contracts, and material decisions. In 2019, the Group reviewed 138 contracts; and quarterly reporting mechanism of significant legal risks has been established to resolve the legal risks in a timely manner.

Environmental, Social and Governance Report (Continued)

Feedback to Community

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



The picture shows that on 8 January 2019, Chongqing Cummins Engine Co., Ltd. carried out a charity activity titled “Celebrate the Spring Festival and Send Warmth”, volunteers brought couplets, red lanterns, rice, oil, scarves, dumplings and other special food materials for the Spring Festival to Chongqing Huiling Vocational Rehabilitation Training Center, and made dumplings with the students to enjoy the New Year’s atmosphere in advance.

Environmental, Social and Governance Report (Continued)



The picture shows that on 20 June 2019, Yibin Distribution Center of Chongqing Pigeon Electric Wires & Cables Co., Ltd. (重慶鴿牌電線電纜有限公司) conducted a material donation activity to the earthquake stricken area, Changning County, Yibin, Sichuan.

Independent Auditor's Report



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AUDITOR'S REPORT

XYZH/202010038

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

1. OPINION


We have audited the accompanying financial statements of Chongqing Machinery & Electric Co., Ltd (the "Company"), which comprise the consolidated and the Company's balance sheet as at 31 December 2019, the consolidated and the Company's income statements, the consolidated and the Company's cash flow statement and the consolidated and the Company's statement of changes in equity for the year then ended and related notes to financial statements.

In our opinion, the accompanying financial statements of the Company present fairly, in all material respects, the consolidated and the Company's financial position as at 31 December 2019, the consolidated and the Company's results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

2. BASIS FOR OPINION

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

Independent Auditor's Report (Continued)

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3. KEY AUDIT MATTERS

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

Key Audit Matters

Responding measures

1. Provision for decline in value of inventories

As of December 31, 2019, as stated in Note VI.8 of the Company's Consolidated Financial Statements, the book value of inventories was RMB1,981,484,606.34 yuan, and the provision for decline in value of inventories was RMB156,264,087.26 yuan. It has a significant impact on the financial statements.

The main audit procedures we have implemented are as follows:

- Evaluate the design and implementation of internal control related to the Company's provision for decline in value of inventories.
- Supervise the stocktaking of the Company and checks the quantity, status and the expiration date of the inventories.

Independent Auditor's Report (Continued)



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Key Audit Matters

Responding measures

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

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

- Combine the aging and expiration date of the Company's inventories, conducts an analytical review of the long-age inventories to analysis the reasonableness of provision for decline in value of inventories.
- Obtain the calculation table of provision for decline in value of inventories of the Company; perform the inventory impairment test; check whether it is executed in accordance with the relevant accounting policies of the Company; exam the current period movement of provision for decline in value of inventories recognized in the previous years; and analyze whether the provision for decline in value of inventories is sufficient;

Independent Auditor's Report (Continued)



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Key Audit Matters

Responding measures

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

- Choose samples from the sales order after the current accounting period, and compare the selling price with the estimated selling price;
- Evaluate whether the accounting treatment of provision for decline in value of inventories by the Management and the presentation and disclosure of relevant information in the financial statements are appropriate.

Independent Auditor's Report (Continued)



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Key Audit Matters

Responding measures

2. Revenue recognition

In 2019, as stated in Note VI.50 of the Company's Consolidated Financial Statements, the total revenue is RMB5,516,812,105.87 yuan.

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

The main audit procedures we have implemented are as follows:

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

Independent Auditor's Report (Continued)



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Key Audit Matters

Responding measures

2. Revenue recognition (continued)

- Perform an analytical review process to evaluate the reasonableness of sales revenue and gross profit changes, combined the industry development which the Company operates in.
- Differentiate product and sales types, and choose samples separately. Select material sample to check revenue by checking relevant supporting documents, including accounting voucher, sales records, contracts, sales invoices, shipping documents, receipts and receiving records to verify the authenticity and accuracy of revenue recognition.
- Evaluate the sales revenue is recorded in the appropriate accounting period by performing a cut-off test on sales revenue before and after the balance sheet date.
- Evaluate whether the accounting treatment of revenue recognition by the Company's Management and the presentation and disclosure of relevant information in the financial statements is appropriate.

Independent Auditor's Report (Continued)



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4. OTHER INFORMATION

The management of Chongqing Machinery & Electric Co., Ltd (hereinafter referred to as the "Management") is responsible for the other information. The other information comprises the information included in the Company's 2019 annual report, but does not include the financial statements and our auditor's report thereon.

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

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

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

Independent Auditor's Report (Continued)



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

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

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

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

Independent Auditor's Report (Continued)



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

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

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

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

Independent Auditor's Report (Continued)

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

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

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

Independent Auditor's Report (Continued)



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

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

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

**ShineWing Certified Public
Accountants LLP**

China, Beijing

**CICPA: Xiong Hongwei
(Engagement Partner)**

CICPA: Hu Xiaoqin

27 March 2020

Consolidated Statement of Financial Position

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

Items	Notes	31 December 2019	31 December 2018
Current assets			
Cash and cash equivalents	VI.1	2,094,619,648.56	2,164,670,306.18
Financial assets held for trade	VI.2	269,494.13	5,124,292.21
Notes receivable	VI.3	296,071,386.86	1,128,945,186.86
Accounts receivable	VI.4	2,688,114,256.49	2,636,400,832.87
Receivable financing	VI.5	470,685,913.42	—
Prepayments	VI.6	266,180,611.67	264,987,827.45
Other receivables	VI.7	1,203,555,781.66	928,431,789.73
Including: Interests receivable	VI.7.1	—	20,538,197.57
Dividends receivable	VI.7.2	436,478,069.56	383,447,758.44
Loans and advances to customers	VI.13(1)	921,848,681.16	1,115,437,102.20
Inventories	VI.8	1,981,484,606.34	1,949,892,938.13
Contract assets	VI.9	368,454,512.15	249,077,553.98
Held-for-sale assets	VI.10	—	6,039,285.98
Non-current assets due within one year	VI.11	17,500,000.00	—
Other current assets	VI.12	41,915,619.38	81,059,064.90
Total current assets		10,350,700,511.82	10,530,066,180.49

Consolidated Statement of Financial Position (Continued)

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

Items	Notes	31 December 2019	31 December 2018
Non-current assets			
Loans and advances to customers	VI.13(2)	117,000,000.00	38,880,000.00
Long-term receivables	VI.14	95,700,000.00	33,200,000.00
Long-term equity investments	VI.15	996,391,965.41	1,009,154,785.28
Other equity instruments investment	VI.16	52,314,020.88	46,693,061.00
Investment properties	VI.17	78,047,637.67	83,609,256.52
Property, plant and equipment	VI.18	2,838,969,790.21	3,224,720,949.14
Construction in progress	VI.19	207,448,578.58	171,249,276.77
Right-to-use assets	VI.20	358,581,230.46	—
Intangible assets	VI.21	656,254,825.20	617,595,163.06
Development expenditures	VI.22	16,610,242.60	29,927,674.79
Goodwill	VI.23	143,312,435.00	143,312,435.00
Long-term deferred expenses	VI.24	232,876,050.24	224,093,001.19
Deferred tax assets	VI.25	121,906,877.97	103,686,673.46
Other non-current assets	VI.26	251,701,138.83	21,495,341.97
Total non-current assets		6,167,114,793.05	5,747,617,618.18
Total assets		16,517,815,304.87	16,277,683,798.67

Consolidated Statement of Financial Position (Continued)

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

Items	Notes	31 December 2019	31 December 2018
Current liabilities			
Short-term loans	VI.27	1,156,886,625.41	911,696,617.94
Due to customers, banks and other financial institutions	VI.28	1,117,908,116.74	1,334,738,381.17
Notes payable	VI.29	1,202,637,121.55	1,225,850,904.13
Accounts payable	VI.30	1,686,336,446.82	1,522,525,538.63
Contract liabilities	VI.31	807,469,495.64	685,648,864.72
Repurchase agreements	VI.32	49,949,000.00	–
Employee benefits payables	VI.33	65,766,577.42	63,635,374.54
Taxes and levies payables	VI.34	186,244,866.97	220,974,568.70
Other payables	VI.35	456,796,531.42	599,204,267.53
Including: Interests payable	VI.35.1	–	13,156,812.78
Dividends payable	VI.35.2	28,451,140.35	27,519,691.51
Non-current liabilities due within one year	VI.36	281,511,419.08	170,826,135.24
Other current liabilities	VI.37	3,259,736.35	1,176,168.16
Total current liabilities		7,014,765,937.40	6,736,276,820.76
Non-current liabilities			
Long-term loans	VI.38	1,642,606,224.02	843,184,922.99
Bonds payable	VI.39	–	799,143,854.22
Lease liabilities	VI.40	127,703,443.23	–
Long-term payables	VI.41	4,505,143.84	147,696,759.15
Long-term employee benefits payable	VI.42	6,759,000.00	16,294,000.00
Provisions	VI.43	21,754,527.73	20,617,240.24
Deferred revenue	VI.44	301,172,088.60	405,298,663.38
Deferred tax liabilities	VI.25	109,458,767.32	79,509,594.57
Total non-current liabilities		2,213,959,194.74	2,311,745,034.55
Total liabilities		9,228,725,132.14	9,048,021,855.31

Consolidated Statement of Financial Position *(Continued)*

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

Items	Notes	31 December 2019	31 December 2018
Shareholder's equity			
Share capital	VI.45	3,684,640,154.00	3,684,640,154.00
Capital reserves	VI.46	50,311,968.20	50,311,968.20
Other comprehensive income	VI.47	21,514,640.55	31,052,427.09
Surplus reserves	VI.48	364,663,370.96	334,373,473.12
Retained profits	VI.49	2,723,290,866.87	2,708,521,621.81
Total equity attributable to shareholders of the Company		6,844,421,000.58	6,808,899,644.22
Non-controlling interests		444,669,172.15	420,762,299.14
Total shareholder's equity		7,289,090,172.73	7,229,661,943.36
Total liabilities and shareholder's equity		16,517,815,304.87	16,277,683,798.67

Legal Representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Statement of Financial Position of the Company

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

Items	Notes	31 December 2019	31 December 2018
Current assets:			
Cash and cash equivalents		1,109,485,020.12	1,215,530,735.02
Financial assets held for trade		—	—
Notes receivable		2,800,000.00	—
Other receivables	XVI.1	1,455,032,793.77	1,434,961,752.73
Including: Interests receivable	XVI.1.1	—	52,085,559.19
Dividends receivable	XVI.1.2	436,478,069.56	383,447,758.44
Non-current assets due within one year		17,500,000.00	—
Other current assets		3,722,935.34	3,309,478.99
Total current assets		2,588,540,749.23	2,653,801,966.74
Non-current assets:			
Long-term receivables		838,000,000.00	246,100,000.00
Long-term equity investments	XVI.2	4,602,220,235.53	4,558,366,763.45
Other equity instruments investment		52,314,020.88	46,693,061.00
Property, plant and equipment		35,610,757.03	41,000,530.92
Construction in progress		4,515,158.77	4,480,970.09
Right-to-use assets		—	—
Intangible assets		19,998,224.66	19,187,060.87
Goodwill		293,943.72	293,943.72
Total non-current assets		5,552,952,340.59	4,916,122,330.05
Total assets		8,141,493,089.82	7,569,924,296.79

Statement of Financial Position of the Company (Continued)

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

Items	Notes	31 December 2019	31 December 2018
Current liabilities			
Short-term loans		696,781,000.00	280,000,000.00
Employee benefits payables		1,780,697.30	1,887,413.85
Taxes and levies payables		251,357.01	123,232.06
Other payables		9,262,442.99	62,986,536.29
Including: Interests payable		—	9,261,300.00
Dividends payable		—	—
Non-current liabilities due within one year		22,100,000.00	53,500,000.00
Total current liabilities		730,175,497.30	398,497,182.20
Non-current liabilities			
Long-term loans		1,194,000,000.00	316,100,000.00
Bonds payable		—	799,143,854.22
Lease liabilities		—	—
Deferred tax liabilities		8,367,050.00	8,367,050.00
Total non-current liabilities		1,202,367,050.00	1,123,610,904.22
Total liabilities		1,932,542,547.30	1,522,108,086.42

Statement of Financial Position of the Company (Continued)

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

Items	Notes	31 December 2019	31 December 2018
Shareholder's equity			
Share capital		3,684,640,154.00	3,684,640,154.00
Capital reserves		140,716,900.00	140,716,900.00
Other comprehensive income		6,237,599.88	616,640.00
Surplus reserves		379,038,746.87	348,748,849.03
Retained profits		1,998,317,141.77	1,873,093,667.34
Total shareholder's equity		6,208,950,542.52	6,047,816,210.37
Total liabilities and shareholder's equity		8,141,493,089.82	7,569,924,296.79

Legal Representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Consolidated Income Statement

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

Items	Notes	For The Year 2019	For The Year 2018
1. Total operating revenue	VI.50	5,516,812,105.87	5,284,317,532.90
Including: Operating revenue	VI.50	5,439,335,101.44	5,215,368,816.23
Interest income	VI.50	77,451,736.38	68,548,323.06
Transaction fees and commission income	VI.50	25,268.05	400,393.61
2. Total operating cost		5,855,552,796.45	5,284,011,305.97
Including: Operating cost	VI.50	4,467,009,491.11	4,029,037,198.67
Interest expenses	VI.50	11,006,384.78	9,317,288.09
Transaction cost and commission fees	VI.50	123,001.27	118,839.98
Business taxes and surcharges		57,996,330.33	63,485,555.23
Selling and distribution expenses	VI.51	308,120,591.52	298,156,677.80
Administrative expenses	VI.52	544,178,374.13	513,983,557.96
Research and development expenses	VI.53	308,915,489.59	240,974,839.39
Financial expenses	VI.54	158,203,133.72	128,937,348.85
Including: Interest expenses	VI.54	133,915,851.96	122,653,496.31
Interest income	VI.54	36,845,305.60	38,473,948.90
Add: Other income	VI.55	227,230,135.88	133,621,128.92
Investment income (Loss listed with "-")	VI.56	295,372,688.12	418,925,355.40
Including: Income from investments in associates and joint ventures	VI.56	283,867,094.72	369,941,950.32
Income of derecognition of financial assets measured at amortized cost (Loss listed with "-")		-	-
Net exposure to hedging (Loss listed with "-")		-	-
Gain arising from the changes in fair value (Loss listed with "-")	VI.57	(134,308.57)	(109,704.27)
Impairment loss of credit (Loss is listed by "-")	VI.58	(69,673,119.31)	(19,704,902.99)
Impairment loss of assets (Loss is listed by "-")	VI.59	(4,288,527.68)	(76,668,574.02)
Gain on disposal of assets (Loss listed with "-")	VI.60	131,720,191.68	100,360,500.73

Consolidated Income Statement *(Continued)*

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

Items	Notes	For The Year 2019	For The Year 2018
3. Operating profit (Loss listed with "-")		241,486,369.54	556,730,030.70
Add: Non-operating income	VI.61	12,740,116.51	15,877,488.95
Less: Non-operating expenses	VI.62	11,280,249.97	16,935,459.00
4. Total profit (Loss listed with "-")		242,946,236.08	555,672,060.65
Less: Income tax expenses	VI.63	39,031,257.93	60,500,227.64
5. Net profit (Net loss listed with "-")		203,914,978.15	495,171,833.01
(1) Classification by continuing or discontinued operation		203,914,978.15	495,171,833.01
1.Net profit attributable to continuing operation (Net loss listed with "-")		203,914,978.15	495,171,833.01
2.Net profit attributable to discontinued operation (Net loss listed with "-")		—	—
(2) Classification by ownership		203,914,978.15	495,171,833.01
1.Net profit attributable to shareholders of the controlling company		184,834,923.25	444,060,837.38
2.Net profit attributable to non-controlling interests		19,080,054.90	51,110,995.63
6. Net other comprehensive income after tax	VI.47	(9,432,447.54)	5,514,177.09
Net other comprehensive income after tax attributable to shareholders of the Company	VI.47	(9,537,786.54)	5,155,078.09
1. Other comprehensive incomes that cannot be reclassified into profit or loss	VI.47	(8,228,716.00)	1,384,451.00
(1) Changes from recalculation of defined benefit plan	VI.47	(861,339.00)	1,384,451.00
(2) Transfer changes of defined benefit plan to retained earnings	VI.47	(12,988,336.88)	—
(3) Changes in fair value of other equity instrument investments	VI.47	5,620,959.88	—

Consolidated Income Statement (Continued)

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

Items	Notes	For The Year 2019	For The Year 2018
2. Other comprehensive income that can be reclassified into profit or loss			
	VI.47	(1,309,070.54)	3,770,627.09
1. Gain or loss from fair value changes of available-for-sale financial assets	VI.47	—	475,865.00
2. Share of other comprehensive income of investee company under equity method that can be reclassified as profit or loss	VI.47	—	(1,658,986.00)
3. Effective portion of net investment hedging gains and losses	VI.47	1,261,528.40	4,234,206.34
4. Translation differences of financial statements in foreign currencies	VI.47	(2,570,598.94)	719,541.75
Net other comprehensive income after tax attributable to non-controlling interests	VI.47	105,339.00	359,099.00
7. Total comprehensive income		194,482,530.61	500,686,010.10
1. Total comprehensive income attributable to shareholders of the Company		175,297,136.71	449,215,915.47
2. Total comprehensive income attributable to non-controlling interests		19,185,393.90	51,470,094.63
8. Earnings per share			
(1) Basic earnings per share		0.05	0.12
(2) Diluted earnings per share		0.05	0.12

Legal Representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Income Statement of the Company

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

Items	Notes	For The Year 2019	For The Year 2018
1. Operating revenue	XVI.3	2,397,300.84	2,247,005.78
Less: operating cost		—	—
Business taxes and surcharges		713,200.55	629,481.47
Selling and distribution expenses		—	—
Administrative expenses		47,108,641.30	43,868,142.60
Financial expenses		10,878,437.20	16,030,766.46
Including: Interest expenses		78,186,096.51	86,587,848.78
Interest income		70,745,604.48	74,769,054.57
Add: Other income		34,805.00	875,434.19
Investment income (Loss listed with “-”)	XVI.4	389,559,496.26	435,654,044.70
Including: Income from investments in associates and joint ventures	XVI.4	291,928,962.98	365,625,074.86
Income of derecognition of financial assets measured at amortized cost (Loss listed with “-”)		—	—
Gain arising from the changes in fair value (Loss listed with “-”)		—	—
Impairment loss of credit (Loss is listed by “-”)		(29,963,944.85)	(3,644,517.34)
Impairment loss of assets (Loss is listed by “-”)		—	—
Gain on disposal of assets (Loss listed with “-”)		271,600.02	—
2. Operating profit (Loss listed with “-”)		303,598,978.22	374,603,576.80
Add: Non-operating income		50,000.21	8,708.56
Less: Non-operating expenses		750,000.00	6,048,873.70
3. Total profit (Loss listed with “-”)		302,898,978.43	368,563,411.66
Less: Income tax expenses		—	—

Income Statement of the Company (Continued)

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

Items	Notes	For The Year 2019	For The Year 2018
4. Net profit (Net loss listed with "-")		302,898,978.43	368,563,411.66
(1) Net profit attributable to continuing operation (Net loss listed with "-")		302,898,978.43	368,563,411.66
(2) Net profit attributable to discontinued operation (Net loss listed with "-")		—	—
5. Net other comprehensive income after tax		5,620,959.88	—
1. Other comprehensive incomes that cannot be reclassified into profit or loss		5,620,959.88	—
(1) Changes from recalculation of defined benefit plan		—	—
(2) Transfer changes of defined benefit plan to retained earnings		—	—
(3) Changes in fair value of other equity instrument investments		5,620,959.88	—
2. Other comprehensive income that can be reclassified into profit or loss		—	—
1. Gain or loss from fair value changes of available-for-sale financial assets		—	—
2. Share of other comprehensive income of investee company under equity method that can be reclassified as profit or loss		—	—
6. Total comprehensive income		308,519,938.31	368,563,411.66

Legal Representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Consolidated Statement of Cash Flows

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

Items	For The Year 2019	For The Year 2018
1. Cash flows from operating activities		
Cash received from sales of goods and rendering of services	5,764,272,319.37	5,323,456,455.98
Net increase in customer deposits and interbank deposits	(220,597,205.84)	427,680,931.17
Net increase in central bank payments	(10,000,000.00)	10,000,000.00
Net increase in interbank payments	(30,000,000.00)	30,000,000.00
Cash received from interest, surcharges and commission fee	82,298,566.20	83,252,825.45
Net increase in repurchase agreements	49,949,000.00	—
Cash received from tax refund	18,103,339.73	32,838,560.49
Cash received relating to other operating activities	591,668,948.07	531,538,013.11
Sub-total of cash inflows from operating activities	6,245,694,967.53	6,438,766,786.20
Cash paid for goods and services	4,331,813,455.12	4,384,588,756.25
Net increase in loans and advances to customers	(125,569,906.13)	102,560,214.54
Net increase in central bank and interbank payments	(21,728,871.32)	12,329,593.95
Cash paid for interest, surcharges and commission fee	10,362,787.69	8,528,897.62
Cash paid to and on behalf of employees	989,860,944.69	875,830,676.03
Payments of taxes and surcharges	298,056,103.68	367,491,397.93
Cash paid relating to other operating activities	642,734,935.85	605,794,412.50
Sub-total of cash outflows from operating activities	6,125,529,449.58	6,357,123,948.82
Net cash flows from operating activities	120,165,517.95	81,642,837.38

Consolidated Statement of Cash Flows (Continued)

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

Items	For The Year 2019	For The Year 2018
2. Cash flows from investment activities		
Cash received from return of investments	494,000,000.00	150,000,001.00
Cash received from investments income	257,822,921.23	263,263,119.20
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	116,538,402.05	425,389,449.20
Cash received relating to other investing activities	58,025,047.91	428,307,039.39
Sub-total of cash inflows from investing activities	926,386,371.19	1,266,959,608.79
 Cash paid to acquire fixed assets, intangible assets and other long-term assets	 175,441,428.69	 276,188,941.05
Cash paid for investments	492,030,472.70	40,000,000.00
Cash paid relating to other investing activities	232,407,287.51	48,194,021.94
Sub-total of cash outflow from investing activities	899,879,188.90	364,382,962.99
 Net cash flows from investing activities	 26,507,182.29	 902,576,645.80

Consolidated Statement of Cash Flows (Continued)

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

Items	For The Year 2019	For The Year 2018
3. Cash flows from financing activities		
Cash received from loans granted	2,676,529,520.00	1,903,601,200.00
Cash received relating to other financing activities	73,310,106.86	340,256,690.38
Sub-total of cash inflows from financing activities	2,749,839,626.86	2,243,857,890.38
Cash paid for repayment of borrowings	2,506,545,330.22	2,464,674,400.00
Cash paid for dividends, profits or payments of interests	304,999,203.74	276,973,008.62
Including: dividends and profits paid to non-controlling interests by subsidiaries	23,767,842.85	19,860,430.92
Cash paid relating to other financing activities	117,332,521.06	84,915,416.50
Sub-total of cash outflows from financing activities	2,928,877,055.02	2,826,562,825.12
Net cash flows from financing activities	(179,037,428.16)	(582,704,934.74)
4. Effects of changes in exchange rate on cash and cash equivalents	(411,572.55)	(5,710,451.38)
5. Net increase in cash and cash equivalents	(32,776,300.47)	395,804,097.06
Add: opening balance of cash and cash equivalents	1,570,343,395.06	1,174,539,298.00
6. Balance of cash and cash equivalents at the end of this period	1,537,567,094.59	1,570,343,395.06

Legal Representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Cash Flows Statement of the Company

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

Items	For The Year 2019	For The Year 2018
1. Cash flows from operating activities		
Cash received from sales of goods and rendering of services	—	—
Cash received relating to other operating activities	21,321,262.72	27,086,676.44
Sub-total of cash inflows from operating activities	<u>21,321,262.72</u>	<u>27,086,676.44</u>
Cash paid for goods and services	—	—
Cash paid to and on behalf of employees	21,380,365.06	19,799,466.65
Payments of taxes and surcharges	804,420.30	693,231.90
Cash paid relating to other operating activities	12,169,908.77	23,206,643.54
Sub-total of cash outflows from operating activities	<u>34,354,694.13</u>	<u>43,699,342.09</u>
Net cash flows from operating activities	<u>(13,033,431.41)</u>	<u>(16,612,665.65)</u>
2. Cash flows from investment activities		
Cash received from return of investments	450,000,000.00	150,000,001.00
Cash received from investments income	344,415,444.06	325,891,841.36
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	894,100.00	—
Cash received relating to other investing activities	1,928,106,924.91	2,503,099,025.79
Sub-total of cash inflows from investing activities	<u>2,723,416,468.97</u>	<u>2,978,990,868.15</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	1,723,728.00	984,953.00
Cash paid for investments	453,000,000.00	23,000,000.00
Cash paid relating to other investing activities	2,580,460,942.29	1,775,500,000.00
Sub-total of cash outflow from investing activities	<u>3,035,184,670.29</u>	<u>1,799,484,953.00</u>
Net cash flows from investing activities	<u>(311,768,201.32)</u>	<u>1,179,505,915.15</u>

Cash Flows Statement of the Company (Continued)

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

Items	For The Year 2019	For The Year 2018
3. Cash flows from financing activities		
Cash received from loans granted	2,050,000,000.00	1,050,000,000.00
Cash received relating to other financing activities	32,567,758.74	—
Sub-total of cash inflows from financing activities	2,082,567,758.74	1,050,000,000.00
Cash paid for repayment of borrowings	1,586,719,000.00	1,848,400,000.00
Cash paid for dividends, profits or payments of interests	233,158,156.89	193,795,244.37
Cash paid relating to other financing activities	11,373,893.41	47,865,666.03
Sub-total of cash outflows from financing activities	1,831,251,050.30	2,090,060,910.40
Net cash flows from financing activities	251,316,708.44	(1,040,060,910.40)
4. Effects of changes in exchange rate on cash and cash equivalents	6,968.13	(446,717.50)
5. Net increase in cash and cash equivalents	(73,477,956.16)	122,385,621.60
Add: opening balance of cash and cash equivalents	1,092,582,082.60	970,196,461.00
6. Balance of cash and cash equivalents at the end of this period	1,019,104,126.44	1,092,582,082.60

Legal Representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Consolidated Statement of Changes in Equity

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

Items	For the year 2019												
	Equity attributable to the equity holders of the controlling Company												
	Other equity instruments				Other								
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained profits	Non-controlling interests	Total equity
1. Balance at 31 December 2018	3,684,640,154.00	-	-	-	50,311,968.20	-	31,052,427.09	-	334,373,473.12	-	2,708,521,621.81	420,762,293.14	7,229,661,943.36
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	(4,927,467.14)	(515,885.43)	(5,443,352.57)
2. Balance at 1 January 2019	3,684,640,154.00	-	-	-	50,311,968.20	-	31,052,427.09	-	334,373,473.12	-	2,703,594,154.67	420,246,403.71	7,224,218,590.79
3. Increase/Decrease for the period (Decrease listed with "-")	-	-	-	-	-	-	(9,537,766.54)	-	30,289,897.84	-	19,696,712.20	24,422,768.44	64,871,591.94
(1) Total comprehensive income	-	-	-	-	-	-	3,450,550.34	-	-	-	184,634,923.25	19,185,393.90	207,470,867.49
(2) Capital contribution and reduction from shareholders	-	-	-	-	-	-	-	-	-	-	-	36,000,000.00	36,000,000.00
1. Common stock capital contribution from shareholders	-	-	-	-	-	-	-	-	-	-	-	36,000,000.00	36,000,000.00
2. Capital contribution from holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Equity increase from Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit appropriations	-	-	-	-	-	-	-	-	30,289,897.84	-	(178,126,274.36)	(24,696,291.70)	(172,535,668.22)
1. Appropriation to statutory reserve	-	-	-	-	-	-	-	-	30,289,897.84	-	(60,289,897.84)	-	-
2. Appropriation to staff bonus and welfare	-	-	-	-	-	-	-	-	-	-	(450,770.36)	-	(450,770.36)

Consolidated Statement of Changes in Equity (Continued)

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

Items	For the year 2019											
	Equity attributable to the equity holders of the controlling Company											
	Other equity instruments				Other							
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained profits	Non-controlling interests
3. Appropriation to shareholders	-	-	-	-	-	-	-	-	-	(147,365,606.16)	(24,655,291.70)	(172,084,897.86)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer	-	-	-	-	-	-	(12,988,336.88)	-	-	12,988,336.88	-	-
1. Transfer of capital reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer of surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves transfer to make up for losses	-	-	-	-	-	-	-	-	-	-	-	-
4. Transfer other comprehensive income to retained earnings	-	-	-	-	-	-	(12,988,336.88)	-	-	12,988,336.88	-	-
5. Others	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation	-	-	-	-	-	-	-	-	-	-	-	-
2. Used	-	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	-	(273.57)	(6,063,333.76)	(6,063,607.33)

Consolidated Statement of Changes in Equity (Continued)

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

Items	For the year 2019												
	Equity attributable to the equity holders of the controlling Company												
	Other equity instruments				Other								
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained profits	Non-controlling interests	Total equity
4. Balance at 31 December 2019	3,684,640,154.00	-	-	-	50,311,968.20	-	21,514,640.55	-	364,663,370.96	-	2,723,290,866.87	444,669,172.15	7,289,090,172.73

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

Consolidated Statement of Changes in Equity (Continued)

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

Items	For the year 2018												
	Equity attributable to the equity holders of the controlling Company												
	Other equity instruments				Other								
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained profits	Non-controlling interests	Total equity
1. Balance at 31 December 2017													
	3,684,640,154.00	-	-	-	49,744,935.00	-	27,977,334.00	-	297,517,320.00	-	2,717,844,150.00	400,262,838.00	7,177,986,543.00
Add: Changes in accounting policies													
	-	-	-	-	-	-	(2,079,985.00)	-	-	-	(305,543,321.33)	(6,339,889.26)	(313,963,195.59)
2. Balance at 1 January 2018													
	3,684,640,154.00	-	-	-	49,744,935.00	-	25,897,349.00	-	297,517,320.00	-	2,412,300,828.67	393,922,948.74	6,864,023,347.41
3. Increase/Decrease for the year (Decrease listed with "-")													
(1) Total comprehensive income													
(2) Capital contribution and reduction from shareholders													
1. Common stock capital contribution from shareholders													
2. Capital contribution from holders of other equity instruments													
3. Equity increase from Share-based payments													
4. Others													

Consolidated Statement of Changes in Equity (Continued)

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

Items	For the year 2018												
	Equity attributable to the equity holders of the controlling Company												
	Other equity instruments				Other								
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained profits	Non-controlling interests	Total equity
(3) Profit appropriations	-	-	-	-	-	-	-	-	36,866,341.12	-	(147,840,044.25)	(22,721,152.03)	(133,704,855.16)
1. Appropriation to statutory reserve	-	-	-	-	-	-	-	-	36,866,341.12	-	(68,656,341.12)	-	-
2. Appropriation to staff bonus and welfare	-	-	-	-	-	-	-	-	-	-	(444,498.51)	-	(444,498.51)
3. Appropriation to shareholders	-	-	-	-	-	-	-	-	-	-	(110,539,204.62)	(22,721,152.03)	(133,260,366.65)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer of capital reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer of surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves transfer to make up for losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Transfer changes of defined benefit plan to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Transfer other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-	-

Consolidated Statement of Changes in Equity (Continued)

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

Items	For the year 2018												
	Equity attributable to the equity holders of the controlling Company												
	Other equity instruments				Other								
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained profits	Non-controlling interests	Total equity
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	
1. Appropriation	-	-	-	-	-	-	-	-	-	-	-	-	
2. Used	-	-	-	-	-	-	-	-	-	-	-	-	
(6) Others	-	-	-	-	567,033.20	-	-	-	-	-	-	(1,902,592.20)	(1,342,559.00)
4. Balance at 31 December 2018	3,684,640,154.00	-	-	-	50,311,968.20	-	31,052,427.09	-	334,373,473.12	-	2,708,521,621.81	420,762,293.14	7,229,661,943.36

Legal Representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Statement of Changes in Equity of the Company

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

Items	For The Year 2019										
	Other equity instruments							Other			
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	comprehensive income	Special reserves	Surplus reserves	Retained profits	Total equity
1. Balance at 31 December 2018	3,684,640,154.00	-	-	-	140,716,900.00	-	616,640.00	-	348,748,849.03	1,873,093,667.34	6,047,816,210.37
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2019	3,684,640,154.00	-	-	-	140,716,900.00	-	616,640.00	-	348,748,849.03	1,873,093,667.34	6,047,816,210.37
3. Increase/ Decrease for the period (Decrease listed with "-")	-	-	-	-	-	-	5,620,959.88	-	30,289,897.84	125,223,474.43	161,134,332.15
(1)Total comprehensive income	-	-	-	-	-	-	5,620,959.88	-	-	302,898,978.43	308,519,938.31
(2)Capital contribution and reduction from shareholders	-	-	-	-	-	-	-	-	-	-	-
1. Common stock capital contribution from shareholders	-	-	-	-	-	-	-	-	-	-	-
2. Capital contribution from holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Equity increase from Share-based payments	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(3)Profit appropriations	-	-	-	-	-	-	-	-	30,289,897.84	(177,675,504.00)	(147,385,606.16)
1. Appropriation to statutory reserve	-	-	-	-	-	-	-	-	30,289,897.84	(30,289,897.84)	-
2. Appropriation to shareholders	-	-	-	-	-	-	-	-	-	(147,385,606.16)	(147,385,606.16)
3. Others	-	-	-	-	-	-	-	-	-	-	-
(4)Transfer	-	-	-	-	-	-	-	-	-	-	-
1. Transfer of capital reserves to share capital	-	-	-	-	-	-	-	-	-	-	-

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

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

Statement of Changes in Equity of the Company (Continued)

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

Items	For the year 2018										
	Other equity instruments						Other				
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	comprehensive income	Special reserves	Surplus reserves	Retained profits	Total equity
1. Balance at 31 December 2017	3,684,640,154.00	-	-	-	140,716,900.00	-	2,686,625.00	-	346,387,469.00	1,649,152,488.00	5,823,593,636.00
Add: Changes in accounting policies	-	-	-	-	-	-	(2,079,985.00)	-	-	2,773,313.00	693,328.00
2. Balance at 1 January 2018	3,684,640,154.00	-	-	-	140,716,900.00	-	616,640.00	-	346,387,469.00	1,651,925,801.00	5,824,286,964.00
3. Increase/Decrease for the period (Decrease listed with "-")	-	-	-	-	-	-	-	-	2,361,380.03	221,167,866.34	223,529,246.37
(1) Total comprehensive income	-	-	-	-	-	-	-	-	-	368,563,411.66	368,563,411.66
(2) Capital contribution and reduction from shareholders	-	-	-	-	-	-	-	-	-	-	-
1. Common stock capital contribution from shareholders	-	-	-	-	-	-	-	-	-	-	-
2. Capital contribution from holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Equity increase from Share-based payments	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit appropriations	-	-	-	-	-	-	-	-	36,656,341.03	(147,395,545.32)	(110,739,204.29)
1. Appropriation to statutory reserve	-	-	-	-	-	-	-	-	36,656,341.03	(36,656,341.03)	-
2. Appropriation to shareholders	-	-	-	-	-	-	-	-	-	(110,739,204.29)	(110,739,204.29)
3. Others	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer	-	-	-	-	-	-	-	-	-	-	-
1. Transfer of capital reserves to share capital	-	-	-	-	-	-	-	-	-	-	-

Statement of Changes in Equity of the Company (Continued)

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

Items	For the year 2018						
	Other equity instruments			Other			
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income
					Special reserves	Surplus reserves	Retained profits
							Total equity
2. Transfer of surplus reserves to share capital	-	-	-	-	-	-	-
3. Surplus reserves transfer to make up for losses	-	-	-	-	-	-	-
4. Transfer changes of defined benefit plan to retained earnings	-	-	-	-	-	-	-
5. Transfer other comprehensive income to retained earnings	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-
1. Appropriation	-	-	-	-	-	-	-
2. Used	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	(34,494,961.00)	(34,494,961.00)
4. Balance at 31 December 2018	3,684,640,154.00	-	-	-	140,716,300.00	348,748,849.03	6,047,816,210.37

Legal Representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Notes to the Consolidated Financial Statements

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

I. GENERAL INFORMATION

Chongqing Machinery & Electric Co., Ltd. (the “Company”) was established on 27 July 2007 as a joint share company with limited liability by Chongqing Machinery & Electronics Holding (Group) Co., Ltd. (“CQMEHG”), Chongqing Yufu Assets Management Group Co., Ltd (“Yufu company”, originally called Chongqing Yufu Assets Management Co., Ltd), China Huarong Asset Management Co., Ltd. (“Huarong Company”), and Chongqing Construction Engineering Group Co. Ltd. (“CCEG”). The address of the Company’s registered office is No. 60, Huangshan Road Central, Northern New District, Chongqing, the PRC. The Company’s headquarter is located in Chongqing, PRC. The parent company and the ultimate controlling shareholder is Chongqing Machinery & Electronics Holding (Group) Co. Ltd. The Group was established with a registered capital of RMB2,679.74 million (RMB1 per share).

On 13 June 2008, the Group publicly issued 1,004.90 million H shares to foreign investors with approval of the Circular “Zhengjian Xuke [2008] No. 285” of the China Securities Regulatory Commission, and the shares were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). After issuing the shares, the total share capital increased to RMB3,684.64 million.

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

The consolidated financial statements have been approved for issue by the Board of Directors of the Group on 27 March 2020.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The scope of consolidated financial statements of the Group includes 42 companies such as Chongqing General Industry (Group) Co., Ltd., Chongqing Pigeon Electric Wires & Cables Co., Ltd. (“Pigeon Wires”) and Chongqing Water Turbine Works Co., Ltd..

For details, please refer to relevant content as set out in “VII. CHANGES IN CONSOLIDATION SCOPE” and “VIII. INTEREST IN OTHER ENTITIES” of this note.

III. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of preparation

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

(2) Going concern

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

1. Declaration on Compliance with CAS

The Company complied with the requirements of CAS in preparing its financial statements, which give a true and full view of the financial position, financial performance and cash flows of the Group.

2. Accounting Period

The Group's accounting period is from 1 January to 31 December.

3. Business Cycle

The Group treats 12 months as a business cycle and the criteria for classifying current and non-current assets and liabilities.

4. Functional Currency

The Group's functional currency is Renminbi (RMB). The financial statements of the Group are expressed in RMB unless otherwise stated.

The subsidiaries decide their own functional currency according to the main economic environment in which they operate. Their functional currency converts to RMB when the financial statements were prepared.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

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

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

The identifiable assets, liabilities and contingent liabilities acquired in the merger of enterprises not under the same control are measured at fair value on the acquisition date. The consolidation cost is the sum of fair value of cash paid or non-cash assets paid to get control of acquiree, liabilities issued or assumed, equity securities issued and all other direct costs during business combination (for those business combination achieved in stages, the consolidation cost equals to the sum of each transaction). The excess of consolidation cost over the fair value of net identifiable assets of the acquiree shall be recognised as goodwill. It should reassess the fair value of all identifiable assets achieved through business consolidation, liabilities or contingent liabilities, non-cash assets or equity securities issued if the consolidation cost is less than the fair value of net identifiable assets. After reassessment, if the consolidation cost is still less than the the fair value of net identifiable assets of the acquiree, the excess shall be recognised into non-operating income.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

6. Preparation of Consolidated Financial Statements

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

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Group and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Group.

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

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

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

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

All significant intra-group balances, transactions and unrealized profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognized as non-controlling interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Unrealized profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to shareholders of the Company. Unrealized profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to shareholders of the Company and minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealized profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to shareholders of the Company and minority interests in accordance with the allocation proportion of the parent in the subsidiary.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

7. Cash and Cash Equivalents

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

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

(1) Foreign currency transactions

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

(2) Translation of foreign currency financial statements

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities

The Group recognizes a financial asset or liability when it enters a financial instrument contract.

(1) Financial assets

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

Based on the business mode for management of the Group and cash flow characteristics of contracts, the financial assets are classified into the following categories: (i) financial assets measured at amortized cost; (ii) financial assets at fair value through other comprehensive income; (iii) financial assets at fair value through profit or loss.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(1) Financial assets *(continued)*

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

The Group classifies the financial assets into financial assets as subsequently measured at amortized cost if all the following conditions are met: a) The objective of the business model within which the asset is held is to hold assets in order to collect contractual cash flows, and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Such financial asset is measured initially at its fair value, the relating transaction costs shall be recognized into the initial amount of the financial asset, and is subsequently measured at amortized cost. Except for the case that the financial asset is designated for hedging project, gain or loss arising from derecognition, impairment or amortization for the difference between the initial amount and the amount due using the effective interest method are recorded in current profit or loss. These financial assets include cash at bank and on hand, notes receivable, accounts receivable, other receivables, contractual assets, debt investments and long-term receivables. Debt investments and long-term receivables due within 1 year (inclusive) at the balance sheet date are listed as the current portion of non-current assets; at acquiring date, debt investments with maturities within one year (inclusive) are listed as other current assets.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(1) Financial assets *(continued)*

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

The Group classifies the financial assets into financial assets as measured at fair value through other comprehensive income if all the following conditions are met: a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such financial asset is measured initially at its fair value, and the relating transaction costs shall be recognized into the initial amount of the financial asset. Gain or loss incurred by financial assets measured at fair value through other comprehensive income excepting the case that the financial asset is designated for hedging project shall be recognized in other comprehensive income except the impairment loss or gains, foreign exchange profit or loss, and interests calculated by the effective interest rate method of financial assets. When the financial asset is derecognized, accumulated gains or losses previously recognized in other comprehensive income shall be transferred to current profit or loss from other comprehensive income. These financial assets are listed as receivables financing and other equity instrument investments.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(1) Financial assets *(continued)*

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

The Group lists those debt instruments that do not meet the criteria for amortised cost or fair value through other comprehensive income as financial assets held for trading that are measured at fair value through profit or loss. At the initial recognition, for eliminating or dramatically reducing accounting mismatch, the Group specifies parts of financial assets as those measured at fair value through current profit or loss.

2) *Equity instruments*

The Group recognises its equity instruments that have no control, joint control and significant influence on the fair value through profit or loss and list them as financial assets held for trading; the equity instruments that are expected to be held for more than a year from the balance sheet date are listed as other non-current financial assets.

Besides, the Group specifies certain non-tradable equity instrument investments as financial assets that are measured at fair value through other comprehensive income and presented as other equity instrument investments. The relevant dividend income of such financial assets is included in the current profit and loss.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(1) Financial assets *(continued)*

3) *Recognition basis and measurement of transferring financial assets*

The Group will derecognized the financial asset if one of the following conditions is satisfied: (a) The contractual rights to collect the cash flows from the financial asset terminate; (b) When the financial asset is transferred, and the Group transfers substantially all the risks and rewards of ownership of the financial asset; (c) When the financial asset is transferred, the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and has not retained control.

When a transfer of the financial asset qualifies for derecognition, the difference between the carrying amount of the financial asset transferred and the sum of the consideration received from the transfer and the cumulative amount of changes in fair value that has been previously recorded in other comprehensive income, is recorded in current profit or loss (the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding).

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(1) Financial assets *(continued)*

3) *Recognition basis and measurement of transferring financial assets (continued)*

If a transfer of part of a financial asset qualifies for derecognition, the carrying amount of the entire financial asset transferred is allocated between the part that is derecognized and the part that continues to be recognized, based on the respective fair values of those parts. The difference between the sum of consideration received from the transfer and cumulative amount of changes in fair value that shall be allocated to the part derecognized which has been previously recognized in other comprehensive income and the above allocated carrying amount, is recorded in current profit or loss (the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding).

4) *Impairment of financial assets*

On the basis of expected credit losses, the Group performs impairment treatment on the financial assets at amortized cost, debt instrument investments, loan commitments and contract assets at fair value through other comprehensive income, and recognize the loss provision.

Based on reasonable information such as past events, current conditions and economic forecasts, the Group calculate the default-risk-weighted present value of the difference between the agreed and expected cash flow to project the default loss of our contracts.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(1) Financial assets *(continued)*

4) *Impairment of financial assets (continued)*

The Group measures loss provisions according to the following circumstances: (i) the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses; (ii) the credit risk on a financial instrument has increased significantly, the Group measure the loss allowance for that financial instrument at an amount equal to full lifetime expected credit losses; (iii) financial asset is considered credit-impaired at the time of acquisition or at the beginning, the Group measure the loss allowance for that financial instrument at an amount equal to full lifetime expected credit losses. Except for the amounts of which the credit loss rate can be expected with the obvious evidence, the Company calculates the expected credit loss on a group basis.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(1) Financial assets *(continued)*

4) Impairment of financial assets *(continued)*

- (i) The Group classifies accounts receivable and other receivables into several groups according to the credit risk characteristics and calculates the expected credit losses on a group basis. The basis of determination of groups is as follows:

Classification and basis of notes receivable:

Name of groups	Basis of determination of groups
Bank acceptance notes	Banks with low credit risk
Trade acceptance bill	Notes other than bank acceptance bills

Accounts receivable division and combination and basis:

Name of groups	Basis of determination of groups
Related company funds	Related company funds
Quality margin portfolio	Quality deposit not in collection period
Good combination of repayment within credit period	Customers who have received good payment within the credit period
General customer fund portfolio	Other general customers

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(1) Financial assets *(continued)*

4) Impairment of financial assets *(continued)*

(i) *(continued)*

Classification and basis of other receivables:

Name of groups	Basis of determination of groups
Government funds	Accounts receivable from government
Related company funds	Accounts receivable from related companies
Deposit, security deposit and reserve fund	Deposits, security deposit and reserve fund receivable
General or other payments	Accounts receivable from general customers or others

For the accounts receivable and other receivables classified as accounts receivable from general customers or others, the Group refers to the historical credit loss experience, combined with the forecast of the current and the future economic condition to calculate the expected credit loss according to the accounts receivable aging and other receivables aging and expected credit loss through full life time in reference.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(1) Financial assets *(continued)*

4) Impairment of financial assets *(continued)*

(i) *(continued)*

For the accounts receivable and other receivables classified as accounts receivable from government, accounts receivable from related companies, deposits, security deposit and reserve fund receivable, the Group calculates the expected credit loss according to the default risk exposure and expected credit loss rates over the next 12 months or throughout the lifetime.

- (ii) The group divides the contract assets into the following combinations according to the characteristics of credit risk, and calculates the expected credit loss based on the combination. Confirm the combination and its basis as follows:

Name of groups	Basis of determination of groups
Contract assets related to construction contracts	Construction contract
Contract assets formed by general business	Contracts other than construction contracts

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(1) Financial assets *(continued)*

4) *Impairment of financial assets (continued)*

- (iii) The group divides long-term receivables into the following combinations according to the characteristics of credit risk, and calculates the expected credit loss based on the combination. The combination and basis are as follows:

Name of groups	Basis of determination of groups
Related company funds	Accounts receivable from related companies
Other payments	Other payments except related companies

For the contract assets and long-term receivables divided into portfolios, the group, referring to the historical credit loss experience, combined with the current situation and future forecast, prepares the reconciliation table of the contract asset aging and the expected credit loss rate of the duration through the default risk exposure and the expected credit loss rate of the whole duration, and calculates the expected credit loss.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(1) Financial assets *(continued)*

4) *Impairment of financial assets (continued)*

- (iv) For loans and advances, the Group classifies loans into normal, concerned, secondary, suspicious and loss combinations according to the credit risk characteristics and the guiding principles of loan risk classification of the people's Bank of China, and calculates the expected credit loss based on the combination.

(2) Financial liabilities

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(2) Financial liabilities *(continued)*

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

Other financial liabilities, (specific disclosure of financial liabilities according to actual situation), are subsequently measured at amortized cost using effective interest method. The Group classify all financial liabilities as subsequently measured at amortised cost, except for: (a) Financial liabilities measured at fair value through profit or loss, including financial liabilities held for trading (including derivatives that are liabilities) and those designated as measured at fair value through profit or loss upon initial recognition; (b) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. (c) financial guarantee contracts that do not satisfied (a) and (b), and commitments to provide a loan at a below-market interest rate that do not satisfied (a).

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(2) Financial liabilities *(continued)*

2) Derecognition criteria of financial liabilities

When the present obligation or a part of the present obligation of a financial liability is discharged, a financial liability or a part of a financial liability shall be derecognized. A contract is entered into between the Group and the creditor to replace the existing financial liability by a new financial liability. And if the contract terms of new financial liability are substantially different with those in existing financial liability, it shall derecognize the existing financial liability and recognize a new financial liability. When the Group performed substantive changes to all or part of the contract terms of the existing financial liabilities, the existing financial liabilities or part of it shall be derecognized. And financial liabilities after term revision will be recognized as a new financial liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in current profit or loss.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(2) Financial liabilities *(continued)*

(3) *Methods for determination of the fair value of financial assets and financial liabilities*

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

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(2) Financial liabilities *(continued)*

(4) Elimination between financial assets and financial liabilities

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(2) Financial liabilities *(continued)*

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

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

9. Financial Assets and Financial Liabilities *(continued)*

(2) Financial liabilities *(continued)*

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

10. Inventories

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

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

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

11. Contractual assets

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

The method for determining the expected credit losses of the group on the contract assets is as shown in Note IV.9.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

12. Contractual costs

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

12. Contractual costs *(continued)*

(2) Amortization of assets related to contractual costs

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

(3) Impairment of assets related to contractual costs

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

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

13. Long-term Equity Investment

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

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

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

A subsidiary company of the Group is the entity that controls the invested unit. As for long-term equity investment acquired through a business combination under common control, the initial recognition are measured in accordance with the proportion of the book value of the owner's equity of the merged party in ultimately control party's consolidated financial statements. If the book value of the net assets of the merged party is negative on the date of merger, the cost of long-term equity investment shall be fixed at zero.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

13. Long-term Equity Investment *(continued)*

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

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

13. Long-term Equity Investment *(continued)*

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

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

13. Long-term Equity Investment *(continued)*

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

13. Long-term Equity Investment *(continued)*

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

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

13. Long-term Equity Investment *(continued)*

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

14. Investment Properties

Investment properties comprise land-use rights and buildings which are held for long-term rental yields and not occupied by the Group, and uncompleted buildings which are intended to hold for rent. Investment properties are initially recognized at cost. The subsequently costs shall be added to the initial costs of the investment properties when the economic benefit related is likely to realize and is measurable. Or else, it should be stated in current profit or loss.

Depreciation (or amortization) of investment properties is calculated using a straight-line method to allocate the depreciable amounts (cost less residual value) over the estimated useful life. Below is the table of estimated useful lives, residual value rate and annual depreciation (amortization) rates:

Category	Estimated useful life	Estimated residual value rates (%)	Annual depreciation rate (%)
Buildings (including the land-use right)	30-50 years	0.00-5.00	1.90-3.33

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

14. Investment Properties *(continued)*

If the usage is changed into owner-occupied, the investment property is reclassified into a property, plant and equipment or an intangible asset since the day the change has been made. On the contrary, the fix or intangible asset is transferred into investment property if the usage of these properties is to earn rentals or capital appreciations. When a transfer occurs, the previous carrying amount shall be used as the new book value. The estimated useful lives, estimated residual value rates and depreciation method shall be annually reviewed and adjusted properly.

An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gains from sale, transfer, written-off or destroy of the investment properties less the carrying amount and relevant taxes shall be recognized in current profit or loss.

When an investment property's recoverable amount is lower than its carrying amount, the carry amount shall be decreased to the recoverable amount.

15. Property, Plant and Equipment

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

Property, plant and equipment comprise buildings, machineries, transportations, office equipments end etc.

Property, plant and equipment are recognized when it is probable that the future economic benefits associated with the assets will flow into the entity, and the cost of the asset can be measured reliably. It is recognized at purchase cost or construction cost for the initial cost. The state owned property, plant and equipment were recognized at the evaluation price during the system-changing of the state-owned enterprise.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

15. Property, Plant and Equipment *(continued)*

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

Subsequent recognition is recorded when the future economic benefits associated with the asset is likely to flow into the entity and the cost of the asset can be measured reliably. The value of the replaced part shall be derecognized its carrying amount. The other subsequent expenses are recognized in the current profit or loss.

(2) Depreciation of property, plant and equipment

Depreciation is calculated using a straight-line method to allocate the depreciable amounts (cost less residual value) over the estimated useful life. As for the property, plant and equipment with impairment provisions, the Depreciation is calculated using a straight-line method to allocate the depreciable amounts (cost less residual and impairment value) over the estimated useful life.

No.	Category	Estimated useful lives (years)	Estimated residual value (%)	Annual depreciation rate (%)
1	Buildings	20-50 years	3.00-5.00	1.90-4.75
2	Machinery equipments	7-28 years	5.00	3.39-13.57
3	Transportations	6-12 years	5.00	7.92-15.83
4	Office equipments	3-14 years	5.00	6.79-31.67

The estimated useful lives, estimated residual value rate and depreciation method shall be annually reviewed and adjusted properly.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

15. Property, Plant and Equipment *(continued)*

(2) Depreciation of property, plant and equipment *(continued)*

When the recoverable amount of property, plant and equipment is lower than the carrying amounts, the carrying amounts shall be decreased to the recoverable amounts.

(3) Disposal of property, plant and equipment

The property, plant and equipment should be derecognized on disposal or when the property, plant and equipment is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gains from sale, transfer, written-off or destroy of the property, plant and equipment less the carrying amount and relevant taxes shall be recognized in current profit or loss.

16. Construction in Progress

Construction in progress is recognized according to the actual costs. The actual costs include construction cost, installment cost, borrowing costs eligible for capitalization and other necessary expenses incurred in order to make the construction in progress ready to use. When construction in progress reaches the predetermined usable state, it should be transferred to fixed asset and be depreciated from the next month. When the recoverable amount of construction in progress is lower than the carrying amount, the carrying amount shall be decreased to the recoverable amount.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

17. Borrowings costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete. Capitalization should be suspended during periods in which active development is interrupted abnormally for more than 3 months. And it recapitalized when the abnormal interruption is over.

The actual interest costs incurred by the funds borrowed specifically less the interest earned by the unused part deposited in the bank or any income earned on the temporary investment shall be capitalized; where funds are part of a general pool, the eligible amount is determined by applying a capitalization rate to the expenditure on that asset. The capitalization rate will be the weighted average of the borrowing costs applicable to the general pool.

18. Right-of-use assets

Right-of-use assets refer to the right of the Group as a lessee to use leased assets during the lease term. The types of leased assets of the Group mainly include buildings, machinery and equipment and site use rights.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

18. Right-of-use assets *(continued)*

(1) Initial measurement

At the start of the lease period, the Group initially measures the right-of-use asset at cost. The cost includes the following four items: (i) The initial measurement amount of the lease liability, that is, the present value of the outstanding lease payments is recognized as the lease liability, except for short-term leases and leases of low-value assets; (ii) Lease payments paid on or before the start of the lease period, where lease incentives exist, deduct the relevant amount of lease incentives already enjoyed; (iii) The initial direct costs incurred, that is, the incremental costs incurred to reach the lease; (iv) Expected costs incurred to demolish and remove leased assets, rehabilitate the site where the leased assets are located, or restore leased assets to the state agreed in the lease terms, except for costs incurred for the production of inventory.

(2) Subsequent measurement

After the start of the lease period, the Group adopts a cost model for subsequent measurement of the right-of-use asset, that is, the cost-of-use asset is measured at cost less accumulated depreciation and accumulated impairment losses.

If the Group remeasures the lease liability in accordance with the relevant provisions of the lease standards, the book value of the right-of-use asset shall be adjusted accordingly.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

18. Right-of-use assets *(continued)*

(3) Depreciation of right-of-use assets

From the start of the lease period, the Group depreciates the right-of-use assets. The right-of-use asset is generally depreciated from the month in which the lease term begins. The amount of depreciation accrued is included in the cost of the relevant asset or the current profit or loss based on the use of the right-of-use asset.

When determining the depreciation method of the right-of-use asset, the Group makes a decision based on the expected consumption of the economic benefits related to the right-of-use asset, and depreciates the right-of-use asset on a straight-line basis.

When determining the depreciation period of the right-of-use asset, the Group adheres to the following principles: If it can reasonably determine the ownership of the leased asset at the end of the lease period, depreciation will be accrued within the remaining useful life of the leased asset; it cannot be reasonably determined that the lease can be obtained when the lease period expires. For asset ownership, depreciation is accrued during the shortest period between the lease term and the remaining useful life of the leased asset.

If the right-of-use asset is impaired, the Group depreciates the book value of the right-of-use asset after deducting impairment losses.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

19. Intangible Assets

Intangible assets comprise the land-use rights, technical know-how, brand, customer relationships, franchise rights and software etc, it is recognized at cost. The state-owned intangible assets were recognized at the evaluation price during the system-changing of the state-owned enterprise.

(1) Categories of intangible assets

1) *Land-use right*

Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the useful life of 30 to 50 years. If it is difficult to identify the purchase price of the land-use right to that of the building, the whole price is recognized as a fixed asset.

2) *Technical know-how*

Technical know-how is shown at cost as all investors agreed. Amortization is calculated using the straight-line method to allocate the cost of technical know-how over its estimated useful life of 10 years. The Group acquired all of the technical know-how which is acquired by the subsidiaries and should be recognized at fair value at the acquisition date in 2011. And the estimated useful life is 6 to 10 years.

3) *Brand and customer relationships*

Brand and customer relationships are recognized at fair value at the acquisition date in a business combination in 2010. Since the brand has an indefinite useful life, brand shall not be amortized during the useful life and should be tested annually for impairment. Customer relationships shall be amortized using the straight-line method over their estimated useful lives of 10 to 12 years.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

19. Intangible Assets *(continued)*

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

4) Software

Software licenses are capitalized by the purchase price and are amortized over their estimated useful lives of 2 to 10 years.

5) Franchise rights

The Group engages in certain service concession arrangements in which the Group carries out construction work for the granting authority and receives in exchange a right to operate the assets concerned in accordance with the pre-established conditions set by the granting authority. The franchise rights are classified as intangible assets or accounts receivable from the granting authority.

According to the contract, in a certain period after the construction, the Group is entitled to receive a certain amount of monetary resources or other financial assets from the granting authority; or when the charge for the user is lower than a certain limitation, the granting authority will compensate for the difference, which is shown as financial assets while the Group recognize the revenue.

Also if the operator receives a right to charge user within a certain period, but the amount is uncertain and unable to claim a right for accounts receivable, it is stated as an intangible asset while recognizing the revenue.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

19. Intangible Assets *(continued)*

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

5) *Franchise rights (continued)*

If intangible assets model is applicable, the Group classifies the relevant non-current assets linked to the long-term investment in these franchise arrangements as “franchise rights” within under intangible assets classification on the consolidated balance sheet. Once the relevant infrastructure projects under the franchise arrangements have been completed, the franchise rights will be amortized over the term of the franchise period on the straight-line basis under the intangible assets model.

If financial assets model is applicable, the Group classifies the assets under these franchise arrangements as financial assets on the consolidated balance sheet. Once the relevant infrastructure projects under the franchise arrangements have been completed, the interest of financial assets will be calculated using effective interest rate method and related gain/(loss) will be charged to the profit or loss within the franchise period.

6) *Research and development*

Internal research and development costs will be separated into research expenditure and development cost based on their nature and whether there is great uncertainty of the research and development will finally form an intangible asset.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

19. Intangible Assets *(continued)*

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

6) Research and development *(continued)*

Research expenditure is recognized as expenses as incurred. Costs incurred on development projects are recognized as intangible assets when all the following criteria are fulfilled:

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

If development costs don't meet the above criteria, they are recognized as an expense as incurred. Development costs previously recognized as an expense cannot be reclassified as an intangible asset in subsequent periods. Capitalized costs are recorded as development expenditures on balance sheet and are transferred into intangible assets only after technical and commercial feasibility of the asset for sale or use have been established.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

19. Intangible Assets *(continued)*

(2) Impairment of intangible assets

When the recoverable amount is lower than its carrying amount, the carrying amount of the asset shall be written down to the recoverable amount.

(3) Regular review of the useful lives and the amortization method

As for intangible asset with a definite useful life, the useful lives and depreciation method shall be annually reviewed and adjusted properly.

20. Impairment of long-term assets

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

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

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

When testing the impairment of relevant cash-generating units or groups of cash-generating units containing goodwill, if there are signs of impairment of cash-generating units or groups of cash-generating units related to goodwill, the impairment test of cash-generating units or cash-generating units without goodwill is carried out first, and the recoverable amount is calculated to confirm the corresponding impairment loss. Then the impairment test is carried out on the cash-generating units or groups of cash-generating units containing goodwill, and the carrying amount and the recoverable amount are compared. If the recoverable amount is lower than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the cash-generating units or groups of cash-generating units; and then, reduce the carrying amounts of the other assets included in the cash-generating units or groups of cash-generating units pro rata on the basis.

Reversal of an impairment loss for the above assets is prohibited.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

21. Long-term deferred expenses

Long-term deferred expenses include the improvement expenditures of property, plant and equipment under operating lease, and other expenses which incurred in the current period but are required to be amortized for more than one fiscal period. Long-term deferred expenses are amortized on the straight-line basis over the expected benefit period and are recorded as the actual expenses less the accumulated amortization.

As for the molds stated in the long-term deferred expenses, they are amortized adopting the units-of-production method based on estimated times for which they can be used over the benefit period.

22. Contract liabilities

The Group lists the obligations it has received or receivable from customers to transfer goods to customers as contract liabilities, such as the amount the company has received before transferring the promised goods.

The Group will show the contract assets and contract liabilities under the same contract as each other in net amounts.

23. Employee Benefits

Employee benefits of the Group refer to rewards or compensations paid for services provided by employees or employer layoffs benefits, which include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

23. Employee Benefits *(continued)*

Short-term employee benefits include salaries, bonus, allowance and subsidies, staff benefits, medical insurance, employment injury insurance, maternity insurance, housing fund, union and educational appropriations, short-term paid absences, etc. Short-term benefits are recognized as liabilities during the accounting period when employees render service to the Group. Employee benefits are recognized as profit or loss in the current period or allocated to the cost of related assets. The non-monetary benefits are measured at fair value.

Post-employment benefit schemes are classified as defined contribution plan and defined benefit plan. Defined contribution plans of the Group are a kind of post-employment benefit scheme in which the Group pays fixed fees to an independent fund and is no longer obligated to make further payments. Defined benefit plans are post-employment benefit plans other than a defined contribution plans. The post-employment benefits of the Group mainly refer to basic pension and unemployment insurance during this reporting period, both of which belong to the defined contribution plan.

Employees of the Group are all involved in employee's endowment insurance policy implemented by local labour and social security department. The Group makes the monthly payment to the local institution of employee's endowment insurance at a regulated base and proportion. After employees are retired, local labour and social security department has the obligation to pay their basic pension. The payment made according to the policy when employee render service to the Group is recognized as a liability and stated as profit or loss or allocated to the cost of related assets during the period.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

23. Employee Benefits *(continued)*

Termination benefits are the compensations made to employees when the Group terminates the employment relationship with employees prior to the expire of the employment contracts or provides compensations as an offer to encourage employees to accept voluntary layoffs. When the Group provides termination benefits, the employment benefit liabilities generated from termination benefits are recognized to profit or loss in the current period on the early date of the followings: (a) when the Group can no longer withdraw the offer of those benefits or layoff plans unilaterally; and (b) when the Group recognizes costs for a restructuring related to termination benefits.

The Group offers early retirement benefit for the employees who accept the internal retirement arrangement. Early retirement benefit refers to the wages and social insurance paid for the employees who do not attain the statutory retirement age and being approved by the Group's management team for retirement. The Group will pay such retirement benefit for the early retired employee from the date of early retirement to date where statutory retirement age is attained. The basis of accounting treatment for early retirement benefits shall be the same as the termination benefits. If the recognition conditions for termination benefits were satisfied, the employment benefit liabilities generated from wages and social insurance paid for the early retired employees shall be recognized to profit or loss in the current period all at once. Any difference arising from the changes of actuarial assumptions or adjustment of the welfare standard shall be included to the profit and loss in the current period.

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

24. Lease liabilities

(1) Initial measurement

The Group initially measures lease liabilities based on the present value of lease payments that have not been paid at the start of the lease period, except for short-term leases and leases of low-value assets.

1) *Lease payment*

Lease payments refer to payments made by the Group to the lessor related to the right to use leased assets during the lease period, including: (i) fixed payments and substantial fixed payments, where lease incentives exist, deductions related to lease incentives; (ii) A variable lease payment that depends on the index or ratio, which is determined at the initial measurement based on the index or ratio on the start date of the lease period; (iii) The Group reasonably determines the exercise option purchase price when the purchase option is exercised; (iv) The lease term reflects the amount to be paid when the Group will exercise the option to terminate the lease; (v) The amount expected to be paid based on the residual value of the guarantee provided by the Group.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

24. Lease liabilities *(continued)*

(1) Initial measurement *(continued)*

2) Discount rate

In calculating the present value of lease payments, the Group uses the incremental borrowing rate as the discount rate because it cannot determine the interest rate inherent in the lease. The incremental borrowing interest rate refers to the interest rate payable by the Group to borrow funds with similar mortgage conditions in similar periods in order to obtain assets close to the value of the right-of-use asset in a similar economic environment. The interest rate is related to the following: (i) The Group's own situation, namely the group's solvency and credit status; (ii) The term of the "borrowing", that is, the lease term; (iii) The amount of "borrowed" funds, that is, the amount of the lease liability; (iv) "Mortgage conditions", that is, the nature and quality of the underlying assets; (v) Economic environment, including the jurisdiction in which the lessee is located, the currency of valuation, the time of signing the contract, etc. Based on the bank loan interest rate, the Group adjusted the above factors to obtain the incremental borrowing interest rate.

(2) Subsequent measurement

After the start of the lease period, the Group conducts subsequent measurement of the lease liability according to the following principles: (i) When confirming the interest of the lease liability, increase the carrying amount of the lease liability; (ii) When paying the lease payment, reduce the carrying amount of the lease liability; (iii) When the lease payment changes due to revaluation or lease change, the book value of the lease liability is remeasured.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

24. Lease liabilities *(continued)*

(2) Subsequent measurement *(continued)*

The interest expense of the lease liability in each period of the lease period is calculated at a fixed periodic interest rate and is included in the current profit and loss, except for those that should be capitalized. Recurring interest rate refers to the discount rate used by the Group in the initial measurement of lease liabilities, or when lease payments need to be remeasured at a revised discount rate due to changes in lease payments or lease changes, The revised discount rate adopted by the group.

(3) Remeasurement

After the start of the lease period, when the following circumstances occur, the Group remeasures the lease liability based on the changed lease payments and the present value calculated by the revised discount rate, and adjusts the book value of the right-of-use asset accordingly. If the carrying value of the right-of-use asset has been reduced to zero, but the lease liability still needs to be further reduced, the Group will include the remaining amount in the current profit and loss. (i) Changes in the actual fixed payment amount; (ii) Changes in the expected payable amount of the residual value; (iii) Changes in the index or ratio used to determine the lease payment amount; (iv) The evaluation result of the purchase option changes; Changes in the evaluation results or actual exercise of lease options.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

25. Provision

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

The amount recognized as a provision is the best estimate of the expenditure required to perform the present obligation. Lots of factors, such as risks and uncertainties that surround the underlying events and the time value of money etc, are taken into account. Where the effect of time value of money is material, the best estimate shall be the present value of the future cash flow. Where discounting is used, the increase of a provision to reflect the passage of time shall be recognized as borrowing costs.

Provisions shall be reviewed as at balance sheet date and adjusted to reflect the current best estimates.

Provisions expected to be paid within a year since balance sheet day are presented as current liabilities.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

26. Revenue Recognition and Measurement

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

(1) Revenue recognition

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

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

26. Revenue Recognition and Measurement *(continued)*

(1) Revenue recognition *(continued)*

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

26. Revenue Recognition and Measurement *(continued)*

(1) Revenue recognition *(continued)*

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

26. Revenue Recognition and Measurement *(continued)*

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

(a) Sales contracts

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

(b) Service contracts

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

26. Revenue Recognition and Measurement *(continued)*

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

- (c) *Revenue from construction contracts (Only applicable if control is transferred over a period of time)*

For the project business contracts between the Group and its customers, the Group recognizes revenue according to progress of performance within such period for satisfying such performance obligations during a period of time. Progress of performance refers to the contract cost actually incurred on a cumulative basis as of the balance sheet date as a percentage of the expected total cost under contract (the input method). Based on the progress of performance of the project, revenue from project business contracts is recognized as the contract cost actually incurred plus the gross profit margin under contract. If the total contract cost is likely to exceed total contract revenue, the expected loss is recognized as expenses for the current period immediately. If the sum of the cost actually incurred and the recognized gross profit margin under contract exceed the contract settlement fee, the excess is taken to contract assets. Where the contract settlement fee exceeds the sum of the cost actually incurred and the recognized gross profit margin under contract, the excess is taken to contract liabilities. When the progress of performance of project business contracts cannot be reasonably determined, if the costs incurred are expected to be compensated, the Group recognizes revenue based on the amount of costs incurred, until the progress of performance can be reasonably determined. If the costs incurred are not expected to be recovered, it is recognized as expenses for the current period immediately when the contract cost is incurred. For changes, claims and awards under contract, revenue is recognized only when it is likely to happen and the amount can be reliably estimated.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

26. Revenue Recognition and Measurement *(continued)*

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

(d) Warranty obligations

In accordance with contractual arrangements and legal requirements, the Group provides warranty for goods that it sells and assets that it builds. For the guarantee-type warranties under which the Group warrants to the customers that the goods sold satisfy certain pre-set criteria, accounting treatments are as set out in Note IV.23. For the service-type warranties under which the Group provides a separate service in addition to the warranty to the customers that the goods sold satisfy certain pre-set criteria, it is treated as a standalone performance obligation and part of the transaction price is apportioned to the service-type warranty based on the proportion of the separate selling prices under the guarantee-type and service-type warranties, and revenue is recognized when the customer acquires control of the service. In assessing whether a separate service is provided to the customer in addition to the warranty that the goods sold satisfy certain pre-set criteria, the Group considers whether the warranty is a statutory requirement, the validity period of the warranty and the nature of the Group's commitment to perform.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

26. Revenue Recognition and Measurement *(continued)*

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

(e) Principal/Agent

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

(f) Interest income

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

(g) Rental income

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

27. Government grants

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

The Group's government grants include government grants related to assets and government grants related to income. Government grants obtained by the Group which are relevant to purchase, construction or acquisition of long-term assets in other ways are classified as government grants related to assets; all other government grants are classified as government grants related to income. If the subsidies are not specified in the government documents, the Group judges them according to the above distinction principle. If it is difficult to distinguish, the whole is classified as government grants related to income.

If the government grants are monetary assets, it shall be measured according to the amount actually received. For the government grants allocated according to the fixed quota standard, or for the end of the year, when there is conclusive evidence that it meets the relevant conditions stipulated by the financial support policy and is expected to receive the financial support funds, it shall be measured according to the amount receivable. If the government grants are non-monetary assets, it shall be measured at fair value; if the fair value cannot be reliably obtained, it shall be measured at a nominal amount.

Government grants related to assets shall be recognized as deferred income and amortized to profits or losses of the current period using the straight-line method within the useful life of the relevant assets.

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

27. Government grants *(continued)*

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

27. Government grants *(continued)*

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

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

28. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are recognized based on the temporary differences between the tax bases and the carrying amount of assets and liabilities. A deferred tax asset shall be recognized for deductible losses to the extent that it is probable that tax profit will be available against which the deductible losses can be utilized in accordance with tax law. Deferred tax liabilities for temporary taxable differences relating to goodwill are not recognized to the extent they arise from the initial recognition of goodwill. Deferred tax assets and liabilities are not recognized if the temporary differences arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. As at balance sheet date, deferred tax assets and deferred tax liabilities are determined using the applicable tax rates that are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

28. Deferred tax assets and deferred tax liabilities *(continued)*

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

29. Lease

On the contract start date, the Group evaluates whether the contract is a lease or includes a lease. If one party in the contract transfers the right to control the use of one or more identified assets within a certain period in exchange for consideration, the contract is a lease or contains lease. In order to determine whether the contract has given up the right to control the use of the identified assets within a certain period of time, the Group assesses whether the customers in the contract are entitled to receive almost all of the economic benefits arising from the use of the identified assets during the period of use and have the right to This use period dominates the use of identified assets.

If the contract includes multiple separate leases, the Group will split the contract and account for each separate lease. If the following conditions are met at the same time, the right to use the identified assets constitutes a separate lease in the contract:

- (i) The lessee can profit from using the asset alone or with other resources that are readily available;
- (ii) The asset is not highly dependent or highly related to other assets in the contract.

Where the contract contains both the leased and non-leased parts, the group, as lessor and lessee, shall conduct accounting treatment after splitting the leased and non-leased parts.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

29. Lease *(continued)*

(1) Lessor

The types of leased assets of the Group mainly include buildings, machinery and equipment and site use rights.

(a) Initial measurement

On the lease start date, the Group recognizes its right to use the leased asset during the lease term as a right-of-use asset, and recognizes the present value of outstanding lease payments as lease liabilities, except for short-term leases and leases of low-value assets. When calculating the present value of lease payments, the Group uses the embedded interest rate as the discount rate; if it cannot determine the leased interest rate, the lessee's incremental borrowing interest rate is used as the discount rate.

The lease term is the period during which the Group is entitled to use the leased asset and is irrevocable. If the Group has a renewal option, that is, it has the right to choose to renew the asset and it is reasonably determined that the option will be exercised, the lease period also includes the period covered by the renewal option. The Group has the option to terminate the lease, that is, has the right to choose to terminate the lease of the asset, but it is reasonably determined that the option will not be exercised. The lease period includes the period covered by the termination lease option. If a major event or change occurs within the Group's control and affects whether the Group is reasonably certain that the corresponding option will be exercised, the Group will reasonably determine whether it will exercise the lease renewal option, purchase option or not terminate the lease option Rights for reassessment.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

29. Lease *(continued)*

(1) Lessor *(continued)*

(b) Subsequent measurement

The Group uses the straight-line method to depreciate the right-of-use assets. If it is reasonably possible to determine the ownership of the leased asset at the expiry of the lease term, the Group depreciates it over the remaining useful life of the leased asset. If it is not possible to reasonably determine that the ownership of the leased asset can be obtained when the lease term expires, the Group depreciates it within the shortest period between the lease term and the remaining useful life of the leased asset.

The Group calculates the interest expense of the lease liability in each period of the lease period based on the cyclical interest rate of the fixed assets, and calculates it into the current profit and loss.

The variable lease payments not included in the measurement of lease liabilities are included in the current profit and loss when they actually occur.

After the start of the lease period, when the actual fixed payment amount changes, the estimated residual payable amount of the guarantee changes, the index or ratio used to determine the lease payment amount changes, the purchase option, the lease renewal option, or the termination option evaluation When the result or the actual exercise situation changes, the Group remeasures the lease liability based on the present value of the changed lease payments and adjusts the book value of the right-of-use asset accordingly. If the book value of the right-of-use asset has been reduced to zero, but the lease liability still needs to be further reduced, the Group will include the remaining amount in the current profit and loss.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

29. Lease *(continued)*

(1) Lessor *(continued)*

(c) Lease changes

Lease changes are changes in the lease scope, lease consideration, and lease duration that are outside of the original contract terms, including adding or terminating the right to use one or more leased assets, extending or shortening the lease period stipulated in the contract.

When a lease is changed and the following conditions are also met, the Group accounts for the lease change as a separate lease:

- (i) The lease change expands the scope of the lease by adding the right to use one or more lease assets;
- (ii) The increased consideration is equivalent to the individual price of the enlarged part of the lease scope adjusted for the contract.

If the lease change is not accounted for as a separate lease, on the effective date of the lease change, the Group re-determines the lease term and uses the revised discount rate to discount the changed lease payment to remeasure the lease liability. In calculating the present value of lease payments after the change, the Group uses the leased interest rate in the remaining lease period as the discount rate; if it is not possible to determine the leased interest rate in the remaining lease period, the Group's increment on the lease change effective date The borrowing rate is used as the discount rate.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

29. Lease *(continued)*

(1) Lessor *(continued)*

(c) Lease changes *(continued)*

Regarding the impact of the above adjustments on lease liabilities, the Group distinguishes the following situations for accounting treatment:

- (i) If the lease change results in a reduction in the scope of the lease or a shortened lease term, the Group reduces the book value of the right-of-use asset to reflect the partial or complete termination of the lease. The Group counts the gains or losses related to the termination or partial termination of the lease in the current profit and loss.
- (ii) For other lease changes, the Group adjusts the book value of the right-of-use asset accordingly.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

29. Lease *(continued)*

(1) Lessor *(continued)*

(d) Short-term leases and leases of low-value assets

On the lease start date, the Group's lease term does not exceed 12 months, and leases that do not include purchase options are considered short-term leases; leases whose single leased assets are brand new assets that do not exceed RMB30,000 are considered low-value asset leases. Where the Group subleases or anticipates subleasing leased assets, the original lease is not recognized as a low value asset lease. The Group does not recognize right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. In each period of the lease term, the relevant asset costs or the current profit and loss are calculated in accordance with the straight-line method, and the contingent rent is included in the current profit and loss when it actually occurs.

(2) Lessor

Leases that substantially transfer all of the risks and rewards associated with the ownership of leased assets on the commencement date of the lease are finance leases. All other leases are operating leases.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

29. Lease *(continued)*

(2) Lessor *(continued)*

(a) Finance lease

On the lease start date, the Group recognizes finance lease receivables for financial leases and ceases to recognize financial lease assets. When the Group performs the initial measurement of financial lease payments, the net lease investment is used as the recorded value of the financial lease receivables. The net lease investment is the sum of the unguaranteed residual value and the present value of the lease payments that have not been received at the start of the lease period, discounted at the interest rate included in the lease.

The Group calculates and recognizes interest income for each period of the lease term at a fixed periodic interest rate. The variable lease payments obtained by the Group that have not been included in the measurement of the net lease investment shall be included in the current profit and loss when they actually occur.

(b) Operating lease

Rental income from operating leases is recognized as profit or loss for the current period on a straight-line basis over each period of the lease term, and contingent rent is charged to profit or loss for the period when it actually occurs.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

29. Lease *(continued)*

(3) Sale and leaseback transactions

The Group evaluates whether the transfer of assets in the sale-and-leaseback transaction is a sale in accordance with Note IV.26.

(a) Lessee

Where the asset transfer in a sale-and-leaseback transaction is a sale, the Group, as a lessee, measures the right-of-use asset formed by the sale-and-leaseback based on the portion of the original asset's book value related to the use-right obtained from the leaseback, and only transfers the lease. Confirm the relevant gains or losses of the rights of the person; if the asset transfer in the sale and leaseback transaction does not belong to the sale, the Group as the lessee continues to recognize the transferred asset and at the same time confirms a financial liability equal to the transfer income, in accordance with notes IV.9 Accounting treatment of this financial asset.

(b) Lessor

If the asset transfer in a sale-and-leaseback transaction belongs to sales, the Group act as lessors to account for asset purchases and account for asset leases in accordance with the foregoing provisions; asset transfers in a sale-and-leaseback transaction do not belong to sales. The Group as the lessor do not recognize the transferred assets, but recognize a financial asset equal to the transferred income, and account for the financial asset in accordance with Note IV.9.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

30. Held-for-sale assets

- (1) Non-current assets or disposal groups meeting the following conditions are classified as held-for-sale assets: 1) the non-current assets or disposal groups can be immediately sold under current conditions pursuant to general terms for selling such assets or disposal groups; 2) its sale must be highly probable, that is, a decision has been made on a sales plan and a firm commitment has been obtained, and the sales are expected to be completed within one year. The relevant provisions require the approval of the relevant authorities or regulatory authorities before they can be sold. Before the Group classifies non-current assets or disposal groups as held-for-sale assets for the first time, the Group measures the book value of all assets and liabilities in non-current assets or disposal groups in accordance with relevant accounting standards. When the Group initially measurement or re-measurement is made on the balance sheet date, and the carrying amount of the non-current assets or disposal group holding for sale is higher than the fair value less cost to sell, the carrying amount shall be written down to the fair value less cost to sell. The amount written down is recognized as the loss of impairment of assets which is included in current profits and losses, and the corresponding provision for impairment of held-for-sale assets is also recognized.
- (2) If the non-current assets or disposal group acquired exclusively for resale by the Group meets the requirement that the sale is expected to be completed within one year on the acquisition date, and is likely to meet other conditions for the classification of held-for-sale assets within a short period (usually within three months), it shall be classified as held-for-sale assets on the acquisition date. In the initial measurement, the initial measurement amount and the fair value less costs to sell is compared and measured at a lower level under the condition that is not classified as held-for-sale assets. Except for the non-current assets or disposal groups acquired in the merger of enterprises, the difference resulting from the net amount of the non-current assets or disposal groups after deducting the costs to sell from the fair value shall be taken as the initial measurement amount, and shall be included in the current profit or loss.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

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

- (3) If the Group loses control of subsidiaries due to the sale of its investment in subsidiaries or other reasons, whether or not the Group retains part of its equity investment after the sale, when the investment in subsidiaries to be sold meets the requirements for the classification of held-for-sale assets, the investment of subsidiaries shall be divided into held-for-sale assets as a whole in the individual financial statements of the parent company, and all assets and liabilities of the subsidiaries shall be listed as held-for-sale in the consolidated financial statements.
- (4) If the net amount of the non-current assets classified as held for sale on the subsequent balance sheet date increases, the amount previously written down shall be restored and shall be reversed within the amount of the impairment loss of the assets recognized after being classified as hold-for-sale assets. The reversed amount shall be included in the current profits and loss. Losses of impairment of assets recognized before the classification of held-for-sale assets shall be not reversed.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

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

- (5) For the amount of loss of impairment of assets confirmed by the disposal group classified as held for sale, the carrying amount of goodwill in the disposal group shall be offset first, and then the carrying amount of non-current assets shall be offset pro rata on the basis.

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

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

- (6) The non-current assets classified as held for sale or non-current assets in the disposal group are not depreciated or amortized. Interest and other expenses attributable to the liabilities of a disposal group classifies as held for sale shall continue to recognize.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

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

- (7) When the non-current asset or the disposal group classified as held for sale ceases to meet the conditions for the classification of held for sale and ceases to be further classified as held for sale or ceases to be included in a disposal group classified as held for sale, it shall be measured at the lower of: a) its carrying amount before the non-current asset or disposal group was classified as held for sale, adjusted for any depreciation, amortization or impairment that would have been recognized had the non-current asset or disposal group not been classified as held for sale; b) its recoverable amount.
- (8) When derecognizing of non-current assets or disposal group classified as held for sale, the unrecognized gains or losses shall be included in the current profits and losses.

31. Discontinued operation

Discontinued operations referring to be clearly distinguished component which has been disposed of or is classified as held for sale, shall satisfy one of the following condition: (1) the component represents an independent main business or a separate main area of operation;(2) the component is part of a related plan for disposing an independent main business or a separate main operating area;(3) the component is a specially subsidiary obtained for resale.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

32. Segment Information

The Group determines the operating segment based on internal organizational structure, management requirements and internal reporting system. The reportable segment and disclosing the information are determined based on the operating segment.

Operating segment refers to the components within the Group that satisfy all the following conditions:(1) the components can generate income and expenses in daily activities;(2) the operating results of the components are regularly reviewed by the management of the Group to make decisions about resources to be allocated to the segment and assess its performance;(3) Discrete financial information including the financial position, operating results and cash flow of the component is available. If two or more operating segments have similar economic characteristics and meet certain conditions, they can be merged into one operating segment.

33. Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the issuer to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due. Such financial guarantees are given to banks, financial institutions and other entities to secure related party' loans, overdrafts and other bank facilities.

The financial guarantee contract is initially recognized at fair value on the date the guarantee was given, and shall be subsequently measured at the higher of amortized value and the best estimate of the reserves required for the performance of the group's guarantee obligations on balance sheet date. The increased liabilities associated with the contract and shall be recorded in current profit or loss. These estimates are based on similar business experience, past losses and management judgment.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

34. Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(1) Taxation

The Group is subject to various taxes in many countries, such as income tax and VAT. Significant judgment is required in determining the account for such taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Based on the estimates of anticipated tax items, the Group determines whether additional taxes are required in the future to recognize the liabilities of tax items. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax amount for the period in which the judgment is made.

Deferred tax assets are recognized as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax in the periods in which such estimate is changed.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

34. Critical Accounting Estimates and Judgments *(continued)*

(2) Method of ascertaining of performance progress for construction contracts (Only applicable to situations where control is transferred within a period of time)

The input method is adopted by the Group to ascertain the progress of performance of construction contracts. Specifically, the construction costs actually incurred on a cumulative basis as a percentage of estimated total costs is used to ascertain progress of performance. Costs actually incurred on a cumulative basis include direct and indirect costs incurred by the Group in the course of transfer of goods to customers. The Group considers that the consideration of construction contracts signed with customers is determined based on construction costs. The construction costs actually incurred on a cumulative basis as a percentage of estimated total costs can practically reflect the progress of performance of the construction service. The Group determines progress of performance by referring to the construction costs actually incurred on a cumulative basis as a percentage of estimated total costs, and recognizes revenue accordingly. As the period of validity of construction contracts is relatively long and may span over a number of accounting periods, the Group shall review and revise budget as the duration of the construction contracts continues, and adjust the amount of recognized revenue accordingly.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

34. Critical Accounting Estimates and Judgments *(continued)*

(3) Impairment of financial assets

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

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

(4) Impairment of non-financial assets

(a) Provision of impairment on goodwill

The Group conducts an annual impairment test on goodwill. The recoverable amount of cash-generating units or groups of cash-generating units to which goodwill has been allocated is the present value of its future cash flows estimated on the basis of (Notes IV (20)).

If the management modified the gross profit rate used in the calculation of the future cash flow of cash-generating units or groups of cash-generating units, the Group shall recognize the provision of impairment on goodwill when the modified gross profit rate is lower than the current gross profit rate.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

34. Critical Accounting Estimates and Judgments *(continued)*

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

(a) *Provision of impairment on goodwill (continued)*

If the management modified the pre-tax discount rate used for cash flow discounting, the Group shall recognize the provision of impairment on goodwill when the modified pre-tax discount rate is higher than the current discount rate.

The provision of impairment on goodwill cannot be reversed if the actual gross profit rate or pre-tax discount rate is higher or lower than the estimates of the management.

(b) *Impairment of long-term assets*

Long-term assets are reviewed for impairment annually according to the accounting policy of the Group. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and the present value of the expected future cash flow. The calculation of value in use requires the company to estimate the future cash flows expected to be derived from the cash-generating unit and the appropriate discount rate based on the assumptions and estimates of the management. After sensitivity analysis, the management believes that the carrying amount of the asset will be fully recovered.

If the management modified the gross profit rate used in the calculation of the future cash flow of cash-generating units or groups of cash-generating units, the Group shall recognize the provision of impairment on long-term assets when the modified gross profit rate is lower than the current gross profit rate.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

34. Critical Accounting Estimates and Judgments *(continued)*

(5) Valuation of inventory

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(6) Bad debt provision for receivable

Bad debt provision for receivable is based on the recoverability of assessed receivable. The management's judgments and estimates are required for determining bad debt provision for receivable. The difference between the actual outcome and original estimate will affect the carrying amount of receivable and bad debt provision for receivable and reversal of such provision during the estimated revision period.

(7) Estimated useful lives of fixed assets and intangible assets

The Group reviews the estimated useful lives of fixed assets and intangible assets at least once at the end of the year. Estimated useful lives are determined by the management based on historical experience of similar assets and expected technological advancement. Corresponding adjustment to depreciation expenses for future periods will be made in case of substantial changes in previous estimates.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

34. Critical Accounting Estimates and Judgments *(continued)*

(8) Quality warranty

For groups of contracts with similar characteristics, the Group reasonably estimates maintenance fee charge based on historical data on and current situation of maintenance, and taking into account all relevant data including product upgrade and market changes. The Group re-assesses maintenance fee charge at least on every balance sheet date and determines accruals and provisions based on the re-assessed maintenance fee charge.

(9) Defined benefit plan

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

35. Changes in critical accounting policies and estimates

(1) Changes in critical accounting policies

The Ministry of Finance issued “CAS 21 – Lease” (hereinafter referred to as “New Lease Standards”) on 13 December 2018. It issued “The Notice of Revising and Issuing the Format of General Enterprise Financial Statements in 2019” (Caikuai [2019] No. 6) and its interpretation on 30 April 2019. The Group has prepared its financial statements for 31 December 2019 in accordance with the above-mentioned standard and notice.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

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

(2) The impact of major accounting policies changes

(i) *The impact of New Lease Standard*

On December 13, 2018, the Ministry of Finance promulgated the revised “Accounting Standards for Business Enterprises No. 21-Leasing” (referred to as the “new lease standard”). The new lease standard adopts a single model similar to the current accounting treatment of financial leases and requires leases. The person recognizes the right-of-use asset and lease liability for all leases except short-term leases and low-value leases, and recognizes depreciation and interest expenses respectively. Since January 1, 2019, the Group has carried out accounting treatment in accordance with the newly revised leasing standards, and has made no adjustments to the information for comparable periods in accordance with the convergence requirements. income.

- (a) For financial leases before the first execution date, the Group measures the right-of-use assets and lease liabilities according to the original book value of the assets leased under finance leases and finance lease payables;
- (b) For operating leases prior to the date of first execution, the Group measures idle liability discounted based on the remaining lease payments discounted at the incremental borrowing rate on the date of first execution, and based on each lease at an amount equal to the lease liability and prepaid rent Adjust the measurement of right-of-use assets. Assume that the new lease standard is adopted from the beginning of the lease period, and the incremental borrowing rate of the Group as the lessee on the first execution date is used to measure the book value of the right-of-use asset;

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

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

(2) The impact of major accounting policies changes *(continued)*

(i) *The impact of New Lease Standard (continued)*

- (c) The Group conducts impairment tests on the right-of-use assets and performs corresponding accounting treatment in accordance with Note IV.20.

The Group adopts simplified treatment for operating leases whose leased assets are low-value assets before the first execution date, or operating leases to be completed within 12 months, without the right-of-use assets and lease liabilities. In addition, the Group adopts the following simplified treatment for operating leases before the first execution date.

- (d) When measuring lease liabilities, leases with similar characteristics may use the same discount rate; the measurement of the right-of-use asset may not include initial direct costs;
- (e) If there is an option to renew or terminate the lease, the Group determines the lease period based on the actual exercise of the option before the date of first execution and other latest conditions;
- (f) As an alternative to the right-of-use asset impairment test, the Group evaluates whether the guarantee lease contract is a loss contract before the first execution, and adjusts the use of the asset based on the amount of loss provisions included in the balance sheet before the first execution date;

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

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

(2) The impact of major accounting policies changes *(continued)*

(i) The impact of New Lease Standard *(continued)*

- (g) For lease changes before the date of first implementation, the Group performs accounting treatment based on the final arrangements for lease changes.

For the minimum unpaid lease payments for major operating leases disclosed in the 2018 financial statements, the Group discounted the present value of the incremental borrowing rate of the Group as a lessee on January 1, 2019, compared with January 1, 2019. The difference adjustment process for lease liabilities included in the balance sheet is as follows:

Items	Amount
Minimum lease payments for major operating leases on 31 December 2018	88,966,411.92
Less: Minimum lease payments with simplified processing	11,086,032.66
Including: Short-term lease	11,086,032.66
Low value lease	–
Plus: Minimum lease payments for financial leases on 31 December 2018	217,134,238.70
Less: Minimum lease payments for financial leases as of December 31, 2018 are reclassified to the amount reported for non-current liabilities due within one year	75,187,637.84
Minimum lease payments under the new lease standard on 1 January 2019	219,826,980.12
Weighted average of incremental borrowing interest rates on 1 January 2019	4.13%
Leasing liabilities on 1 January 2019 (Including non-current liabilities that have been reclassified to expire within one year)	213,082,952.31

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

(2) The impact of major accounting policies changes (continued)

(i) The impact of New Lease Standard (continued)

The main impact of the changes in accounting policies caused by the above New Lease Standard on the Group's financial statements as at 1 January 2019 is as follows (unaffected items are not listed):

① Consolidated financial statement

Items	Carrying amount applying original standards	Reclassification	Recalculation	Carrying amount applying new standards
	31 Dec 2018			1 Jan 2019
Prepayments	264,987,827.45	-	(344,799.95)	264,643,027.50
Property, plant and equipment	3,224,720,949.14	(327,937,170.14)	-	2,896,783,779.00
Right-to-use assets	-	327,937,170.14	76,249,540.76	404,186,710.90
Long-term deferred expenses	224,093,001.19	-	(8,845,553.45)	215,247,447.74
Non-current assets due within one year	170,826,135.24	-	28,749,276.66	199,575,411.90
Accounts payable	1,522,525,538.63	-	1,366,198.49	1,523,891,737.12
Lease liabilities	-	141,946,600.86	42,387,074.78	184,333,675.64
Long-term payables	147,696,759.15	(141,946,600.86)	-	5,750,158.29
Total equity attributable to shareholders of the Company	2,708,521,621.81	-	(4,927,467.14)	2,703,594,154.67
Non-controlling interests	420,762,299.14	-	(515,895.43)	420,246,403.71

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

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

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

(2) The impact of major accounting policies changes *(continued)*

(i) The impact of New Lease Standard *(continued)*

② Financial statement of the Company

Items	Carrying amount applying original standards			Carrying amount applying new standards
	31 Dec 2018	Reclassification	Recalculation	1 Jan 2019
Right-to-use assets	-	-	5,373,171.48	5,373,171.48
Non-current assets due within one year	53,500,000.00	-	5,373,171.48	58,873,171.48

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

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

(2) The impact of major accounting policies changes *(continued)*

ii) *Financial statement reporting adjustment*

According to the “Notice of the Ministry of Finance on Revising and Issuing the Format of General Corporate Financial Statements for 2019” (Caihui [2019] No. 6) and its interpretation, in addition to the presentation changes resulting from the implementation of the new lease standard, the Group will The “Bills and Accounts Receivable” item is split into “Bills Receivable” and “Accounts Receivable”, and the original “Bills Payable and Accounts Payable” item is split into “Bills Payable” and “Accounts Payable”. A new item “Receivables Financing” was added to reflect notes and accounts receivable that are measured at fair value at the balance sheet date and whose changes are included in other comprehensive income. The “interest receivable” in the “other receivables” item and the “interest payable” in the “other payables” item only reflect the interest that the relevant financial instrument has expired but can be collected but has not been received or has been due but has not been paid The interest accrued based on the actual interest rate method should be included in the book balance of the corresponding financial instrument. Interest on relevant financial instruments that have expired but are not receivable at the balance sheet date is reported in “Interests Receivable”, and “minus: asset impairment losses” is adjusted to “plus: asset impairment losses (losses by “-”)", Adjust “minus: credit impairment losses” to “plus: credit impairment losses (losses are marked with “-”)", and move the above two items to “fair value” After changing the “Profit and Loss” item, increase the item of investment income, which is the item “financial assets measured at amortized cost, derecognised income”.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

(2) The impact of major accounting policies changes (continued)

ii) Financial statement reporting adjustment (continued)

The retrospective restatement of the financial statements due to changes in the format of the new financial statements has the following effects on the consolidation and the parent company's balance sheet as of December 31, 2018:

① Consolidated financial statement

Items	31 Dec 2018	Reclassification	1 Jan 2019
Notes receivable	-	674,085,704.48	674,085,704.48
Accounts receivable	-	2,636,400,832.87	2,636,400,832.87
Receivable financing	-	454,859,482.38	454,859,482.38
Notes receivable and accounts receivable	3,765,346,019.73	(3,765,346,019.73)	-
Other receivables	928,431,789.73	(2,148,080.34)	926,283,709.39
Loans and advances to customers	1,154,317,102.20	2,148,080.34	1,156,465,182.54
Notes payable	-	1,225,850,904.13	1,225,850,904.13
Accounts payable	-	1,522,525,538.63	1,522,525,538.63
Notes payable and accounts payable	2,748,376,442.76	(2,748,376,442.76)	-
Short-term loans	911,696,617.94	1,821,232.74	913,517,850.68
Due to customers, banks and other financial institutions	1,334,738,381.17	2,074,280.04	1,336,812,661.21
Other payables	599,204,267.53	(13,156,812.78)	586,047,454.75
Bonds payable	799,143,854.22	9,261,300.00	808,405,154.22

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

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

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

(2) The impact of major accounting policies changes *(continued)*

ii) Financial statement reporting adjustment *(continued)*

② Financial statement of the company

Items	31 Dec 2018	Reclassification	1 Jan 2019
Other payables	62,986,536.29	(9,261,300.00)	53,725,236.29
Bonds payable	799,143,854.22	9,261,300.00	808,405,154.22

(2) There are no significant changes in accounting estimates in the current period.

(3) There are no major adjustments of prior accounting errors in the current period.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

V. TAXATION

1. Main categories of tax and corresponding tax rate

Category of tax	Tax base	Tax rate
Chinese enterprise		
Enterprise income tax	Taxable income	15%, 25% and 0%
Value-added tax("VAT")	Taxable value-added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period)	16%, 13%, 10%, 9%, 6%
VAT(easy to collect)	Taxable value-added amount multiplied by VAT collection rate	5%, 3%
City maintenance and construction tax	Taxable amounts of VAT	5% and 7%
Educational surcharge	Taxable amounts of VAT	2% and 3%
Property tax	70% of the original value of the property or rental income	1.2%, 12% RMB10/square metre/year, RMB20/square metre/year, RMB16/square metre/year, RMB14/square metre/year, RMB8/square metre/year
Land use tax	Land occupation area	year
Profit tax in Hong Kong	–	16.5%
Profit tax for other regions/countries	–	15.2%, 20%, 34%, 39%

Note: According to the announcement (Ministry of Finance, State Taxation Administration and General Administration of Customs [2019] No.39) jointly issued by the Ministry of Finance, State Taxation Administration and General Administration of Customs on 20 March 2019, VAT on sales or imported goods originally applicable to 16% and 10% will be adjusted to 13% and 9% respectively from 1 April 2019.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

V. TAXATION *(CONTINUED)*

1. Main categories of tax and corresponding tax rate *(continued)*

Explanation of taxpayers of different enterprise income tax rates:

Taxpayers	Income tax rate	Income tax preference
Chongqing Machinery & Electric Co., Ltd.	25%	–
Chongqing Water Turbine Works Co., Ltd.	15%	Income tax preference (1)
Chongqing CAFF Automotive Braking & Steering System Co., Ltd.	15%	Income tax preference (1)
Chongqing Pigeon Electric Wires & Cables Co., Ltd.	15%	Income tax preference (1)
Chongqing Pigeon Electric Porcelain Co., Ltd.	25%	Income tax preference (2)
Chongqing Pigeon Electric Materials Co., Ltd.	15%	Income tax preference (1)
Chongqing General Industry (Group) Co., Ltd.	15%	Income tax preference (2)
Chongqing Chongtong Wide Wisdom Air Conditioning Equipment Co., Ltd.	15%	Income tax preference (2)
Chongqing Chongtong Turbine Technology Co., Ltd.	25%	–
Jilin ChongTong Chengfei New Material Co., Ltd.	15%	Income tax preference (2)
Chongqing ChongTong Chengfei New Material Co., Ltd.	15%	Income tax preference (1)
Gansu Chong Tong Chengfei New Material Co., Ltd.	15%	Income tax preference (1)
Chong Tong Chengfei Wind Power Equipment Jiangsu Co., Ltd.	15%	Income tax preference (2)
Xilin Hot Chenfei Wind Power Equipment Co., Ltd.	15%	Income tax preference (1)
Chongqing Shunchang General Electric Equipment Co., Ltd.	15%	Income tax preference (1)
Chongqing General Industry (Group) Tong Kang Water Affairs Co., Ltd.	Half levy	Income tax preference (3)
Chongqing Pump Industry Co., Ltd.	15%	Income tax preference (1)
Chongqing Gas Compressor Factory Co., Ltd.	15%	Income tax preference (1)
Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd.	15%	Income tax preference (2)
Chongqing Mengxun Electronic & Technology Co., Ltd.	15%	Income tax preference (1)

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

V. TAXATION *(CONTINUED)*

1. Main categories of tax and corresponding tax rate *(continued)*

Explanation of taxpayers of different enterprise income tax rates: *(continued)*

Taxpayers	Income tax rate	Income tax preference
Chongqing Mechanical and Electrical Additive Manufacturing Co., Ltd.	25%	–
Chongqing Machine Tool (Group) Co., Ltd.	15%	Income tax preference (1)
Chongqing Sino-Germany Smart Factory Solutions Co., Ltd.	15%	Income tax preference (1)
Fu Baotian Cotton picking services Co., Ltd.	Exemption	Income tax preference (4)
Chongqing Tool Factory Co., Ltd.	15%	Income tax preference (2)
Chongqing No. 2 Machine Tools Factory Co., Ltd.	15%	Income tax preference (1)
Chongqing Yinhe Forging & Founding Co., Ltd.	25%	–
Chongqing Shengong Machinery Manufacturing Co., Ltd.	15%	Income tax preference (1)
Chongqing Holroyd Precision Rotors Manufacturing Co., Ltd.	15%	Income tax preference (1)
Chongqing Industrial Enabling Innovation Center Co., Ltd.	15%	Income tax preference (2)
Chongqing Shengpu Material Co., Ltd.	25%	–
Chongqing Machinery & Electric Holding Group Finance Co., Ltd.	15%	Income tax preference (1)
Precision Technologies Group (PTG) Limited.	20%	–
Precision Technologies Group(US) Limited (PTG US)	34%	–
Holroyd Precision Screw and Rotors Company	39%	–
PTG Heavy Industries Ltd.	20%	–
Milnrow Investments Ltd.	20%	–
Precision Components Ltd.	20%	–
PTG Deutschland GmbH	15.20%	–
PTG Investment Development Company Ltd.	16.50%	–

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

V. TAXATION *(CONTINUED)*

2. Corporate income tax preferences

- (1) According to announcement of in-depth implementing the western development strategy on the problem of enterprise income tax which was issued by the State Taxation Administration on April 6, 2012 (The State Taxation Administration announcement No.12, 2012), management of the Group believes that its subsidiaries which were approved by Chongqing State Taxation Administration to enjoy 15% preferential enterprise income tax rate from 2001 to 2011, is still eligible to enjoy 15% preferential enterprise income tax rate from 2012 to 2020.
- (2) According to the relevant tax preferential policies of the state for high-tech enterprises, certified high-tech enterprises can enjoy preferential policies of enterprise income tax and pay enterprise income tax at a reduced rate of 15%.

The following companies in this Group enjoy a preferential tax rate of 15% in this period because they have obtained the Certificate of High-tech Enterprises, including Chongqing General Industry (Group) Co.,Ltd (certificate of high-tech enterprises No. GR201751100440), Jilin Chongtong Chengfei New Material Co., Ltd. (certificate of high-tech enterprises No. GF201522000016), Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd. (certificate of high-tech enterprises No. GR201751100272), Chongqing Industrial Enabling Innovation Center Co., Ltd. (certificate of high-tech enterprises No. GR201851100040), Chong Tong Chengfei Wind Power Equipment Jiangsu Co., Ltd. (certificate of high-tech enterprises No. GR201832003842), Chongqing Pigeon Electric Porcelain Co., Ltd. (certificate of high-tech enterprises No. GR201651100225), Chongqing Tool Factory Co., Ltd. (certificate of high-tech enterprises No. GR201651100175).

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

V. TAXATION *(CONTINUED)*

2. Corporate income tax preferences

- (3) Since the urban sewage treatment program engaged by Chongqing General Industry (Group) Tong Kang Water Affairs Co., Ltd. meets the requirements of document (Cai shui [2009] No. 166), the corporate income tax shall be exempted from the first year to the third year and halved from the fourth year to the sixth year starting from the tax year in which the first production and operation income is obtained by the program. The preference period is from 1 January 2014 to 31 December 2019. The Company has filed the corporate income tax preference on July 12, 2016.
- (4) The Group's subsidiary, Xinjiang Fubaotian Cotton-picking Service Co., Ltd. ("Fubaotian") is engaged in agricultural machinery operations and its income is exempted from enterprise income tax.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise stated, among the following disclosed data in the financial statements, “Beginning balance” refers to the amount on 1 January, 2019 (Adjust for the first time apply the new Lease standards and new financial statement format, in addition to the items that need to be adjusted, the balances of other items in the financial statements have the same figure as 31 December 2018 and 1 January 2019, the details refer to this notes IV.35(1)) and “Ending balance” refers to the amount on 31 December, 2019. “Current period” refers to the period from 1 January 2019 to 31 December 2019. “Last period” refers to the period from 1 January 2018 to 31 December 2018. Currency unit is RMB.

1. Cash and Cash Equivalents

Items	Ending balance	Beginning balance
Cash in hand	589,731.55	879,802.59
Cash at bank	1,536,977,363.04	1,569,463,592.47
Other cash equivalents	557,052,553.97	594,326,911.12
Total	2,094,619,648.56	2,164,670,306.18
Including: cash deposited abroad	64,767,665.24	13,349,574.40

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

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Cash and Cash Equivalents (continued)

Restricted cash at the end of the year

Items	Ending balance
Deposits for bank acceptance bills	248,680,383.57
Deposits for letters of credit	4,198,010.81
Guarantee deposit	70,729,672.21
Restricted term deposits	91,580,893.68
Statutory reserve	141,863,593.70
Total	557,052,553.97

2. Financial Assets held for sale

Items	Ending balance	Beginning balance
Financial assets held for sales	269,494.13	5,124,292.21
including: Equity instrument investment	269,494.13	123,356.84
Money market fund	—	5,000,935.37
Total	269,494.13	5,124,292.21

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3. Notes receivable

(1) Classification of notes receivable

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Bank acceptance bills	184,217,929.12	198,966,648.96	653,826,131.34
Commercial acceptance bills	117,905,218.88	518,035,990.22	518,035,990.22
Less: provision for bad debts	6,051,761.14	42,916,934.70	42,916,934.70
Total	296,071,386.86	674,085,704.48	1,128,945,186.86

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

(2) Notes receivable not pledged by the Group at the end of the year

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3. Notes receivable *(continued)*

- (3) At the end of the year, the Group had no bills receivable that had been endorsed or discounted and had not matured at the balance sheet date
- (4) Notes receivable that is transferred to an account receivable because the drawer has failed to perform his contra

Item	The amount to account receivable
Commercial acceptance bills	<u>158,602,202.56</u>
Total	<u><u>158,602,202.56</u></u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes receivable (continued)

(5) Classified by bad debt provision method

Items	31 Dec 2019				
	Book Balance		Provision for bad debts		
	Amount	Proportion (%)	Amount	Proportion of bad debt provision (%)	Carrying amount
Provision for bad debts					
by portfolio	302,123,148.00	100.00	6,051,761.14	2.00	296,071,386.86
Including: bank					
acceptance bill	184,217,929.12	60.97	1,866,746.44	1.01	182,351,182.68
General customer					
commercial					
acceptance bill	117,905,218.88	39.03	4,185,014.70	3.55	113,720,204.18
Total	302,123,148.00	100.00	6,051,761.14	2.00	296,071,386.86

Note: The bad debt provision for bank acceptance bill at the end of the year refers to the expected credit loss of RMB1,866,746.44yuan accrued by the financial company of Chongqing mechanical and electrical holding group, a subsidiary of the group, for its bill discount assets according to the credit risk characteristics and referring to the guiding principles of loan risk classification of the people's Bank of China.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes receivable (continued)

(5) Classified by bad debt provision method (Continued)

(Continued)

Items	1 Jan 2019				
	Book Balance		Provision for bad debts		
	Amount	Proportion (%)	Amount	Proportion of bad debt provision (%)	Carrying amount
Provision for bad debts					
by single item	448,041,480.00	62.49	42,916,934.70	9.58	405,124,545.30
Including: commercial					
acceptance bill	448,041,480.00	62.49	42,916,934.70	9.58	405,124,545.30
Provision for bad debts					
by portfolio	268,961,159.18	37.51	-	-	268,961,159.18
Including: bank					
acceptance bill	198,966,648.96	27.75	-	-	198,966,648.96
General customer					
commercial					
acceptance bill	69,994,510.22	9.76	-	-	69,994,510.22
Total	717,002,639.18	100.00	42,916,934.70	3.66	674,085,704.48

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Notes receivable (continued)

(5) Classified by bad debt provision method

(Continued)

Items	31 Dec 2018				
	Book Balance		Provision for bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Proportion of bad debt provision (%)	
Provision for bad debts					
by single item	448,041,480.00	38.23	42,916,934.70	9.58	405,124,545.30
Including: commercial					
acceptance bill	448,041,480.00	100.00	42,916,934.70	9.58	405,124,545.30
Provision for bad debts					
by portfolio	723,820,641.56	61.77	-	-	723,820,641.56
Including: bank					
acceptance bill	653,826,131.34	90.33	-	-	653,826,131.34
General customer					
commercial					
acceptance bill	69,994,510.22	9.67	-	-	69,994,510.22
Total	1,171,862,121.56	100.00	42,916,934.70	3.66	1,128,945,186.86

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3. Notes receivable *(continued)*

(6) Provision for bad debts of notes receivable that are accrued, collected or transferred back in the current year

Item	Beginning balance	Change amount for the year		Ending balance
		Loans issued and advances reclassified to notes receivable	Reclassification to bad debt provision of accounts receivable	
Provision for bad debts of notes receivable	42,916,934.70	1,866,746.44	38,731,920.00	6,051,761.14
Total	42,916,934.70	1,866,746.44	38,731,920.00	6,051,761.14

(7) The Group has no notes receivable actually written off during the year.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

4. Accounts receivable

Items	Ending balance	Beginning balance
Accounts receivable	3,111,334,932.31	3,051,333,203.60
Less: provision for bad debts	423,220,675.82	414,932,370.73
Carrying amount	2,688,114,256.49	2,636,400,832.87

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

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivable (continued)

(1) The accounts receivable recognized provision for bad debts according to group of expected credit risk characters

Classification	Book balance	Ending balance		Carrying amount
		percentage (%)	Provision for bad debts	
Provision for bad debts is recognized separately	177,314,797.25	80.76	143,195,407.33	34,119,389.92
Provision for bad debts is recognized by group	2,934,020,135.06	9.54	280,025,268.49	2,653,994,866.57
Including: Related parties	174,078,131.41	—	—	174,078,131.41
Retention money of warranty	66,975,926.83	—	—	66,975,926.83
Customers with good credit	560,103,251.65	—	—	560,103,251.65
General customers	2,132,862,825.17	13.13	280,025,268.49	1,852,837,556.68
Including: Within 1 year	1,088,012,124.73	1.81	19,663,684.25	1,068,348,440.48
1-2 years	499,701,625.42	5.97	29,810,453.79	469,891,171.63
2-3 years	243,112,015.14	18.81	45,740,336.68	197,371,678.46
3-4 years	146,692,368.31	26.77	39,266,942.54	107,425,425.77
4-5 years	40,212,510.71	75.63	30,411,670.37	9,800,840.34
Over 5 years	115,132,180.86	100.00	115,132,180.86	—
Total	3,111,334,932.31	13.60	423,220,675.82	2,688,114,256.49

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivable (continued)

(1) The accounts receivable recognized provision for bad debts according to group of expected credit risk characters (continued)

(Continued)

Classification	Book balance	Beginning balance		Carrying amount
		percentage (%)	Provision for bad debts	
Provision for bad debts is recognized separately	416,415,206.49	40.32	167,908,922.48	248,506,284.01
Provision for bad debts is recognized by group	2,634,917,997.11	9.37	247,023,448.25	2,387,894,548.86
Including: Related parties	124,024,604.82	5.70	7,065,783.30	116,958,821.52
Retention money of warranty	9,348,992.54	-	-	9,348,992.54
Customers with good credit	302,179,023.36	-	-	302,179,023.36
General customers	2,199,365,376.39	10.91	239,957,664.95	1,959,407,711.44
Including: Within 1 year	1,381,851,881.65	1.22	16,927,334.63	1,364,924,547.02
1-2 years	396,310,771.73	5.35	21,212,496.26	375,098,275.47
2-3 years	215,723,531.68	12.07	26,045,870.69	189,677,660.99
3-4 years	54,587,365.78	61.63	33,639,712.36	20,947,653.42
4-5 years	47,331,442.32	81.50	38,576,703.79	8,754,738.53
Over 5 years	103,560,383.23	100.00	103,555,547.22	4,836.01
Total	3,051,333,203.60	13.60	414,932,370.73	2,636,400,832.87

Note: The Group always measures the impairment allowance of accounts receivable at an amount equivalent to the expected credit loss over the entire duration, and calculates its expected credit loss based on the number of overdue days and the default loss rate. The LGD is calculated based on the actual credit loss experience in the past 3-5 years, and is based on the differences between the economic conditions during the historical data collection period, the current economic conditions, and the economic conditions estimated by the Group during the expected duration. Make adjustments.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivable (continued)

(2) The accounts receivable recognized provision for bad debts separately

Name	Ending balance			Reason
	Book Balance	Provision for bad debts	Excepted credit loss rate(%)	
Credit Transfer of Chongqing Jiangbei Machinery Co., Ltd.	22,840,155.15	22,840,155.15	100.00	Not expected to be recoverable
Chongqing Pigeon Brand Wire and Cable Co., Ltd. Chengdu Department	11,150,019.24	11,150,019.24	100.00	Not expected to be recoverable
Chongqing Huahao Smelting Co., Ltd.-Debt Transfer	9,413,799.49	9,413,799.49	100.00	Not expected to be recoverable
Shanghai Zhongtong Air Conditioning Refrigeration Equipment Company	4,652,004.71	4,652,004.71	100.00	Not expected to be recoverable
MorganTechnologies	3,635,346.55	3,635,346.55	100.00	Not expected to be recoverable
Chongqing Quanhai Machinery Co., Ltd.	2,941,756.50	2,941,756.50	100.00	Not expected to be recoverable
Shanxi Tianfu Gas Co., Ltd.	2,820,000.00	2,820,000.00	100.00	Not expected to be recoverable
Shanxi Compressed Natural Gas Group Jinzhong Co., Ltd.	2,738,600.00	2,738,600.00	100.00	Not expected to be recoverable
Zhongtian (Jiangsu) Defense Equipment Co., Ltd.	2,303,014.00	2,303,014.00	100.00	Not expected to be recoverable
Chongqing Bishan Shunshan Machinery Co., Ltd.	2,247,309.99	2,247,309.99	100.00	Not expected to be recoverable
R&HRisingLimited	2,007,908.43	2,007,908.43	100.00	Not expected to be recoverable
Other sporadic customers	110,564,883.19	76,445,493.27	69.14	Not expected to be fully recoverable
Total	177,314,797.25	143,195,407.33		

Note: The Group's receivables based on single item provision for bad debts in 2019 are mainly due to financial difficulties of the debtor or a longer ageing of the account or a lower probability of full recovery.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivable (continued)

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

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

(Continued)

Aging	Beginning balance		
	Book Balance	Provision for bad debts	percentage (%)
Within 1 year	1,975,549,541.44	31,103,159.89	1.57
1-2 years	501,533,984.36	38,337,125.87	7.64
2-3 years	248,308,042.65	65,356,182.64	26.32
3-4 years	75,482,077.06	44,322,470.56	58.72
4-5 years	60,226,423.16	45,585,132.85	75.69
Over 5 years	190,233,134.93	190,228,298.92	100.00
Total	3,051,333,203.60	414,932,370.73	13.60

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivable (continued)

(4) Provision for bad debts that are accrued, transferred back or collected in the current year

Items	Change amount for the year						Ending balance
	Beginning balance	Accrued	Plus: Amount of reclassification of bad debt provision for bills receivable	Collected or transferred back	Resale of write off	Less: reclassified to the amount of bad debt provision for contract assets	
Provision for bad debts of account receivable	414,932,370.73	4,964,444.58	38,731,920.00	24,461,280.28	6,392,275.01	4,554,504.20	423,220,675.82
Total	414,932,370.73	4,964,444.58	38,731,920.00	24,461,280.28	6,392,275.01	4,554,504.20	423,220,675.82

(5) The account receivable that is actually write off in the current year

Item	Write off amount
The accounts receivable actually written off	6,392,275.01

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

4. Accounts receivable *(continued)*

(5) The account receivable that is actually write off in the current year *(continued)*

The significant account receivable that is actually write off:

Name	Nature	Write off amount	Reason	Procedure	Whether the payment is generated by related transactions
Sichuan Huarun Yazuihe Hydropower Development Co., Ltd.	Sales of product	5,227,213.68	Both sides agreed to the court's decision	General manager's office	No
Total	-	5,227,213.68	-	-	-

(6) No account receivable that are derecognized due to the transfer of financial assets in current year.

(7) No assets and liabilities have been formed due to the transfer and continuing involvement of account receivable.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivable (continued)

(8) Top five debtors of account receivable

Name of debtors	Book Balance	Aging	Percentage (%)	provision for bad debts	No settlement reason
Beijing Wanyuan Industry Co., Ltd.	166,605,800.00	1-2 years, 2-3years, 3-4years	5.35	12,556,820.43	Affected by the market, customer project progress is delayed
Laos Nanye 2B Power Station EPC Project (Longhai Group Ltd. NONGHAIGROUP LTD)	121,642,717.66	Within one year, 1-2 years	3.91	2,690,829.08	According to the performance contract, it has not been settled
Taiyuan Heavy Industry Co., Ltd.	83,088,353.34	Within 1 year, 1-5years, over 5 year	2.67	14,478,009.50	Both parties negotiate to pay according to each other's payment plan
Mingyang Smart Energy Group Co., Ltd.	74,120,768.05	Within 1 year	2.38	3,469,261.02	Rolling payments, outstanding
Minjiang Chenya Transmission Co., Ltd	62,506,150.82	Within 1 year, 1-3 years,	2.01	310,373.02	Rolling payments, outstanding
Total	507,963,789.87	-	16.32	33,505,293.05	-

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Receivable financing

(1) Classification of receivables financing

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Bank acceptance bill	<u>470,685,913.42</u>	<u>454,859,482.38</u>	<u>—</u>
Total	<u>470,685,913.42</u>	<u>454,859,482.38</u>	<u>—</u>

Note: according to the needs of daily fund management, the group classifies the bank acceptance bill as a financial asset which is measured at fair value and whose changes are recorded in other comprehensive income.

The Group does not have a single bank acceptance bill for impairment provision. At the end of the year, the Group measures bad debt provisions based on the expected credit losses throughout its lifetime. The Group believes that the bank acceptance bills held do not have significant credit risk and will not cause significant losses due to bank defaults.

(2) Notes receivable that have been used for pledge at the end of the year

Item	Amount pledged
Bank acceptance bill	<u>182,429,375.84</u>
Total	<u>182,429,375.84</u>

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

5. Receivable financing *(continued)*

(3) Notes receivable that have been endorsed or discounted by the Group at the end of the year and have not expired at the balance sheet date

Item	Termination confirmation amount	The confirmed amount is not terminated
Bank acceptance bill	1,641,616,611.99	—
Total	1,641,616,611.99	—

Note: At the end of the year, the group endorsed the same amount of undue notes receivable of RMB1,641,616,611.99 yuan (balance at the beginning of the year: RMB1,346,078,011.10 yuan) to the supplier to pay for the purchase of materials. In the opinion of the management of the group, the risks and rewards of the ownership of such undue notes have been substantially transferred, so the recognition of such notes receivable and accounts payable to the supplier has been completely terminated. The group's continuous involvement in such fully derecognized undue notes receivable is limited to the extent that the issuing bank is unable to settle accounts with the noteholder. The possible maximum loss sustained by the group's continuous involvement is the undue notes receivable endorsed by the group to the supplier, with the year-end amount of RMB1,641,616,611.99 yuan (balance at the beginning of the year: RMB1,346,078,011.10 yuan).

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

6. Prepayments

(1) Aging analysis

Aging	31 December 2019	1 January 2019	31 December 2018
Within 1 year	205,716,446.84	221,431,460.88	221,776,260.83
1-2 years	34,446,116.81	26,431,176.83	26,431,176.83
2-3 years	10,516,169.32	4,743,971.56	4,743,971.56
More than 3 years	16,335,602.70	14,204,492.91	14,204,492.91
Total	267,014,335.67	266,811,102.18	267,155,902.13
Less: provision for diminution in value	833,724.00	2,168,074.68	2,168,074.68
Net value	266,180,611.67	264,643,027.50	264,987,827.45

Note: At the end of the year, the Group's prepaid accounts with an age of more than one year were RMB61,297,888.83 (The beginning of the year: RMB45,379,641.30), which were mainly prepayments for materials, because the delivery cycle was long and the materials had not arrived.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Prepayments (continued)

(2) The major prepayments aged over 1 year

Name of debtors	Ending balance	Aging	No settlement reason	Percentage (%)
Chongqing Construction Engineering Group Corporation Limited	6,027,750.88	1-2 years, 2-3 years	Not yet received	2.26
Anshan Zhengfa Surface Technology Engineering Co., Ltd.	1,636,896.62	1-2 years	Not yet received	0.61
Chengdu Feiyi Trading Company	2,097,000.00	1-2 years	Not yet received	0.79
Liaoning Ankuang Construction Corporation	2,210,430.00	1-2 years, 2-3 years	Not yet received	0.83
MCC Sadie Electric Technology Co., Ltd.	1,517,000.02	1-2 years	Not yet received	0.57
Total	13,489,077.52			5.05

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Prepayments (continued)

(3) The top five prepayments by year-end balance collected by prepayment target

Name of debtors	Ending balance	Aging	No settlement reason	Percentage (%)
China Copper International Trade Group Co., Ltd.	33,457,108.99	Within 1 year	Outstanding balance	12.53
Shandong Yingjiu New Energy Technology Co., Ltd.	18,723,054.00	Within 1 year	Advance payment for material purchase as agreed in the performance contract	7.01
Beijing Kolas Technology Co., Ltd. Xicheng Branch	12,499,836.56	Within 1 year	Advance payment for material purchase as agreed in the performance contract	4.68
Weihai Weisai New Material Technology Co., Ltd.	6,367,233.22	Within 1 year	Advance payment for material purchase as agreed in the performance contract	2.38
Chongqing Construction Engineering Group Co., Ltd.	6,027,750.88	1-2 years, 2-3 years	Advance payment for material purchase as agreed in the performance contract	2.26
Total	77,074,983.65			28.86

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Prepayments (continued)

(4) Provision for bad debts that are accrued, transferred back or collected in the current year

Item	Beginning balance	Change amount for the year			Ending balance
		accrued	collected or transferred back	Resale of write off	
Provision for bad debts of prepayment	2,168,074.68	—	1,334,350.68	—	833,724.00
Total	2,168,074.68	—	1,334,350.68	—	833,724.00

7. Other receivables

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Interest receivable	—	—	20,538,197.57
Dividend receivable	436,478,069.56	383,447,758.44	383,447,758.44
Other receivables	950,732,242.50	639,063,592.40	620,673,475.17
Total	1,387,210,312.06	1,022,511,350.84	1,024,659,431.18
Less: provision for bad debts	183,654,530.40	96,227,641.45	96,227,641.45
Net value	1,203,555,781.66	926,283,709.39	928,431,789.73

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

7. Other receivables *(continued)*

7.1 Interest receivable

Items	31 Jun 2019	1 Jan 2019	31 Dec 2018
Related party borrowings	-	-	18,390,117.23
Loan	-	-	2,148,080.34
Total	-	-	20,538,197.57

7.2 Dividend receivable

(1) *The classification of dividend receivable*

Investees	Ending balance	Beginning balance
Chongqing Cummins Engine Co., Ltd	434,540,613.18	378,631,655.04
Chongqing Hongyan Fangda Automotive Suspension Co., Ltd.	1,937,456.38	4,816,103.40
Total	436,478,069.56	383,447,758.44

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

7. Other receivables *(continued)*

7.2 Dividend receivable *(continued)*

(2) *The major dividend receivable aged over 1 year*

Item(or investee)	Book Balance	Aging	The reason for not receiving	Whether the impairment occurs and its judgment basis
Chongqing Hongyan Fangda Automotive Suspension Co., Ltd.	1,937,456.38	1-2 years	No payment	No impairment has occurred and the enterprise operate normally
Chongqing Cummins Engine Co., Ltd.	166,726,358.24	1-2 years	No payment	No impairment has occurred and the enterprise operate normally
Total	168,663,814.62			

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Other receivables (continued)

7.3 Other receivables

(1) Other receivables are classified by the nature of the amount listed below

Nature	31 Dec 2019	1 Jan 2019	31 Dec 2018
Imprest fund	41,879,073.45	45,008,575.55	45,008,575.55
Advance payments to third party companies	19,574,222.28	71,123,714.37	71,123,714.37
Deposit Receivable	34,554,133.81	34,470,011.74	34,470,011.74
The related companies of other receivable	149,020,042.26	157,140,919.06	138,750,801.83
Housing repair fund	23,836,239.61	23,135,900.48	23,135,900.48
Land disposal receivable	214,687,758.58	85,032,555.39	85,032,555.39
Large group receivable	29,861,801.68	37,789,608.64	37,789,608.64
Receivable from Bank of China for pledged notes	—	19,824,500.00	19,824,500.00
Collection and payment on agency basis	246,203,177.03	121,403,432.39	121,403,432.39
Others	89,961,698.18	44,134,374.78	44,134,374.78
Borrowing and interest	88,531,658.42	—	—
Prepayment for house purchase	12,622,437.20	—	—
Total	950,732,242.50	639,063,592.40	620,673,475.17
Less: provision for bad debts	183,654,530.40	96,227,641.45	96,227,641.45
Net value	767,077,712.10	542,835,950.95	524,445,833.72

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

7. Other receivables *(continued)*

7.3 Other receivables *(continued)*

(2) Aging analysis

Aging	31 Dec 2019	1 Jan 2019	31 Dec 2018
Within 1 year	654,368,274.70	501,488,551.55	483,098,434.32
1-2 years	100,887,533.18	67,220,910.30	67,220,910.30
2-3 years	92,163,305.28	10,730,019.07	10,730,019.07
3-4 years	40,316,178.69	6,556,378.48	6,556,378.48
4-5 years	6,768,657.75	3,125,759.00	3,125,759.00
Over 5 years	56,228,292.90	49,941,974.00	49,941,974.00
Total	950,732,242.50	639,063,592.40	620,673,475.17
Less: provision for bad debts	183,654,530.40	96,227,641.45	96,227,641.45
Net value	767,077,712.10	542,835,950.95	524,445,833.72

Note: The ageing of other receivables of the Group is calculated from the date when other receivables are recognized.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Other receivables (continued)

7.3 Other receivables (continued)

(3) The other receivables recognized provision for bad debts according to group of expected credit risk characters

Classification	31 Dec 2019			
	Book balance	Percentage (%)	Provision for bad debts	Carrying amount
Provision for bad debts is recognized separately	378,871,450.89	44.57	168,872,744.43	209,998,706.46
Provision for bad debts is recognized by group	571,860,791.61	2.58	14,781,785.97	557,079,005.64
Including: Receivable from				
government	222,820,123.34	—	—	222,820,123.34
Related parties	128,025,979.74	8.04	10,293,923.37	117,732,056.37
Deposits, security deposit and reserve fund receivable	56,037,834.36	0.31	173,043.60	55,864,790.76
General receivables and others	164,976,854.17	2.62	4,314,819.00	160,662,035.17
Including: Within 1 year	71,831,157.34	0.05	36,890.96	71,794,266.38
1-2 years	33,323,716.39	0.03	11,000.00	33,312,716.39
2-3 years	17,912,918.93	1.86	332,985.46	17,579,933.47
3-4 years	3,318,641.69	2.20	73,109.04	3,245,532.65
4-5 years	5,057,175.52	—	—	5,057,175.52
Over 5 years	33,533,244.30	11.51	3,860,833.54	29,672,410.76
Total	950,732,242.50	19.32	183,654,530.40	767,077,712.10

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Other receivables (continued)

7.3 Other receivables (continued)

(3) The other receivables recognized provision for bad debts according to group of expected credit risk characters (continued)

(Continued)

Classification	1 Jan 2019			
	Book balance	Percentage (%)	Provision for bad debts	Carrying amount
Provision for bad debts is recognized separately	100,726,069.82	90.30	90,954,467.38	9,771,602.44
Provision for bad debts is recognized by group	538,337,522.58	0.98	5,273,174.07	533,064,348.51
Including: Receivable from				
government	99,062,557.03	–	–	99,062,557.03
Related parties	118,394,854.13	–	–	118,394,854.13
Deposits, security deposit and reserve fund receivable	34,470,011.74	–	–	34,470,011.74
General receivables and others	286,410,099.68	1.84	5,273,174.07	281,136,925.61
Including: Within 1 year	219,284,607.99	0.23	508,856.00	218,775,751.99
1-2 years	27,932,055.85	0.07	20,081.39	27,911,974.46
2-3 years	4,917,470.58	–	–	4,917,470.58
3-4 years	5,138,328.65	1.95	100,000.00	5,038,328.65
4-5 years	1,785,275.06	–	–	1,785,275.06
Over 5 years	27,352,361.55	16.98	4,644,236.68	22,708,124.87
Total	639,063,592.40	15.06	96,227,641.45	542,835,950.95

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Other receivables (continued)

7.3 Other receivables (continued)

(3) The other receivables recognized provision for bad debts according to group of expected credit risk characters (continued)

(Continued)

Classification	31 Dec 2018			
	Book balance	Percentage (%)	Provision for bad debts	Carrying amount
Provision for bad debts is recognized separately	100,726,069.82	90.30	90,954,467.38	9,771,602.44
Provision for bad debts is recognized by group	519,947,405.35	1.01	5,273,174.07	514,674,231.28
Including: Receivable from government	99,062,557.03	—	—	99,062,557.03
Related parties	100,004,736.90	—	—	100,004,736.90
Deposits, security deposit and reserve fund receivable	34,470,011.74	—	—	34,470,011.74
General receivables and others	286,410,099.68	1.84	5,273,174.07	281,136,925.61
Including: Within 1 year	219,284,607.99	0.23	508,856.00	218,775,751.99
1-2 years	27,932,055.85	0.07	20,081.39	27,911,974.46
2-3 years	4,917,470.58	—	—	4,917,470.58
3-4 years	5,138,328.65	1.95	100,000.00	5,038,328.65
4-5 years	1,785,275.06	—	—	1,785,275.06
Over 5 years	27,352,361.55	16.98	4,644,236.68	22,708,124.87
Total	620,673,475.17	15.50	96,227,641.45	524,445,833.72

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Other receivables (continued)

7.3 Other receivables (continued)

(3) The other receivables recognized provision for bad debts according to group of expected credit risk characters (continued)

1) The other receivables recognized provision for bad debts separately

Name	Ending balance			Reason
	Book balance	Provision for bad debts	Percentage (%)	
Chongqing Shangshe Chemical Co., Ltd. (Note 2)	285,327,045.52	85,598,113.65	30.00	not expected to be fully recoverable
Chongqing Jiangbei Machinery Co., Ltd.	31,213,147.59	31,213,147.59	100.00	not expected to be recoverable
Chen Yulan	14,430,194.00	14,430,194.00	100.00	not expected to be recoverable
Chongqing Gangtian Property Co., Ltd. (Hui Gong Building)	9,680,000.00	9,680,000.00	100.00	not expected to be recoverable
WaterGenPowerS.r.l	3,969,301.71	3,969,301.71	100.00	not expected to be recoverable
Chongqing Huahao Smelting Co., Ltd.	3,264,844.35	3,264,844.35	100.00	not expected to be recoverable
Chongqing Major Gaoke Property Development Co., Ltd.	2,942,437.20	2,942,437.20	100.00	not expected to be recoverable
Chongqing Tooth Auto Parts Co., Ltd.	1,341,455.00	1,341,455.00	100.00	not expected to be recoverable
Chongqing Ruishida Power Technology Co., Ltd.	1,000,000.00	1,000,000.00	100.00	not expected to be recoverable
other	25,703,025.52	15,433,250.93	60.04	not expected to be fully recoverable
Total	378,871,450.89	168,872,744.43	44.57	-

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

7. Other receivables *(continued)*

7.3 Other receivables *(continued)*

(3) *The other receivables recognized provision for bad debts according to group of expected credit risk characters (continued)*

- 1) The other receivables recognized provision for bad debts separately *(continued)*

Note1: The other receivables of the Group in which the provision for bad debts were made individually in 2019 were mainly due to financial difficulties or long-aging accounts of the debtor. The management of the Group is expected to be unable to recover them or to recover them in full.

Note2: The Group's overseas subsidiary Precision Technology Group Investment Development Co., Ltd. (referred to as PTG Hong Kong Company) and Chongqing Shangshe Chemical Co., Ltd. (referred to as Chongqing Shangshe Chemical) started a rubber trading business. Due to the legal representation of Chongqing Shangshe Chemical, it is not possible The rubber purchased by PTG Hong Kong was entrusted to pay the payment on time. The Group paid a principal balance of RMB285,327,045.52 yuan due at the end of the year due to the bank letter of credit issued by the trading business. The Group is actively negotiating with Chongqing Commercial Corporation and its shareholders and other relevant parties to study appropriate solutions. The management of the Group tested and calculated the expected credit loss of RMB85,598,113.65yuan on the advance payment.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

7. Other receivables *(continued)*

7.3 Other receivables *(continued)*

(4) *Provision for bad debts that are accrued, collected or transferred back during current year*

Items	Beginning balance	Change amount for the year			Ending balance
		accrued	collected or transferred back	write off	
Provision for bad debts of other receivable	96,227,641.45	89,920,322.09	2,507,620.63	(14,187.49)	183,654,530.40
Total	96,227,641.45	89,920,322.09	2,507,620.63	(14,187.49)	183,654,530.40

(5) *The amount of other receivable that is actually write off in the current year is RMB -14,187.49.*

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

7. Other receivables *(continued)*

7.3 Other receivables *(continued)*

(6) Top five debtors of other receivables

Name of debtors	Nature	Book balance	Aging	Percentage (%)	Provision for bad debts amount
Chongqing Shangshe Chemical Co., Ltd.	Advances, borrowings and interest arising from trading operations	286,289,999.73	Within 1 year	30.11	85,598,113.65
Chongqing Mindray Urban Construction Investment Co., Ltd.	Land disposal fund	115,059,463.57	Within 1 year, 1-3 years	12.10	-
Chongqing Jinye Industrial Construction Investment Co., Ltd.	Land disposal fund	64,034,072.01	Within 1 year	6.74	-
Chongqing Jiangbei Machinery Co., Ltd.	Affiliate payments	61,213,147.59	Within 1 year, 2-4 years	6.44	31,213,147.59
Chongqing Shenjian Automotive Transmission Co., Ltd.	Affiliate payments	46,273,714.96	Within 1 year, 1-3 years	4.87	10,293,923.37
Total		572,870,397.86	-	60.26	127,105,184.61

(7) No other receivables derecognised by the Group during the year due to transfer of financial assets.

(8) The Group has no assets or liabilities arising from the transfer of other receivables and continued involvement in the current year.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Inventory

(1) Classification of inventory

Items	Book balance	Ending balance Provision for impairment	Carrying amount
Raw materials	297,365,982.08	42,147,840.40	255,218,141.68
Work in progress	684,454,694.68	65,766,138.86	618,688,555.82
Finished goods	1,072,174,013.15	48,350,108.00	1,023,823,905.15
Consigned processing materials	7,684,210.71	—	7,684,210.71
Low value consumables	70,607,300.33	—	70,607,300.33
release products	5,462,492.65	—	5,462,492.65
Total	2,137,748,693.60	156,264,087.26	1,981,484,606.34

(Continued)

Items	Book balance	Beginning balance Provision for impairment	Carrying amount
Raw materials	387,843,140.68	35,468,228.47	352,374,912.21
Work in progress	661,281,164.01	63,308,544.28	597,972,619.73
Finished goods	1,032,146,297.81	58,878,818.62	973,267,479.19
Low value consumables	26,277,927.00	—	26,277,927.00
Total	2,107,548,529.50	157,655,591.37	1,949,892,938.13

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Inventory (continued)

(2) Provision of impairment that are accrued, collected or transferred back in the current year

Items	Beginning balance	Increase		Decrease		Ending balance
		Accrued	Other	Collected or Transferred Back	Other transfer	
Raw materials	35,468,228.47	6,679,611.93	-	-	-	42,147,840.40
Work in progress	63,308,544.28	2,457,594.58	-	-	-	65,766,138.86
Finished goods	58,878,818.62	5,138,432.04	-	9,987,110.87	5,680,031.79	48,350,108.00
Total	157,655,591.37	14,275,638.55	-	9,987,110.87	5,680,031.79	156,264,087.26

(3) Provision of impairment of inventory

Items	The determine basic of net realizable value	The reasons of collected and transferred back
Raw materials	The balance between the net realize value and the book value of raw materials	The price of the final product rose, provision for impairment is transferred back
Work in progress	The balance between the net realize value and the book value of raw materials	The price of the final product rose, provision for impairment is transferred back
Finished goods	The balance between the net realize value and the book value of finished good	The net realizable value of finished good with provision impairment for inventory in previous year is increased

(4) Capitalization of borrowing costs is not included in the Group's inventory at the end of the year.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

9. Contractual assets

(1) The situation of contractual assets

Items	Book balance	Ending balance Provision for impairment	Carrying amount
Contract assets related to construction contracts	66,943,824.37	–	66,943,824.37
Contract assets formed by general business	344,922,953.38	43,412,265.60	301,510,687.78
Total	411,866,777.75	43,412,265.60	368,454,512.15

Note: The management of the Group expects that the contract assets mentioned above will be fulfilled within one year at the end of the year.

(Continued)

Items	Book balance	Beginning balance Provision for impairment	Carrying amount
Contract assets related to construction contracts	249,077,553.98	–	249,077,553.98
Contract assets formed by general business	49,508,552.84	49,508,552.84	–
Total	298,586,106.82	49,508,552.84	249,077,553.98

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Contractual assets (continued)

(2) Significant changes in the book value of contract assets during the year and the reasons

Items	Change amount for the year	Reason
Contract assets related to construction contracts	(182,133,729.61)	Reclassify contract assets with a maturity of more than one year to other non-current assets
Contract assets formed by general business	301,510,687.78	In the process of contract performance, the contract revenue recognized according to the performance progress is earlier than the time when the payment node receives the consideration
Total	119,376,958.17	

(3) Provision for impairment of contract assets this year

Item	Beginning balance	Change amount for the year			Ending balance
		Accrued	Accounts receivable transfer	Collected or Transferred Back	
Provision for impairment of contract assets	49,508,552.84	3,805,789.78	4,554,504.18	14,456,581.20	43,412,265.60
Total	49,508,552.84	3,805,789.78	4,554,504.18	14,456,581.20	43,412,265.60

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Contractual assets (continued)

(3) Provision for impairment of contract assets this year (continued)

The write-off of important contract assets

Company name	Nature	Write-off amount	Reason for write-off	Performed write-off procedures	Whether the money was generated by a connected transaction
Sichuan China Resources Yazuihe Hydropower Development Co., Ltd.	Payment	14,456,581.20	The court has ruled, and both parties agree with the court's decision	General Manager's Office	No
Total	—	<u>14,456,581.20</u>			

10. Assets held for sale

Item	Ending Balance	Beginning Balance
Assets held for sale	—	6,039,285.98
Total	<u>—</u>	<u>6,039,285.98</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Non-current assets due within one year

Item	Ending balance	Beginning balance	Nature
Related party loans due within one year	17,500,000.00	—	Borrowings from joint ventures
Total	17,500,000.00	—	

12. Other current assets

Items	Ending balance	Beginning balance
Unused deductible VAT	33,207,795.03	77,303,185.19
Prepaid tax	8,707,824.35	3,513,765.43
Deferred expenses	—	242,114.28
Total	41,915,619.38	81,059,064.90

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Loans and advances to customers

(1) Loans and advances to customers aged within one year

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Loans and advances to corporations			
– Loans	881,028,430.00	1,075,850,000.00	1,075,850,000.00
– Discount	62,491,603.50	73,239,939.63	73,239,939.63
– Accrued interest	1,975,138.84	2,148,080.34	–
Total	945,495,172.34	1,151,238,019.97	1,149,089,939.63
Less: Provision for impairment	23,646,491.18	33,652,837.43	33,652,837.43
Carrying amount	921,848,681.16	1,117,585,182.54	1,115,437,102.20

1) Classification of loans and advances to customers (excluding accrued interest) based on industry

Industry	31 Dec 2019	Proportion (%)	1 Jan 2019	Proportion (%)	31 Dec 2018	Proportion (%)
Manufacturing industry	945,495,172.34	100.00	1,151,238,019.97	100.00	1,149,089,939.63	100.00
Total	945,495,172.34	100.00	1,151,238,019.97	100.00	1,149,089,939.63	100.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Loans and advances to customers (continued)

(1) Loans and advances to customers aged within one year (continued)

2) Classification of loans and advances to customers (excluding accrued interest) based on location

Area	31 Dec 2019	Proportion (%)	1 Jan 2019	Proportion (%)	31 Dec 2018	Proportion (%)
Southwest	945,495,172.34	100.00	1,151,238,019.97	100.00	1,149,089,939.63	100.00
Total	<u>945,495,172.34</u>	<u>100.00</u>	<u>1,151,238,019.97</u>	<u>100.00</u>	<u>1,149,089,939.63</u>	<u>100.00</u>

3) Classification of loans and advances to customers (excluding accrued interest) based on type of security

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Unsecured loan	181,975,138.84	654,671,543.29	653,450,000.00
Guaranteed loan	427,998,000.00	235,579,504.42	235,139,939.63
Collateral loan	335,522,033.50	260,986,972.26	260,500,000.00
Including:			
Mortgaged loan	273,030,430.00	139,760,777.85	139,500,000.00
Pledged loan	62,491,603.50	121,226,194.41	121,000,000.00
Total	<u>945,495,172.34</u>	<u>1,151,238,019.97</u>	<u>1,149,089,939.63</u>

4) The beginning balance and ending balance of the group are no overdue loans.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Loans and advances to customers (continued)

(1) Loans and advances to customers aged within one year (continued)

- 5) Provision of impairment that are accrued, collected or transferred back in the current year

Items	Amount this year		Amount last year	
	Single item	expected credit loss	Single item	expected credit loss
Beginning balance	-	33,652,837.43	-	28,032,957.00
Accrued in current year	-	(8,139,599.81)	-	5,619,880.43
Less: Reclassification to bad debt provision for receivables	-	1,866,746.44	-	-
Ending balance	-	23,646,491.18	-	33,652,837.43

(2) Loans and advances to customers aged over one year

Items	Ending balance	Beginning balance
Loans and advances to corporations	120,000,000.00	40,000,000.00
– Loans	120,000,000.00	40,000,000.00
Total	120,000,000.00	40,000,000.00
Less: Provision for impairment	3,000,000.00	1,120,000.00
Carrying amount	117,000,000.00	38,880,000.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Loans and advances to customers (continued)

(2) Loans and advances to customers aged over one year (continued)

- 1) Classification of loans and advances to customers (excluding accrued interest) based on industry

Industry	Ending balance	Proportion (%)	Beginning balance	Proportion (%)
Manufacturing industry	120,000,000.00	100.00	40,000,000.00	100.00
Total	<u>120,000,000.00</u>	<u>100.00</u>	<u>40,000,000.00</u>	<u>100.00</u>

- 2) Classification of loans and advances to customers (excluding accrued interest) based on location

Area	Ending balance	Proportion (%)	Beginning balance	Proportion (%)
Southwest	120,000,000.00	100.00	40,000,000.00	100.00
Total	<u>120,000,000.00</u>	<u>100.00</u>	<u>40,000,000.00</u>	<u>100.00</u>

- 3) Classification of loans and advances (excluding accrued interest) based on type of security

Item	Ending balance	Beginning balance
Guaranteed loan	120,000,000.00	40,000,000.00
Total	<u>120,000,000.00</u>	<u>40,000,000.00</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Loans and advances to customers (continued)

(2) Loans and advances to customers aged over one year (continued)

- 4) The beginning balance and ending balance of the group are no overdue loans
- 5) Provision of impairment that are accrued, collected or transferred back in the current year

Items	Amount this year		Amount last year	
	Single item	Expected credit loss	Single item	Portfolio item
Beginning balance	-	1,120,000.00	-	1,094,671.00
Accrued in current year	-	1,880,000.00	-	25,329.00
Ending balance	-	3,000,000.00	-	1,120,000.00

14. Long-term receivable

(1) Situation of Long-term Receivable

Item	Ending balance			Beginning balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Long-term receivables from related parties (Please refer to Note)	113,200,000.00	-	113,200,000.00	42,000,000.00	-	42,000,000.00
Less: long-term receivables due within one year	17,500,000.00	-	17,500,000.00	8,800,000.00	-	8,800,000.00
Total	95,700,000.00	-	95,700,000.00	33,200,000.00	-	33,200,000.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

14. Long-term receivable *(continued)*

(1) Situation of Long-term Receivable *(continued)*

Note: In order to construct the R&D center of high-powered engine technology and production line project of high-powered engine, National Development Fund Co., Ltd entrusted China Development bank Co., Ltd to issue the entrusted loan to the Group for project capital investment. The total amount of this loan is RMB122,000,000yuan which is restricted to the construction of the R&D center of high-powered engine technology and production line project of high-powered engine. The term of the loan is from 14 March 2016 to 14 March 2026. The loan interest shall be calculated at the fixed annual rate of 1.2% and paid quarterly. Chongqing Cummins borrowed from the Group through shareholder loan.

(2) Provision of bad debts

The Group's long-term receivables are loans to related parties. According to the Group's financial asset accounting policies, no provision for bad debts is made.

(3) There were no long-term receivables derecognised by the Group during the reporting period due to financial asset transfers.

(4) The Group did not transfer long-term receivables and continued to participate in the formation of assets and liabilities during the reporting period.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Long-term equity investment

Name of investee	Accounting method	Percentage of shareholdings	Voting rights	Cost of investment	Beginning balance	Increase or decrease				Ending balance	
						Increase or Decrease in investment	Investment gain or loss recognized under equity method	Adjustment of other comprehensive income	Cash dividend declared		
Joint ventures											
CQ Cummins	Equity method	50.00	50.00	370,189,551.00	360,896,119.24	-	279,213,561.46	-	267,314,254.94	-	372,295,425.76
Subtotal	-	-	-	370,189,551.00	360,896,119.24	-	279,213,561.46	-	267,314,254.94	-	372,295,425.76
Associates											
Chongqing ABB Power Transformer Co., Ltd. ("Chongqing ABB")	Equity method	37.80	37.80	236,651,166.00	248,255,606.76	-	5,301,113.55	-	29,349,033.00	-	224,207,687.31
Chongqing Yonglong Gas Co., Ltd.	Equity method	20.00	20.00	4,000,000.00	335,438.00	(335,438.00)	-	-	-	-	-
Hongyan (refer to Note 1)	Equity method	44.00	42.86	51,306,166.00	123,406,148.77	-	(6,793,384.08)	-	-	-	114,612,764.69
Esheyl (refer to Note 1)	Equity method	27.00	33.33	16,880,157.00	78,029,543.84	-	1,185,949.90	-	2,651,933.96	(3,520,745.31)	80,084,205.09

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Long-term equity investment (continued)

Name of investee	Accounting method	Percentage of shareholdings	Voting rights	Cost of investment	Beginning balance	Increase or Decrease in investment	Investment gain or loss recognized under equity method	Increase or decrease Adjustment of other comprehensive income	Cash dividend declared	Decrease	Ending balance
Knorr	Equity method	34.00	34.00	44,231,369.00	49,475,150.03	-	15,914,182.99	-	-	-	65,389,333.02
Chongqing Jiangbei Machinery (refer to Note 2)	Equity method	41.00	20.00	57,993,968.00	59,014,532.44	-	(892,360.64)	-	-	-	58,122,171.60
WPG Company in Italy	Equity method	49.00	49.00	6,068,193.00	-	-	-	-	-	-	-
Chongqing Shenlan Automotive Drive Part Co., Ltd	Equity method	35.00	35.00	85,808,049.00	89,742,246.20	-	(8,061,866.26)	-	-	-	81,680,377.94
Subtotal				502,869,088.00	648,238,666.04	(335,438.00)	4,653,533.26	-	32,000,966.96	(3,520,745.31)	624,096,538.65
Total				873,058,619.00	1,009,154,785.28	(335,438.00)	283,867,094.72	-	299,815,221.90	(3,520,745.31)	996,391,965.41

Note1: Difference between the percentage of shareholding and voting rights is derived from the difference between numbers of shareholders in the board of directors and the percentage of shareholding.

Note2: The Group has fully recognized the investment loss of Italian WGP equity investment in 2018. Due to WGP's operating difficulties, the company has submitted a voluntary bankruptcy liquidation application to the relevant Italian court on August 6, 2019. The company has not completed liquidation by the end of the year.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Other equity instruments investment

(1) Investment in other equity instruments

Item	Ending balance	Beginning balance
Equity investment of Youyan Powder New Materials Co., Ltd.	52,314,020.88	46,693,061.00
Total	52,314,020.88	46,693,061.00

(2) Investment in non-trading equity instruments during the year

Item	Dividend income recognized during the year	Cumulative gain	Cumulative loss	Amount of other comprehensive income transferred to retained earnings	Designated as a reason for measuring at fair value and its changes included in other comprehensive income	Reasons for transferring other comprehensive income to retained earnings
Equity investment of Youyan Powder New Materials Co., Ltd.	-	5,620,959.88	-	-	Held for non-transactional purposes	Not applicable

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Investment property

(1) Investment property at cost measurement model

Items	Buildings and land-use rights	Total
I. Book balance		
Beginning balance	125,048,687.73	125,048,687.73
Increase this year	3,841,127.91	3,841,127.91
Including: Purchase	133,620.68	133,620.68
Transfer of fixed assets	3,707,507.23	3,707,507.23
Reduced amount for the year	7,090,159.54	7,090,159.54
Including: Dispose	7,090,159.54	7,090,159.54
Ending balance	<u>121,799,656.10</u>	<u>121,799,656.10</u>
II. Accumulated depreciation		
Beginning balance	41,439,431.21	41,439,431.21
Increase this year	4,961,230.44	4,961,230.44
Including: Accrued or amortized	4,458,111.41	4,458,111.41
Transfer of fixed assets	503,119.03	503,119.03
Reduced amount for the year	2,648,643.22	2,648,643.22
Including: Dispose	2,648,643.22	2,648,643.22
Ending balance	<u>43,752,018.43</u>	<u>43,752,018.43</u>
III. Ending balance		
1. Ending balance	78,047,637.67	78,047,637.67
2. Beginning balance	<u>83,609,256.52</u>	<u>83,609,256.52</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Investment property (continued)

- (2) At the end of the year, the Group had no investment real estate without a property right certificate.
- (3) At the end of the year, there is no significant impairment in the group's investment property and no accrued is made for related impairment.

18. Property, plant and equipment

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Property, Plant and Equipment	2,837,275,150.38	2,896,526,378.89	3,224,463,549.03
Disposal of Property, Plant and Equipment	1,694,639.83	257,400.11	257,400.11
Total	<u>2,838,969,790.21</u>	<u>2,896,783,779.00</u>	<u>3,224,720,949.14</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Property, plant and equipment (continued)

(1) Property, plant and equipment

Items	Buildings	Machinery equipment	Transportation	Office equipments	Total
I Book balance					
1. Book balance of 31 Dec 2018	2,517,406,397.19	1,670,160,182.46	59,976,844.88	62,800,415.46	4,310,343,839.99
Less: Amount Affected by Changes					
in Lease Standards	-	346,268,159.35	-	-	346,268,159.35
Book balance of 1 Jan 2019	2,517,406,397.19	1,323,892,023.11	59,976,844.88	62,800,415.46	3,964,075,680.64
2. Increase	37,624,292.75	97,152,335.13	2,405,615.15	8,019,001.08	145,201,244.11
(1) Purchase	704,357.72	50,417,771.58	2,405,615.15	8,019,001.08	61,546,745.53
(2) Transfer from construction in process	36,919,935.03	42,351,263.73	-	-	79,271,198.76
(3) Transfer from Stock goods	-	4,383,299.82	-	-	4,383,299.82
3. Decrease	10,779,306.86	30,954,051.97	2,967,957.21	514,744.50	45,216,060.54
(1) Disposal or scrap	7,071,799.63	27,851,217.85	2,967,957.21	514,744.50	38,405,719.19
(2) Transfer to investment real estate	3,707,507.23	-	-	-	3,707,507.23
(3) Transfer to construction in progress	-	3,102,834.12	-	-	3,102,834.12
4. Balance at 31 Dec 2019	<u>2,544,251,383.08</u>	<u>1,390,090,306.27</u>	<u>59,414,502.82</u>	<u>70,304,672.04</u>	<u>4,064,060,864.21</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Property, plant and equipment (continued)

(1) Property, plant and equipment

Items	Buildings	Machinery equipment	Transportation	Office equipments	Total
II Accumulated depreciation and amortization					
1. Balance at 31 Dec 2018	300,626,972.01	701,723,819.04	42,960,600.01	36,529,787.62	1,081,841,178.68
Less: Amount Affected by Changes in Lease Standards	-	18,330,989.21	-	-	18,330,989.21
Balance at 1 Jan 2019	300,626,972.01	683,392,829.83	42,960,600.01	36,529,787.62	1,063,510,189.47
2. Increase	58,043,783.56	116,727,446.06	3,588,419.91	6,699,458.39	185,059,107.92
(1) Accrue	58,043,783.56	116,727,446.06	3,588,419.91	6,699,458.39	185,059,107.92
3. Decrease	4,529,368.28	18,568,514.03	2,239,511.01	485,302.52	25,822,695.84
(1) Disposal or scrap	4,026,249.25	17,238,416.70	2,239,511.01	485,302.52	23,989,479.48
(2) Transfer to investment real estate	503,119.03	-	-	-	503,119.03
(3) Transfer to construction in progress	-	1,330,097.33	-	-	1,330,097.33
4. Balance at 31 Dec 2019	<u>354,141,387.29</u>	<u>781,551,761.86</u>	<u>44,309,508.91</u>	<u>42,743,943.49</u>	<u>1,222,746,601.55</u>
III Provision for impairment					
1. Balance at 31 Dec 2018	-	4,039,112.28	-	-	4,039,112.28
Less: Amount Affected by Changes in Lease Standards	-	-	-	-	-
Balance at 1 Jan 2019	-	4,039,112.28	-	-	4,039,112.28
2. Increase	-	-	-	-	-
(1) Accrue	-	-	-	-	-
3. Decrease	-	-	-	-	-
(1) Disposal or scrap	-	-	-	-	-
4. Balance at 31 Dec 2019	<u>-</u>	<u>4,039,112.28</u>	<u>-</u>	<u>-</u>	<u>4,039,112.28</u>
IV Net carrying amount					
1. Balance at 31 Dec 2019	2,190,109,995.79	604,499,432.13	15,104,993.91	27,560,728.55	2,837,275,150.38
2. Balance at 1 Jan 2019	2,216,779,425.18	636,460,081.00	17,016,244.87	26,270,627.84	2,896,526,378.89
3. Balance at 31 Dec 2018	<u>2,216,779,425.18</u>	<u>964,397,251.14</u>	<u>17,016,244.87</u>	<u>26,270,627.84</u>	<u>3,224,463,549.03</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Property, plant and equipment (continued)

(2) At the end of the year, the original value of fixed assets that had been fully depreciated and continued to be used was RMB274,737,489.61yuan.

(3) Temporarily idle property, plant and equipment

Items	Book balance	Accumulated depreciation	Provision for impairment	Carrying amount
Machinery equipment	7,480,546.90	3,205,555.21	3,927,136.86	347,854.83
Transportation	37,200.00	35,340.00	—	1,860.00
Office equipments	123,740.52	117,553.49	—	6,187.03
Total	7,641,487.42	3,358,448.70	3,927,136.86	355,901.86

(4) The property, plant and equipment without certificate of title

Item	Carrying amount	Reason
Building	583,846,379.86	In process

(5) Restriction on property, plant and equipment

Please refer to VI.66 for details

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

18. Property, plant and equipment *(continued)*

(6) Provision for impairment

At the end of the year, the production conditions of the subsidiaries of the Group were good, and the production capacity of each subsidiary was fully utilized. As judged and tested by the management of the Group, the Group's fixed assets showed no signs of impairment and no provision for impairment was made this year.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Construction in progress

(1) The situation of construction in progress

Items	Ending balance			Beginning balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Blower laboratory, compressor laboratory, etc.	11,590,179.76	-	11,590,179.76	11,042,087.25	-	11,042,087.25
Production Capacity Building Project	16,735,753.20	-	16,735,753.20	2,714,907.34	-	2,714,907.34
Air pressure relocation and land related projects	846,479.75	-	846,479.75	582,806.16	-	582,806.16
Kingdee electronic trading platform	4,480,970.09	-	4,480,970.09	4,480,970.09	-	4,480,970.09
Casting Project	2,557,627.00	2,557,627.00	-	2,557,627.00	2,557,627.00	-
Galaxy Casting and Forging Relocation Project	1,532,982.57	-	1,532,982.57	2,248,617.05	-	2,248,617.05
Fubaotian-Xinjiang Cotton Picking Machine Project	84,975,566.82	-	84,975,566.82	74,635,444.79	-	74,635,444.79
Water wheel production equipment and supporting projects	9,379,791.39	-	9,379,791.39	9,780,341.02	-	9,780,341.02
Re-passing into Jiangsu Rudong Project	-	-	-	4,634,739.94	-	4,634,739.94
Heavy-duty turbine laboratory	29,549,501.47	-	29,549,501.47	29,441,382.83	-	29,441,382.83
Others	48,357,353.53	-	48,357,353.53	31,687,980.30	-	31,687,980.30
Total	210,006,205.58	2,557,627.00	207,448,578.58	173,806,903.77	2,557,627.00	171,249,276.77

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Construction in progress (continued)

(2) The situation of construction in progress

Project Name	Budgeted amount	Beginning Balance	Increase	Decrease		Ending Balance
				Transfer into property, plant and equipment	Other Decrease	
Blower laboratory, compressor laboratory, etc.	-	11,042,087.25	548,092.51	-	-	11,590,179.76
Production Capacity Building Project	42,090,000.00	2,714,907.34	14,020,845.86	-	-	16,735,753.20
Air pressure relocation and land related projects	142,000,000.00	582,806.16	263,673.59	-	-	846,479.75
Kingdee electronic trading platform	-	4,480,970.09	-	-	-	4,480,970.09
Galaxy Casting and Forging Relocation Project	-	2,248,617.05	-	-	715,634.48	1,532,982.57
Fubaotian-Xinjiang Cotton Picking Machine Project	-	74,635,444.79	10,340,122.03	-	-	84,975,566.82
Water wheel production equipment and supporting projects	-	9,780,341.02	3,129,202.42	3,529,752.05	-	9,379,791.39
Re-passing into Jiangsu Rudong Project	249,370,000.00	4,634,739.94	33,268,755.97	27,773,686.56	10,129,809.35	-
Heavy-duty turbine laboratory	50,000,000.00	29,441,382.83	108,118.64	-	-	29,549,501.47
Total		<u>139,561,296.47</u>	<u>61,678,811.02</u>	<u>31,303,438.61</u>	<u>10,845,443.83</u>	<u>159,091,225.05</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Construction in progress (continued)

(2) The situation of construction in progress (Continued)

(Continued)

Project Name	The ratio of input to budget(%)	Project Progress(%)	Capitalized aggregate amount of borrowing costs	Capitalized amount of borrowing costs in current year	Capital Source
Blower laboratory, compressor laboratory, etc.	-	-	-	-	Self-collected fund
Production Capacity Building Project	39.76	39.76	1,408,326.07	454,884.27	Self-collected fund and bank's borrowing
Air pressure relocation and land related projects	0.60	0.60	-	-	Self-collected fund
Kingdee electronic trading platform	-	-	-	-	Self-collected fund
Galaxy Casting and Forging Relocation Project	-	-	-	-	Self-collected fund
Fubaotian-Xinjiang Cotton Picking Machine Project	-	-	-	-	Bank's borrowing
Water wheel production equipment and supporting projects	-	-	-	-	Self-collected fund
Re-passing into Jiangsu Rudong Project	-	100.00	-	-	Self-collected fund and bank's borrowing
Heavy-duty turbine laboratory	58.88	58.88	-	-	Self-collected fund

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Right-of-use assets

Items	Buildings	Machinery equipment	Field	Total
I Book balance				
Book balance of 1 Jan 2019	40,179,410.43	352,193,481.30	63,180,963.95	455,553,855.68
1. Increase	17,670,463.30	–	265,141.92	17,935,605.22
Including: leased	17,670,463.30	–	265,141.92	17,935,605.22
2. Decrease	5,110,200.69	–	–	5,110,200.69
Including: termination of contract	5,110,200.69	–	–	5,110,200.69
Book balance of 31 Dec 2019	<u>52,739,673.04</u>	<u>352,193,481.30</u>	<u>63,446,105.87</u>	<u>468,379,260.21</u>
II Accumulated depreciation				
Balance of 1 Jan 2019	8,097,507.13	21,293,650.19	21,975,987.46	51,367,144.78
1. Increase	20,282,379.56	31,746,447.54	8,451,673.87	60,480,500.97
Including: Accrued for the year	20,282,379.56	31,746,447.54	8,451,673.87	60,480,500.97
2. Decrease	2,049,616.00	–	–	2,049,616.00
Including: termination of contract	2,049,616.00	–	–	2,049,616.00
Balance of 31 Dec 2019	<u>26,330,270.69</u>	<u>53,040,097.73</u>	<u>30,427,661.33</u>	<u>109,798,029.75</u>
III Carrying amount				
1. Carrying amount of 31 Dec 2019	26,409,402.35	299,153,383.57	33,018,444.54	358,581,230.46
2. Carrying amount of 1 Jan 2019	<u>32,081,903.30</u>	<u>330,899,831.11</u>	<u>41,204,976.49</u>	<u>404,186,710.90</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

21. Intangible assets

(1) The situation of intangible assets

Items	Land-use rights	Software	Technical know-how	Brand	Customer relationships	Franchise rights	Others	Total
I Gross carrying amount								
1. Beginning balance	577,840,695.35	27,472,137.15	91,048,845.58	12,256,200.00	55,044,064.00	68,257,380.00	10,940,392.00	842,859,714.08
2. Increase	(39,445,740.49)	204,489.23	125,691,533.22	494,650.03	762,500.00	750,718.64	(2,168,493.76)	86,289,656.87
(1) Purchase	8,693,885.40	4,427,376.96	-	-	-	-	-	13,121,262.36
(2) other	(48,139,625.89)	(4,222,887.73)	125,691,533.22	494,650.03	762,500.00	750,718.64	(2,168,493.76)	73,163,394.51
3. Decrease	11,058,651.75	1,970,117.44	-	-	-	68,746,272.64	-	81,775,041.83
(1) Disposal	11,058,651.75	1,970,117.44	-	-	-	68,746,272.64	-	81,775,041.83
4. Ending balance	527,336,303.11	25,706,508.94	216,740,378.80	12,750,850.03	55,806,564.00	261,826.00	8,771,898.24	847,374,329.12
II Accumulated amortization								
1. Beginning balance	108,141,390.85	23,294,780.72	32,343,965.82	-	36,388,056.63	14,175,965.00	10,940,392.00	225,264,551.02
2. Increase	(22,548,707.79)	(5,410,119.67)	9,728,557.13	494,650.03	6,771,740.95	(567,522.52)	(4,446,056.31)	(15,977,458.18)
(1) Amortization	10,851,915.80	2,307,191.89	11,276,942.32	-	4,494,211.62	491,862.16	227,720.47	29,649,844.26
(2) others	(33,400,623.59)	(7,717,311.56)	(1,548,385.19)	494,650.03	2,277,529.33	(1,059,384.68)	(4,673,776.78)	(45,627,302.44)
3. Decrease	3,454,178.59	1,104,967.85	-	-	-	13,608,442.48	-	18,167,588.92
(1) Disposal	3,454,178.59	1,104,967.85	-	-	-	13,608,442.48	-	18,167,588.92
4. Ending balance	82,138,504.47	16,779,693.20	42,072,522.95	494,650.03	43,139,797.58	-	6,494,335.69	191,119,503.92

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Intangible assets (continued)

(1) The situation of intangible assets (continued)

Items	Land-use rights	Software	Technical know-how	Brand	Customer relationships	Franchise rights	Others	Total
III Provision for impairment								
1. Beginning balance	-	-	-	-	-	-	-	-
2. Increase	-	-	-	-	-	-	-	-
(1) Provision for impairment	-	-	-	-	-	-	-	-
3. Decrease	-	-	-	-	-	-	-	-
(1) Disposal	-	-	-	-	-	-	-	-
4. Ending balance	-	-	-	-	-	-	-	-
IV Net carrying amount								
1. Ending balance	445,197,798.64	8,926,815.74	174,667,855.85	12,256,200.00	12,666,766.42	261,826.00	2,277,562.55	656,254,825.20
2. Beginning balance	469,699,304.50	4,177,356.43	58,704,879.76	12,256,200.00	18,676,007.37	54,081,415.00	-	617,595,163.06

Note: The restriction on intangible assets is detailed in VI.66

(2) The Group has no land use rights without a property right certificate at the end of the year.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Development expenditure

Items	Beginning Balance	Increase		Decrease		Ending Balance
		Internal development expenditure	Other	Transfer into intangible assets	Recognized in profit or loss	
Wind blade technology of General	28,204,172.90	38,954,521.74	9,020,216.18	76,110,986.29	-	67,924.53
Circular economy development of wind power blades	-	29,497,732.02	94,339.62	29,592,071.64	-	-
Development and Application of CNC Machine Tool Efficiency Technology for Machine Tool						
Automotive Power System Key Parts Processing	1,001,052.77	-	-	-	1,001,052.77	-
Green high-speed dry cutting process and automated production line equipment R & D and industrialization project	569,680.26	-	-	-	569,680.26	-
Major topics of artificial intelligence technology innovation	36,166.92			-	36,166.92	-
Agricultural Machinery Project Southwest University Technology Development	116,601.94	-	-	-	116,601.94	-
Intelligent manufacturing technology platform introduces innovative projects	-	14,800,667.23	-	-	-	14,800,667.23
Big data operation and maintenance R & D project	-	1,579,432.42	-	-	-	1,579,432.42
Other sporadic development expenditures	-	45,060,062.49	-	-	44,897,844.07	162,218.42
Total	29,927,674.79	129,892,415.90	9,114,555.80	105,703,057.93	46,621,345.96	16,610,242.60

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

23. Goodwill

(1) Original value of goodwill

Name of investee	Beginning balance	Increase	Decrease	Ending balance
PTG six entities	127,650,489.00	—	—	127,650,489.00
CAFF	15,368,000.00	—	—	15,368,000.00
Power Transformer	293,946.00	—	—	293,946.00
Less: provision of impairment	—	—	—	—
Net value of goodwill	143,312,435.00	—	—	143,312,435.00

Note: PTG six entities comprise Holroyd Precision Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, Precision Components Limited, PTG Advanced Developments Limited, and PTG Deutschland GmbH. PTG six entities belong to CNC machine tools business section, while Chongqing CAFF Automotive Braking & Steering System Co. Ltd. ("CAFF") belongs to other segment.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Goodwill (continued)

(2) Impairment

Goodwill allocated to the Group's cash-generating units or groups of cash-generating units

Cash-generating units/ Groups of cash-generating units	Ending balance	Beginning balance
PTG six entities	127,650,489.00	127,650,489.00
CAFF	15,368,000.00	15,368,000.00
Power Transformer	293,946.00	293,946.00
Total	143,312,435.00	143,312,435.00

Note: When conducting a goodwill impairment test, the Group compares the book value of the relevant assets or asset group portfolio (including goodwill) with its recoverable amount. If the recoverable amount is lower than the book value, the relevant difference is included in the current profit and loss. The Group's allocation of goodwill has not changed at the end of the year.

The recoverable amount of cash-generating units or groups of cash-generating units is determined base on the five-year budget approved by the management and calculated using cash flow forecasting method. As for the cash flow over five years, the below estimated growth rate is applied for calculation.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

23. Goodwill *(continued)*

(2) Impairment *(continued)*

Major assumptions for discounted cash flow method:

Items	PTG six entities
Growth rate	0%
Gross profit rate	39.09%-53.64%
Discount rate	9.80%

The Group determines the growth rate and gross profit margin based on historical experience and forecasts of market development, and uses a pre-tax interest rate that reflects the specific risks of the relevant asset group and asset group combination as the discount rate. The growth rate for the forecast period is determined using the average five-year budget growth rate of 2% -9% of the approved sales revenue of the relevant asset group and asset group portfolio. The weighted average growth rate of 0% is consistent with the forecast data contained in the industry report and does not exceed the long-term average growth rate of each product.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Long-term deferred expenses

Items	31 Dec 2018	The impact of change of New Lease Standard	1 Jan 2019	Increase	Amortization	Other decrease	31 Dec 2019
Improvement of leased Property, Plant and Equipment	683,260.91	-	683,260.91	313,565.24	719,244.12	-	277,582.03
Mold	211,456,805.54	-	211,456,805.54	70,092,379.97	33,563,282.46	11,524,548.18	236,461,354.87
Long-term prepaid rent	15,749,679.23	(8,845,553.45)	6,904,125.78	11,592,005.26	10,042,591.20	8,453,539.84	-
Other	2,759,158.05	-	2,759,158.05	1,228,770.13	1,294,912.30	-	2,693,015.88
Subtotal	230,648,903.73	(8,845,553.45)	221,803,350.28	83,226,720.60	45,620,030.08	19,978,088.02	239,431,952.78
Decrease: Provision for impairment	6,555,902.54	-	6,555,902.54	-	-	-	6,555,902.54
Total	224,093,001.19	-	215,247,447.74	-	-	-	232,876,050.24

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. Deferred tax assets and deferred tax liabilities

(1) Deferred income tax assets and liabilities without set-off

Items	Ending balance	
	Deferred tax assets (Deferred tax liabilities)	Deductible temporary differences (Deductible tax losses)
I Deferred tax assets	121,906,877.97	767,784,390.13
Provision for impairment	73,779,792.89	465,564,079.14
Deductible tax loss	34,764,564.16	218,697,944.12
Deferred revenue	6,391,241.51	42,608,276.66
Retirement and termination benefit	733,376.99	5,937,979.95
Accrued expenses	4,065,792.45	27,105,282.98
Others	2,172,109.97	7,870,827.28
II Deferred tax liabilities	109,458,767.32	544,050,557.19
Temporary tax free income	29,106,305.50	194,042,036.69
Appreciation of assets valuation	20,444,856.36	86,532,180.10
One-time deduction of land use right before tax	58,053,013.67	251,112,395.13
One-off deduction of book value of machinery and equipment before tax	1,854,591.79	12,363,945.27

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

25. Deferred tax assets and deferred tax liabilities *(continued)*

(1) Deferred income tax assets and liabilities without set-off *(continued)*

(Continued)

Items	Beginning balance	
	Deferred tax assets (Deferred tax liabilities)	Deductible temporary differences (Deductible tax losses)
I Deferred tax assets	103,686,673.46	646,468,148.91
Provision for impairment	63,887,668.91	401,372,659.24
Deductible tax loss	20,394,413.43	122,896,939.28
Deferred revenue	11,317,639.04	75,450,926.85
Retirement and termination benefit	2,184,750.00	15,613,799.97
Accrued expenses	3,248,386.76	21,655,911.71
Others	2,653,815.32	9,477,911.86
II Deferred tax liabilities	79,509,594.57	344,389,402.63
Temporary tax free income	—	—
Appreciation of assets valuation	20,557,735.08	87,284,704.91
One-time deduction of land use right before tax	58,951,859.49	257,104,697.72

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. Deferred tax assets and deferred tax liabilities (continued)

(2) Unrecognized deferred tax assets

Item	Ending balance	Beginning balance
Deductible temporary differences	218,916,741.07	91,937,793.43
Deductible tax losses	1,865,218,620.57	820,543,706.27
Total	2,084,135,361.64	912,481,499.70

(3) Deductible tax losses not recognized in deferred tax assets will be expired in the following years

Year	Ending balance	Beginning balance
2019	—	55,112,121.57
2020	—	67,285,911.46
2021	3,380,277.08	87,862,494.16
2022	84,360,062.64	414,207,369.63
2023	444,071,212.54	196,075,809.45
2024	90,463,947.00	—
2025	58,597,939.91	—
2026	64,068,103.30	—
2027	327,724,033.08	—
2028	270,437,495.13	—
2029	522,115,549.89	—
Total	1,865,218,620.57	820,543,706.27

Note: The accumulated loss of PTG Group has no expiry date, so the above data does not include the accumulated loss of PTG Group's unrecognized deferred income tax assets at the end of the year of RMB148,706,410.01yuan (the accumulated loss at the beginning of the year was RMB49,018,874.30yuan).

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Other non-current assets

Items	Ending balance	Beginning balance
Prepaid equipment and engineering	9,165,379.91	16,347,747.56
Prepaid mold	2,654,315.18	3,534,951.11
Prepaid land payment	642,616.00	642,616.00
Debt housing	22,266,269.47	970,027.30
Contract assets formed by construction contracts	219,849,271.18	—
Total other non-current assets	254,577,851.74	21,495,341.97
Less: provision for impairment	2,876,712.91	—
Carrying amount of other non-current assets	251,701,138.83	21,495,341.97

Note: The Group accrues impairment provision of RMB2,876,712.91yuan for Contract assets formed by construction contracts with collection rights of more than one year according to the expected credit loss model.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27. Short-term loans

(1) The category of short-term loans

Category	31 Dec 2019	1 Jan 2019	31 Dec 2018
Mortgage loans	49,000,000.00	40,000,000.00	40,000,000.00
Guaranteed loans	30,000,000.00	202,609,958.69	202,609,958.69
Unsecured loans	1,077,660,800.00	669,086,659.25	669,086,659.25
Accrued interest	225,825.41	1,821,232.74	–
Total	1,156,886,625.41	913,517,850.68	911,696,617.94

Note1: On December 31, 2019, the annual interest rate of the above borrowings of the Group was 3.82% to 4.785% (December 31, 2018: 2.25% to 5.22%).

Note2: For information on pledge and mortgage loans of the Group at the end of the year, please refer to Note VI.66.

(2) At the end of period, there is no overdue short-term loan.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. Due to customers, banks and other financial institutions

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Current deposit	935,128,766.52	1,124,346,132.17	1,124,346,132.17
Time deposit (including notification deposit)	179,000,000.00	190,000,000.00	190,000,000.00
Margin deposit	4,176.25	20,392,249.00	20,392,249.00
Accrued interest	3,775,173.97	2,074,280.04	—
Total	1,117,908,116.74	1,336,812,661.21	1,334,738,381.17

29. Notes payable

Items	Ending balance	Beginning balance
Notes payable	1,179,791,670.55	1,167,818,806.34
Accounts payable	22,845,451.00	58,032,097.79
Total	1,202,637,121.55	1,225,850,904.13

Note1: The age of notes payable of the Group at the end of the year is within one year.

Note2: The Group has no bills payable due and unpaid at the end of the year.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30. Accounts payable

(1) The types of account payable

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Material payable	1,639,910,599.59	1,503,865,255.06	1,503,865,255.06
Freight payable	15,345,833.23	4,846,297.25	4,846,297.25
Equipment payable	3,934,920.00	934,085.69	934,085.69
Others	27,145,094.00	14,246,099.12	12,879,900.63
Total	<u>1,686,336,446.82</u>	<u>1,523,891,737.12</u>	<u>1,522,525,538.63</u>

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

(2) The aging analysis of account payable is according to its invoice date as follows

Aging	31 Dec 2019	1 Jan 2019	31 Dec 2018
Within 1 year	1,176,710,351.08	1,065,600,096.06	1,064,233,897.57
1-2 years	275,740,715.71	288,524,128.11	288,524,128.11
2-3 years	128,349,991.86	62,241,745.33	62,241,745.33
More than 3 years	105,535,388.17	107,525,767.62	107,525,767.62
Total	<u>1,686,336,446.82</u>	<u>1,523,891,737.12</u>	<u>1,522,525,538.63</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30. Accounts payable (continued)

(3) Important accounts payable with an age of over 1 year at the end of the year

Name	Ending Balance	Unpayment and untransferred reasons
RM Investment Company Pvt. Ltd.	44,860,390.50	Civil engineering payment for EPC project has not been paid
Drala Holdings AG	22,317,625.83	Civil engineering payment for EPC project has not been paid
Bazhou Huahaote Electric Power Equipment Co., Ltd.	19,734,560.99	Unpaid
Chongqing Zhonghuan Construction Co., Ltd.	16,845,888.64	Unpaid
Beijing Kangjisen Automation Equipment Technology Co., Ltd.	11,042,413.80	Unpaid
Sichuan Dingxin Construction Engineering Co., Ltd.	10,549,999.80	Unpaid
Jinzhou Xinhua Machinery Manufacturing Co., Ltd.	8,319,996.44	Unpaid
Hangzhou Steam Turbine Co., Ltd.	7,424,433.00	Unpaid
Chongqing Scrap Automobile (Group) Co., Ltd.	5,047,785.00	Unpaid
Chongqing Yanfeng Technology Co., Ltd.	4,315,191.29	Unpaid
Total	150,458,285.29	

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Contract liabilities

(1) The situation of contract liabilities

Item	Ending balance	Beginning balance
Contract liabilities	<u>807,469,495.64</u>	685,648,864.72
Total	<u>807,469,495.64</u>	<u>685,648,864.72</u>

Note: Contract liabilities mainly represent advances received by the Group from sales contracts with customers. The advance payment is collected according to the contract with the customer. The relevant revenue of the contract will be recognized after the Group fulfills its performance obligations. The management of the Group expects that most of the estimated liabilities formed by the end of the year will be transferred to income within one year.

(2) The significant changes of the carrying amount of contract liabilities

Items	Amount of change
Contract liabilities included in 31 Dec 2018 that recognized revenue during current period	422,728,042.88
Increased amount due to cash receipt (excluding recognized revenue for the current year)	<u>544,548,673.80</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32. Repurchase agreements

Item	Ending balance	Beginning balance
Bank acceptance bill	49,949,000.00	—
Total	49,949,000.00	—

33. Employee benefits payables

(1) Classification of employee benefits payables

Items	Beginning balance	Increase	Decrease	Ending balance
Short-term employee benefits payable	57,501,895.01	884,884,108.16	882,420,899.00	59,965,104.17
Dismissal benefits – set up a defined contribution plan	3,832,497.55	80,517,014.03	82,464,289.06	1,885,222.51
Dismissal welfare	1,493,457.54	12,070,942.71	9,599,093.70	3,965,306.55
Others	807,524.44	75,737.19	932,317.44	(49,055.81)
Total	63,635,374.54	977,547,802.09	975,416,599.21	65,766,577.42

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. Employee benefits payables (continued)

(2) Short-term employee benefits

Items	Beginning Balance	Increase	Decrease	Ending Balance
Salaries, bonuses, allowances and subsidies	22,565,280.23	738,247,760.49	735,226,342.70	25,586,698.02
Staff welfare	1,815,523.87	47,556,934.81	47,097,030.44	2,275,428.24
Social insurance	1,273,601.89	53,377,024.92	52,921,139.22	1,729,487.59
Including: Medical insurance	1,234,739.41	47,630,055.97	47,193,911.26	1,670,884.12
Injury Insurance	15,588.61	5,454,640.21	5,443,674.55	26,554.27
Maternity insurance	23,273.87	292,328.73	283,553.41	32,049.20
Housing fund	496,950.31	33,762,473.80	33,521,830.58	737,593.53
Labor union fee and employee education fee	31,353,938.71	10,035,795.44	12,443,527.78	28,946,206.37
Other short-term benefits	(3,400.00)	1,904,118.70	1,211,028.28	689,690.42
Total	57,501,895.01	884,884,108.16	882,420,899.00	59,965,104.17

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

33. Employee benefits payables *(continued)*

(3) Defined contribution plan

The group participates in the social insurance program established by government. Under the program, the group will deposit the relevant expense to the scheme in accordance with the relevant provisions for the local government. In addition to the above deposit fees, the group shall not undertake any further payment obligation. The corresponding expenditure is recorded into the current profit and loss or the cost of related assets when it is incurred.

Items	Beginning balance	Increase	Decrease	Ending balance
Basic endowment insurance	3,070,930.37	78,243,636.64	80,189,369.36	1,125,197.65
Unemployment insurance	761,567.18	2,273,377.39	2,274,919.70	760,024.86
Total	3,832,497.55	80,517,014.03	82,464,289.06	1,885,222.51

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Taxes and levies payables

Items	Ending Balance	Beginning Balance
Enterprise income tax	102,114,150.67	134,982,412.55
Value-added tax	72,578,036.62	79,755,394.16
City maintenance and construction tax	2,267,407.56	1,797,469.28
City land use tax	1,433,618.67	149,904.89
Real estate tax	3,284,492.85	777,333.57
Personal Income Tax	687,252.11	547,750.84
Others	3,879,908.49	2,964,303.41
Total	186,244,866.97	220,974,568.70

Note: The tax payable by the Group at the end of the year includes Hong Kong income tax payable of RMB0yuan.

35. Other payables

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Interest payable	—	—	13,156,812.78
Dividends payable	28,451,140.35	27,519,691.51	27,519,691.51
Other payables	428,345,391.07	558,527,763.24	558,527,763.24
Total	456,796,531.42	586,047,454.75	599,204,267.53

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

35.1 Interest payable

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Interest payable on corporate bonds	-	-	9,261,300.00
Deposit interest payable	-	-	3,118,684.17
other	-	-	776,828.61
Total	-	-	13,156,812.78

35.2 Dividends payable

Item	Ending balance	Beginning balance
Common stock dividends	28,451,140.35	27,519,691.51
Total	28,451,140.35	27,519,691.51

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35.3 Other payables

(1) Classification of other payables by nature

Nature of Payables	Ending balance	Beginning balance
Payables to third parties	3,314,829.85	7,982,985.82
Staff housing fund payable	11,446,164.24	6,927,906.53
Purchase of Engineering equipment	124,844,506.39	185,158,508.99
Deposits and risk fund	39,815,842.93	59,658,666.52
Auditing fee	1,341,000.00	1,384,000.00
Payable to other related parties	72,042,607.31	34,309,829.34
Demolition	—	7,433,979.40
Staff payable	32,102,069.48	10,943,921.55
Transportation fee	3,104,927.91	9,322,878.96
Maintenance of housing and equipment	10,101,448.00	14,617,373.62
Payable on behalf of others	76,910,732.52	137,056,981.30
Bill pledge collection	855,686.28	10,431,400.32
Others	52,465,576.16	73,299,330.89
Total	428,345,391.07	558,527,763.24

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35.3 Other payables

(2) Top five other payables with an age of over 1 year

Company name	Ending balance	Reason for unpaid or carried forward
Chongqing Shenjian Automotive Transmission Co., Ltd.	44,829,866.80	Outstanding
Chongqing Jiangbei Machinery Co., Ltd.	31,213,147.59	Affiliate payments, not yet paid
Chongqing Mindray Urban Construction Investment Co., Ltd.	28,494,984.61	Outstanding
Chongqing Land Reserve Center	22,587,367.31	The cost of relocation funds has not been settled
Chongqing Real Estate Group	16,309,500.00	Outstanding
Total	143,434,866.31	–

36. Non-current liabilities due within one year

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Long-term Loans due within one year	206,004,150.00	66,722,382.85	66,722,382.85
Long-term payables due within one year	–	–	75,991,637.84
Deferred revenue due within one year	–	26,245,489.55	26,245,489.55
Lease liabilities due within one year	74,160,644.08	104,740,914.50	–
Other long-term liabilities due within one year	1,346,625.00	1,866,625.00	1,866,625.00
Total	281,511,419.08	199,575,411.90	170,826,135.24

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37. Other current liabilities

Item	Ending balance	Beginning balance
Warranty and guarantees for repair, replacement and compensation	3,259,736.35	1,176,168.16
Total	3,259,736.35	1,176,168.16

38. Long-term loans

Items	Ending balance	Beginning balance
Guaranteed loans	229,000,000.00	463,595,400.00
Mortgage loans	295,000,000.00	302,589,522.99
Unsecured loans	1,126,800,000.00	77,000,000.00
Total principal	1,650,800,000.00	843,184,922.99
Plus: Unrecognized financing costs	(8,193,775.98)	—
Total	1,642,606,224.02	843,184,922.99

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. Long-term loans (continued)

Above loans need be repaid in following period:

Items	Ending balance	Beginning balance
Within 1 year	206,004,150.00	66,722,382.85
1 year after balance sheet date, but no more than 2 years	1,386,200,000.00	89,889,522.99
2 years after balance sheet date, but no more than 5 years	155,000,000.00	608,295,400.00
5 years after balance sheet date	109,600,000.00	145,000,000.00
Less: Current liabilities due within one year	206,004,150.00	66,722,382.85
Total amount under non-current liabilities	1,650,800,000.00	843,184,922.99

Note 1: On 31 December 2019, long-term loan interest rate of the Company is from 1.2% to 4.896% (31 December 2018: 1.2% to 4.998%).

Note 2: For details of the Group's mortgage and pledge loans at the end of the year, please refer to Note VI.66.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

39. Bonds payable

(1) Classification of bonds payable

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
16 CQ Machine Tools bonds par value	—	800,000,000.00	800,000,000.00
Plus: accrued interest	—	9,261,300.00	—
Unrecognized financing charges	—	856,145.78	856,145.78
Total	—	808,405,154.22	799,143,854.22

Note: According to Zhengjian Xuke [2016] No. 701 issued by China Securities Regulatory Commission, the Group issued corporate bonds amounting to RMB800,000,000 yuan on 29 September 2016, with a bond term of five years (including the option for the Group to increase the coupon rate at the end of the third year and the option for bond holders to sell back). The interest is paid annually with annual simple rate of 4.28%.

In September 2019, the Group repurchased all of the “16 Heavy Machinery Bonds” issued by the Group in accordance with the repurchase provisions set in the “Chongqing Mechanical and Electrical Co., Ltd. Public Offering of 2016 Corporate Bonds Prospectus”. The Group has fully paid the principal and interest of the issued bonds in September 2019.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39. Bonds payable (continued)

(2) Bonds payable analysis:

Classifications of bonds	Ending balance	Beginning balance
16 CQ Machine Tools bonds par value	-	800,000,000.00
Total	-	800,000,000.00
Above the carrying value of bonds need be repaid in following period: 2 years after balance sheet date, but no more than 5 years	-	800,000,000.00
Total amount under non-current liabilities	-	800,000,000.00

(3) Movements of bonds payable

Name of the bond	Par value	Issue date	Bond maturity	Amount issued	31 Dec 18
16 CQ Machine Tools bonds par value	800,000,000.00	September 29 2016	See note above	800,000,000.00	799,143,854.22
Total	800,000,000.00	-	-	800,000,000.00	799,143,854.22

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

39. Bonds payable *(continued)*

(3) Movements of bonds payable

(Continued)

Name of the bond	31 Dec 18	Effect of change of the format of financial statement	1 Jan 2019	Interest accrued in current year	Amount of interest returned in current year
16 CQ Machine Tools bonds par value	799,143,854.22	9,261,300.00	808,405,154.22	24,160,000.00	33,421,300.00
Total	<u>799,143,854.22</u>	<u>9,261,300.00</u>	<u>808,405,154.22</u>	<u>24,160,000.00</u>	<u>33,421,300.00</u>

(Continued)

Name of the bond	Amount of principal returned in this year	31 Dec 19
16 CQ Machine Tools bonds par value	<u>800,000,000.00</u>	<u>-</u>
Total	<u>800,000,000.00</u>	<u>-</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. Lease liabilities

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Buildings	13,223,330.60	14,093,259.68	—
mechanical equipment	99,553,960.75	141,946,600.86	—
Field	14,926,151.88	28,293,815.10	—
Total	127,703,443.23	184,333,675.64	—

Note: The Group's cash flow from other lease payments other than short-term and low-value leases for the year totaled RMB114,571,315.83yuan.

Above lease liabilities need be paid in following period:

Items	Ending balance
Within 1 year	74,160,644.08
1 year after balance sheet date, but no more than 2 years	117,402,125.63
2 years after balance sheet date, but no more than 5 years	10,301,317.60
5 years after balance sheet date	—
Total	201,864,087.31
Less: Current liabilities due within one year	74,160,644.08
Total amount presented in non-current liabilities	127,703,443.23

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

41. Long-term payables

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Long-term payables	3,495,143.84	3,755,158.29	145,701,759.15
Special payables	1,010,000.00	1,995,000.00	1,995,000.00
Total	<u>4,505,143.84</u>	<u>5,750,158.29</u>	<u>147,696,759.15</u>

41.1 Long-term payables

(1) Classification of long-term payable

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Finance lease payable	—	—	141,946,600.86
Others	3,495,143.84	3,755,158.29	3,755,158.29
Total	<u>3,495,143.84</u>	<u>3,755,158.29</u>	<u>145,701,759.15</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. Long-term payables (continued)

41.1 Long-term payables (continued)

(2) Long-term payables analysis:

Items	Ending balance	Beginning balance
Finance lease payable	—	217,938,238.70
Others	3,495,143.84	3,755,158.29
Total	<u>3,495,143.84</u>	<u>221,693,396.99</u>
Above carrying value of long-term payables need be repaid in following period:		
Within 1 year	—	75,991,637.84
1 year after balance sheet date, but no more than 2 years	—	45,474,486.42
2 years after balance sheet date, but no more than 5 years	3,495,143.84	100,227,272.73
5 years after balance sheet date	—	—
Less: Current liabilities due within one year	—	75,991,637.84
Total amount under non-current liabilities	<u>3,495,143.84</u>	<u>145,701,759.15</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. Long-term payables (continued)

41.2 Special payables

Item	Beginning balance	Increase	Decrease	Ending balance	Reason
Special payables on national project	1,995,000.00	—	985,000.00	1,010,000.00	See notes
Total	<u>1,995,000.00</u>	<u>—</u>	<u>985,000.00</u>	<u>1,010,000.00</u>	

Note: According to the “Notice on the National Budget Investment Plan for the Localization of Major Equipment” issued by the National Development and Reform Commission (Fakai Investment [2005] 1201), at the end of the year, the Group’s national project funding was RMB1,010,000.00yuan (the balance at the beginning of the year was RMB1,995,000yuan), will be used for localization of major equipment approved by the state.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

42. Long-term employee benefits payables

(1) Classification of long-term employee benefits payable

Items	Ending balance	Beginning balance
Benefits payable to retirees and new through trains	7,573,000.00	17,846,000.00
Less: Amounts paid within 1 year	814,000.00	1,552,000.00
Total	6,759,000.00	16,294,000.00

Note: Post-employment benefits and termination benefits that will be paid within one year is listed in Employee Benefits Payable.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42. Long-term employee benefits payables (continued)

(2) Changes in defined benefit plans –Present value of defined benefit plan obligations

Items	Amount of the year	Amount of last year
Beginning balance	16,294,000.00	20,111,000.00
The defined benefit cost included in the current profit and loss	(6,466,598.00)	340,000.00
1. Current service cost	—	—
2. Past service costs	(6,899,598.00)	—
3. Settlement gains (losses are indicated by “-”)	—	—
4. Net interest	433,000.00	340,000.00
Set income cost included in other comprehensive income	756,000.00	(1,561,000.00)
1. Actuarial gains (losses are indicated by “-”)	756,000.00	(1,561,000.00)
Other changes	2,312,402.00	5,718,000.00
1. Consideration paid at settlement	—	—
2. Paid benefits	1,081,000.00	2,225,000.00
3. Estimated payment amount within one year and others	1,231,402.00	3,493,000.00
Ending balance	<u>6,759,000.00</u>	<u>16,294,000.00</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42. Long-term employee benefits payables (continued)

(3) Changes in defined benefit plans –Net liabilities (net assets) of defined benefit plans

Items	Amount of the year	Amount of last year
Beginning balance	16,294,000.00	20,111,000.00
The defined benefit cost included in the current profit and loss	(6,466,598.00)	340,000.00
Set income cost included in other comprehensive income	756,000.00	(1,561,000.00)
Other changes	2,312,402.00	5,718,000.00
Ending balance	<u>6,759,000.00</u>	<u>16,294,000.00</u>

43. Provisions

Items	Ending balance	Beginning balance
Product quality assurance	1,229,111.47	8,001,242.71
Loss on repair, replacement and compensation	<u>20,525,416.26</u>	<u>12,615,997.53</u>
Total	<u>21,754,527.73</u>	<u>20,617,240.24</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44. Deferred revenue

(1) Classification of deferred revenue

Items	Beginning Balance	Increase this year		Decrease this year		Ending Balance
		Government grant received	Other increase	Amortization amount for the year	Other decrease	
Government subsidies- Government Grant	178,151,235.54	19,636,695.00	6,088,357.94	27,744,827.11	2,085,387.21	174,046,074.16
Government subsidies- Relocation	192,923,386.22	35,000.00	14,153,412.80	89,516,755.45	-	117,595,043.57
Unrealized income of sale and lease back	1,276,101.33	263,549.33	(136,203.15)	-	394,900.00	1,008,547.51
Proceeds of land disposal	32,947,940.29	-	6,138,750.39	30,564,267.32	-	8,522,423.36
Total	405,298,663.38	19,935,244.33	26,244,317.98	147,825,849.88	2,480,287.21	301,172,088.60

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44. Deferred revenue (continued)

(2) Government grants projects

Government subsidies projects	Beginning Balance	Increase this year	Other increase	Amount recorded in other income in this year	Other decrease	Ending Balance
General relocation compensation	192,923,386.22	-	11,710,270.80	89,264,371.25	-	115,369,285.77
Plant construction subsidy	40,479,244.55	-	1,476,042.41	1,477,799.04	-	40,477,487.92
Smart Manufacturing Project	16,045,321.54	-	1,551,724.14	2,995,098.24	-	14,601,947.44
Chongqing Municipal Finance Bureau (high-efficiency hydropower equipment technology development and research center and demonstration base construction project)	12,430,000.00	-	-	-	-	12,430,000.00
Project grant funds	11,293,045.04	-	2,954.96	5,000,000.00	-	6,296,000.00
Subsidies for National Defense Military Production Capacity Building Projects	22,090,000.00	-	-	-	-	22,090,000.00
Government Supported Testing Center Project	5,000,000.00	-	-	-	170,000.00	4,830,000.00
Innovation Technology Award	8,790,418.67	-	572,200.00	28,571.43	-	9,334,047.24
Subsidies for technological transformation projects	7,177,077.45	-	1,006,403.66	1,008,203.68	-	7,175,277.43
2018 turbo chiller test bench	3,638,215.00	-	-	-	-	3,638,215.00
Industrialization of key technologies and equipment for CNC precision and efficient shaving machines	3,881,638.19	-	451,100.00	571,428.57	-	3,761,309.62
Other government funding	47,326,275.10	19,671,695.00	3,471,074.77	16,916,110.35	1,915,387.21	51,637,547.31
Total	371,074,621.76	19,671,695.00	20,241,770.74	117,261,582.56	2,085,387.21	291,641,117.73

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. Share capital

Items	Beginning balance	Issue new shares	Share donation	Changes in current year (+ or -)		Subtotal	Ending balance
				Reserved funds converted into shares	Others		
Restricted shares – state-owned legal person shareholdings							
CQMEHG	–	–	–	–	–	–	–
China Huarong Asset Management Co., Ltd.	1,924,225,189.00	–	–	–	–	–	1,924,225,189.00
Chongqing Yufu Assets Management Co., Ltd.	195,962,467.00	–	–	–	–	–	195,962,467.00
Chongqing Construction Engineering Group Co., Ltd.	232,132,514.00	–	–	–	–	–	232,132,514.00
Total restricted shares	<u>2,584,452,684.00</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,584,452,684.00</u>
Non-restricted shares							
Overseas listing H shares	–	–	–	–	–	–	–
	1,100,187,470.00	–	–	–	–	–	1,100,187,470.00
Total non-restricted shares	<u>1,100,187,470.00</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,100,187,470.00</u>
Total	<u>3,684,640,154.00</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,684,640,154.00</u>

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

46. Capital Reserve

Items	Beginning balance	Increase this year	Decrease this year	Ending balance
Capital reserve transferred under original standard	(15,166,711.00)	—	—	(15,166,711.00)
Others	<u>65,478,679.20</u>	<u>—</u>	<u>—</u>	<u>65,478,679.20</u>
Total	<u>50,311,968.20</u>	<u>—</u>	<u>—</u>	<u>50,311,968.20</u>

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47. Other Comprehensive Income

Items	Beginning balance	Amount of the year				Ending balance
		Pre-tax amount	Less: Reclassifications of previous other comprehensive income to profit or loss	Less: Income tax expenses	After-tax amount attributable to shareholders of the Company	After-tax amount attributable to non-controlling shareholders
1. Other comprehensive income that cannot be reclassified into profit or loss						5,946,104.00
Including: Changes in net assets or net liabilities from recalculation of defined benefit plan	14,174,820.00	4,777,509.88	12,988,336.88	(87,450.00)	(8,228,716.00)	105,339.00
Changes in fair value of other equity instrument investments	-	5,620,959.88	-	-	5,620,959.88	-
2. Other comprehensive income that can be reclassified into profit or loss						325,144.12
Including: Other comprehensive income of the investee that can be reclassified into profit or loss under equity method	16,877,607.09	(1,309,070.54)	-	-	(1,309,070.54)	-
Effective portion of hedging gain or loss on net investment	616,639.00	-	-	-	-	-
Translation differences of financial statements in foreign currencies	(4,481,565.66)	1,261,528.40	-	-	1,261,528.40	-
	20,742,533.75	(2,570,598.94)	-	-	(2,570,598.94)	-
Total other comprehensive income	31,052,427.09	3,468,439.34	12,988,336.88	(87,450.00)	(9,537,786.54)	105,339.00
						21,514,640.55

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47. Other Comprehensive Income (continued)

Note: The Group's partial borrowings in US dollar amounting to USD11,500,000.00 are designated as a net investment hedging for US subsidiary. On 31 December 2019, the fair value of the loan was approximately RMB80,264,402.70yuan. The exchange gain arising from translating the borrowings into the corresponding functional currency on 31 December 2019 is RMB1,261,528.40yuan, recognized in other comprehensive income.

48. Surplus Reserves

Item	Beginning balance	Increase this year	Decrease last year	Ending balance
Statutory surplus reserves	334,373,473.12	30,289,897.84	—	364,663,370.96
Total	334,373,473.12	30,289,897.84	—	364,663,370.96

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

49. Retained Earnings

Items	The current year	The last year
Ending balance of last year	2,708,521,621.81	2,717,844,150.00
Add: Adjustment of beginning balance	(4,927,467.14)	(305,543,321.33)
Beginning balance of current year	2,703,594,154.67	2,412,300,828.67
Add: Net profit attributable to shareholders of the Company	184,834,923.25	444,060,837.38
Change in defined benefit plan carried forward to retained earnings	12,988,336.88	—
Business combination under the same control reduces undistributed profits	(273.57)	—
Less: Appropriation to statutory reserve	30,289,897.84	36,856,341.12
Appropriation to staff bonus and welfare	450,770.36	444,498.50
Declared ordinary share dividends	147,385,606.16	110,539,204.62
Ending Balance	2,723,290,866.87	2,708,521,621.81

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

49. Retained Earnings *(continued)*

Note 1: According to the Group's 2018 Annual General Meeting held on June 26, 2019, the Group reviewed and approved the Group's 2018 profit distribution plan, namely the distribution of RMB0.04 (including tax) per share, based on 3,684,640,154 shares issued. A dividend of RMB147,385,606.16yuan was paid. The Group has distributed the above dividends to shareholders in July 2019.

Note 2: According to the "Administrative Measures for the Provision of Provisions for Financial Enterprise Reserves" (Caijin [2012] No. 20) by the Ministry of Finance, Chongqing Mechanical and Electrical Holdings Group Finance Co., Ltd., a subsidiary of the Group, established a general risk reserve on the basis of withdrawing asset impairment provisions. Make up for potential losses related to risky assets that it has not identified. This general risk reserve is treated as profit distribution and is a component of owner's equity. In principle, it should not be less than 1.5% of the year-end balance of risk assets. At the same time, the method stipulates that: the proportion of the general reserve balance of financial enterprises to the closing balance of risky assets, which is difficult to reach 1.5% at one time, can be divided into years, and in principle should not exceed 5 years. Chongqing Mechanical & Electrical Holdings Group Finance Co., Ltd.'s general risk reserve withdrawal ratio for 2019 is 1.5% (2018: 1.5%)

At the end of the year, the Group's undistributed profit included the amount of RMB47,419,154.64yuan withdrawn by the subsidiary Chongqing Mechanical and Electrical Holdings Group Finance Co., Ltd. (the beginning of the year was RMB51,123,100.83yuan).

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50. Operating Revenue & Operating Cost

(1) Operating revenue & operating cost

Items	Amount of the year		Amount of last year	
	Revenue	Cost	Revenue	Cost
Main operations	5,339,473,769.49	4,437,625,338.98	5,120,680,778.79	3,981,403,724.34
Other operations	99,861,331.95	29,384,152.13	94,688,037.44	47,633,474.33
Interest	77,451,736.38	11,006,384.78	68,548,323.06	9,317,288.09
Transaction fees and commission income	25,268.05	123,001.27	400,393.61	118,839.98
Total	5,516,812,105.87	4,478,138,877.16	5,284,317,532.90	4,038,473,326.74

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

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50. Operating Revenue & Operating Cost (continued)

(2) Income from contracts

Classification of contract	High-end intelligent equipment business	Clean energy equipment business	Industrial service business	Total
Classified by region	1,342,830,277.37	4,028,533,700.12	145,448,128.38	5,516,812,105.87
Including: Mainland of China	1,194,607,699.12	3,676,649,875.54	143,885,697.53	5,015,143,272.19
Others	148,222,578.25	351,883,824.58	1,562,430.85	501,668,833.68
Types of contracts	1,342,830,277.37	4,028,533,700.12	145,448,128.38	5,516,812,105.87
Including: Equipment sales contract	926,739,401.72	2,424,653,319.06	63,324,747.05	3,414,717,467.83
Service contract	105,763,109.39	98,723,001.06	82,123,381.33	286,609,491.78
Materials sales contract	310,327,766.26	1,505,157,380.00	–	1,815,485,146.26
Classified by time of revenue recognition	1,342,830,277.37	4,028,533,700.12	145,448,128.38	5,516,812,105.87
Including: Recognizes revenue at a point in time	1,342,830,277.37	3,927,388,392.43	139,239,320.63	5,409,457,990.43
Recognizes revenue over time	–	101,145,307.69	6,208,807.75	107,354,115.44
Classified by sales channel	1,342,830,277.37	4,028,533,700.12	145,448,128.38	5,516,812,105.87
Including: Direct sales	1,342,830,277.37	3,274,852,599.80	145,448,128.38	4,763,131,005.55
Distribution	–	753,221,100.32	–	753,221,100.32
Internet sales	–	460,000.00	–	460,000.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

50. Operating Revenue & Operating Cost *(continued)*

(3) Information related to performance obligations

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50. Operating Revenue & Operating Cost (continued)

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

The amount of revenue corresponding to the performance obligations of the Group that have signed the contract at the end of the year but have not been fulfilled or not yet fulfilled is RMB2,278,499,176.54yuan (of which the revenue corresponding to the performance obligations that have been signed but not yet fulfilled is RMB1,922,217,086.96yuan, and the signed but not yet The amount of income corresponding to the performance of performance obligations is RMB356,282,089.58yuan).

51. Selling and Distribution Expenses

Items	Amount of the year	Amount of last year
Transportation expense	72,168,030.24	78,162,691.75
Employee benefits	69,289,849.43	60,587,671.96
Traveling expenses	53,714,643.43	60,406,589.32
"3-Aspect-Warranty" fee	26,438,255.25	20,906,156.65
After-sale service fee	27,155,194.61	17,226,637.88
Advertising expense	12,868,232.41	10,262,208.08
Business entertainment fee	5,315,843.15	5,061,250.87
General office expenses	5,126,186.75	4,016,705.05
Depreciation expenses	999,977.79	998,932.10
Rental fee	609,641.20	784,793.14
Service fee	1,842,783.09	863,078.97
insurance	1,809,000.53	1,745,197.96
Others	30,782,953.64	37,134,764.07
Total	308,120,591.52	298,156,677.80

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52. Administrative expenses

Items	Amount of the year	Amount of last year
Employee benefits	289,571,544.32	286,476,282.59
Depreciation expenses	66,298,386.72	38,495,573.97
Amortization of intangible assets	18,109,935.55	17,732,601.86
Rental fee	4,857,985.40	17,082,538.97
Consulting fee	11,604,981.45	17,187,564.74
Repair charges	14,334,721.73	11,817,943.44
General office expenses	6,913,069.76	11,343,083.48
Insurance expenses	20,067,856.44	10,981,975.45
Staff placement funds	10,351,619.50	18,211,400.87
Traveling expenses	6,141,070.66	7,175,755.96
Business entertainment fee	6,029,543.23	6,263,947.85
Amortization of long-term deferred expenses	1,807,548.64	31,215.08
Transportation fee	1,252,140.29	1,333,313.94
Service fee	8,989,861.58	6,756,443.57
Property management fees	10,923,902.51	10,103,588.62
Others	66,924,206.35	52,990,327.57
Total	544,178,374.13	513,983,557.96

Note: Current consulting fee includes 2019 annual financial statements auditing fee RMB2,400,000.00 yuan (including tax) and interim financial statement reviewing fee RMB600,000 yuan (including tax).

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

53. Research and Development Expenses

Items	Amount of the year	Amount of last year
Employee benefits	117,113,878.01	117,566,507.15
Material fee	125,591,569.17	60,633,343.08
Depreciation expenses	9,002,884.20	8,385,829.95
Design fee	1,794,397.04	5,738,778.99
Consulting fee	4,656,334.55	3,388,265.55
Traveling expenses	3,411,441.94	3,332,926.86
Amortization of intangible assets	10,031,812.10	3,296,937.92
Business entertainment fee	135,988.66	290,879.05
General office expenses	821,369.74	1,309,995.27
Trial fee	14,008,945.68	7,352,606.01
Others	22,346,868.50	29,678,769.56
Total	308,915,489.59	240,974,839.39

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

54. Financial Expenses

Items	Amount of the year	Amount of last year
Interest expenditure	156,208,389.84	147,052,203.84
Less: Capitalized interest	22,292,537.88	24,398,707.53
Interest expense	133,915,851.96	122,653,496.31
Less: interest income	36,845,305.60	38,473,948.90
Add: Exchange loss	4,085,980.60	(385,989.60)
Add: bill discount expenditure	33,836,749.05	24,389,889.52
Add: Other expenditure	10,971,986.40	7,309,967.53
Less: Finance discount	—	304,973.51
Add: Amortization of lease liabilities	12,237,871.31	13,748,907.50
Total	158,203,133.72	128,937,348.85

Note: The amortization of lease liabilities in the previous year is the amortization of unrecognized financing expenses of financing leases.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

55. Other Income

Items	Amount of the year	Amount of last year
Innovative development project grants	10,189,000.00	47,000,000.00
Renovation and transformation project grants	147,825,849.88	28,621,504.61
Relocation grants	—	15,063,571.87
Other grants	—	11,652,409.38
Digital workshop of new model for core components manufacturing of over-height impact type hydroturbine	—	7,000,000.00
R&D grants	30,151,138.85	6,555,900.00
Tax returns	4,107,907.78	4,647,019.63
Stable subsidy	29,151,528.25	1,103,542.12
Various rewards related to business operations	3,993,855.00	—
Others	1,810,856.12	11,977,181.31
Total	227,230,135.88	133,621,128.92

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

56. Investment Income

Items	Amount of the year	Amount of last year
Investment income from long-term equity investments under equity method	283,867,094.72	369,941,950.32
Investment income from disposals of long-term equity investments	467,582.95	48,530,857.59
Investment income from transactional financial assets during holding period	11,038,010.45	—
Investment income from disposals of available-for-sale financial assets	—	536,755.49
Others	—	(84,208.00)
Total	295,372,688.12	418,925,355.40

57. Gain and loss arising from the changes in fair value

Item	Amount of the year	Amount of last year
Financial assets at fair value through profit or loss	(134,308.57)	(109,704.27)
Total	(134,308.57)	(109,704.27)

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

58. Impairment loss on credit

Items	Amount of the year	Amount of last year
Bad debt provision for note receivable	—	(5,891,659.67)
Bad debt provision for accounts receivable	(19,496,835.70)	9,678,629.97
Bad debt provision for prepayments	1,334,350.68	(4,114,465.14)
Bad debt provision for other receivables	87,412,701.46	14,387,188.40
Bad debt provision for loans and advances to customers	(6,259,599.82)	5,645,209.43
Bad debt provision for contract assets	3,805,789.78	—
Bad debt provision for other non-current assets	2,876,712.91	—
Total	69,673,119.31	19,704,902.99

59. Loss on impairment of Assets

Item	Amount of the year	Amount of last year
Impairment loss on inventory	4,288,527.68	76,668,574.02
Total	4,288,527.68	76,668,574.02

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

60. Gains on disposals of assets

Items	Amount of the year	Amount of last year	Amount recorded in extraordinary profit and loss
Gains on disposals of non-current assets which are not classified as held for sale	127,048,030.71	100,360,500.73	127,048,030.71
Including: Gains on disposals of property, plant and equipment	59,643,347.93	52,450,246.50	59,643,347.93
Gains on disposals of intangible assets	67,404,682.78	47,910,254.23	67,404,682.78
Gain on disposal of non-current assets classified as held for sale	4,672,160.97	—	4,672,160.97
Including: Gains on disposals of property, plant and equipment	3,947,342.13	—	3,947,342.13
Gains on disposals of intangible assets	724,818.84	—	724,818.84
Total	131,720,191.68	100,360,500.73	131,720,191.68

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

61. Non-operating Income

Items	Amount of the year	Amount of last year	Amount recorded in extraordinary profit and loss
Debt restructuring	300,000.00	4,605,898.05	300,000.00
Penalty incomes, default fine and compensation	707,356.20	3,812,547.03	707,356.20
Government grants	88,000.72	2,664,347.68	88,000.72
Unpayable payables	6,111,678.41	–	6,111,678.41
Others	5,533,081.18	4,794,696.19	5,533,081.18
Total	12,740,116.51	15,877,488.95	12,740,116.51

62. Non-operating Expenses

Items	Amount of the year	Amount of last year	Amount recorded in extraordinary profit and loss
Debt restructuring	4,374,463.06	3,314,140.14	4,374,463.06
Donation expenditure for Commonweal	100,000.00	40,000.00	100,000.00
Loss from rejection and damage of non-current assets	1,947,313.89	8,506,043.95	1,947,313.89
Penalty and overdue fine	1,812,315.22	3,306,129.52	1,812,315.22
Discounts and quality deductions	2,280,101.54	–	2,280,101.54
Others	766,056.26	1,769,145.39	766,056.26
Total	11,280,249.97	16,935,459.00	11,280,249.97

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

63. Income tax expense

Items	Amount of the year	Amount of last year
Current income tax calculated according to tax law and relevant provision	25,350,811.42	55,218,500.88
Deferred income tax	13,680,446.51	5,281,726.76
Total	39,031,257.93	60,500,227.64

64. Other Comprehensive Income

Please refer to VI. 47 Other Comprehensive Income for details.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

65. Cash flow statement

(1) Supplementary information to the consolidated cash flows statement

Items	Amount of the year	Amount of last year
1. Reconciliation of net profit to cash flows from operating activities		
Net profit	203,914,978.16	495,171,833.01
Add: Provisions for asset impairment	4,288,527.68	76,668,574.02
Add: Impairment loss on credit	69,673,119.31	19,704,902.99
Depreciation of property, plant and equipment, depletion of oil and gas assets, depreciation of productive biological assets	185,059,107.92	180,919,078.41
Amortization of investment property	4,458,111.41	4,527,499.34
Amortization of right-of-use asset	60,480,500.97	-
Amortization of intangible assets	29,649,844.26	34,798,750.50
Amortization of long-term deferred expenses	45,620,030.08	46,016,844.00
Losses on disposal of property, plant and equipment, intangible assets and other long-term assets (gain listed as "-")	(131,720,191.68)	(91,854,456.78)
Losses on retirement of property, plant and equipment (gain listed as "-")	1,947,313.89	-
Gains or losses on changes in fair value (gain listed as "-")	134,308.57	109,704.27
Financing expenses (gain listed as "-")	182,043,937.30	169,034,583.90
Investment losses (gain listed as "-")	(295,372,688.12)	(418,925,355.40)
Decrease in deferred tax assets (increase listed as "-")	(18,220,204.51)	(11,537,993.46)
Increase in deferred tax liabilities (decrease listed as "-")	29,949,172.75	(2,479,826.43)
Decrease in inventories (increase listed as "-")	(30,200,164.10)	11,887,798.50
Decrease in contractual assets (increase listed as "-")	(333,129,942.11)	(298,586,106.82)
Increase in Contractual liabilities (decrease listed as "-")	121,820,630.92	685,648,864.72
Decrease in operating receivables (increase listed as "-")	137,326,249.61	(562,745,117.25)
Increase in operating payables (decrease listed as "-")	(147,557,124.36)	(256,716,740.14)
Others	-	-
Net cash flows from operating activities	120,165,517.95	81,642,837.38
2. Significant non-cash investing and financing activities:	-	-
Property, plant and equipment acquired under bill receivable endorsement	-	-
3. Changes in cash and cash equivalents:	-	-
Ending balance of cash	1,537,567,094.59	1,570,343,395.06
Less: Beginning balance of cash	1,570,343,395.06	1,174,539,298.00
Add: Ending balance of cash equivalents	-	-
Less: Beginning balance of cash equivalents	-	-
Net increase in cash and cash equivalents	(32,776,300.47)	395,804,097.06

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

65. Cash flow statement

(2) Cash and cash equivalents

Items	Ending balance	Beginning balance
Cash	1,537,567,094.59	1,570,343,395.06
Including: Cash in hand	589,731.55	879,802.59
Bank deposits available for use on demand	1,536,977,363.04	1,569,463,592.47
Cash equivalents	—	—
Including: Bond investment due within three months	—	—
Ending balance of cash and cash equivalents	1,537,567,094.59	1,570,343,395.06
Including: Restricted cash and cash equivalent in parent company or subsidiaries of the Company	—	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

66. Assets with restricted ownership or use rights at the end of the year

Items	Carrying amount	Limited reason
Cash and cash equivalents	557,052,553.97	As the guaranteed amount of acceptance draft issued by the bank, statutory deposit reserve of the central bank, and restricted deposit certificate for borrowing from the bank
Receivable financing	182,429,375.84	Bill pledge bank opens acceptance bill
Buildings	705,933,644.68	Note 1, Note 2
Land-use rights	171,953,223.68	Note 1

Note 1: The subsidiary of the Company Machine Tools Group raises a loan of RMB295,000,000.00yuan in Agricultural Bank of China Yubei Branch (Term of loan: 30 Mar 2015 to 15 Feb 2023, 2% increase in benchmark interest rate). Machine Tools Group mortgages the Buildings located in Nan'an district Nanpingzutun Chayuan-Lujiao C section No. C15/1-03 to Agricultural Bank of China Yubei Branch. The original value of the mortgaged buildings was RMB592,455,785.05yuan (carrying amount: RMB521,971,692.94yuan), and the original value of the mortgaged land was RMB155,532,192.20yuan (carrying amount: RMB130,866,481.29yuan).

Note 2: Jiangsu Chengfei, a subsidiary of the Group, mortgaged its real estate (Including Phase I plant, Phase II plant, shift building, R & D center and land) to Jiangsu Rudong Rural Commercial Bank to obtain a loan of RMB49,000,000.00yuan (Borrowing period 2019.6. 21-2020.6.20, the contract interest rate is a fixed borrowing rate of 4.7850%); the original value of mortgaged houses and buildings is RMB194,428,983.16 (carrying amount: RMB183,961,951.74yuan), the original value of mortgaged land is RMB44,179,210.51yuan (carrying amount: RMB41,086,742.39yuan).

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

67. Foreign currency monetary items

Items	Foreign currency balance	Ending balance	
		Exchange rate	CNY balance
Cash in hand	—	—	23,424.26
GBP	2,560.00	9.1501	23,424.26
Cash at bank	—	—	87,830,420.59
GBP	7,078,578.95	9.1501	64,769,705.25
USD	2,981,029.67	6.9762	20,796,259.18
HKD	1,683,587.49	0.8958	1,508,157.67
EUR	0.28	7.8155	2.19
CHF	105,000.32	7.2028	756,296.30
Accounts receivable	—	—	198,117,620.20
GBP	3,823,205.00	9.1501	34,982,708.07
USD	20,311,826.95	6.9762	141,699,367.17
EUR	2,742,696.56	7.8155	21,435,544.96
Prepayments	—	—	1,342,246.47
GBP	146,692.00	9.1501	1,342,246.47
Other receivables	—	—	223,521,431.72
GBP	2,815,124.98	9.1501	25,758,675.08
HKD	220,766,640.59	0.8958	197,762,756.64
Contractual assets	—	—	66,943,824.37
GBP	7,316,185.00	9.1501	66,943,824.37
Other non-current assets-contractual assets	—	—	219,849,271.21
USD	31,514,186.98	6.9762	219,849,271.21
Short-term loans	—	—	140,879,800.00
GBP	6,400,000.00	9.1501	58,560,640.00
USD	11,800,000.00	6.9762	82,319,160.00
Accounts payable	—	—	39,206,140.75
GBP	3,984,542.97	9.1501	36,458,966.63
USD	393,792.34	6.9762	2,747,174.12
Other payables	—	—	2,196,024.00
GBP	240,000.00	9.1501	2,196,024.00
Contract liabilities	—	—	37,148,332.34
GBP	3,660,331.75	9.1501	33,492,401.55
USD	484,176.01	6.9762	3,377,708.68
EUR	35,598.76	7.8155	278,222.11
Non-current liabilities due within one year	—	—	150,976,650.00
GBP	16,500,000.00	9.1501	150,976,650.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

68. Government grants

(1) Basic situation of government grants

Items	Amount received this year	Presentation item	Amount included in the current profit and loss
Project-related government grants	10,547,695.00	Deferred revenue	1,416,000.00
Subsidy funds for innovative development projects	5,340,000.00	Deferred revenue	5,340,000.00
R & D grants	530,000.00	Deferred revenue	—
Government grants-relocation grants	35,000.00	Deferred revenue	—
Others	3,219,000.00	Deferred revenue	—
R & D grants	30,151,138.85	Other income	30,151,138.85
Post stabilization and social security subsidies	29,151,528.25	Other income	29,151,528.25
Subsidy funds for innovative development projects	10,189,000.00	Other income	10,189,000.00
Tax return	4,107,907.78	Other income	4,107,907.78
Various rewards related to business operations	3,993,855.00	Other income	3,993,855.00
Others	1,810,856.12	Other income	1,810,856.12
Total	99,075,981.00		86,160,286.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VI. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

68. Government grants *(continued)*

(2) Return of government grants

Items	Amount returned this year	Reason
Returned to the Industrial Bank of Chongqing Nanan District Payment Center	1,190,000.00	Exceeding the subsidy limit by 2 million yuan
High-precision CNC gear machining machine box parts and components of flexible manufacturing system alloy technology research and application demonstration project (2013ZX04012- 041) refund financial funds	144,000.00	According to the project audit report, return the central financial funds and illegal funds
Withdrawal from Chongqing Science and Technology Bureau Project (R & D project of high-end lathe high-power direct-drive key technology)	152,490.00	Returning over-disbursed funds according to the project budget
Changtai Robot Intelligent Factory	450,000.00	Project termination
Government Supported Testing Center Project	170,000.00	Income does not meet the requirements
Total	2,106,490.00	

VII. CHANGES IN CONSOLIDATION SCOPE

1. Business Combination not under Common Control

None.

2. Business Combination under Common Control

None.

3. Changes in the scope of consolidation of newly established holding subsidiaries

Company name	Type of enterprise	Major business location	Place of registration	Nature of business	Registered capital (RMB'0000)	Shareholding (%)	
						Direct	Indirect
Chongqing Mechanical and Electrical Additive Manufacturing Co., Ltd.	Limited liability company	Nan'an district, Chongqing	Nan'an district, Chongqing	Development, production, and leasing of additive manufacturing equipment, complete sets of laser equipment, machinery and testing equipment	5,000.00	-	76.00

Note: Chongqing Mechanical and Electrical Intelligent Manufacturing Co., Ltd., a subsidiary of the Group, and Chongqing Xinhong Qianhua Enterprise Management Consulting Partnership (Limited Partnership) and Chongqing Gaoxin Venture Capital Liangjiang Brand Automotive Industry Investment Center (Limited Partnership) jointly invested to establish Chongqing Mechanical and Electrical Additive Manufacturing Co., Ltd. As of the end of the year, each investor has not yet invested.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES

1. Interests in Subsidiaries

(1) Group structure

No.	Name of subsidiaries	Business category	Major business location	Place of registration	Nature of business	Registered capital (RMB '0000)	Shareholding (%)		Acquisition method
							Direct	Indirect	
1	Chongqing CAFF Automotive Braking & Steering System Co., Ltd. ("CAFF")	Limited liability company (sole legal person)	Yubei district, Chongqing	Yubei district, Chongqing	Manufacturing of vehicle parts and components	23,280.00	100.00	-	Invest
2	Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd.	Limited liability company (wholly owned by a legal person) (investment by a foreign-invested enterprise)	Nanan district, Chongqing	Nanan district, Chongqing	Design, manufacture and sale of industrial robots, intelligent equipment, etc.	10,161.04	100.00	-	Business combinations under common control
2.1	Chongqing Mengyun Electronic Technology Co., Ltd.	Limited liability company (Sino-foreign joint venture)	Nanan district, Chongqing	Nanan district, Chongqing	Processing Electronic Products	5,431.24	-	66.26	Business combinations under common control
2.2	Chongqing Mechanical and Electrical Additive Manufacturing Co., Ltd.	Limited liability company	Nanan district, Chongqing	Nanan district, Chongqing	Development, production, and leasing of additive manufacturing equipment, complete sets of laser equipment, machinery and testing equipment	5,000.00	-	76.00	Invest
3	Chongqing Machine Tools (Group) Co., Ltd.	Limited liability company (sole legal person)	Nanan district, Chongqing	Nanan district, Chongqing	R&D, Manufacturing and Sales of Gear Processing Machine Tools and Lathes	59,424.13	100.00	-	Invest

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Subsidiaries (continued)

(1) Group structure (continued)

No.	Name of subsidiaries	Business category	Major business location	Place of registration	Nature of business	Registered capital (RMB '0000)	Shareholding (%)		Acquisition method
							Direct	Indirect	
3.1	Chongqing Sino-Germany Smart Factory Solutions Co., Ltd.(note 1)	Limited liability company (Sino-foreign joint venture)	Nanan district, Chongqing	Nanan district, Chongqing	Automation, intelligent equipment and accessories production and sales	10,000.00	-	40.00	Invest
3.2	Fu Baotian Cotton picking services Co., Ltd.	Other limited liability companies	Tacheng district, Xinjiang	Tacheng district, Xinjiang	Mechanized picking services for cotton; Cotton machinery and spare parts sales, maintenance	500.00	-	51.00	Invest
3.3	Chongqing Tool Factory Co., Ltd.	Limited Liability Company (Wholly State-owned)	Jiangjin district, Chongqing	Jiangjin district, Chongqing	Cutting tool	6,000.00	-	100.00	Invest
3.4	Chongqing No. 2 Machine Tools Factory Co., Ltd.	Limited liability company (sole legal person)	Nanan district, Chongqing	Nanan district, Chongqing	Manufacturing, marketing machine tools and machine parts, auto parts, etc	8,000.00	-	100.00	Invest
3.5	Chongqing Yinhe Forging & Founding Co., Ltd.	Limited liability company (sole legal person)	Jiangjin district, Chongqing	Jiangjin district, Chongqing	Casting, forging non-ferrous metal smelting, special metal smelting	1,870.41	-	100.00	Invest

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Subsidiaries (continued)

(1) Group structure (continued)

No.	Name of subsidiaries	Business category	Major business location	Place of registration	Nature of business	Registered capital (RMB '0000)	Shareholding (%)		Acquisition method
							Direct	Indirect	
3.6	Chongqing Shengong Machinery Manufacture Co., Ltd.	Limited liability company (sole legal person)	Nanan district, Chongqing	Nanan district, Chongqing	Agricultural machinery and accessories, special machine tools, spare parts, special tooling production and sales	110.28	-	100.00	Invest
3.7	Chongqing Holroyd Precision Rotors Manufacturing Co., Ltd.	Limited liability company (Sino-foreign joint venture)	Nanan district, Chongqing	Nanan district, Chongqing	Precision screw design, manufacturing, marketing	4,000.00	-	100.00	Invest
4	Precision Technologies Group (PTG) Limited.	limited liability company	United Kingdom	United Kingdom	Shell company	GBP 20 million	100.00	-	Business combination not under common control
4.1	Precision Components Ltd.	limited liability company	United Kingdom	United Kingdom	Screw and various complex parts	GBP 1	-	100.00	Business combination not under common control
4.2	PTG Heavy Industries Ltd.	limited liability company	United Kingdom	United Kingdom	Large multi-purpose CNC machine tools, roll grinders, deep hole boring machines	GBP 2	-	100.00	Business combination not under common control
4.3	Minrow Investments Ltd.	limited liability company	United Kingdom	United Kingdom	Leasing of properties	GBP 198	-	100.00	Business combination not under common control

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Subsidiaries (continued)

(1) Group structure (continued)

No.	Name of subsidiaries	Business category	Major business location	Place of registration	Nature of business	Registered capital (RMB '0000)	Shareholding (%)		Acquisition method
							Direct	Indirect	
4.4	PTG Deutschland GmbH	limited liability company	Germany	Germany	Machine Tool Production and Sales	EUR 2,5000	-	100.00	Business combination not under common control
4.5	PTG Investment Development Company Ltd.	limited liability company	Hong Kong	Hong Kong	Trade in machinery and raw materials	HKD 600,000	-	100.00	Invest
4.6	Holroyd Precision Limited.	limited liability company	United Kingdom	United Kingdom	Manufacturing of machine tools	GBP 100	-	100.00	Business combination not under common control
4.7	Precision Technologies Group (US) Limited (US Holding)	limited liability company	United Kingdom	United Kingdom	First class SPV built for American plant	GBP 1	-	100.00	Invest
4.7.1	Precision Technologies Group(US) Limited (PTG US)	limited liability company	The United States	The United States	Second class SPV built for American plant	USD 1,000	-	100.00	Invest
4.7.1.1	Holroyd Precision Screw and Rotors Company (US HPR)	limited liability company	The United States	The United States	Manufacturing of screws	USD 1	-	100.00	Invest
5	Chongqing Water Turbine Works Co., Ltd.	Limited liability company (sole legal person)	Jiangjin district, Chongqing	Jiangjin district, Chongqing	Design, Development and Manufacture of Turbines, Governors and Auxiliary Devices	14,709.71	100.00	-	Invest
6	Chongqing Pigeon Electric Wire And Cable Co., Ltd.	Limited liability company	Yubei district, Chongqing	Yubei district, Chongqing	Manufacture electric wires and cables	10,010.00	74.00	-	Invest

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Subsidiaries (continued)

(1) Group structure (continued)

No.	Name of subsidiaries	Business category	Major business location	Place of registration	Nature of business	Registered capital (RMB '0000)	Shareholding (%)		Acquisition method
							Direct	Indirect	
6.1	Chongqing Gepai Electric Porcelain Co., Ltd.	Limited liability company (sole legal person)	Changshou district, Chongqing	Changshou district, Chongqing	Manufacture electrical porcelain	5,300.00	-	100.00	Invest
6.2	Chongqing Pigeon Electric Materials Co., Ltd. (note 2)	Limited liability company	Changshou district, Chongqing	Changshou district, Chongqing	PPR/PPC tubular product	680.00	-	50.00	Invest
7	Chongqing General Industry (Group) Co., Ltd.	Limited liability company (sole legal person)	Nanan district, Chongqing	Nanan district, Chongqing	Production of fan coolers, etc.	51,509.01	100.00	-	Invest
7.1	Chongqing Chongtong Wide Wisdom Air Conditioning Equipment Co., Ltd. (note 1)	Limited liability company	Nanan district, Chongqing	Nanan district, Chongqing	Design and manufacture of evaporative cooling, water-cooled and air-cooled chillers	6,000.00	-	42.00	Invest
7.2	Chongqing Chongtong Turbine Technology Co., Ltd.	Company limited by shares	Nanan district, Chongqing	Nanan district, Chongqing	Turbo mechanical product testing, equipment and system maintenance and transformation	3,000.00	-	66.67	Invest
7.3	Jilin Chongtong Chengfei New Material Co., Ltd. (note 5)	Other corporations (unlisted)	Jilin province	Baicheng district, Jilin	Manufacturing of wind-power equipment	16,000.00	-	96.03	Business Combination not under Common Control
7.3.1	Chongqing Chongtong Chengfei New Material Co., Ltd.	Limited liability company (sole legal person)	Jiangjin district, Chongqing	Jiangjin district, Chongqing	Manufacturing of wind-power equipment	5,000.00	-	100.00	Invest

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Subsidiaries (continued)

(1) Group structure (continued)

No.	Name of subsidiaries	Business category	Major business location	Place of registration	Nature of business	Registered capital (RMB '0000)	Shareholding (%)		Acquisition method
							Direct	Indirect	
7.3.2	Gansu Chongqing Chengfai New Material Co., Ltd.	Limited Liability Company (Wholly-owned legal person invested or controlled by a non-natural person)	Gansu province	Gansu province	Manufacturing of wind-power equipment	5,000.00	-	100.00	Invest
7.3.3	Chongqing Chengfai Wind Power Equipment Jiangsu Co., Ltd.	Limited Liability Company (Wholly-owned legal person invested or controlled by a non-natural person)	Rudong district, Jiangsu	Rudong district, Jiangsu	Manufacturing of wind-power equipment	10,000.00	-	100.00	Invest

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Subsidiaries (continued)

(1) Group structure (continued)

No.	Name of subsidiaries	Business category	Major business location	Place of registration	Nature of business	Registered capital (RMB '0000)	Shareholding (%)		Acquisition method
							Direct	Indirect	
7.3.4	Xilinfaite Chentel Wind-Power Equipment Co., Ltd.	Limited Liability Company (Wholly-owned legal person invested or controlled by a non-natural person)	Xilin, Neimeng	Xilin, Neimeng	Network products, environmental products and gas products sales	5,000.00	-	100.00	Business Combination not under Common Control
7.4	Chongqing Shunchang General Electrical Equipment Co., Ltd.	Limited liability company (sole legal person)	Nanan district, Chongqing	Nanan district, Chongqing	Network products, environmental products and gas products sales	100.00	-	100.00	Invest
7.5	Chongqing General Industry (Group) Tong Kang Water Affairs Co., Ltd	Limited liability company	Tongnan district, Chongqing	Tongnan district, Chongqing	Sewage collection, treatment, operation management, BOT business	1,000.00	-	100.00	Invest
8	Chongqing Pump Industry Co., Ltd.	Limited liability company (sole legal person)	Shapingba district, Chongqing	Shapingba district, Chongqing	Design and Manufacture of Industrial Pumps and Parts and Pressure Vessels	19,641.15	100.00	-	Invest

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Subsidiaries (continued)

(1) Group structure (continued)

No.	Name of subsidiaries	Business category	Major business location	Place of registration	Nature of business	Registered capital (RMB'0000)	Shareholding (%)		Acquisition method
							Direct	Indirect	
8.1	Yongchuan General Machinery Factory, Chongqing Pump Industry Co., Ltd.	Branch	Yongchuan District, Chongqing	Yongchuan District, Chongqing	Design and Manufacture of Industrial Pumps and Parts and Pressure Vessels	-	-	100.00	Invest
9	Chongqing Gas Compressor Factory Co., Ltd.	Limited liability company	Shapingba district, Chongqing	Shapingba district, Chongqing	Manufacturing of Gas Compressors and Components	18,721.39	100.00	-	Invest
10	Chongqing Industrial Enabling Innovation Center Co., Ltd. (note 3)	Limited liability company (wholly owned by a legal person) (investment by a foreign-invested enterprise)	Northern new district, Chongqing	Northern new district, Chongqing	Consultation on Research and Development of Mechanical and Electrical Equipment Technology	3,000.00	100.00	-	Business combinations under common control
11	Chongqing Shengou Materials Co., Ltd.	Limited liability company (wholly owned by a legal person) (investment by a foreign-invested enterprise)	Northern new district, Chongqing	Northern new district, Chongqing	Sales of steel and other trade business	2,140.50	100.00	-	Invest
12	Chongqing Machinery and Electronics Holding Group Finance Company Limited ("OMEFC")	Limited liability company	Northern new district, Chongqing	Northern new district, Chongqing	Providing financial and financing services to member units	60,000.00	70.00	-	Invest

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. Interests in Subsidiaries *(continued)*

(1) Group structure *(continued)*

Note 1: The Group holds less than 50% shares of these companies. These companies are regarded as subsidiaries of the Group because the Group has the majority of voting rights in the board of directors of these companies in accordance with the articles of association. The Group is controlling their strategy, operations, investment and financing activities.

Note 2: The Group holds 74% shares of Pigeon Wire and the Pigeon Wire holds 50% shares of Chongqing Pigeon Electric Materials Co., Ltd (hereinafter referred to as "Pigeon Electric"). The reason why Pigeon Electric is regarded as a subsidiary of the Group is that the Group has majority voting rights in its board of directors to control its strategy, operations, investment and financing activities.

Note 3: On April 19, 2019, Chongqing Machinery & Electric Equipment Technology Research Institute Co., Ltd., a subsidiary of the Group, was renamed Chongqing Industrial Enabling Innovation Center Co., Ltd.

Note 4: On December 13, 2019, the Jilin Zhongtong Chengfei New Material Co., Ltd. branch of Jilin Zhongtong Chengfei New Material Co., Ltd., a third-level subsidiary of the Group, has completed industrial and commercial registration and cancellation.

Note 5: In October 2019, the third-level subsidiary of the Group's subsidiary Jilin Chongtong Chengfei New Materials Co., Ltd. ("Jilin Chengfei") referred to its major shareholder Chongqing General Industry (Group) Co., Ltd. ("General Industry") An additional 195,007,800 shares were issued, with a par value of 1 yuan per share, and an issue price of 1.0256 yuan per share. General Industry used Jilin Chengfei's debt of 200 million yuan as a capital contribution to subscribe for the above-mentioned additional shares, thereby realizing the debt-to-equity conversion of Jilin Chengfei. After the debt-to-equity swap, General Industrial's shareholding in Jilin Chengfei increased from 91.18% to 96.03%. Jilin Chengfei has completed the business and industry change registration on November 4, 2019.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Subsidiaries (continued)

(2) Significant partly-owned subsidiaries

Name of subsidiary	Shareholding of minority shareholders (%)	31 Dec 2018 of non-controlling interest	The impact of the new lease standard changes on non-controlling interest	1 Jan 2019 of non-controlling interest
Chongqing Water Turbine Works Co., Ltd.	26.00	84,809,783.29	–	84,809,783.29
CMEFC	30.00	229,672,056.89	(3,723.47)	229,668,333.42

(Continued)

Name of subsidiary	1 Jan 2019 of non-controlling interest	Profit or loss attributable to minority shareholders	Change in defined income plan belongs to non-controlling interest	Dividends distributed to minority shareholders	31 Dec 2019 of non-controlling interest
Chongqing Water Turbine Works Co., Ltd.	84,809,783.29	26,196,624.05	105,339.00	24,699,291.70	86,412,454.64
CMEFC	229,668,333.42	19,482,937.23	–	–	249,151,270.65

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. Interests in Subsidiaries *(continued)*

(3) Key financial information of significant partly-owned subsidiaries

Name of subsidiaries	Current assets	Ending balance		Current liabilities	Non-current	
		Non-current assets	Total assets		liabilities	Total liabilities
Chongqing Water Turbine Works Co., Ltd.	707,108,300.44	227,172,244.52	934,280,544.96	561,486,503.29	12,482,160.68	573,968,663.97
CMEFC	3,668,118,514.14	18,961,885.37	3,687,080,399.51	2,854,361,973.44	2,214,190.69	2,856,576,164.13

(Continued)

Name of subsidiaries	Current assets	Beginning balance		Current liabilities	Non-current	
		Non-current assets	Total assets		liabilities	Total liabilities
Chongqing Water Turbine Works Co., Ltd.	678,202,765.87	237,419,837.13	915,622,603.00	534,778,643.66	21,073,762.58	555,852,406.24
CMEFC	3,561,731,413.37	11,492,021.37	3,573,223,434.74	2,807,649,911.91	-	2,807,649,911.91

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. Interests in Subsidiaries *(continued)*

(3) Key financial information of significant partly-owned subsidiaries *(continued)*

(Continued)

Name of subsidiaries	Operating revenue	Net profit	Amount of the year	Cash flows from operating activities
			Total comprehensive income	
Chongqing Water Turbine Works Co., Ltd.	1,480,573,654.98	101,197,143.75	101,602,293.75	160,268,444.47
CMEFC	121,813,432.68	64,943,124.11	64,943,124.11	176,499,328.85

(Continued)

Name of subsidiaries	Operating revenue	Net profit	Amount of last year	Cash flows from operating activities
			Total comprehensive income	
Chongqing Water Turbine Works Co., Ltd.	1,379,182,051.07	156,449,705.68	156,449,705.68	31,482,524.00
CMEFC	116,794,872.98	52,985,902.97	52,985,902.97	280,151,764.97

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. Interests in Subsidiaries *(continued)*

- (4) The Group has no significant restrictions on the use of corporate group assets and settlement of corporate group debts.
- (5) The Group has no financial or other support to structured entities included in the scope of consolidated financial statements.
- (6) The Group has no structured entities included in the scope of consolidated financial statements.
- (7) The Group and its subsidiaries have not issued equity or debt securities.

2. The situation in which the owner's equity share of a subsidiary company changes and the subsidiary company is still under control

In October 2019, the third-level subsidiary of the Group's subsidiary Jilin Chongtong Chengfei New Materials Co., Ltd. ("Jilin Chengfei") referred to its major shareholder Chongqing General Industry (Group) Co., Ltd. ("General Industry") An additional 195,007,800 shares were issued, with a par value of RMB1 yuan per share, and an issue price of RMB1.0256 yuan per share. General Industry used Jilin Chengfei's debt of RMB200.00 million yuan as a capital contribution to subscribe for the above-mentioned additional shares, thereby realizing the debt-to-equity conversion of Jilin Chengfei. After the debt-to-equity swap, General Industrial's shareholding in Jilin Chengfei increased from 91.18% to 96.03%.

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Interests in Joint Ventures or Associates

(1) Significant joint ventures or associates

Name of associates or joint venture	Business category	Principal place of business	Place of registration	Nature of business	Proportion of shareholding (%)		Accounting method
					Directly	Indirectly	
Associates--							
Chongqing cummins engine company limited ("CQ Cummins")	Limited liability company (Sino-foreign joint venture)	Shapingba District, Chongqing	Shapingba District, Chongqing	Largest professional manufacturer of heavy-duty and high-horse power engines in China	50.00	-	Equity method
Joint ventures--							
ABB chongqing transformer company limited("ABB chongqing")	Limited liability company (Sino-foreign joint venture)	Huayan, Jiulongpo District, Chongqing	Huayan, Jiulongpo District, Chongqing	Power transformer, reactor, HVDC converter transformer, UHV AC transformer, sets of insulator	37.80	-	Equity method
Chongqing jiangbei machinery Co., Ltd.("Chongqing Jiangbei Machinery")	Limited liability company	Yufu, Jiangbei District, Chongqing	Yufu, Jiangbei District, Chongqing	Manufacturing and sale of large separation machinery and its systems	41.00	-	Equity method

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Interests in Joint Ventures or Associates (continued)

(1) Significant joint ventures or associates (continued)

Name of associates or joint venture	Business category	Principal place of business	Place of registration	Nature of business	Proportion of shareholding (%)		Accounting method
					Directly	Indirectly	
Evedy chongqing company limited("EXEDY chongqing")	Limited liability company (Sino-foreign joint venture)	Nanan District, Chongqing	Nanan District, Chongqing	manufacturing and sale of clutch and clutch pump	27.00	-	Equity method
Chongqing hongyan fangda automobile suspension Co., Ltd. (Hongyan fangda)	Limited liability company	Yubei District, Chongqing	Yubei District, Chongqing	Development, manufacturing and sales of car leaf spring, auto air suspension, guide arm and other auto parts	44.00	-	Equity method
Chongqing Shenjian Auto Transmission Pieces Co., Ltd. ("Shenjian")	Limited liability company	Nanan District, Chongqing	Nanan District, Chongqing	Automobile transmission	-	35.00	Equity method

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Interests in Joint Ventures or Associates (continued)

(2) Unimportant associate

Name of associates	Business category	Principal place of business	Place of registration	Nature of business	Proportion of shareholding (%)		Accounting method
					Directly	Indirectly	
Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd.	Limited liability company (Taiwan, Hong Kong, Macao and domestic joint venture)	Yubei District, Chongqing	Yubei District, Chongqing	Manufacturing and sale of commercial vehicle valves	34.00	-	Equity method
Water Gen Power S.r.l	limited liability company	Italy	Italy	Hydropower station construction	49.00	-	Equity method

Note: The Group has withdrawn its equity investment in Chongqing Gas Engineering Co., Ltd. and obtained equity disposal gains of RMB774,887.32yuan during the current year, and the company has completed industrial and commercial cancellation in December of this year.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Interests in Joint Ventures or Associates (continued)

(3) Key financial information of significant joint ventures

Items	CQ Cummins	
	Ending balance/ Amount of the year	Beginning balance/Amount of last year
Current assets	1,844,455,485.77	1,648,014,239.87
Including: cash and cash equivalents	607,989,686.56	462,610,362.85
Non-current assets	941,771,608.90	708,145,201.70
Total assets	2,786,227,094.67	2,356,159,441.55
Current liabilities	1,866,254,886.27	1,535,629,582.13
Non-current liabilities	175,381,356.88	98,737,620.94
Total liabilities	2,041,636,243.15	1,634,367,203.07
Non-controlling interest	—	—
Total equity attributable to shareholders of the Company	744,590,851.52	721,792,238.48
Net assets calculated based on shareholding ratio	372,295,425.76	360,896,119.24
Carrying amount of equity investment in joint ventures	372,295,425.76	360,896,119.24
Fair value of investment in joint ventures with public offer	—	—
Operating revenue	2,864,552,641.15	2,987,530,210.38
Financial expenses	(8,833,512.25)	(3,295,125.65)
Income tax expense	105,106,669.70	106,272,641.02
Net profit	569,522,039.84	643,793,524.17
Total comprehensive income	569,522,039.84	643,793,524.17
Recognized dividends from joint ventures	267,814,254.94	302,582,956.35
Received dividends from joint ventures	211,905,296.80	177,446,963.62

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Interests in Joint Ventures or Associates (continued)

(4) Key financial information of significant associates

Items	ABB chongqing		Hongyan fangda	
	Ending balance/ Amount of the year	Beginning balance/ Amount of last year	Ending balance/ Amount of the year	Beginning balance/ Amount of last year
Current assets	1,204,512,759.15	1,131,464,767.86	418,513,427.35	409,057,537.37
Including: cash and cash equivalents	179,990,310.51	77,821,301.18	9,717,744.55	32,020,557.04
Non-current assets	212,490,215.37	225,401,318.72	118,748,296.40	132,676,099.77
Total assets	1,417,002,974.52	1,356,866,086.58	537,261,723.75	541,733,637.14
Current liabilities	780,218,976.30	667,342,218.79	254,987,805.57	236,963,977.99
Non-current liabilities	43,641,968.29	32,763,003.35	4,360,521.00	4,999,713.72
Total liabilities	823,860,944.59	700,105,222.14	259,348,326.57	241,963,691.71
Non-controlling interest	—	—	17,429,841.07	19,301,425.49
Total equity attributable to shareholders of the Company	593,142,029.93	656,760,864.44	260,483,556.11	280,468,519.94
Net assets calculated based on shareholding ratio	224,207,687.31	248,255,606.76	114,612,764.69	123,406,148.77
Carrying amount of equity investment in associates	224,207,687.31	248,255,606.76	114,612,764.69	123,406,148.77
Fair value of investment in associates with public offer	—	—	—	—
Operating revenue	591,597,690.04	726,597,886.02	721,304,694.53	886,441,307.41
Financial expenses	3,666,405.94	(3,022,324.33)	1,811,402.86	775,213.95
Income tax expense	2,152,297.23	13,149,657.27	423,559.94	6,148,038.62
Net profit	4,465,067.30	72,170,372.38	(23,271,886.95)	25,626,268.64
Total comprehensive income	4,465,067.30	72,170,372.38	(23,271,886.95)	25,626,268.64
Recognized dividends from associates	29,349,033.00	79,590,988.45	—	—
Received dividends from associates	29,349,033.00	77,650,013.00	2,878,647.02	—

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Interests in Joint Ventures or Associates (continued)

(4) Key financial information of significant associates (Continued)

(Continued)

Items	EXEDY (Chongqing)		Chongqing Jiangbei Machinery		Shenjian	
	Ending balance/ Amount of the year	Beginning balance/ Amount of last year	Ending balance/ Amount of the year	Beginning balance/ Amount of last year	Ending balance/ Amount of the year	Beginning balance/ Amount of last year
Current assets	258,380,475.87	329,241,586.99	184,226,619.51	168,788,417.24	229,201,841.53	176,677,011.50
Including: cash and cash equivalents	7,887,961.49	3,575,496.89	17,254,982.34	9,199,952.67	3,304,569.99	8,850,692.52
Non-current assets	166,079,915.64	138,062,381.42	175,862,140.85	171,260,225.59	352,904,602.25	314,438,509.98
Total assets	424,460,391.51	467,303,968.41	360,088,760.36	340,048,642.83	582,106,443.78	491,115,521.48
Current liabilities	127,852,224.52	168,685,557.60	213,469,085.20	185,227,758.84	344,271,435.38	231,619,103.77
Non-current liabilities	-	9,059,424.00	4,858,281.02	10,883,000.00	4,462,500.00	3,090,000.00
Total liabilities	127,852,224.52	177,744,981.60	218,327,366.22	196,110,758.84	348,733,935.38	234,709,103.77
Non-controlling interest	-	560,676.28	-	-	-	-
Total equity attributable to shareholders of the Company	296,608,166.99	288,998,310.53	141,761,394.14	143,937,883.99	233,372,508.40	256,406,417.71
Net assets calculated based on shareholding ratio	80,084,205.09	78,029,543.84	58,122,171.60	59,014,532.44	81,680,377.94	89,742,246.20
Carrying amount of equity investment in associates	80,084,205.09	78,029,543.84	58,122,171.60	59,014,532.44	81,680,377.94	89,742,246.20
Fair value of investment in associates with public offer	-	-	-	-	-	-
Operating revenue	383,261,560.61	495,433,219.88	132,948,335.71	185,118,028.14	162,558,405.92	155,104,136.95
Financial expenses	4,532,562.12	7,739,549.17	5,666,476.62	6,165,527.19	9,293,256.88	1,794,582.28
Income tax expense	1,433,119.31	6,860,944.14	263,907.95	134,443.95	-	-
Net profit	5,324,161.34	20,282,249.09	(6,362,711.41)	2,068,532.78	(17,319,328.49)	5,848,064.08
Total comprehensive income	5,324,161.34	20,282,249.09	(6,362,711.41)	2,068,532.78	(17,319,328.49)	5,848,064.08
Recognized dividends from associates	2,651,933.96	2,076,426.00	-	-	-	-
Received dividends from associates	2,651,933.96	3,864,570.09	-	-	-	-

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

3. Interests in Joint Ventures or Associates *(continued)*

(5) Financial information of insignificant associates

Items	Ending balance/ Amount of the year	Beginning balance/ Amount of last year
Associates		
Total investment par value	65,389,333.02	49,810,588.03
Total amounts by shareholding ratio:		
– Net profit	42,869,184.16	7,865,510.89
– Other comprehensive income	–	–
Total comprehensive income	42,869,184.16	7,865,510.89

(6) There are no significant restrictions on the ability of the Group's joint ventures or associates to transfer funds to the company.

(7) No excess losses incurred by the Group's joint ventures or associates.

(8) The Group has no unconfirmed commitments related to joint venture investment.

(9) The Group has no contingent liabilities related to investments in joint ventures or associates.

4. The Group has no significant joint operations.

5. The Group has no structured entities that are not included in the scope of consolidated financial statements.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Group's business operations face various risks, including market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's basic strategy aims at the unpredictability of financial market to reduce the negative impact of risks to the financial results of the Group.

1. Various risk management objectives and policies

(1) Market risk

1) Foreign exchange risk

The Group mainly operates in mainland China. Main business is settled in RMB. But foreign exchange risk arises when future commercial transaction or recognized assets or liabilities are denominated in a currency that is entity's functional currency. Financial department of the Group monitors the scale of foreign currency transactions, assets and liabilities to reduce the negative impact of risks on the Group business performance to the lowest level. There for the Group may sign forward exchange contracts or currency swap contracts. At the end of the year, the Group didn't sign any contracts mentioned above.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

1. Various risk management objectives and policies (continued)

(1) Market risk (continued)

1) Foreign exchange risk (continued)

The amount of foreign currency financial assets and liabilities held by the Group converted into RMB are shown follows:

Items	Ending balance					Total
	USD	HKD	GBP	CHF	EUR	
Foreign currency financial assets						
Cash and cash equivalents	20,796,259.18	1,508,157.67	64,793,129.51	756,296.30	2.19	87,853,844.85
Accounts receivable	141,699,367.17	-	34,982,708.07	-	21,435,544.96	198,117,620.20
Prepayments	-	-	1,342,246.47	-	-	1,342,246.47
Other receivables	-	197,762,756.64	25,758,675.08	-	-	223,521,431.72
Contractual assets	-	-	66,943,824.37	-	-	66,943,824.37
Other non-current assets- contractual assets	219,849,271.21	-	-	-	-	219,849,271.21
Total	382,344,897.56	199,270,914.31	193,820,583.50	756,296.30	21,435,547.15	797,628,238.82
Foreign currency financial liabilities						
Short-term loans	82,319,160.00	-	58,560,640.00	-	-	140,879,800.00
Accounts payable	2,747,174.12	-	36,458,966.63	-	-	39,206,140.75
Other payables	-	-	2,196,024.00	-	-	2,196,024.00
Contract liabilities	3,377,708.68	-	33,492,401.55	-	278,222.11	37,148,332.34
Non-current liabilities due within one year	-	-	150,976,650.00	-	-	150,976,650.00
Total	88,444,042.80	-	281,684,682.18	-	278,222.11	370,406,947.09

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

1. Various risk management objectives and policies (continued)

(1) Market risk (continued)

1) Foreign exchange risk (continued)

(Continued)

Items	USD	HKD	Beginning balance			EUR	Total
			GBP	JPY			
Foreign currency financial assets	-	-	-	-	-	-	-
Cash and cash equivalents	16,031,670.85	76,669.84	13,373,736.31	-	4,672,925.27	34,155,002.27	
Accounts receivable	95,411,249.94	-	89,863,030.05	-	3,404,403.18	188,678,683.17	
Prepayments	-	-	16,837,036.76	2,202,240.80	-	19,039,277.56	
Other receivables	-	-	114,371,659.07	-	-	114,371,659.07	
Total	111,442,920.79	76,669.84	234,445,462.19	2,202,240.80	8,077,328.45	356,244,622.07	
Foreign currency financial liabilities	-	-	-	-	-	-	-
Short-term loans	116,674,400.00	-	-	-	-	116,674,400.00	
Contract liabilities	9,638,190.29	-	58,623,560.21	-	202,182.32	68,463,932.82	
Other payables	-	-	128,618,490.76	-	-	128,618,490.76	
Accounts payable	38,737,321.55	-	42,948,621.57	-	13,837,448.57	95,523,391.69	
Long-term loans	-	-	147,495,400.00	-	-	147,495,400.00	
Total	165,049,911.84	-	377,686,072.54	-	14,039,630.89	556,775,615.27	

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(CONTINUED)*

1. Various risk management objectives and policies *(continued)*

(1) Market risk *(continued)*

2) Interest rate risk

The Group's interest rate risk arises from interest bearing bank deposits and borrowings. Bank deposits and borrowings at floating rates expose the Group to cash flow interest rate risk. Bank deposits and borrowings at fixed rates expose the Group to fair value interest rate risk. The Group determines the related proportions of its fixed and floating rate contracts depending on the prevailing market conditions. The Group's bank deposits and borrowings at floating rates were denominated in RMB, USD, EUROS, HKD, and UKP. The Group currently does not hedge its exposure to interest rate risk.

The Group's bank borrowings at floating rates and at fixed rates are as follows:

Nature of borrowings	Ending balance	Beginning balance
Borrowings at floating rates	1,273,637,450.00	915,000,000.00
Borrowings at fixed rates	1,731,459,557.35	910,705,132.24
Total	3,005,097,007.35	1,825,705,132.24

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS ***(CONTINUED)***

1. Various risk management objectives and policies *(continued)*

(2) Credit risk

The Group manages credit risk according to credit risk portfolio. Credit risk mainly comes from cash and cash Equivalents, accounts receivable, other receivables and notes receivable, etc.

The Group's liquid capital is deposited in state-owned banks and listed banks of large and medium-scale. So the Group believes that there is no significant risk since there will not be significant losses due to default by the other units.

Otherwise, the Group formulates relevant policies to control credit risk. The Group assesses the credit quality of each customer by taking into account its financial position, possibility of obtaining guarantees from third parties, past experience and other factors, such as current marketing situation and set the appropriate credit period. The Group periodically monitors the customer's credit record. For customers with poor credit, the Group takes written collections, shortens or cancels the credit period so as to ensure the overall credit risk under control.

(3) Liquidity risk

The subsidiaries are responsible for their own cash flow forecast, according to which the finance department of the Group continuously monitors the short-term and long-term capital needs. So that the Group maintains adequate cash reserve portfolio and available securities at any time. At the same time this department continuously monitors compliance with the provisions of the loan agreement, obtaining commitment from the main financial institutions of funds to meet the short-term and long-term funding requirements.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

1. Various risk management objectives and policies (continued)

(3) Liquidity risk (continued)

The major financial assets and liabilities held by the Group are analyzed in terms of the maturity of the remaining contractual obligations without discounting as follows:

Items	Within 1 year	1-2 years	Ending balance 2-5 years	Over 5 years	Total
Financial assets					
Cash and cash equivalents	1,952,756,054.86	-	-	141,863,593.70	2,094,619,648.56
Trading financial assets	269,494.13	-	-	-	269,494.13
Notes receivable	302,123,148.00	-	-	-	302,123,148.00
Accounts receivable	3,111,334,932.31	-	-	-	3,111,334,932.31
Receivable financing	470,685,913.42	-	-	-	470,685,913.42
Prepayments	267,014,335.67	-	-	-	267,014,335.67
Other receivables	1,387,210,312.05	-	-	-	1,387,210,312.05
Contract assets	411,866,777.75	-	-	-	411,866,777.75
Non-current assets due within one year	17,558,096.44	-	-	-	17,558,096.44
Other non-current assets- contractual assets	-	-	219,849,271.18	-	219,849,271.18
Loans and advances	976,911,013.16	77,145,525.00	48,366,562.50	-	1,102,423,100.66
Long-term receivables	578,919.45	36,573,941.92	44,642,965.48	17,418,019.73	99,213,846.58
Other equity instruments investment	-	-	-	52,314,020.88	52,314,020.88
Total	8,898,308,997.24	113,719,466.92	312,858,799.16	211,595,634.31	9,536,482,897.63
Financial liabilities					
Short-term loans	1,190,119,200.38	-	-	-	1,190,119,200.38
Receipt of deposits and deposits from other banks	1,062,273,543.41	62,618,138.89	-	-	1,124,891,682.30
Notes payable	1,202,637,121.55	-	-	-	1,202,637,121.55
Accounts payable	1,686,336,446.82	-	-	-	1,686,336,446.82
Repurchase agreements	49,949,000.00	-	-	-	49,949,000.00
Other payables	456,796,531.42	-	-	-	456,796,531.42
Contract liabilities	807,469,495.64	-	-	-	807,469,495.64
Non-current liabilities due within one year	297,279,335.53	-	-	-	297,279,335.53
Long-term loans	69,520,800.68	1,464,053,938.64	161,124,972.08	116,235,386.66	1,810,935,098.06
Lease liabilities	-	123,126,023.05	10,522,021.03	-	133,648,044.08
Long-term payables	-	1,010,000.00	3,495,143.84	-	4,505,143.84
Total	6,822,381,475.43	1,650,808,100.58	175,142,136.95	116,235,386.66	8,764,567,099.62

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

1. Various risk management objectives and policies (continued)

(3) Liquidity risk (continued)

(Continued)

Items	Within 1 year	1-2 years	Beginning balance 2-5 years	Over 5 years	Total
Financial assets					
Cash and cash equivalents	2,006,796,789.50	-	-	157,873,516.68	2,164,670,306.18
Trading financial assets	5,124,292.21	-	-	-	5,124,292.21
Notes receivable	1,171,862,121.56	-	-	-	1,171,862,121.56
Accounts receivable	3,051,333,203.60	-	-	-	3,051,333,203.60
Prepayments	267,155,902.13	-	-	-	267,155,902.13
Other receivables	1,024,659,431.18	-	-	-	1,024,659,431.18
Contract assets	298,586,106.82	-	-	-	298,586,106.82
Loans and advances	1,181,773,786.21	41,713,993.15	-	-	1,223,487,779.36
Long-term receivables	398,400.00	26,514,400.00	7,084,000.00	-	33,996,800.00
Other equity instruments investment	-	-	-	46,693,061.00	46,693,061.00
Total	9,007,690,033.21	68,228,393.15	7,084,000.00	204,566,577.68	9,287,569,004.04
Financial liabilities					
Short-term loans	930,290,350.44	-	-	-	930,290,350.44
Notes payable	1,225,850,904.13	-	-	-	1,225,850,904.13
Accounts payable	1,522,525,538.63	-	-	-	1,522,525,538.63
Other payables	599,204,267.53	-	-	-	599,204,267.53
Contract liabilities	685,648,864.72	-	-	-	685,648,864.72
Receipt of deposits and deposits from other banks	1,334,738,381.17	-	-	-	1,334,738,381.17
Long-term loans	79,615,859.24	113,832,117.11	649,335,950.00	153,893,000.00	996,676,926.35
Bonds payable	34,240,000.00	34,240,000.00	825,680,000.00	-	894,160,000.00
Long-term payables	92,792,461.61	69,454,652.12	105,058,598.48	-	267,305,712.21
Total	6,504,906,627.47	217,526,769.23	1,580,074,548.48	153,893,000.00	8,456,400,945.18

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(CONTINUED)*

2. Sensitivity analysis

The Group applies sensitivity to analyse the rationality of technical risk variables and the effect of possible changes on the current profit and loss or shareholders' equity. As any risk variable seldom varies independently, and correlation among variables will play a major role in the ultimate amount of a special risk variable. Therefore, the followings are carrying out on the assumed condition that each variable changes independently.

(1) Sensitivity analysis of foreign exchange risk

The hypothesis of sensibility analysis of foreign exchange risk: all the foreign operations and investments and cash flows are highly effective.

The influence of reasonable movements of exchange rates on the current net profit and loss and equity based on the above assumptions with other variables holding constant is as follows:

Items	Change in exchange rate	During the year		During last year	
		Effect on net profit	Effect on owners' equity	Effect on net profit	Effect on owners' equity
USD	Exchange rate up 5%	14,695,042.73	14,695,042.73	(2,680,349.55)	(2,680,349.55)
USD	Exchange rate down 5%	(14,695,042.73)	(14,695,042.73)	2,680,349.55	2,680,349.55
GBP	Exchange rate up 5%	(4,393,204.93)	(4,393,204.93)	(7,162,030.52)	(7,162,030.52)
GBP	Exchange rate down 5%	4,393,204.93	4,393,204.93	7,162,030.52	7,162,030.52

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

2. Sensitivity analysis (continued)

(2) Sensitivity analysis of interest rate risk

The sensitivity analysis of interest rate risk is based on the following assumptions:

The fluctuation of market interest rate will have impact on interest income or expense of variable interest-rate financial instrument;

For the fixed interest-rate financial instrument measured at fair value, the changes of market interest rate can only affect its interest income or expense;

The market interest rate at the balance sheet date shows the fair value changes of derivative financial instrument and other financial assets and liabilities calculated on discounted cash flow method.

The influence after tax of reasonable movements of interest rate on the current net profit and loss and equity based on the above assumptions with other variables holding constant is as follows:

Items	Change in interest rate	During the year		During last year	
		Effect on net profit	Effect on owners' equity	Effect on net profit	Effect on owners' equity
Borrowings with floating interest rate	Increase by 1%	(594,366.55)	(594,366.55)	(427,001.73)	(427,001.73)
Borrowings with floating interest rate	Decrease by 1%	594,366.55	594,366.55	427,001.73	427,001.73

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

X. DISCLOSURE OF FAIR VALUE

1. Fair value of assets and liabilities measured at fair value at the end of the year

Amounts of assets and liabilities measured at fair value at the end of year and levels of fair value measurement.

Items	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	Total
Financial assets held for sale	269,494.13	–	–	269,494.13
Including: Stock investment	269,494.13	–	–	269,494.13
Receivable financing	–	–	470,685,913.42	470,685,913.42
Other equity instruments investment	–	–	52,314,020.88	52,314,020.88
Total	269,494.13	–	522,999,934.30	523,269,428.43

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

X. DISCLOSURE OF FAIR VALUE

1. Fair value of assets and liabilities measured at fair value at the end of the year

The above table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair values measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3: Fair value measured using significant unobservable inputs.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

X. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

2. Basis for determining the market value of continuous and non-continuous first-level fair value measurement projects

The fair value of financial instruments traded in active markets is determined based on market quotes at the balance sheet date. When a quote is available in real time and on a regular basis from a stock exchange, dealer, broker, industry insider, pricing service provider, or regulator, and the quote represents an actual and regular market transaction quote based on fair trade principles, the market is considered Active market. The quoted market price of financial assets held by the Group is the current bid price. These financial toolbars are listed on the first level. The instruments included in the first tier at the end of the year were classified as stock investments in tradable financial assets.

3. On-going and non-on-going second-level fair value measurement projects, qualitative and quantitative information on valuation techniques and important parameters used

The fair value of financial instruments without active markets is determined using valuation techniques. Valuation techniques make the best use of available observable market data and rely as little as possible on specific estimates from entities. When all significant data required to determine the fair value of a financial instrument is observable, the financial instrument bar is included in the second level. If one or more significant data is not obtained based on observable market data, the financial instrument column is included in the third level. At the end of the year, the Group had no financial instruments included in the second tier.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

X. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

4. On-going and non-on-going third-level fair value measurement projects, qualitative and quantitative information on valuation techniques and important parameters used

The financial instruments included in the third level are mainly unlisted equity investments and receivables financing held by the Group. The Group use valuation techniques to determine their fair value for major investments. The valuation models used are mainly discounted cash flow models and the analogy of listed companies in the same industry. The input values of valuation techniques mainly include expected income, Expected return maturity, weighted average cost of capital, illiquidity discount rate, etc.

5. The Group's continuous third-level fair value measurement project has no adjustment information between the beginning and end of the year and the sensitivity analysis of unobservable parameters.

6. The Group's continuous fair value measurement items have not undergone conversion between various levels during the year.

7. Valuation technology changes and reasons for the Group that did not occur during the year.

8. The Group has assets and liabilities that are not measured at fair value but disclosed at fair value

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION

(I) RELATED PARTIES

1. Controlling Shareholder and Ultimate-controlling Party

(1) Controlling Shareholder and Ultimate-controlling Party

Controlling shareholder and ultimate controlling party	Place of Registration	Business nature	Registered capital (RMB'0000)	Shareholding proportion (%)	Voting rights (%)
CQMEHG	No. 60 Middle Section of Huangshan Avenue, New North Zone, Chongqing	Management of state- owned assets authorized by Chongqing SASAC	184,288.50	52.54	52.54

Note: CQMEHG holds 52.54% of the Group's shares, of which the proportion of restricted shares in the Group's total equity is 52.22%, and the overseas listed H shares of the Group's total equity is 0.32%.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION ***(CONTINUED)***

(I) RELATED PARTIES *(CONTINUED)*

1. Controlling Shareholder and Ultimate-controlling Party *(Continued)*

(2) Registered capital of the controlling shareholder (Unit: RMB'0000)

Controlling shareholder	Beginning balance	Increase this year	Decrease this year	Ending balance
CQMEHG	184,288.50	—	—	184,288.50

(3) Shareholdings attributable to controlling shareholders (Unit: RMB'0000)

Controlling shareholder	Shareholding amount		Shareholding proportion (%)	
	Ending balance	Beginning balance	Ending proportion	Beginning proportion
CQMEHG	193,587.72	196,075.32	52.54	53.21

Note: The shares held by the controlling shareholder include RMB1,924.23 million yuan of restricted shares (amount of RMB1,924.23 million yuan at the beginning of the year), and RMB11.65 million yuan of H-share tradable shares listed overseas (amount of RMB36.53 million yuan at the beginning of the year).

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(I) RELATED PARTIES (CONTINUED)

2. Subsidiaries

Please refer to “VIII.8.1. (1) Group structure” for information about subsidiaries.

3. Joint Ventures and Associates

Please refer to “VIII.8.3. (1) Significant joint ventures or associates” for information about joint ventures and associates. The other joint ventures or associates that entered into transactions in current or previous period with the Group are addressed below.

Joint venture or associates	Relationship with the Group
Chongqing cummins engine company limited	Joint venture
Exedy chongqing company limited	Associate
Water Gen PowerS.r.l	Associate
Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd.	Associate
Chongqing hongyan fangda automobile suspension Co., Ltd.	Associate
Chongqing jiangbei machinery Co., Ltd.	Associate
Chongqing Shenjian Auto Transmission Pieces Co., Ltd.	Associate

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION ***(CONTINUED)***

(I) RELATED PARTIES *(CONTINUED)*

4. Other Related Parties

Other related parties	Relationship with the Group
Qijiang Gear Transmission Co. Ltd.	A subsidiary of parent company
Chongqing Standard Parts Industry Co., Ltd. Chongqing Standard Parts Material Reform Factory Branch	A subsidiary of parent company
Chongqing Standard Fasteners Industrial Co. Ltd.	A subsidiary of parent company
Chongqing Electrical Science Research Institute	A subsidiary of parent company
Chongqing Mechanical and Electrical Group Asset Management Co., Ltd. Shuangqiao Enterprise Management Branch	A subsidiary of parent company
CQMEHG Electrical Industry Investment Co. Ltd.	A subsidiary of parent company
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.	A subsidiary of parent company
Chongqing Mechatronics Holding Group Foundry Co., Ltd.	A subsidiary of parent company
Chongqing Mechanical and Electrical Holding Group Asset Management Co., Ltd.	A subsidiary of parent company
Chongqing Military Industry Group Co., Ltd.	A subsidiary of parent company
Chongqing Liangjiang New Area Mechanical and Electrical Microfinance Co., Ltd.	A subsidiary of parent company
Chongqing Crane Works Co. Ltd.	A subsidiary of parent company
Chongqing Ruishida Power Technology Co., Ltd.	A subsidiary of parent company
Chongqing General Machinery Industry Co. Ltd.	A subsidiary of parent company
Chongqing Changjiang Bearing Co. Ltd.	A subsidiary of parent company
Chongqing Chongtong Power Transformer Co. Ltd.	A subsidiary of parent company
Chongqing Heavy Vehicle Group Special Purpose Vehicle Co., Ltd.	A subsidiary of parent company
Chongqing Standard Parts Industry Co., Ltd. Huazhan Metal Material Restructuring Branch	A subsidiary of parent company

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(I) RELATED PARTIES (CONTINUED)

4. Other Related Parties (Continued)

Other related parties	Relationship with the Group
Chongqing Huazhan Metal Material Reforming Co., Ltd.	Under the same control of parent company
CAFUC Chongqing General Aviation Training Company Limited	Under the same control of parent company
Chongqing qichi riant transmission co., LTD	Under the same control of parent company
Qijiang Gear Factory	Under the same control of parent company
Qijiang Qichi Forging Factory	Under the same control of parent company
Qijiang Qichi Xinxin Welfare Co., Ltd.	Under the same control of parent company
Fittings Sales Company, Shangqiyiweike Red Rock Commercial Vehicle Co., Ltd.	Under the same control of parent company
Chongqing Xinan Computer Co., Ltd.	Under the same control of parent company
Chongqing Bosen Electric (Group) Co., Ltd.	Under the same control of parent company
Chongqing Bosen Electrical Group Switchgear Co. Ltd.	Under the same control of parent company
Chongqing High Strength Fasteners Factory	Under the same control of parent company
Chongqing Hongyan Automobile Engineering Property Co. Ltd.	Under the same control of parent company
Chongqing ernst general aviation technology research institute co. LTD	Under the same control of parent company
Chongqing Jidian Property Management Co. Ltd.	Under the same control of parent company

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(I) RELATED PARTIES (CONTINUED)

4. Other Related Parties (Continued)

<u>Other related parties</u>	<u>Relationship with the Group</u>
Chongqing Jianan Instrument Co. Ltd.	Under the same control of parent company
Chongqing Juntong Automobile Co. Ltd.	Under the same control of parent company
Chongqing Automotive standard parts factory Co., Ltd.	Under the same control of parent company
Chongqing Qichi Automobile Parts and Components Co. Ltd.	Under the same control of parent company
Chongqing Shuangqiao Hongyan Automobile Real Estate Development Co. Ltd.	Under the same control of parent company
Chongqing Heavy Automobile Group Hongyan Automobile Spring Co. Ltd.	Under the same control of parent company
Chongqing Heavy Automobile Group Hongqi Property Co. Ltd.	Under the same control of parent company
Chongqing Heavy Automobile Group Kafu Parts Co., Ltd.	Under the same control of parent company
Chongqing panlian transmission technology co. LTD	Under the same control of parent company
SAIC IVECO hongyan commercial vehicles Limited company	An affiliate of the parent company
Chongqing rail transit industry investment co. LTD	An affiliate of the parent company
Chongqing Heavy Automobile Group Transportation Co.,Ltd.	An affiliate of the parent company
Chongqing electric machine federation LTD.	An affiliate of the parent company
Chongqing Special Motor Factory Co., Ltd.	An affiliate of the parent company

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(I) RELATED PARTIES (CONTINUED)

4. Other Related Parties (Continued)

Other related parties	Relationship with the Group
Chongqing General Aviation Industry Group Co., Ltd.	An affiliate of the parent company
SAIC-Iveco Hongyan Axle Co., Ltd.	Subsidiary of parent company associate
Chongqing General Aviation Co., Ltd.	Subsidiary of parent company associate
Chongqing General Aircraft Industry Co., Ltd.	Subsidiary of parent company associate
Chongqing Xitong Electric Co., Ltd.	Subsidiary of parent company associate

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(II) RELATED PARTY TRANSACTIONS

1. Procurement of goods

Related parties	Transactions	Pricing methods and decision-making procedures	Amount of the year	Amount of last year
Chongqing Heavy Automobile Group Transportation Co., Ltd. *	Purchasing services	Agreement price	25,001,913.58	–
Chongqing Automotive standard parts factory Co., Ltd. *	Purchase goods	Agreement price	5,431,825.65	–
Chongqing Chongtong Power Transformer Co. Ltd. *	Purchase goods	Agreement price	3,747,693.78	4,288,012.69
Chongqing Standard Fasteners Industrial Co. Ltd. *	Purchase goods	Agreement price	3,325,407.15	7,285,901.65
Chongqing electric machine federation LTD. *	Purchase goods	Agreement price	3,142,523.29	10,034,244.19
Chongqing Boshun Electric Co., Ltd. *	Purchase goods	Agreement price	2,494,223.95	–
Chongqing Crane Works Co. Ltd. *	Purchase goods	Agreement price	2,401,112.15	6,882,127.32
Chongqing Bosen Electric (Group) Co., Ltd. *	Purchase goods	Agreement price	2,028,027.04	1,247,006.30
Chongqing Xinan Computer Co., Ltd. *	Purchase goods	Agreement price	473,009.38	169,700.00
Chongqing General Machinery Industry Co. Ltd. *	Purchase goods	Agreement price	4,370.00	2,875,400.77
Chongqing General Aircraft Industry Co., Ltd. *	Purchase goods	Agreement price	3,850.00	–
Chongqing Bosen Electrical Group Switchgear Co. Ltd. *	Purchase goods	Agreement price	–	6,753,144.31
Chongqing Youyan Heavy Metallurgy New Material Co. Ltd	Purchase goods	Agreement price	–	412,000.00
Chongqing Juntong Automobile Co. Ltd. *	Purchase goods	Agreement price	–	328,403.43
Total			48,053,955.97	44,914,880.80

* The related party transactions above are in accordance with the continuing related party transactions defined in Chapter 14A of the Listing Rules.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(II) RELATED PARTY TRANSACTIONS (CONTINUED)

2. Accepting labor or services

Related parties	Transactions	Pricing methods and decision- making procedures	Amount of the year	Amount of last year
Chongqing Heavy Automobile Group Hongqi Property Co. Ltd.*	Accept labor	Agreement price		4,238,777.12
Chongqing Mechanical and Electrical Holding Group Asset Management Co., Ltd.*	Accept labor	Agreement price		173,700.00
CQMEHQ*	Be guaranteed	Agreement price		1,886,792.45
Chongqing Bosen Electric (Group) Co., Ltd.*	Accept labor	Agreement price		-
Chongqing Jidian Property Management Co. Ltd.*	Accept labor	Agreement price		1,445,328.11
Chongqing Heavy Automobile Group Transportation Co., Ltd.*	Accept labor	Agreement price	-	37,135,620.24
Chongqing Hongyan Automobile Engineering Property Co. Ltd.*	Accept labor	Agreement price	-	34,662.88
Total				44,914,880.80

* The related party transactions above are in accordance with the continuing related party transactions defined in Chapter 14A of the Listing Rules.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(II) RELATED PARTY TRANSACTIONS (CONTINUED)

3. Sale of goods

Related parties	Transactions	Pricing methods and decision- making procedures	Amount of the year	Amount of last year
SAIC IVECO hongyan commercial vehicles Limited company	Sale of goods	Agreement price	137,964,066.40	96,236,567.29
Chongqing rail transit industry investment co. LTD	Sale of goods	Agreement price	34,396,229.83	55,779,149.20
Chongqing Shenjian Auto Transmission Pieces Co., Ltd.	Sale of goods	Agreement price	15,988,557.69	–
Chongqing Xinan Computer Co., Ltd.	Sale of goods	Agreement price	10,014,601.59	14,292,833.95
Qijiang Gear Transmission Co. Ltd.	Sale of goods	Agreement price	9,651,473.79	59,915,083.78
Chongqing electric machine federation LTD.	Sale of goods	Agreement price	9,640,909.31	10,670,317.36
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.	Sale of goods	Agreement price	6,915,034.90	8,148,708.28
Chongqing Huazhan Metal Material Reforming Co., Ltd.	Sale of goods	Agreement price	3,452,595.12	–
Chongqing Juntong Automobile Co. Ltd.	Sale of goods	Agreement price	3,176,856.88	2,554,574.17
Chongqing Chongtong Power Transformer Co. Ltd.	Sale of goods	Agreement price	2,182,272.41	4,859,491.87
Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd.	Sale of goods	Agreement price	1,472,292.40	1,355,531.46
CQMEHQ	Sale of goods	Agreement price	1,270,958.85	–
Chongqing Changjiang Bearing Co. Ltd.	Sale of goods	Agreement price	815,783.99	45,653.55
Chongqing Crane Works Co. Ltd.	Sale of goods	Agreement price	523,389.25	10,926,076.55

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(II) RELATED PARTY TRANSACTIONS (CONTINUED)

3. Sale of goods (Continued)

Related parties	Transactions	Pricing methods and decision- making procedures	Amount of the year	Amount of last year
Chongqing Bosen Electric (Group) Co., Ltd.	Sale of goods	Agreement price	380,533.72	693,081.14
Chongqing panlian transmission technology co. LTD	Sale of goods	Agreement price	203,870.02	-
Chongqing General Machinery Industry Co. Ltd.	Sale of goods	Agreement price	116,196.64	86,466.32
Chongqing Automotive standard parts factory Co., Ltd.	Sale of goods	Agreement price	42,351.06	-
Chongqing jiangbei machinery Co., Ltd.	Sale of goods	Agreement price	12,330.09	171,891.30
Chongqing Youyan Heavy Metallurgy New Material Co. Ltd	Sale of goods	Agreement price	-	36,646,074.78
Chongqing Standard Fasteners Industrial Co. Ltd.	Sale of goods	Agreement price	-	13,964,595.91
Chongqing Mechatronics Holding Group Foundry Co., Ltd.	Sale of goods	Agreement price	-	12,058,685.83
SAIC-Iveco Hongyan Axle Co., Ltd.	Sale of goods	Agreement price	9,275,536.14	10,596,322.59
Chongqing Liangjiang New Area Mechanical and Electrical Microfinance Co., Ltd.	Sale of goods	Agreement price	4,501.76	6,576.85
Total			247,500,341.84	339,007,682.18

* The related party transactions above are in accordance with the continuing related party transactions defined in Chapter14A of the Listing Rules.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION ***(CONTINUED)***

(II) RELATED PARTY TRANSACTIONS *(CONTINUED)*

4. Collect management fees and provide labor services

Related parties	Transactions	Pricing methods and decision- making procedures	Amount of the year	Amount of last year
Chongqing cummins engine company limited	Management fees, consulting fees	Agreement price	2,192,455.24	1,091,662.11
Exedy chongqing company limited	Consulting fee	Agreement price	83,039.37	–
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.*	Providing services	Agreement price	63,396.23	–
Total			<u>2,338,890.84</u>	<u>1,091,662.11</u>

* The related party transactions above are in accordance with the continuing related party transactions defined in Chapter14A of the Listing Rules.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(II) RELATED PARTY TRANSACTIONS (CONTINUED)

5. Fee and commission income

Related parties	Transactions	Pricing methods and decision- making procedures	Amount of the year	Amount of last year
Chongqing Changjiang Bearing Co. Ltd.*	Fee	Agreement price	-	5,444.69
Qijiang Gear Transmission Co. Ltd.*	Fee	Agreement price	-	39,109.00
Chongqing Heavy Vehicle Group Special Purpose Vehicle Co., Ltd.*	Fee	Agreement price	-	86,226.42
Chongqing Chongtong Power Transformer Co. Ltd.*	Fee	Agreement price	11,081.97	14,948.11
Chongqing General Machinery Industry Co. Ltd.*	Fee	Agreement price	43.64	7,067.67
Chongqing Crane Works Co. Ltd.*	Fee	Agreement price	5,742.88	18,909.98
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.*	Fee	Agreement price	8,399.56	14837.33
Chongqing jiangbei machinery Co., Ltd.	Fee	Agreement price	-	94.34
Chongqing Xitong Electric Co., Ltd.*	Fee	Agreement price	-	94.34
Chongqing Mechanical and Electrical Holding Group Asset Management Co., Ltd.*	Fee	Agreement price	-	133,301.89
Chongqing Mechatronics Holding Group Foundry Co., Ltd.*	Fee	Agreement price	-	5,278.30
Chongqing Juntong Automobile Co. Ltd.*	Fee	Agreement price	-	377.36
Chongqing Xinan Computer Co., Ltd.*	Fee	Agreement price	-	94.34
Others	Fee	Agreement price	155,000.00	-
Total			180,268.05	325,783.77

* The related party transactions above are in accordance with the continuing related party transactions defined in Chapter14A of the Listing Rules.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(II) RELATED PARTY TRANSACTIONS (CONTINUED)

6. Interest income from loans and advances

Related parties	Transactions	Pricing methods and decision-making procedures	Amount of the year	Amount of last year
Chongqing Changjiang Bearing Co. Ltd.*	Loan Interest	Agreement price	15,353,106.26	14,874,642.07
CQMEHQ*	Loan Interest	Agreement price	9,462,313.34	7,350,405.66
Qijiang Gear Transmission Co. Ltd.*	Loan Interest	Agreement price	8,339,929.48	6,332,886.39
Chongqing Heavy Vehicle Group Special Purpose Vehicle Co., Ltd.*	Loan Interest	Agreement price	5,757,416.35	6,290,826.13
Chongqing General Aviation Industry Group Co., Ltd.*	Loan Interest	Agreement price	5,748,110.54	3,991,546.77
Chongqing Crane Works Co. Ltd.*	Loan Interest	Agreement price	2,865,689.49	2,764,176.49
Chongqing Chongtong Power Transformer Co. Ltd.*	Loan Interest	Agreement price	2,305,762.37	1,702,488.41
Chongqing General Machinery Industry Co. Ltd.*	Loan Interest	Agreement price	1,015,736.14	628,019.18
CAFUC Chongqing General Aviation Training Company Limited*	Loan Interest	Agreement price	429,900.38	-
Chongqing Standard Fasteners Industrial Co. Ltd.*	Loan Interest	Agreement price	214,237.50	910,410.75
Chongqing jiangbei machinery Co., Ltd.	Loan Interest	Agreement price	-	1,095,433.97
Chongqing Juntong Automobile Co. Ltd.*	Loan Interest	Agreement price	-	690,937.61
Chongqing Xinan Computer Co., Ltd.*	Loan Interest	Agreement price	-	418,121.07
Chongqing Xitong Electric Co., Ltd.*	Loan Interest	Agreement price	-	390,651.81
Chongqing Mechatronics Holding Group Foundry Co., Ltd.*	Loan Interest	Agreement price	-	245,998.42
Chongqing General Aircraft Industry Co., Ltd.*	Loan Interest	Agreement price	-	116,273.58
Chongqing General Aviation Co., Ltd.*	Loan Interest	Agreement price	-	116,273.58
Total			51,492,201.85	47,919,091.89

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(II) RELATED PARTY TRANSACTIONS (CONTINUED)

6. Interest income from loans and advances *(Continued)*

Note 1: *The related party transactions above are in accordance with the continuing related party transactions defined in Chapter14A of the Listing Rules.

Note 2: The financial company of the Group's subsidiary financed loans and advances to the subsidiary company to confirm interest income of RMB10,288,943.74. According to the negotiation and agreement between the water company and Chongqing Real Estate Group, the unpaid funds of Chongqing Real Estate Group for the water company's environmental protection relocation project After the completion of the land acquisition, auction, and bidding process, the fund occupation fee will be deducted from the 50 million yuan interest of the water company due to environmental protection relocation. On November 16, 2018, Chongqing Hydro Turbine Factory and Chongqing Real Estate Group and Chongqing Land Reserve Remediation Center signed a tripartite agreement to realize the transfer of rights and obligations under the land sale agreement. In summary, the interest of the loan from the water company to the finance company is actually receivable from the Chongqing Land Reserve Remediation Center.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(II) RELATED PARTY TRANSACTIONS (CONTINUED)

7. Deposit interest payments

Related parties	Transactions	Pricing methods and decision- making procedures	Amount of the year	Amount of last year
Chongqing Mechanical and Electrical Holding Group Asset Management Co., Ltd.*	Deposit Interest	Agreement price	4,085,586.69	2,726,718.41
CQMEHQ*	Deposit Interest	Agreement price	1,413,848.52	1,339,756.27
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.*	Deposit Interest	Agreement price	1,075,263.13	1,907,198.15
Chongqing Standard Fasteners Industrial Co. Ltd.*	Deposit Interest	Agreement price	713,073.19	79,594.29
Chongqing Xinan Computer Co., Ltd.*	Deposit Interest	Agreement price	603,854.36	1,026,604.01
Chongqing Jianan Instrument Co. Ltd.*	Deposit Interest	Agreement price	316,585.52	216,223.59
Chongqing General Machinery Industry Co. Ltd.*	Deposit Interest	Agreement price	127,033.92	156,727.55
Chongqing Changjiang Bearing Co. Ltd.*	Deposit Interest	Agreement price	126,335.18	154,895.79
Chongqing Heavy Vehicle Group Special Purpose Vehicle Co., Ltd.*	Deposit Interest	Agreement price	121,606.73	938,202.96
Chongqing Mechatronics Holding Group Foundry Co., Ltd.*	Deposit Interest	Agreement price	51,169.93	75,981.31
Chongqing Military Industry Group Co., Ltd.*	Deposit Interest	Agreement price	46,425.09	24,652.38
Qijiang Gear Transmission Co. Ltd.*	Deposit Interest	Agreement price	46,360.58	167,309.62

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(II) RELATED PARTY TRANSACTIONS (CONTINUED)

7. Deposit interest payments (Continued)

Related parties	Transactions	Pricing methods and decision- making procedures	Amount of the year	Amount of last year
Chongqing Juntong Automobile Co. Ltd.*	Deposit Interest	Agreement price	43,916.97	16,314.14
Chongqing Heavy Automobile Group Hongyan Automobile Spring Co. Ltd.*	Deposit Interest	Agreement price	42,674.16	81,340.72
Chongqing General Aviation Industry Group Co., Ltd. *	Deposit Interest	Agreement price	39,032.10	35,083.08
Chongqing Xitong Electric Co., Ltd.*	Deposit Interest	Agreement price	31,208.84	8,208.34
Chongqing Liangjiang New Area Mechanical and Electrical Microfinance Co., Ltd.*	Deposit Interest	Agreement price	29,584.97	11,897.45
Chongqing Crane Works Co. Ltd.*	Deposit Interest	Agreement price	26,368.65	9,317.66
Chongqing Chongtong Power Transformer Co. Ltd.*	Deposit Interest	Agreement price	25,071.11	31,104.35
Chongqing Jidian Property Management Co. Ltd.*	Deposit Interest	Agreement price	9,992.62	-
Chongqing jiangbei machinery Co., Ltd.	Deposit Interest	Agreement price	9,066.03	12,981.72
Qijiang Gear Factory*	Deposit Interest	Agreement price	5,834.46	16,371.22
Chongqing Heavy Automobile Group Hongqi Property Co. Ltd.*	Deposit Interest	Agreement price	5,045.48	-
Chongqing Bosen Electric (Group) Co., Ltd.*	Deposit Interest	Agreement price	3,919.33	22,767.80
Chongqing general aviation industry group airport co. LTD*	Deposit Interest	Agreement price	2,196.38	-

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(II) RELATED PARTY TRANSACTIONS (CONTINUED)

7. Deposit interest payments (Continued)

Related parties	Transactions	Pricing methods and decision- making procedures	Amount of the year	Amount of last year
Chongqing General Aircraft Industry Co., Ltd.*	Deposit Interest	Agreement price	1,405.35	—
Chongqing Qichi Automobile Parts and Components Co. Ltd.*	Deposit Interest	Agreement price	1,093.41	—
Qijiang Qichi Xinxin Welfare Co., Ltd.*	Deposit Interest	Agreement price	635.07	—
Chongqing Shuangqiao Hongyan Automobile Real Estate Development Co. Ltd.*	Deposit Interest	Agreement price	466.68	—
CAFUC Chongqing General Aviation Training Company Limited*	Deposit Interest	Agreement price	465.61	—
Chongqing cummins engine company limited	Deposit Interest	Agreement price	406.71	—
Chongqing General Aviation Co., Ltd.*	Deposit Interest	Agreement price	315.08	—
Chongqing ernst general aviation technology research institute co. LTD*	Deposit Interest	Agreement price	82.30	—
Chongqing Shenjian Auto Transmission Pieces Co., Ltd.	Deposit Interest	Agreement price	23.87	13,404.47
Qijiang Qichi Forging Factory*	Deposit Interest	Agreement price	23.04	—
CQMEHG Electrical Industry Investment Co. Ltd.*	Deposit Interest	Agreement price	3.04	—
Chongqing Special Motor Factory Co., Ltd.*	Deposit Interest	Agreement price	1.35	—
Chongqing Heavy Automobile Group Kafu Parts Co., Ltd.*	Deposit Interest	Agreement price	—	9,931.73

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

(II) RELATED PARTY TRANSACTIONS *(CONTINUED)*

7. Deposit interest payments *(Continued)*

Related parties	Transactions	Pricing methods and decision- making procedures	Amount of the year	Amount of last year
Chongqing transformer co. Ltd*	Deposit Interest	Agreement price	-	6,049.15
Chongqing Hongyan Automobile Engineering Property Co. Ltd.*	Deposit Interest	Agreement price	-	2,835.16
Chongqing Bosen Electrical Group Switchgear Co. Ltd.*	Deposit Interest	Agreement price	-	1,589.03
Others	Deposit Interest	Agreement price	-	23,949.10
Total			9,005,975.45	9,117,009.45

* The related party transactions above are in accordance with the continuing related party transactions defined in Chapter14A of the Listing Rules.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(II) RELATED PARTY TRANSACTIONS (CONTINUED)

8. Associated rental conditions

(1) Associated renting

Name of lessor	Name of lessee	Types of leased assets	Lease start date	Termination date	Original value of the right-of-use asset	Right-of-use asset depreciation	Accumulated depreciation of lease right assets	Book value of lease liability
COMEHQ*	Chongqing Machinery & Electric Co., Ltd.	Building	1 Jan 2019	31 Dec 2019	5,373,171.48	5,373,171.48	5,373,171.48	-
Chongqing Mechanical and Electrical Holding Group Asset Management Co., Ltd.*	Chongqing CAFF Automotive Braking & Steering Systems Co., Ltd.	Building	1 Jan 2019	31 Dec 2019	6,310,764.37	6,310,764.37	6,310,764.37	-
COMEHQ*	Chongqing electromechanical holding group finance co. LTD	Building	1 Dec 2018	30 Nov 2021				
COMEHQ*	Chongqing electromechanical holding group finance co. LTD	Building	1 Feb 2019	31 Jan 2022	6,725,606.45	2,113,183.50	2,300,005.90	2,214,190.69
COMEHQ*	Chongqing Industrial Empowerment Innovation Center Co., Ltd.	Building	1 Jun 2016	31 May 2022	8,687,412.50	1,448,945.97	5,173,179.49	2,126,123.47
COMEHQ*	Chongqing Machine Tools Group Shengou Machinery Complete Plant Co., Ltd.	Building	1 Aug 2018	31 Jul 2021	2,205,606.65	735,202.21	1,041,536.47	451,050.01
Chongqing Bosen Electric (Group) Co., Ltd.*	Chongqing Mechanical and Electrical Intelligent Manufacturing Co., Ltd.	Building	15 Nov 2018	31 Dec 2019	3,193,443.02	638,688.60	691,912.65	-
Total					32,496,004.47	16,619,956.13	20,890,570.36	4,791,364.17

(2) The Group has no associated leasing

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

(II) RELATED PARTY TRANSACTIONS *(CONTINUED)*

9. Guarantees

(1) *The Group has no guarantee as a guarantor*

(2) *The Group as guaranteed party*

Guarantor	Guaranteed party	Guaranteed amount	Starting date	Due date	Whether guarantee has been fulfilled
CQMEHQ	Chongqing Machinery & Electric Co., Ltd.	52,900,000.00	14 Mar 2016	14 Mar 2031	No
CQMEHQ	Chongqing Machinery & Electric Co., Ltd.	113,200,000.00	14 Mar 2018	14 Mar 2026	No
Total		<u>166,100,000.00</u>			

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(III) BALANCES WITH RELATED PARTIES

(1) Accounts receivable

Related parties	Ending balance	Beginning balance
Qijiang Gear Transmission Co. Ltd.	63,017,361.19	55,211,902.83
SAIC IVECO hongyan commercial vehicles Limited company	49,885,626.24	—
Chongqing Shenjian Auto Transmission Pieces Co., Ltd.	27,561,227.59	—
Chongqing rail transit industry investment co. LTD	16,215,078.62	17,941,949.07
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.	4,683,920.22	3,983,055.92
Chongqing General Machinery Industry Co. Ltd.	3,713,941.81	4,130,411.33
SAIC-Iveco Hongyan Axle Co., Ltd.	3,381,692.88	25,802,835.01
Chongqing panlian transmission technology co. LTD	1,426,904.45	—
Chongqing Xinan Computer Co., Ltd.	1,192,400.00	4,470,600.67
Chongqing electric machine federation LTD.	811,971.64	1,470,774.74
Water Gen Power S.r.l	731,192.00	853,587.94
Chongqing Chongtong Power Transformer Co. Ltd.	466,913.71	772,829.26
Chongqing Standard Fasteners Industrial Co. Ltd.	431,743.46	13,326,229.18
Chongqing jiangbei machinery Co., Ltd.	169,963.54	—
CQMEHQ	143,622.82	—
Chongqing Construction Engineering Mechanical & Electrical Installation Engineering Co., Ltd.	111,677.00	—
Chongqing Juntong Automobile Co. Ltd.	64,693.67	1,618,498.00
Chongqing Crane Works Co. Ltd.	56,400.57	4,594,244.72
Chongqing Changjiang Bearing Co. Ltd.	11,800.00	—
Chongqing Bosen Electric (Group) Co., Ltd.	—	4,495.00
Total	174,078,131.41	134,181,413.67

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(III) BALANCES WITH RELATED PARTIES (CONTINUED)

(2) Other receivables

Related parties	Ending balance	Beginning balance
Chongqing jiangbei machinery Co., Ltd.	61,213,147.59	61,213,147.59
Chongqing Shenjian Auto Transmission Pieces Co., Ltd.	46,273,714.96	45,855,318.01
Qijiang Gear Transmission Co. Ltd.	22,882,526.20	3,557,160.96
Chongqing cummins engine company limited	800,981.02	8,800,000.00
Chongqing Special Motor Factory Co., Ltd.	7,540,541.62	–
Chongqing Mechanical and Electrical Holding Group Asset Management Co., Ltd.	6,457,214.42	3,628,770.00
Chongqing Qichi Automobile Parts and Components Co. Ltd.	1,341,455.00	1,341,455.00
Chongqing Ruishida Power Technology Co., Ltd.	1,000,000.00	1,000,000.00
Knorr-Bremse Systems for Commercial Vehicles	907,888.46	2,039,799.38
Chongqing qichi riant transmission co., LTD	359,572.99	359,572.99
Chongqing Standard Fasteners Industrial Co. Ltd.	113,000.00	–
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.	60,000.00	–
CQMEHQ	55,000.00	155,000.00
Chongqing Jidian Property Management Co. Ltd.	15,000.00	15,000.00
Water Gen Power S.r.l	–	3,923,650.00
Chongqing Bosen Electric (Group) Co., Ltd.	–	60,000.00
Others	–	4,433,105.63
Total	149,020,042.26	136,381,979.56

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION ***(CONTINUED)***

(III) BALANCES WITH RELATED PARTIES *(CONTINUED)*

(3) Prepayments

Related parties	Ending balance	Beginning balance
Chongqing electric machine federation LTD.	391,245.44	391,245.44
Chongqing Crane Works Co. Ltd.	15,000.00	341,380.00
Chongqing Xinan Computer Co., Ltd.	69,000.00	100,496.80
Knorr-Bremse Systems for Commercial Vehicles	392,451.68	—
Chongqing General Machinery Industry Co. Ltd.	980,500.00	—
Chongqing Special Motor Factory Co., Ltd.	85,333.14	—
Total	1,933,530.26	833,122.24

(4) Dividends receivable

Related parties	Ending balance	Beginning balance
Chongqing cummins engine company limited	429,187,106.01	378,631,655.04
Chongqing hongyan fangda automobile suspension Co., Ltd.	1,937,456.38	4,816,103.40
Total	431,124,562.39	383,447,758.44

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(III) BALANCES WITH RELATED PARTIES (CONTINUED)

(5) Interests receivable

Related parties	Ending balance	Beginning balance
Qijiang Gear Transmission Co. Ltd.	-	19,325,365.24
Chongqing cummins engine company limited	-	543,956.61
Total	-	19,869,321.85

(6) Non-current assets due within one year

Related parties	Ending balance	Beginning balance
Chongqing cummins engine company limited	17,500,000.00	-
Total	17,500,000.00	-

(7) Long-term receivables

Related parties	Ending balance	Beginning balance
Chongqing cummins engine company limited	95,700,000.00	33,200,000.00
Total	95,700,000.00	33,200,000.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION ***(CONTINUED)***

(III) BALANCES WITH RELATED PARTIES *(CONTINUED)*

(8) Loans and advances to customers

Related parties	Ending balance	Beginning balance
Chongqing Changjiang Bearing Co. Ltd.	348,809,174.48	307,000,000.00
Qijiang Gear Transmission Co. Ltd.	188,806,199.29	158,000,000.00
CQMEHQ	146,449,375.00	267,600,000.00
Chongqing General Aviation Industry Group Co., Ltd.	97,683,425.00	90,000,000.00
Chongqing Heavy Vehicle Group Special Purpose Vehicle Co., Ltd.	83,221,602.57	150,000,000.00
Chongqing Crane Works Co. Ltd.	57,903,737.09	63,050,000.00
Chongqing Chongtong Power Transformer Co. Ltd.	47,791,624.15	49,500,000.00
Chongqing Military Industry Group Co., Ltd.	29,257,100.00	—
Chongqing General Machinery Industry Co. Ltd.	19,525,965.82	—
Chongqing cummins engine company limited	19,400,477.78	—
Chongqing Xitong Electric Co., Ltd.	(0.02)	—
Chongqing Standard Fasteners Industrial Co. Ltd.	—	16,000,000.00
Total	1,038,848,681.16	1,101,150,000.00

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

(III) BALANCES WITH RELATED PARTIES *(CONTINUED)*

(9) Accounts payable

Related parties	Ending balance	Beginning balance
Chongqing Heavy Automobile Group Transportation Co., Ltd.	6,609,378.50	12,794,152.25
Chongqing Standard Fasteners Industrial Co. Ltd.	977,952.20	2,252,875.91
Chongqing Bosen Electric (Group) Co., Ltd.	—	1,985,766.83
Chongqing Chongtong Power Transformer Co. Ltd.	1,799,919.76	1,839,000.00
Chongqing Crane Works Co. Ltd.	2,380,240.51	1,595,785.00
Chongqing General Machinery Industry Co. Ltd.	—	1,174,098.78
Chongqing Xinan Computer Co., Ltd.	(1,954.40)	23,840.00
Qijiang Qichi Forging Factory	—	17,034.89
Chongqing electric machine federation LTD.	1,033,863.46	—
Chongqing Shenjian Auto Transmission Pieces Co., Ltd.	18,037.87	—
Chongqing Special Motor Factory Co., Ltd.	188,188.00	—
Chongqing Changjiang Bearing Co. Ltd.	830,000.00	—
Qijiang Qichi Xinxin Welfare Co., Ltd.	1,033.30	—
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.	8.00	—
Chongqing Automotive standard parts factory Co., Ltd.	1,152,917.37	—
Total	14,989,584.57	21,682,553.66

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(III) BALANCES WITH RELATED PARTIES (CONTINUED)

(10) Other payables

Related parties	Ending balance	Beginning balance
Chongqing Mechanical and Electrical Holding Group Asset Management Co., Ltd.	30,765,635.68	19,722,235.62
CQMEHQ	29,824,250.22	11,733,765.23
Chongqing Heavy Automobile Group Transportation Co., Ltd.	8,242,511.90	479,353.50
Chongqing Crane Works Co. Ltd.	1,873,600.00	45,315.00
Chongqing Shenjian Auto Transmission Pieces Co., Ltd.	675,887.43	654,552.74
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.	255,704.94	175,174.90
Chongqing General Machinery Industry Co. Ltd.	164,902.26	—
Chongqing Heavy Automobile Group Hongqi Property Co. Ltd.	140,000.00	34,600.00
Chongqing Standard Parts Industry Co., Ltd. Chongqing High Strength Standard Parts Factory Branch	100,000.00	—
Chongqing Xinan Computer Co., Ltd.	114.88	—
Chongqing Hongyan Automobile Engineering Property Co. Ltd.	—	658,274.40
Chongqing Bosen Electrical Group Switchgear Co. Ltd.	—	474,988.00
Chongqing Bosen Electric (Group) Co., Ltd.	—	331,569.95
Total	72,042,607.31	34,309,829.34

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

(III) BALANCES WITH RELATED PARTIES *(CONTINUED)*

(11) Interests payable

Related parties	Ending balance	Beginning balance
Related parties	-	823,602.63
Chongqing General Aviation Industry Group Co., Ltd.	-	279,763.28
Chongqing Mechanical and Electrical Holding Group Asset Management Co., Ltd.	-	80,209.16
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.	-	50,003.37
CQMEHQ	-	34,060.17
Chongqing Xinan Computer Co., Ltd.	-	24,071.66
Chongqing Changjiang Bearing Co. Ltd.	-	16,589.16
Chongqing General Machinery Industry Co. Ltd.	-	14,630.44
Chongqing Jianan Instrument Co. Ltd.	-	14,297.73
Chongqing Standard Parts Industry Co., Ltd.	-	-
Chongqing High Strength Standard Parts Factory Branch	-	7,691.52
Chongqing General Aviation Industry Group Co., Ltd.	-	172.47
Chongqing Mechatronics Holding Group Foundry Co., Ltd.	-	40,301.51
Others	-	1,385,393.10

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION **(CONTINUED)**

(III) BALANCES WITH RELATED PARTIES (CONTINUED)

(12) Deposits from banks and other financial institutions

Related parties	Ending balance	Beginning balance
Chongqing Mechanical and Electrical Holding Group Asset Management Co., Ltd.	186,455,386.88	217,127,617.50
CQMEHQ	167,922,807.95	391,824,799.76
CQMEHG Mechanical & Electrical Engineering Technology Co. Ltd.	126,768,505.41	75,160,987.76
Chongqing Jianan Instrument Co. Ltd.	123,591,001.83	90,671,059.98
Chongqing Xinan Computer Co., Ltd.	117,800,706.80	346,862,432.28
Chongqing Standard Fasteners Industrial Co. Ltd.	103,855,490.38	4,417,074.89
Chongqing Juntong Automobile Co. Ltd.	100,279,546.04	15,135,752.57
Chongqing Changjiang Bearing Co. Ltd.	38,180,765.67	4,554,047.34
Chongqing General Machinery Industry Co. Ltd.	36,901,317.78	4,049,480.87
Chongqing Heavy Automobile Group Hongyan Automobile Spring Co. Ltd.	23,495,946.74	46,946,297.25
Chongqing Automotive standard parts factory Co., Ltd.	18,480,705.23	10,998,760.04
Chongqing Liangjiang New Area Mechanical and Electrical Microfinance Co., Ltd.	15,896,306.69	9,450,104.39
Chongqing Military Industry Group Co., Ltd.	9,890,949.83	–
Chongqing Heavy Vehicle Group Special Purpose Vehicle Co., Ltd.	8,808,184.75	32,119,785.76
Chongqing Chongtong Power Transformer Co. Ltd.	7,944,917.56	1,678,436.26
Chongqing General Aviation Industry Group Co., Ltd.	6,637,283.84	3,631,478.66
Chongqing Crane Works Co. Ltd.	5,475,840.69	345,447.79
Qijiang Gear Transmission Co. Ltd.	5,374,689.47	15,178,758.30

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

(III) BALANCES WITH RELATED PARTIES *(CONTINUED)*

(12) Deposits from banks and other financial institutions *(Continued)*

Related parties	Ending balance	Beginning balance
Chongqing Jidian Property Management Co. Ltd.	2,882,114.68	3,034,161.05
Chongqing Xitong Electric Co., Ltd.	2,680,428.30	4,885,355.93
Chongqing Mechatronics Holding Group Foundry Co., Ltd.	1,773,432.41	194,557.48
Chongqing Heavy Automobile Group Hongqi Property Co. Ltd.	1,553,242.41	3,241,650.68
Chongqing jiangbei machinery Co., Ltd.	1,024,688.16	4,569,394.58
Chongqing General Aircraft Industry Co., Ltd.	218,603.56	199,435.42
Chongqing Shuangqiao Hongyan Automobile Real Estate Development Co. Ltd.	165,185.81	15,032.71
Chongqing Shenjian Auto Transmission Pieces Co., Ltd.	45,996.49	6,210.19
Qijiang Gear Factory	33,084.15	9,283,558.14
Chongqing Electromechanical Holding Group Xinbo Investment Management Co., Ltd.	1,895.00	—
CQMEHG Electrical Industry Investment Co. Ltd.	862.96	959.65
Chongqing cummins engine company limited	406.71	—
Chongqing Special Motor Factory Co., Ltd.	362.41	361.06
Qijiang Qichi Xinxin Welfare Co., Ltd.	267.91	17,388.02
Chongqing Zili Machinery Factory	167.14	—
Chongqing ernst general aviation technology research institute co. LTD	82.30	—
Chongqing Electrical Science Research Institute	1.39	1.39
Chongqing Bosen Electric (Group) Co., Ltd.	—	1,179,352.73
Chongqing Heavy Automobile Group Kafu Parts Co., Ltd.	—	423,437.44
Chongqing Qichi Automobile Parts and Components Co. Ltd.	—	421,237.89

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION ***(CONTINUED)***

(III) BALANCES WITH RELATED PARTIES *(CONTINUED)*

(12) Deposits from banks and other financial institutions *(Continued)*

Related parties	Ending balance	Beginning balance
Chongqing Standard Parts Industry Co., Ltd.		
Huazhan Metal Material Restructuring		
Branch	-	148,377.22
Chongqing High Strength Fasteners Factory	-	79,548.05
Qijiang Qichi Forging Factory	-	441.25
Total	<u>1,114,141,175.33</u>	<u>1,297,852,782.28</u>

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

(III) BALANCES WITH RELATED PARTIES *(CONTINUED)*

(13) Contractual liabilities

Related parties	Ending balance	Beginning balance
Chongqing Cummins Engine Co., Ltd.	2,325,159.00	—
Chongqing Electromechanical Holding Group Electromechanical Engineering Technology Co., Ltd.	292,500.08	—
Minjiang Gear Transmission Co., Ltd.	134,976.00	—
Chongqing Standard Parts Industry Co., Ltd.	29,860.00	—
Chongqing Jiangbei Machinery Co., Ltd.	9,000.00	—
Chongqing Bosen Electric (Group) Co., Ltd.	—	19,999.99
Total	2,791,495.08	19,999.99

(14) Related party commitment

The Group has no related party commitments on the balance sheet date.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(IV) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Remuneration of directors and supervisors of current year

Name	Duty	Salaries and allowances	Social insurance, housing fund and pensions	Bonus	Distribution	Total	Notes
Ms.Chen Ping	Executive Director/CEO	442,820.00	84,137.00	476,714.00	-	1,003,671.00	-
Mr.Yang Quan	Executive Director/ Vice president	387,152.00	84,137.00	411,366.00	-	882,655.00	-
Mr.Wang Yuxiang	Chairman of Directors	319,620.00	-	496,939.00	-	816,559.00	-
Mr.Huang Yong	Non-executive Director	60,000.00	-	-	-	60,000.00	-
Mr.Dou Bo	Non-executive Director	60,000.00	-	-	-	60,000.00	-
Mr.Wang Peng cheng	Non-executive Director	60,000.00	-	-	-	60,000.00	-
Mr. Zhang yong chao	Non-executive Director	30,000.00	-	-	-	30,000.00	Serving in 2019.06.26
Mr.Lu Huawei	Independent Director	136,875.00	-	-	-	136,875.00	-
Mr.Ren Xiaochang	Independent Director	80,400.00	-	-	-	80,400.00	-
Mr.Jin Jingyu	Independent Director	80,400.00	-	-	-	80,400.00	-
Mr.Liu Wei	Independent Director	80,400.00	-	-	-	80,400.00	-
Mr Sun Wenguang	Chairman of Supervisory Committee	429,920.00	84,137.00	451,471.00	-	965,528.00	-
Ms.Wu Yi	Supervisor	60,000.00	-	-	-	60,000.00	-
Mr.Huang Hui	Supervisor	30,000.00	-	-	-	30,000.00	Dismissed in 2019.06.26
Mr. Wang hai bin	Supervisor	30,000.00	-	-	-	30,000.00	Serving in 2019.06.26
Mr.Xia Hua	Employee supervisor	511,460.00	100,747.00	633,340.00	-	1,245,547.00	-
Mr.Zhang Mingzhi	Employee supervisor	153,642.00	40,321.49	-	-	193,963.49	Dismissed in 2019.06.25
Mr. Li Fangzhong	Employee supervisor	213,600.00	42,760.64	799,398.00	-	1,055,758.64	Serving in 2019.06.25
Total		3,166,289.00	436,240.13	3,269,228.00	-	6,871,757.13	

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(IV) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

1. Remuneration of directors and supervisors of current year (Continued)

Remuneration of directors and supervisors of last year:

Name	Duty	Salaries and allowances	Social insurance, housing fund and pensions	Bonus	Distribution	Total	Notes
Ms.Chen Ping	Executive Director/CEO	266,964.00	90,812.05	456,996.00	-	814,772.05	-
Mr.Yang Quan	Executive Director/Vice president	239,292.00	90,812.05	394,604.00	-	724,708.05	-
Mr.Wang Yuxiang	Chairman of Directors	266,964.00	-	470,151.00	-	737,115.00	-
Mr.Huang Yong	Non-executive Director	60,000.00	-	-	-	60,000.00	-
Mr.Dou Bo	Non-executive Director	60,000.00	-	-	-	60,000.00	-
Mr.Wang Pengcheng	Non-executive Director	60,000.00	-	-	-	60,000.00	-
Mr.Deng Yong	Non-executive Director	60,000.00	-	-	-	60,000.00	Dismissed in 2018.12
Mr.Lu Huawei	Independent Director	129,722.00	-	-	-	129,722.00	-
Mr.Ren Xiaochang	Independent Director	80,400.00	-	-	-	80,400.00	-
Mr.Jin Jingyu	Independent Director	80,400.00	-	-	-	80,400.00	-
Mr.Liu Wei	Independent Director	80,400.00	-	-	-	80,400.00	-
Mr Sun Wenguang	Chairman of Supervisory Committee	243,904.00	90,812.05	399,923.00	-	734,639.05	Become Chairman of Supervisory Committee in 2018.11
Mr.Xiang Hu	Chairman of Supervisory Committee	155,729.00	55,154.38	376,961.00	-	587,844.38	Dismissed in 2018.07
Ms.Wu Yi	Supervisor	60,000.00	-	-	-	60,000.00	-
Mr.Huang Hui	Supervisor	60,000.00	-	-	-	60,000.00	-
Mr.Xia Hua	Employee supervisor	516,000.00	89,085.48	751,060.00	440,335.62	1,796,481.10	-
Mr.Zhang Mingzhi	Employee supervisor	276,012.00	81,411.72	112,660.00	-	470,083.72	-
Total		<u>2,695,787.00</u>	<u>498,087.73</u>	<u>2,962,355.00</u>	<u>440,335.62</u>	<u>6,596,565.35</u>	

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION ***(CONTINUED)***

(IV) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

2. Key management compensation

The remuneration of key management personnel during the year (including amounts paid and payable to directors, supervisors and senior management) is as follows:

Name	Duty	Salaries and allowances	Social insurance, housing fund and pensions	Bonus	Total
Ms.Chen Ping	Executive Director/ CEO	442,820.00	84,137.00	476,714.00	1,003,671.00
Mr.Yang Quan	Executive Director/ Vice president	387,152.00	84,137.00	411,366.00	882,655.00
Mr. Qin Shaobo	Vice president	341,652.00	84,137.00	276,789.00	702,578.00
Mr. Zhang Shu	Vice president	387,152.00	84,137.00	409,229.00	880,518.00
Mr. Deng Rui	Company secretary	387,152.00	84,137.00	411,118.00	882,407.00
Ms. Liu Zhongtang	Vice president/CFO	339,052.00	84,137.00	253,705.00	676,894.00
Total		<u>2,284,980.00</u>	<u>504,822.00</u>	<u>2,238,921.00</u>	<u>5,028,723.00</u>

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

(IV) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

2. Key management compensation *(Continued)*

Key management remuneration for the last year:

Name	Duty	Salaries and allowances	Social insurance, housing fund and pensions	Bonus	Total
Ms.Chen Ping	Executive Director/ CEO	266,964.00	90,812.05	456,996.00	814,772.05
Mr.Yang Quan	Executive Director/ Vice president	239,292.00	90,812.05	394,604.00	724,708.05
Mr. Deng Rui	Company secretary	239,292.00	90,812.05	395,216.00	725,320.05
Mr. Zhang Shu	Vice president	239,292.00	90,812.05	392,160.00	722,264.05
Mr. Qin Shaobo	Vice president	119,646.00	47,589.20	75,600.00	242,835.20
Ms. Liu Zhongtang	Vice president/CFO	246,435.00	87,372.14	394,218.00	728,025.14
Total		<u>1,350,921.00</u>	<u>498,209.54</u>	<u>2,108,794.00</u>	<u>3,957,924.54</u>

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION ***(CONTINUED)***

(IV) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

3. Five most well-rewarded employees of current year

Name	Duty	Salaries and allowances	Social insurance, housing fund and pensions	Bonus	Distribution	Total
Mr. Xia Hua	Employee supervisor	511,460.00	100,747.00	633,340.00	–	1,245,547.00
Mr. Li Fangzhong	Employee supervisor	213,600.00	42,760.64	799,398.00	–	1,055,758.64
Ms. Chen Ping	Executive Director/ CEO	442,820.00	84,137.00	476,714.00	–	1,003,671.00
Mr Sun Wenguang	Chairman of Supervisory Committee	429,920.00	84,137.00	451,471.00	–	965,528.00
Mr. Yang Quan	Executive Director/Vice president	387,152.00	84,137.00	411,366.00	–	882,655.00
Total		<u>1,984,952.00</u>	<u>395,918.64</u>	<u>2,772,289.00</u>	<u>–</u>	<u>5,153,159.64</u>

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION *(CONTINUED)*

(IV) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

3. Five most well-rewarded employees of current year *(Continued)*

Five most well-rewarded employees of last year:

Name	Duty	Salaries and allowances	Social insurance, housing fund and pensions	Bonus	Distribution	Total
Ms. Chen Ping	Executive Director/CEO	266,964.00	90,812.05	456,996.00	-	814,772.05
Mr. Xia Hua	Employee supervisor	516,000.00	89,085.48	751,060.00	440,335.62	1,796,481.10
Mr. Wang Yuxiang	Chairman	266,964.00	-	470,151.00	-	737,115.00
Mr. Sun Wenguang	Chairman of Supervisory Committee	243,904.00	90,812.05	399,923.00	-	734,639.05
Ms. Liu Zhongtang	Vice president/CFO	246,435.00	87,372.14	394,218.00	-	728,025.14
Total		<u>1,540,267.00</u>	<u>358,081.72</u>	<u>2,472,348.00</u>	<u>440,335.62</u>	<u>4,811,032.34</u>

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION ***(CONTINUED)***

(IV) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

4. Salary range

Item	Number of Current Year	Number of Last Year
Within 1,000,000 RMB	19	20
RMB1,000,001 to 1,500,000	3	0
RMB1,500,001 to 2,000,000	0	1

5. During current period, none of the directors gives up or agrees to give up any salary. During past recorded periods, the Group never paid to any director, supervisor or five most well-rewarded employees to draw them into the Group or make compensation for the employment termination.

(V) BORROWINGS RECEIVABLE OF DIRECTORS AND DIRECTORS' RELATED PARTIES

1. The Group has no receivables from directors and director-related corporate loans.
2. The Group does not provide guarantees for directors and director-related corporate loans.

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XI. RELATED PARTIES AND RELATED-PARTY TRANSACTION (CONTINUED)

(VI) OTHERS

None.

XII. CONTINGENCIES

None

XIII. COMMITMENTS

Capital expenditure contracted during the reporting period but not yet incurred by the Group are as follows:

Item	Ending balance	Beginning balance
House, building and equipment	64,843,810.00	53,153,949.02
Total	64,843,810.00	53,153,949.02

XIV. EVENTS AFTER THE REPORTING PERIOD

1. IMPACT OF NEW CORONA VIRUS DISEASE ON COMPANY

Since the outbreak of the new corona virus disease ("Covid-19") nationwide from January 2020, the Group has positively responded to and strictly implemented China's various regulations and requirements for Covid-19 prevention and control. Donated RMB1.5 million to Chongqing Charity Federation as soon as possible after the outbreak. In order to ensure that the virus protection and operation are correct, the Group has resumed work and production as of February 26, 2020. The group will support the country to win the fight against Covid-19 in a multi-pronged manner from supply security, social responsibility, internal management, and occupational health.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XIV. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

1. IMPACT OF NEW CORONA VIRUS DISEASE ON COMPANY (CONTINUED)

The Group expects that the Covid-19 will have a temporary impact on production and operations of the Group. The extent of the impact will depend on the progress and duration of the virus prevention and control, and the implementation of local prevention and control policies, but it will not cause significant negative effects to the Group.

2. PROFIT DISTRIBUTION

Items	Amount
Dividends or profits to be distributed	36,846,401.54
Profits or dividends declared after approval	36,846,401.54

Note: The Group held the first meeting of the fifth session of Board of Directors in 2020 on March 27, 2020. The meeting proposed that the Group distribute dividends to all shareholders at RMB0.01 yuan per share (including tax). The total amount of dividends to be distributed is RMB36,846,401.54 yuan (Including tax). The dividend distribution plan still needs to be approved by the annual shareholders' meeting to be held on June 18, 2020. Therefore, the proposed dividend has not been recognised as a liability in this financial statement.

3. THE GROUP HAS NO SIGNIFICANT SALES RETURNS AFTER THE BALANCE SHEET DATE.

4. EXCEPT FOR THE ABOVE DISCLOSURES, THE GROUP HAS NO OTHER SIGNIFICANT EVENTS OCCURRING AFTER THE REPORTING PERIOD.

XV. OTHER SIGNIFICANT EVENTS

1. THE GROUP HAS NO PREVIOUS ERROR CORRECTION;

2. THE GROUP HAS NO MAJOR DEBT RESTRUCTURING IN THE CURRENT PERIOD;

3. THE GROUP HAS NO ASSET REPLACEMENT IN THIS PERIOD;

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XV. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

- 4. THE GROUP DOES NOT YET HAVE AN ANNUITY PLAN;**
- 5. THE GROUP HAS NOT CEASED OPERATIONS DURING THE YEAR;**
- 6. NO NEW GUIDELINES TO BE IMPLEMENTED;**
- 7. SEGMENT INFORMATION**

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

The Group has 9 reportable segments as follows:

Engine: in charge of production and sales of engines;

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

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

General machinery: production and sales of general machinery;

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

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

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

Other segments: producing and selling other products;

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

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

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XV. OTHER SIGNIFICANT EVENTS (CONTINUED)

8. FINANCIAL INFORMATION OF REPORTABLE SEGMENTS

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

Items	Engines	Hydroelectric							Other segments		Offset	Total
		generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales				
Total segment revenue	-	559,396,579.42	1,480,573,654.98	1,310,071,830.11	121,813,432.68	592,319,415.79	-	177,343,730.52	1,500,984,405.16	-	-	5,742,503,048.66
Inter-segment revenue	-	20,372,919.88	(19,894,353.04)	(6,123,489.17)	(44,336,428.25)	(35,908,328.38)	-	(114,018,983.47)	(25,782,280.36)	-	-	(225,690,942.79)
Revenue from external customers	-	579,769,499.30	1,460,679,301.94	1,303,948,340.94	77,477,004.43	556,411,087.41	-	63,324,747.05	1,475,202,124.80	-	-	5,516,812,105.87
Operating costs	-	423,107,851.60	1,271,985,836.57	1,191,214,565.72	27,974,473.73	491,384,958.89	-	166,510,887.71	1,126,967,726.32	-	-	4,699,146,320.54
Inter-segment transaction cost	-	(465,260.36)	(19,894,353.04)	(6,123,489.17)	(16,845,087.68)	(35,908,328.38)	-	(107,054,261.79)	(34,716,662.96)	-	-	(221,007,443.38)
External transaction cost	-	422,642,591.24	1,252,091,483.53	1,185,091,096.55	11,293,986.05	455,476,630.51	-	59,456,625.92	1,092,251,063.36	-	-	4,478,138,877.16
Gross profit rates (%)	-	27.10	14.28	9.12	85.64	46.47	-	6.11	3.00	-	-	18.83
Operating (loss)/profit	279,213,561.46	40,311,832.37	124,225,611.56	(55,707,043.56)	52,205,967.96	(293,697,280.26)	5,301,113.55	(6,273,868.99)	97,429,671.44	(1,523,195.99)	-	241,486,369.54
Interest income	-	872,530.42	234,902.37	1,514,809.17	-	12,730,348.46	-	36,098.24	21,456,616.94	-	-	36,845,305.60
Interest costs	-	2,938,802.57	5,400,946.87	7,988,500.01	-	36,790,469.37	-	311,642.67	80,475,490.47	-	-	133,915,851.96
Investment income from associates and joint ventures	279,213,561.46	-	-	-	-	(8,061,868.26)	5,301,113.55	-	7,414,287.97	-	-	283,867,094.72
Total profit	279,213,561.46	43,238,342.70	124,508,133.63	(56,154,471.91)	51,332,644.33	(293,523,774.76)	5,301,113.55	(6,359,425.66)	96,913,306.73	(1,523,195.99)	-	242,946,236.08
Income tax expense	-	(518,065.03)	16,952,089.70	1,245,945.98	13,880,860.79	(9,582,324.60)	-	-	17,052,751.09	-	-	39,031,257.93
Net profit	279,213,561.46	43,756,407.73	107,556,043.93	(57,400,417.89)	37,451,783.54	(283,941,450.16)	5,301,113.55	(6,359,425.66)	79,860,557.64	(1,523,195.99)	-	203,914,978.15

XV. OTHER SIGNIFICANT EVENTS (CONTINUED)

8. FINANCIAL INFORMATION OF REPORTABLE SEGMENTS (CONTINUED)

Financial information of reportable segments of the current year as follows: (Continued)

Other items	Hydroelectric							Offset	Total
	Engines	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	
Depreciation of Property, plant and equipment and investment property	-	33,833,675.57	15,815,068.63	40,988,367.42	319,468.85	75,077,120.62	-	1,325.96	23,482,192.28
Amortisation of intangible assets	-	1,984,948.94	676,480.68	10,186,097.83	337,219.05	13,894,448.28	-	-	2,570,649.48
Provision on inventory	-	-	1,721,251.75	(2,483,989.66)	-	8,532,831.72	-	-	(3,481,566.13)
Provision for/(reversal of) impairment of accounts and other receivables	-	(7,445,953.50)	(2,746,443.02)	(6,253,783.54)	(593,398.45)	25,302,761.30	-	1,169,664.85	6,172,362.57
Additions to non-current assets (other than financial instruments, long term equity investments and deferred income tax assets)	-	216,403,482.04	(9,214,457.60)	91,219,649.99	7,558,873.77	(36,811,432.82)	-	1,164,416.79	(134,666,587.00)
									135,653,945.17

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XV. OTHER SIGNIFICANT EVENTS (CONTINUED)

8. FINANCIAL INFORMATION OF REPORTABLE SEGMENTS (CONTINUED)

Financial information of reportable segments of the previous year as follows:

Item	Engines	Hydroelectric				General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
		generation equipment	Electrical wire and cable										
Total segment revenue	-	554,061,165.54	1,379,182,051.07	915,110,228.29	116,794,872.98	885,403,491.27	-	206,127,604.43	-	1,395,386,391.38	-	-	5,452,065,804.96
Inter-segment revenue	-	(4,310.34)	(8,243,404.60)	(5,066,034.68)	(47,846,156.31)	(2,038,514.33)	-	(100,635,787.38)	-	(3,914,064.42)	-	-	(167,748,272.06)
Revenue from external customers	-	554,056,855.20	1,370,938,646.47	910,044,193.61	68,948,716.67	883,364,976.94	-	105,491,817.05	-	1,391,472,326.96	-	-	5,284,317,532.90
Operating costs	-	445,861,758.91	1,142,483,961.05	716,559,783.72	28,797,380.33	639,158,550.36	-	199,261,154.88	-	1,005,702,225.73	-	-	4,177,824,814.78
Inter-segment transaction cost	-	(4,310.34)	(8,243,404.60)	(8,418,378.37)	(19,361,252.26)	(2,038,514.33)	-	(97,283,443.88)	-	(3,914,064.42)	(88,120.04)	(139,351,488.04)	
External transaction cost	-	445,857,448.57	1,134,240,556.45	708,141,405.35	9,456,128.07	637,120,036.03	-	101,977,711.00	-	1,001,788,161.31	(88,120.04)	4,038,473,326.74	
Gross profit rates (%)	-	19.53	17.27	22.19	86.31	27.88	-	3.33	-	28.01	-	23.58	
Operating (loss)/profit	315,455,871.59	8,551,467.10	193,022,751.13	20,577,189.72	39,889,633.97	(12,247,157.63)	27,280,400.76	1,276,711.82	(22,178,817.24)	3,698,093.01	-	556,730,030.70	
Interest income	-	705,598.78	209,318.09	12,496,330.62	-	19,143,553.24	-	2,221,055.16	-	86,404,536.31	-	160,792,293.33	
Interest costs	-	5,461,433.99	7,504,365.12	37,578,842.47	-	47,859,051.75	-	100,165.26	-	24,116,101.57	-		
Investment income from associates and joint ventures	315,455,871.59	-	-	-	-	3,698,081.58	27,280,400.76	-	-	22,888,802.51	-	389,323,156.44	
Total profit	315,455,871.59	9,809,602.39	195,026,305.65	22,058,196.46	39,883,033.65	(24,111,010.79)	27,280,400.76	1,590,532.02	(16,452,850.56)	7,801,733.05	(14,848,020.52)	555,672,060.65	
Income tax expense	-	(388,718.29)	28,620,676.96	9,680,923.88	9,412,034.73	6,471,277.51	-	-	-	-	(1,097,700.00)	60,500,227.64	
Net profit	315,455,871.59	10,198,320.68	166,405,628.69	12,377,272.78	30,450,988.92	(30,818,404.97)	27,280,400.76	1,590,532.02	(24,018,466.94)	13,750,320.52	(13,750,320.52)	495,171,833.01	

XV. OTHER SIGNIFICANT EVENTS (CONTINUED)

8. FINANCIAL INFORMATION OF REPORTABLE SEGMENTS (CONTINUED)

Financial information of reportable segments of the previous year as follows: (Continued)

Other items	Engines	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
Depreciation of Property, plant and equipment and investment property	-	23,262,187.05	1,494,473.44	41,140,566.53	152,010.20	91,925,234.79	-	4,205.26	27,467,900.48	-	185,446,577.75
Amortisation of intangible assets	-	1,954,642.01	2,924,745.92	11,082,786.61	309,127.43	15,745,864.85	-	-	2,781,583.68	-	34,798,750.50
Provision on inventory	-	21,960,417.74	5,729,765.79	5,497,630.95	-	8,495,755.26	-	-	44,191,256.63	-	85,874,826.37
Provision for/(reversal of) impairment of accounts and other receivables	-	12,936,121.47	848,238.38	3,349,226.15	-	2,885,648.51	-	(4,754,201.28)	8,330,464.07	-	23,595,497.30
Additions to non-current assets (other than financial instruments, long term equity investments and deferred income tax assets)	-	(15,130,129.26)	(1,402,435.37)	36,917,482.48	123,117.14	26,177,914.95	-	(4,585.06)	(114,450,818.91)	-	(67,769,454.03)

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XV. OTHER SIGNIFICANT EVENTS (CONTINUED)

8. FINANCIAL INFORMATION OF REPORTABLE SEGMENTS (CONTINUED)

Information on the assets and liabilities of reported segments as follows:

Ending Balance	Engines	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials		Other segments	Offset	Total
								sales				
Total assets	372,295,425.76	2,059,111,928.88	934,280,544.96	3,909,592,126.66	3,687,080,399.51	3,174,086,215.06	222,799,259.31	173,545,305.91	10,725,287,015.52	(8,740,262,916.72)	16,517,815,304.85	
Total liabilities	-	1,507,400,886.10	573,968,663.97	3,095,086,668.18	2,856,576,164.13	2,343,853,774.49	-	149,084,235.45	3,218,570,322.67	(4,515,815,643.34)	9,228,725,131.65	
Investment of associates or joint ventures	372,295,425.76	-	-	-	-	81,680,377.94	224,207,687.31	-	318,208,474.40	-	996,391,965.41	

(Continued)

Beginning balance	Hydroelectric									Total	
	Engines	generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments		
Total assets	360,896,119.24	2,127,311,656.08	915,622,603.00	3,658,849,585.11	3,573,223,434.74	3,276,304,803.93	248,255,806.76	178,986,451.07	9,310,078,004.98	(7,371,838,466.24)	16,277,683,798.67
Total liabilities	-	1,593,004,224.32	555,852,406.24	2,764,649,581.06	2,807,649,911.91	2,228,816,512.97	-	155,138,828.08	2,708,766,781.13	(3,760,856,370.40)	9,048,021,855.31
Investment of associates or joint ventures	360,896,119.24	-	-	-	-	88,742,246.20	248,255,806.76	-	310,260,819.08	-	1,009,154,785.28

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XV. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

9. OTHER SIGNIFICANT TRANSACTIONS AND EVENTS THAT HAVE IMPACT ON INVESTOR DECISIONS

Chongqing Shangshe Chemical Co., Ltd. (a wholly-owned subsidiary of Chongqing Municipal State-owned enterprise Chongqing Shangshe (Group) Co., Ltd., referred to as “Shangshe Chemical”) is one of the customers of Precision Technology Group Investment Development co., LTD. (PTG Hong Kong Company), a subsidiary of the Group. On September 27, 2019, Shangshe Chemical issued a statement to market customers via the Internet, stating that Shangshe Chemical will “suspend all business from now on. To maximize and guarantee interests of your company, all contracts that have not yet been executed will be stopped. The documents have been submitted to the bank, please send a message to the bank immediately to request a refund.” On October 31, 2019, Chongqing Shangshe Chemical (Group) Co., Ltd. issued a “Notice on Subsidiary-Related Cases” on China Currency Network: “Qingjun Pang, chairman of the board and legal representative of Chongqing Chemical Co., Ltd., a wholly-owned subsidiary of Chongqing Shangshe (Group) Co., Ltd., is suspected of a crime and the investigation agency is in the process of investigation. The impact of this case on Chongqing Chemical is currently uncertain. (Hereinafter referred to as “Shangshe Chemical Incident”).

Due to the Shangshe Chemical Incident, Chongqing Chemical did not pay PTG Hong Kong company for the purchased rubber in accordance with the agreement. So that the Group must first redeem the relevant bank letters of credit, involving a total amount of RMB314.99 million yuan, of which the the Company was involved is RMB87.57 million yuan and PTG Hong Kong Company is RMB227.42 million yuan. As of December 31, 2019, after the equivalent offsetting certain goods of the Shangshe Chemical seized by PTG Hong Kong Company, Shangshe Chemical still owed a total amount of RMB285.33 million yuan to the Group.

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XV. OTHER SIGNIFICANT EVENTS (CONTINUED)

9. OTHER SIGNIFICANT TRANSACTIONS AND EVENTS THAT HAVE IMPACT ON INVESTOR DECISIONS (CONTINUED)

Since the Shangshe Chemical Incident, The Group has been communicating with Chongqing Shangshe (Group) Co., Ltd. and related institutions. The Group communicates with relevant parties to search appropriate actions. As of the date of this report, the case is still in the investigation stage, and there is no clear result. Due to the short duration of the incident, considering the factors such as the fact that Shangshe Chemical Co., Ltd. is a wholly-owned state-owned enterprise, there have been no default events during the past years, and a task force has been established in Chongqing to coordinate and handle the emergency. The management of the Group evaluated the expected credit loss rate during the reporting period is 30.00%. As of December 31, 2019, the Group made a total of RMB85.60 million yuan in bad debt provision for the arrears of Shangshe Chemical, and Shangshe Chemical still owed the Group a net amount of RMB199.73 million yuan.

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY

1. OTHER RECEIVABLES

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Interest receivables	—	—	52,085,559.19
Dividend receivables	436,478,069.56	383,447,758.44	383,447,758.44
Other receivables	1,082,004,355.40	1,084,999,680.63	1,032,914,121.44
Less: Provision for bad debts	63,449,631.19	33,485,686.34	33,485,686.34
Total	1,455,032,793.77	1,434,961,752.73	1,434,961,752.73

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. OTHER RECEIVABLES (CONTINUED)

1.1 Interest receivables

Item	31 Dec 2019	1 Jan 2019	31 Dec 2018
Related-party interest receivable	—	—	52,085,559.19
Total	—	—	52,085,559.19

1.2 Dividend receivables

Items	Ending balance	Beginning balance	Reasons for not yet recovered	Whether impaired and criterion
Within 1 year	267,814,254.94	378,631,655.04	—	—
Including: Chongqing Cummins	267,814,254.94	378,631,655.04	Declare in current period, Pending Payment	No, Dividends receivable of joint venture
Over 1 year	168,663,814.62	4,816,103.40	—	—
Including: Chongqing Hongyan Fangda	1,937,456.38	4,816,103.40	Pending Payment	—
Chongqing Cummins	166,726,358.24	—	Pending Payment	—
Total	436,478,069.56	383,447,758.44		

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. OTHER RECEIVABLES (CONTINUED)

1.3 Other receivables

Items	31 Dec 2019	1 Jan 2019	31 Dec 2018
Other receivables	1,082,004,355.40	1,084,999,680.63	1,032,914,121.44
Less: provision for bad debts	63,449,631.19	33,485,686.34	33,485,686.34
Carrying amount	1,018,554,724.21	1,051,513,994.29	999,428,435.10

1) Aging analysis

Aging	31 Dec 2019	1 Jan 2019	31 Dec 2018
Within one year	1,044,825,335.47	1,048,777,560.70	996,692,001.51
1 -2 years	1,000,000.00	5,036,395.93	5,036,395.93
2-3 years	4,996,395.93	31,185,724.00	31,185,724.00
3-4 years	31,182,624.00	—	—
Total	1,082,004,355.40	1,084,999,680.63	1,032,914,121.44
Less: Provision for impairment	63,449,631.19	33,485,686.34	33,485,686.34
Carrying amount	1,018,554,724.21	1,051,513,994.29	999,428,435.10

Notes to the Consolidated Financial Statements *(Continued)*

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY *(CONTINUED)*

1. OTHER RECEIVABLES *(CONTINUED)*

1.3 Other receivables *(Continued)*

2) Classification of other receivables by nature

Nature	31 Dec 2019	1 Jan 2019	31 Dec 2018
Petty cash	151,653.56	36,870.71	36,870.71
Other receivables related party	958,483,478.49	1,050,125,244.99	998,039,685.80
For external borrowing and interest	88,531,658.42	—	—
Others	34,837,564.93	34,837,564.93	34,837,564.93
Total	1,082,004,355.40	1,084,999,680.63	1,032,914,121.44
Less: Provision for impairment	63,449,631.19	33,485,686.34	33,485,686.34
Carrying amount	<u>1,018,554,724.21</u>	<u>1,051,513,994.29</u>	<u>999,428,435.10</u>

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. OTHER RECEIVABLES (CONTINUED)

1.3 Other receivables (Continued)

- 3) Other receivables with provision for bad debts based on the expected credit risk portfolio

Classification	Book balance	31 Dec 2019		Carrying amount
		Percentage (%)	Provision for bad debts	
Provision for bad debts is recognized separately	124,747,724.13	50.86	63,449,631.19	61,298,092.94
Provision for bad debts is recognized by group	957,256,631.27	—	—	957,256,631.27
Including: Related parties	956,142,023.49	—	—	956,142,023.49
Deposits, security deposit and reserve fund receivable	151,653.56	—	—	151,653.56
General receivables and others	962,954.22	—	—	962,954.22
Including: Within 1 year	962,954.22	—	—	962,954.22
Total	1,082,004,355.40	5.86	63,449,631.19	1,018,554,724.21

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. OTHER RECEIVABLES (CONTINUED)

1.3 Other receivables (Continued)

- 3) Other receivables with provision for bad debts based on the expected credit risk portfolio (Continued)

(Continued)

Combinatorial classification	Book balance	1 Jan 2019		Carrying amount
		Percentage (%)	Provision for bad debts	
Provision for bad debts is recognized separately	34,837,564.93	96.12	33,485,686.34	1,351,878.59
Provision for bad debts based on credit risk portfolio	1,050,162,115.70	—	—	1,050,162,115.70
Including: Related parties	1,050,125,244.99	—	—	1,050,125,244.99
Deposits, security deposit and reserve fund receivable	36,870.71	—	—	36,870.71
Total	1,084,999,680.63	3.09	33,485,686.34	1,051,513,994.29

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. OTHER RECEIVABLES (CONTINUED)

1.3 Other receivables (Continued)

- 3) *Other receivables with provision for bad debts based on the expected credit risk portfolio (Continued)*

(Continued)

Combinatorial classification	Book balance	31 Dec 2018		Carrying amount
		Percentage (%)	Provision for bad debts	
Money for separate anticipated credit loss tests	34,837,564.93	96.12	33,485,686.34	1,351,878.59
Provision for bad debts is recognized by group	998,076,556.51	–	–	998,076,556.51
Including: Related parties	998,039,685.80	–	–	998,039,685.80
Deposits, security deposit and reserve fund receivable	36,870.71	–	–	36,870.71
Total	1,032,914,121.44	3.24	33,485,686.34	999,428,435.10

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. OTHER RECEIVABLES (CONTINUED)

1.3 Other receivables (Continued)

4) The other receivables recognized provision for bad debts separately

Name	Book balance	Ending balance		Reason
		Provision for bad debts	Percentage (%)	
Chongqing Tooth Auto Parts Co., Ltd.	1,341,455.00	1,341,455.00	100.00	not expected to be fully recoverable
Chongqing Huahao Smelting Co., Ltd.	3,264,844.35	3,264,844.35	100.00	not expected to be fully recoverable
Chongqing Jiangbei Machinery Co., Ltd.	31,213,147.59	31,213,147.59	100.00	not expected to be recoverable
Jiyarui Ante Transmission Co., Ltd.	359,572.99	359,572.99	100.00	not expected to be recoverable
Chongqing Shangshe Chemical Co., Ltd.	87,568,704.20	26,270,611.26	10.00	not expected to be recoverable
Chongqing Ruishida Power Technology Co., Ltd.	1,000,000.00	1,000,000.00	100.00	not expected to be recoverable
Total	124,747,724.13	63,449,631.19	50.86	

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. OTHER RECEIVABLES (CONTINUED)

1.3 Other receivables (Continued)

- 5) The company has no other receivables actually written off during the year.
- 6) Top 5 other receivables at the end of the year

Name of debtors	Nature	Book balance	Aging	Percentage of other receivables ending balance (%)	Ending balance of bad debt provision
Precision Technology Group Co., Ltd. (PTG)	Borrowings	229,680,918.23	Within 1 year	21.23	-
Chongqing General Industry (Group) Co., Ltd	Borrowings	203,716,308.47	Within 1 year	18.83	-
Chongqing Water Turbine Works Co., Ltd.	Borrowings	190,292,842.44	Within 1 year	17.59	-
Chongqing Machine Tools (Group) Co., Ltd.	Borrowings	175,924,370.79	Within 1 year	16.26	-
Chongqing Shangshe Chemical Co., Ltd.	Borrowings	87,568,704.20	Within 1 year	8.09	26,270,611.26
Total		887,183,144.13		82.00	26,270,611.26

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. LONG-TERM EQUITY INVESTMENTS

(1) Classification of long-term equity investments

Items	Ending balance			Beginning balance		
	Book balance	Impairment	Carrying amount	Book balance	Impairment	Carrying amount
Investment in subsidiaries	3,793,406,273.05	88,741,458.00	3,704,664,815.05	3,741,666,542.05	88,741,458.00	3,652,925,084.05
Investment in associates and joint ventures	897,555,420.48	—	897,555,420.48	905,441,679.40	—	905,441,679.40
Total	4,690,961,693.53	88,741,458.00	4,602,220,235.53	4,647,108,221.45	88,741,458.00	4,558,366,763.45

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(2) Investments in subsidiaries

Investee	Beginning balance	Increase this year	Decrease this year	Ending balance	Provision for impairment this year	Balance of impairment
Chongqing CAFF Automotive Braking & Steering System Co., Ltd	250,367,260.00	-	-	250,367,260.00	-	-
Chongqing Huahao Smelting Co., Ltd. (Notes 1)	88,741,458.00	-	-	88,741,458.00	-	88,741,458.00
Chongqing Water Turbine Works Co., Ltd.	360,948,318.00	-	-	360,948,318.00	-	-
Chongqing Pigeon Electric Wires & Cables Co., Ltd	126,893,602.52	-	-	126,893,602.52	-	-
Chongqing General Industry (Group) Co., Ltd	795,139,695.15	500,000.00	-	795,639,695.15	-	-
Chongqing Pump Industry Co., Ltd.	197,411,466.90	-	-	197,411,466.90	-	-
Chongqing Gas Compressor Factory Co., Ltd.	120,313,860.15	-	-	120,313,860.15	-	-
Chongqing Machine Tools (Group) Co., Ltd.	1,060,637,386.00	500,000.00	-	1,061,137,386.00	-	-
Chongqing Shengpu Materials Co., Ltd.	20,992,435.00	-	-	20,992,435.00	-	-
Chongqing Machinery and Electronics Holding Group Finance Co., Ltd.	448,068,452.58	-	-	448,068,452.58	-	-
Precision Technologies Group (PTG) Limited (Notes 2)	145,697,206.75	48,739,731.00	-	194,436,937.75	-	-
Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd.	25,080,288.00	2,000,000.00	-	27,080,288.00	-	-
Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd.	101,375,113.00	-	-	101,375,113.00	-	-
Total	3,741,666,542.05	51,739,731.00	-	3,793,406,273.05	-	88,741,458.00

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(3) Investment in associates and joint ventures

Investee	Cost of investment	Beginning balance	Additional investment	Reduced investment	Investment profit and loss recognized under equity method	Adjustment of other comprehensive income	Other equity changes	Cash dividends declared in current period	Provision for impairment this year	Ending balance	Balance of impairment
1. Joint venture	-	-	-	-	-	-	-	-	-	-	-
CQ Cummins	370,189,551.00	360,896,119.72	-	-	279,213,561.46	-	-	267,814,254.94	-	372,295,426.24	-
Sub Total	370,189,551.00	360,896,119.72	-	-	279,213,561.46	-	-	267,814,254.94	-	372,295,426.24	-
2. Associates	-	-	-	-	-	-	-	-	-	-	-
Chongqing ABB	236,651,166.00	249,255,606.76	-	-	5,301,113.55	-	-	29,349,033.00	-	224,207,687.31	-
Hongyan Fangda	51,306,166.00	123,406,146.66	-	-	(8,793,394.08)	-	-	-	-	114,612,762.58	-
Everly	16,880,167.00	81,550,289.15	-	-	1,185,949.90	-	-	2,651,933.96	-	80,084,205.09	-
Knorr	44,231,369.00	49,475,150.03	-	-	15,914,182.99	-	-	-	-	65,389,333.02	-
Chongqing Jiangbei Machinery	57,933,988.00	41,858,367.08	-	-	(892,360.84)	-	-	-	-	40,966,006.24	-
WPG Italy	6,058,193.00	-	-	-	-	-	-	-	-	-	-
Sub Total	413,061,019.00	544,545,559.68	-	-	12,715,401.52	-	-	32,000,966.96	-	525,259,994.24	-
Total	783,250,570.00	905,441,679.40	-	-	291,928,962.98	-	-	299,815,221.90	-	897,555,420.48	-

Notes to the Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. OPERATING REVENUE & OPERATING COST

Item	Amount of the year		Amount of last year	
	Revenue	Cost	Revenue	Cost
Other operations	2,397,300.84	—	2,247,005.78	—
Total	2,397,300.84	—	2,247,005.78	—

4. INVESTMENT INCOME

Items	Amount of the year	Amount of last year
Investment income from long-term equity investments in equity method	291,928,962.98	365,625,074.86
Investment income of long-term equity investments in cost method	86,901,391.82	62,644,976.16
Investment income from disposal of long-term equity investment in a joint venture	—	6,947,699.25
Investment income from disposal of available-for-sale financial assets	—	536,756.43
Investment income from disposal of wealth management products	10,729,141.46	—
Others	—	(100,462.00)
Total	389,559,496.26	435,654,044.70

Notes: No significant restriction of investment income of the Group.

The financial statements have been approved by the Board of Directors on 27 March 2020.

Supplementary Information to Consolidated Financial Statements

From 31 December 2018 to 31 December 2019
(All amounts are presented in RMB except otherwise stated)

1. DETAILS OF EXTRAORDINARY PROFIT OR LOSS FOR THE PERIOD

- (1) In accordance with the requirements of the “Explanatory Announcement on Information Disclosure for Companies Offering Securities to the Public No.1 – Extraordinary Profit or Loss (2008)” issued by the China Securities Regulatory Commission, extraordinary profit or loss of the Group in 2019 are as follows:

Items	Amount for the year
Gains and losses from disposal of non-current assets	131,720,191.68
Government grants included in the profit or loss for the period	227,230,135.88
Funds utilization fees collected from non-financial enterprises included in the profit or loss for the period	962,954.21
Debt restructuring gains and losses	(4,074,463.06)
Employee resettlement compensation	(10,351,619.50)
Impairment reversal of receivables that were individually tested for impairment	26,968,900.91
Buy wealth management income	11,038,010.45
Impact of changes in social security policies on post-employment personnel costs	6,899,597.12
Other non-operating income and expenses apart from the above	5,534,329.60
Sub-total	395,928,037.29
Impact on income tax	57,694,430.46
Impact on non-controlling interest (after tax)	6,967,305.77
Total	331,266,301.06

Supplementary Information to Consolidated Financial Statements (Continued)

From 31 December 2018 to 31 December 2019

(All amounts are presented in RMB except otherwise stated)

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

In accordance with the requirements of the “Preparation Rules for Information Disclosures by Companies Offering Securities to the Public No.9 – Calculations and Disclosures for Return on Net Assets and Earnings Per Share (Revised in 2010)” issued by the China Securities Regulatory Commission, the weighted average return on net assets, basic earnings per share and diluted earnings per share of the Group in 2019 are as follows:

Profit for the reporting year	Amount	Weighted average return on equity attributable to parent company (%)	Earnings per share	
			Basic earnings per share	Diluted earnings per share
Net profit attributable to the shareholders of the Company	184,834,923.25	—	—	—
Amount of weighted average net assets attributable to the parent company	6,826,660,322.40	2.71	—	—
Number of common shares outstanding	3,684,640,154.00	—	0.05	0.05
Amount of non-recurring profit or loss attributable to the parent company	331,266,301.07	—	—	—
Net profit attributable to the shareholders of the Company (excluding: extraordinary profit and loss)	(146,431,377.82)	(2.14)	—	—

Chongqing Machinery & Electric Co., Ltd.

27 March 2020



重慶機電股份有限公司
CHONGQING MACHINERY & ELECTRIC CO., LTD.*

