CQME

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

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

ANNOUNCEMENT OF GROUP RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 4.4% to approximately RMB5,516,812,000 yuan
- Gross profit decreased by approximately 16.6% to approximately RMB1,038,673,000 yuan
- Profit attributable to shareholders decreased by approximately 58.4% to approximately RMB184,835,000 yuan
- Earnings per share was approximately RMB0.05 yuan

ANNUAL RESULTS

The board of directors (the "Board") of Chongqing Machinery & Electric Co., Ltd.* (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2019 and the comparative figures for the corresponding period of 2018 as follows:

* *For identification purposes only*

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	4.1	**5,516,812,105.87**	5,284,317,532.90
Including: Operating revenue	4.1	**5,439,335,101.44**	5,215,368,816.23
Interest income	4.1	**77,451,736.38**	68,548,323.06
Transaction fees and commission income	4.1	**25,268.05**	400,393.61
2. Total operating cost		**5,855,552,796.45**	5,284,011,305.97
Including: Operating cost	4.1	**4,467,009,491.11**	4,029,037,198.67
Interest expenses	4.1	**11,006,384.78**	9,317,288.09
Transaction cost and commission fees	4.1	**123,001.27**	118,839.98
Business taxes and surcharges		**57,996,330.33**	63,485,555.23
Selling and distribution expenses	4.2	**308,120,591.52**	298,156,677.80
Administrative expenses	4.3	**544,178,374.13**	513,983,557.96
Research and development expenses	4.4	**308,915,489.59**	240,974,839.39
Financial expenses	4.5	**158,203,133.72**	128,937,348.85
Including: Interest expenses		**133,915,851.96**	122,653,496.31
Interest income		**36,845,305.60**	38,473,948.90
Add: Other income	4.6	**227,230,135.88**	133,621,128.92
Investment income (Loss listed with "-")	4.7	**295,372,688.12**	418,925,355.40
Including: Income from investments in associates and joint ventures		**283,867,094.72**	369,941,950.32
Income of derecognition of financial assets measured at amortized cost (Loss listed with "-")		**–**	–
Gain arising from the changes in fair value (Loss listed with "-")		**(134,308.57)**	(109,704.27)
Impairment loss of credit (Loss is listed by "-")		**(69,673,119.31)**	(19,704,902.99)
Impairment loss of assets (Loss is listed by "-")		**(4,288,527.68)**	(76,668,574.02)
Gain on disposal of assets (Loss listed with "-")	4.8	**131,720,191.68**	100,360,500.73
3. Operating profit (Loss listed with "-")		**241,486,369.54**	556,730,030.70
Add: Non-operating income	4.9	**12,740,116.51**	15,877,488.95
Less: Non-operating expenses	4.10	**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	4.11	**39,031,257.93**	60,500,227.64

Items	*Notes*	**For The Year 2019**	For The Year 2018
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 opeartion (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	4.12	**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		**(9,432,447.54)**	5,514,177.09
Net other comprehensive income after tax attributable to shareholders of the Company		**(9,537,786.54)**	5,155,078.09
1. Other comprehensive incomes that cannot be reclassified into profit or loss		**(8,228,716.00)**	1,384,451.00
(1) Changes from recalculation of defined benefit plan		**(861,339.00)**	1,384,451.00
(2) Transfer changes of defined benefit plan to retained earnings		**(12,988,336.88)**	–
(3) Changes in fair value of other equity instrument investments		**5,620,959.88**	–
2. Other comprehensive income that can be reclassified into profit or loss		**(1,309,070.54)**	3,770,627.09
Including: 1. Gain or loss from fair value changes of available-for-sale financial assets		**–**	475,865.00
2. Share of other comprehensive income of investee company under equity method that can be reclassified as profit or loss		**–**	(1,658,986.00)
3. Effective portion of net investment hedging gains and losses		**1,261,528.40**	4,234,206.34
4. Translation differences of financial statements in foreign currencies		**(2,570,598.94)**	719,541.75
Net other comprehensive income after tax attributable to non-controlling interests		**105,339.00**	359,099.00

Items	*Notes*	**For The Year 2019**	For The Year 2018
7. Total comprehensive income		**194,482,530.61**	500,686,010.10
Total comprehensive income attributable to shareholders of the Company		**175,297,136.71**	449,215,915.47
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	4.13	**0.05**	0.12
(2) Diluted earnings per share		**0.05**	0.12

CONSOLIDATED BALANCE SHEET

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

Items	*Notes*	**31 December 2019**	31 December 2018
Current assets:			
Cash and cash equivalents	4.14	**2,094,619,648.56**	2,164,670,306.18
Financial assets held for trade		**269,494.13**	5,124,292.21
Notes receivable	4.15	**296,071,386.86**	1,128,945,186.86
Accounts receivable	4.16	**2,688,114,256.49**	2,636,400,832.87
Receivable financing		**470,685,913.42**	–
Prepayments		**266,180,611.67**	264,987,827.45
Other receivables		**1,203,555,781.66**	928,431,789.73
Including: Interests receivable		**–**	20,538,197.57
Dividends receivable		**436,478,069.56**	383,447,758.44
Loans and advances to customers		**921,848,681.16**	1,115,437,102.20
Inventories		**1,981,484,606.34**	1,949,892,938.13
Contract assets		**368,454,512.15**	249,077,553.98
Held-for-sale assets		**–**	6,039,285.98
Non-current assets due within one year		**17,500,000.00**	–
Other current assets		**41,915,619.38**	81,059,064.90
Total current assets		**10,350,700,511.82**	10,530,066,180.49

Items	*Notes*	**31 December 2019**	31 December 2018
Non-current assets:			
Loans and advances to customers		**117,000,000.00**	38,880,000.00
Long-term receivables		**95,700,000.00**	33,200,000.00
Long-term equity investments		**996,391,965.41**	1,009,154,785.28
Other equity instruments investment		**52,314,020.88**	46,693,061.00
Investment properties		**78,047,637.67**	83,609,256.52
Property, plant and equipment		**2,838,969,790.21**	3,224,720,949.14
Construction in progress		**207,448,578.58**	171,249,276.77
Right-to-use assets		**358,581,230.46**	–
Intangible assets		**656,254,825.20**	617,595,163.06
Development expenditures		**16,610,242.60**	29,927,674.79
Goodwill		**143,312,435.00**	143,312,435.00
Long-term deferred expenses		**232,876,050.24**	224,093,001.19
Deferred tax assets		**121,906,877.97**	103,686,673.46
Other non-current assets		**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
Current liabilities:			
Short-term loans		**1,156,886,625.41**	911,696,617.94
Due to customers, banks and other financial institutions		**1,117,908,116.74**	1,334,738,381.17
Notes payable	4.17	**1,202,637,121.55**	1,225,850,904.13
Accounts payable	4.18	**1,686,336,446.82**	1,522,525,538.63
Contract liabilities		**807,469,495.64**	685,648,864.72
Repurchase agreements		**49,949,000.00**	–
Employee benefits payables		**65,766,577.42**	63,635,374.54
Taxes and levies payables		**186,244,866.97**	220,974,568.70
Other payables		**456,796,531.42**	599,204,267.53
Including: Interests payable		**–**	13,156,812.78
Dividends payable		**28,451,140.35**	27,519,691.51
Non-current liabilities due within one year		**281,511,419.08**	170,826,135.24
Other current liabilities		**3,259,736.35**	1,176,168.16
Total current liabilities		**7,014,765,937.40**	6,736,276,820.76

Items	*Notes*	**31 December 2019**	31 December 2018
Non-current liabilities:			
Long-term loans		**1,642,606,224.02**	843,184,922.99
Bonds payable		**–**	799,143,854.22
Lease liabilities		**127,703,443.23**	–
Long-term payables		**4,505,143.84**	147,696,759.15
Long-term employee benefits payable		**6,759,000.00**	16,294,000.00
Provisions		**21,754,527.73**	20,617,240.24
Deferred revenue		**301,172,088.60**	405,298,663.38
Deferred tax liabilities		**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
Shareholder's equity:			
Share capital		**3,684,640,154.00**	3,684,640,154.00
Capital reserves		**50,311,968.20**	50,311,968.20
Other comprehensive income		**21,514,640.55**	31,052,427.09
Surplus reserves		**364,663,370.96**	334,373,473.12
Retained profits		**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

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											
	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	420,762,299.14	7,229,661,943.36
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	(4,927,467.14)	(515,895.43)	(5,443,362.57)
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	7,224,218,580.79
3. Increase/Decrease for the period (Decrease listed with "-")	-	-	-	-	-	-	(9,537,786.54)	-	30,289,897.84	-	19,696,712.20	24,422,768.44	64,871,591.94
(1) Total comprehensive income	-	-	-	-	-	-	3,450,550.34	-	-	-	184,834,923.25	19,185,393.90	207,470,867.49
(2) Capital contribution and reduction from shareholders	-	-	-	-	-	-	-	-	-	-	-	36,000,000.00	36,000,000.00
1. Common stock capital contribution from shareholders	-	-	-	-	-	-	-	-	-	-	-	36,000,000.00	36,000,000.00
2. Capital contribution from holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Equity increase from Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit appropriations	-	-	-	-	-	-	-	-	30,289,897.84	-	(178,126,274.36)	(24,699,291.70)	(172,535,668.22)
1. Appropriation to statutory reserve	-	-	-	-	-	-	-	-	30,289,897.84	-	(30,289,897.84)	-	-
2. Appropriation to staff bonus and welfare	-	-	-	-	-	-	-	-	-	-	(450,770.36)	-	(450,770.36)
3. Appropriation to shareholders	-	-	-	-	-	-	-	-	-	-	(147,385,606.16)	(24,699,291.70)	(172,084,897.86)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-

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

Items	For the year 2018												
	Equity attributable to the equity holders of the controlling Company												
		Other equity instruments											
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained profits	Non-controlling interests	Total equity
1. Balance at 31 December 2017	3,684,640,154.00	-	-	-	49,744,935.00	-	27,977,334.00	-	297,517,132.00	-	2,717,844,150.00	400,262,838.00	7,177,986,543.00
Add: Changes in accounting policies	-	-	-	-	-	-	(2,079,985.00)	-	-	-	(305,543,321.33)	(6,339,889.26)	(313,963,195.59)
2. Balance at 1 January 2018	3,684,640,154.00	-	-	-	49,744,935.00	-	25,897,349.00	-	297,517,132.00	-	2,412,300,828.67	393,922,948.74	6,864,023,347.41
3. Increase/Decrease for the year (Decrease listed with "-")	-	-	-	-	567,033.20	-	5,155,078.09	-	36,856,341.12	-	296,220,793.14	26,839,350.40	365,638,595.95
(1) Total comprehensive income	-	-	-	-	-	-	5,155,078.09	-	-	-	444,060,837.39	51,470,094.63	500,686,010.11
(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	-	-	-	-	-	-	-	-	36,856,341.12	-	(147,840,044.25)	(22,721,152.03)	(133,704,855.16)
1. Appropriation to statutory reserve	-	-	-	-	-	-	-	-	36,856,341.12	-	(36,856,341.12)	-	-
2. Appropriation to staff bonus and welfare	-	-	-	-	-	-	-	-	-	-	(444,498.51)	-	(444,498.51)
3. Appropriation to shareholders	-	-	-	-	-	-	-	-	-	-	(110,539,204.62)	(22,721,152.03)	(133,260,356.65)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-

Items	For the year 2018												
	Equity attributable to the equity holders of the controlling Company												
		Other equity instruments											
	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained profits	Non-controlling interests	Total equity
(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	-	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation this year	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Used this year	-	-	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	567,033.20	-	-	-	-	-	-	(1,909,592.20)	(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	420,762,299.14	7,229,661,943.36

CONSOLIDATED STATEMENT OF CASH FLOW

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

Items	*Notes*	**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
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

Items	*Notes*	**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	*4.14*	**1,537,567,094.59**	1,570,343,395.06

NOTES:

I. GENERAL INFORMATION

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

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

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

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

2. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of preparation

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

(2) Going concern

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

(3) Both new revised guidelines adopted by the Company

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.

3. SEGMENT INFORMATION

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

The Group has 9 reportable segments as follows:

Engine: in charge of production and sales of engines;

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

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

General machinery: production and sales of general machinery;

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

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

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

Other segments: producing and selling other products;

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

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

3.1 Financial information of reportable segments in this period:

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

3.2 Financial information of reportable segments in last period:

Item	Engines	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
Total segment revenue	–	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	–	199,261,154.68	1,005,702,225.73	–	4,177,824,814.78
Inter-segment transaction cost	–	(4,310.34)	(8,243,404.60)	(8,418,378.37)	(19,361,252.26)	(2,038,514.33)	–	(97,283,443.68)	(3,914,064.42)	(88,120.04)	(139,351,488.04)
External transaction cost	–	445,857,448.57	1,134,240,556.45	708,141,405.35	9,436,128.07	637,120,036.03	–	101,977,711.00	1,001,788,161.31	(88,120.04)	4,038,473,326.74
Gross profit rates (%)	–	19.53	17.27	22.19	86.31	27.88	–	3.33	28.01	–	23.58
Operating (loss)/profit	315,455,871.59	8,551,467.10	193,022,751.13	20,577,189.72	39,839,633.97	(12,247,157.63)	27,280,400.76	1,276,711.82	(22,178,817.24)	(14,848,020.52)	556,730,030.70
Interest income	–	705,598.78	209,318.09	12,496,330.62	–	19,143,553.24	–	2,221,055.16	3,698,093.01	–	38,473,948.90
interest costs	–	5,461,433.99	7,504,365.12	37,578,842.47	–	47,859,051.75	–	100,165.26	86,404,536.31	(24,116,101.57)	160,792,293.33
Investment income from associates and joint ventures	315,455,871.59	–	–	–	–	3,698,081.58	27,280,400.76	–	22,888,802.51	–	369,323,156.44
Total profit	315,455,871.59	9,809,602.39	195,026,305.65	22,058,196.46	39,863,033.65	(24,111,010.79)	27,280,400.76	1,590,532.02	(16,452,850.56)	(14,848,020.52)	555,672,060.65
Income tax expense	–	(388,718.29)	28,620,676.96	9,680,923.68	9,412,034.73	6,471,277.51	–	–	7,801,733.05	(1,097,700.00)	60,500,227.64
Net profit	315,455,871.59	10,198,320.68	166,405,628.69	12,377,272.78	30,450,998.92	(30,818,404.97)	27,280,400.76	1,590,532.02	(24,018,466.94)	(13,750,320.52)	495,171,833.01
Depreciation of Property, plant and equipment and investment peoperty	–	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)

3.3 Assets and liabilities of each segment

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

Beginning balance	Engines	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
Total assets	360,896,119.24	2,127,311,656.08	915,622,603.00	3,658,843,585.11	3,573,223,434.74	3,276,304,803.93	248,255,606.76	178,986,451.07	9,310,078,004.98	(7,371,838,466.24)	16,277,683,798.67
Total liabilities	–	1,593,004,224.32	555,852,406.24	2,764,649,561.06	2,807,649,911.91	2,228,816,512.97	–	155,138,828.08	2,703,766,781.13	(3,760,856,370.40)	9,048,021,855.31
Investment of associates or joint ventures	360,896,119.24	–	–	–	–	89,742,246.20	248,255,606.76	–	310,260,813.08	–	1,009,154,785.28

4.1 OPERATING REVENUE & OPERATING COST

(1) Operating revenue & operating cost

Items	Amount of the year		Amount of last year	
	Revenue	**Cost**	Revenue	Cost
Main operations	**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.

(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**

(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.

(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 RMB2,278,499,176.54 yuan (of which the revenue corresponding to the performance obligations that have been signed but not yet fulfilled is RMB1,922,217,086.96 yuan, and the signed but not yet The amount of income corresponding to the performance of performance obligations is RMB356,282,089.58 yuan).

4.2 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

4.3 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 RMB2,264,150.94 yuan (excluding tax) and interim financial statement reviewing fee RMB566,037.74 yuan (excluding tax).

4.4 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

4.5 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.

4.6 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

4.7 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

4.8 GAINS ON DISPOSALS OF ASSETS

Items	**Amount of the year**	Amount of last year	Amount recorded in extraordinary profit and loss
Gains on disposals of non-current assets which are not classified as held for sale	**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

4.9 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

4.10 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 assests	**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

4.11 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

4.12 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

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 RMB147,385,606.16 yuan 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 RMB47,419,154.64 yuan withdrawn by the subsidiary Chongqing Mechanical and Electrical Holdings Group Finance Co., Ltd. (the beginning of the year was RMB51,123,100.83 yuan).

4.13 RETURN ON NET ASSETS AND EARNINGS PER SHARE

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

Profit for the reporting year	Amount	Weighted average return on equity attributable to parent company (%)	Earnings per share: Basic earnings per share	Earnings per share: Diluted earnings per share
Net profit attributable to the shareholders of the Company	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)	–	–

4.14 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
Balance of cash and equivalents	**1,537,567,094.59**	1,570,343,395.06
Restricted cash	**557,052,553.97**	594,326,911.12
Total	**2,094,619,648.56**	2,164,670,306.18

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

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**

4.15 NOTES RECEIVABLE

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.

4.16 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.

(1) 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

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

4.17 ACCOUNTS PAYABLE

(1) 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.

4.18 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 payble	**3,934,920.00**	934,085.69	934,085.69
Others	**27,145,094.00**	14,246,099.12	12,879,900.63
Total	**1,686,336,446.82**	1,523,891,737.12	1,522,525,538.63

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	**1,686,336,446.82**	1,523,891,737.12	1,522,525,538.63

CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to announce the annual results of the Group for the year ended 31 December 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 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: approximately 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.

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: approximately 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 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.

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.

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.

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.

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.

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.

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".

(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 customer 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 collection and payment terms of the contract; strengthen the management of inventory and storage, control the backlog of pre-investment, track customer project progress in a timely manner, maintain close communication with customers to achieve timely delivery and reduce inventory. Ensure that the proportion of "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.

(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.

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 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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Operation Analysis

Clean energy equipment business (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.

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.

High-end smart equipment business (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 business (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.

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 of 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.

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 4.6 to these 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 4.8 to these 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 Notes 4.2 and 4.3 to these 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.

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 4.7 to these 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.

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.

FINAL DIVIDEND

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

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

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

The Board has recommended the payment of a final dividend of RMB0.01 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 yuan (totaling RMB147,385,606.16 yuan 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.

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

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

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.

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.

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.

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.

SUBSEQUENT EVENTS

(I) 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 yuan. For details, please refer to the announcement of the Board of the Company dated 6 January 2020 publicated on the website of the Stock Exchange and the Company's website.

(II) 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.

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.

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.

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.

OTHER CORPORATE INFORMATION

Competition and Conflict of Interests

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.

CONNECTED TRANSACTIONS

During the Period, the Company had no connected transactions.

CONTINUING CONNECTED TRANSACTIONS

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

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

Master Sales Agreement

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

Additionally, in case where there are material fluctuations in the prices of any or all of the products, the parties shall re-negotiate the terms of the Master Sales Agreement in good faith by way of entering into a supplemental agreement or a new master sales agreement. The Master Sales Agreement is valid for a period of three years from the date of the agreement and can be renewed by the Company for a successive term of three years by giving notice at least three months prior to the expiry of the initial term. Accordingly, the 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 by 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. supplier (except the Company and its subsidiaries) in the same or similar products in the same area in daily operations on normal commercial terms to the independent third party for the price);

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

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

For the year ended 31 December 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 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 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 through the industry website or enquiry with at least two independent third party market (i.e. the supplier (except the Parent Company and its associates) in the price of the same or similar products in the same area in daily operations on normal commercial terms to provide to the independent third party);

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

(iii) If 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)).

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 services 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 were 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.

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 indictors and other factors, so as to ensure that the interests for loans provided by the Finance Company to the Parent Group are in line with the above pricing standards for loan services.

Guarantee services

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

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

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

For the year ended 31 December 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:

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).

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

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

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

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

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

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

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

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

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

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

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

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.

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.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Board of the Company has established the Audit and Risk Management Committee in accordance with the requirements and its latest revision of the Corporate Governance Code. The committee has written terms of reference which are available on the websites of the Stock Exchange and the Company. The Audit and Risk Management Committee of the Company currently consists of 3 independent non-executive Directors and 1 non-executive Director (namely, Mr. Lo Wah Wai, Mr. Jin Jingyu, Mr. Liu Wei and Mr. 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. The Audit and Risk Management Committee has reviewed the Company's results for the period under review.

REMUNERATION COMMITTEE

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

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

NOMINATION COMMITTEE

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

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

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

STRATEGIC COMMITTEE

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

SUPERVISORY COMMITTEE

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

SECURITIES TRANSACTION BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

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

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

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

Chongqing, the PRC
27 March 2020

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