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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 2022**

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 2.8% to approximately RMB7,205.4 million yuan
- Gross profit decreased by approximately 4.1% to approximately RMB1,426.6 million yuan
- Profit attributable to shareholders increased by approximately 4.6% to approximately RMB310.2 million yuan
- Earnings per share was approximately RMB0.08 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 2022 and the comparative figures for the corresponding period of 2021 as follows:

* For identification purposes only

CONSOLIDATED INCOME STATEMENT

For the year 2022

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

Unit: RMB

Items	Notes	For The Year 2022	For The Year 2021
1. Total operating revenue	4.1	7,205,352,432.71	7,410,613,529.93
Including: Operating revenue	4.1	7,138,100,171.71	7,342,993,341.26
Interest income	4.1	67,246,411.95	67,604,470.05
Transaction fees and commission income	4.1	5,849.05	15,718.62
2. Total operating cost		7,104,455,866.66	7,325,855,642.48
Including: Operating cost	4.1	5,769,247,708.70	5,913,009,286.87
Interest expenses	4.1	9,314,149.88	9,069,971.91
Transaction cost and commission fees	4.1	224,296.45	218,167.83
Business taxes and surcharges		64,911,651.01	59,349,611.57
Selling and distribution expenses	4.2	266,001,522.49	267,701,560.87
Administrative expenses	4.3	594,757,559.95	602,243,334.02
Research and development expenses	4.4	343,012,354.11	385,084,499.26
Financial expenses	4.5	56,986,624.07	89,179,210.15
Including: Interest expenses	4.5	108,822,912.50	110,440,245.09
Interest income	4.5	41,057,847.14	42,007,575.45
Add: Other income	4.6	179,056,241.95	98,662,362.69
Investment income (Loss listed with “-”)	4.7	229,664,925.53	386,549,217.58
Including: Income from investments in associates and joint ventures	4.7	226,084,890.63	385,333,384.96
Gain arising from the changes in fair value (Loss listed with “-”)	4.8	1,629,302.38	-2,576,785.41
Impairment loss of credit (Loss is listed by “-”)	4.9	-49,570,766.32	-283,126,415.59
Impairment loss of assets (Loss is listed by “-”)	4.10	-186,018,115.70	-84,934,918.51
Gain on disposal of assets (Loss listed with “-”)	4.11	103,337,051.63	136,621,487.05
3. Operating profit (Loss listed with “-”)		378,995,205.52	335,952,835.26
Add: Non-operating income	4.12	12,253,844.26	16,504,022.84
Less: Non-operating expenses	4.13	9,667,289.33	22,315,395.51
4. Total profit (Total loss listed with “-”)		381,581,760.45	330,141,462.59
Less: Income tax expenses	4.14	61,556,998.60	12,148,917.17

Items	<i>Notes</i>	For The Year 2022	For The Year 2021
5. Net profit (Net loss listed with “-”)		320,024,761.85	317,992,545.42
(1) Classification by continuing or discontinued operation		320,024,761.85	317,992,545.42
1. Net profit attributable to continuing operation (Net loss listed with “-”)		320,024,761.85	317,992,545.42
2. Net profit attributable to discontinued operation (Net loss listed with “-”)		-	-
(2) Classification by ownership		320,024,761.85	317,992,545.42
1. Net profit attributable to shareholders of the controlling company		310,203,160.96	296,511,290.59
2. Net profit attributable to non-controlling interests		<u>9,821,600.89</u>	<u>21,481,254.83</u>
6. Net other comprehensive income after tax		10,286,697.05	63,640,838.66
Net other comprehensive income after tax attributable to shareholders of the Company		11,077,291.40	63,090,536.31
(1) Other comprehensive incomes that cannot be reclassified into profit or loss		19,900,839.21	65,862,335.13
(1) Changes from recalculation of defined benefit plan		-110,670.00	146,610.00
(2) Transfer changes of defined benefit plan to retained earnings		-	-
(3) Changes in fair value of other equity instrument investments		20,011,509.21	65,715,725.13
(2) Other comprehensive income that can be reclassified into profit or loss		-8,823,547.81	-2,771,798.82
1. Effective part of cash flow hedging		-2,136,933.15	1,437,485.15
2. Effective portion of net investment hedging gains and losses		-	-
3. Translation differences of financial statements in foreign currencies		-6,686,614.66	-4,209,283.97
Net other comprehensive income after tax attributable to non-controlling interests		<u>-790,594.35</u>	<u>550,302.35</u>

Items	<i>Notes</i>	For The Year 2022	For The Year 2021
7. Total comprehensive income		330,311,458.90	381,633,384.08
1. Total comprehensive income attributable to shareholders of the Company		321,280,452.36	359,601,826.90
2. Total comprehensive income attributable to non-controlling interests		<u>9,031,006.54</u>	<u>22,031,557.18</u>
8. Earnings per share			
1. Basic earnings per share		0.08	0.08
2. Diluted earnings per share		<u>0.08</u>	<u>0.08</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 Dec 2022

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

Unit: RMB

Items	Notes	31 December 2022	31 December 2021
Current assets			
Cash and cash equivalents	4.15	2,596,998,658.56	2,178,851,965.55
Financial assets held for trade		101,853,290.98	3,303,288.23
Redemptory monetary capital for sale		100,056,986.30	200,000,000.00
Notes receivable	4.16	576,803,533.76	694,406,169.06
Accounts receivable	4.17	2,586,879,298.37	2,517,917,402.87
Receivable financing		717,870,298.49	681,564,554.57
Prepayments		196,137,186.76	248,162,385.38
Other receivables		796,413,910.59	949,236,551.19
Including: Dividends receivable		438,662,409.13	562,427,607.42
Loans and advances to customers		833,369,905.09	802,055,701.48
Inventories		2,083,986,156.29	2,129,070,494.07
Contract assets		657,039,218.09	371,647,306.25
Held-for-sale assets		–	2,922,348.96
Non-current assets due within one year		17,686,791.34	17,400,000.00
Other current assets		31,319,234.45	53,175,046.31
Total current assets		11,296,414,469.07	10,849,713,213.92
Non-current assets			
Loans and advances to customers		117,411,126.84	94,205,605.96
Long-term receivables		44,216,978.34	60,900,000.00
Long-term equity investments		1,201,299,694.12	1,207,708,236.11
Other equity instruments investment		166,617,000.00	139,934,987.72
Investment properties		202,364,566.43	166,912,701.11
Property, plant and equipment		2,656,819,049.62	2,562,081,567.51
Construction in progress		119,703,292.94	141,496,563.68
Right-to-use assets		100,604,017.90	260,066,371.99
Intangible assets		519,907,118.31	562,027,040.56
Development expenditures		13,192,277.05	1,355,649.75
Goodwill		106,090,917.60	131,023,552.79
Long-term deferred expenses		78,987,445.91	108,428,301.90
Deferred tax assets		118,414,851.63	100,196,219.91
Other non-current assets		475,782,102.71	349,335,218.60
Total non-current assets		5,921,410,439.40	5,885,672,017.59
Total assets		17,217,824,908.47	16,735,385,231.51

Items	Notes	31 December 2022	31 December 2021
Current liabilities			
Short-term loans		790,701,461.79	518,976,799.53
Due to customers, banks and other financial institutions		1,006,374,695.10	939,708,641.17
Notes payable	4.18	1,215,749,145.09	1,176,743,855.98
Accounts payable	4.19	2,204,231,898.05	1,846,574,174.57
Contract liabilities		698,373,393.42	893,509,599.02
Employee benefits payables		121,489,430.70	81,501,621.21
Taxes and levies payables		202,850,769.30	168,645,739.36
Other payables		395,252,103.21	460,159,820.62
Including: Dividends payable		32,594,421.98	33,910,296.08
Non-current liabilities due within one year		781,411,981.61	449,529,410.73
Other current liabilities		44,481,729.40	54,281,115.54
Total current liabilities		<u>7,460,916,607.67</u>	<u>6,589,630,777.73</u>
Non-current liabilities			
Long-term loans		1,351,096,997.70	1,968,258,239.06
Lease liabilities		47,643,594.96	5,650,872.92
Long-term payables		950,189.77	2,182,769.39
Long-term employee benefits payable		5,697,000.00	6,148,000.00
Provisions		41,517,147.29	37,701,462.30
Deferred revenue		216,152,209.40	240,134,120.88
Deferred tax liabilities		76,223,661.30	71,956,379.75
Total non-current liabilities		<u>1,739,280,800.42</u>	<u>2,332,031,844.30</u>
Total liabilities		<u>9,200,197,408.09</u>	<u>8,921,662,622.03</u>

Items	<i>Notes</i>	31 December 2022	31 December 2021
Shareholder's equity			
Share capital		3,684,640,154.00	3,684,640,154.00
Capital reserves		71,991,114.02	72,556,920.37
Other comprehensive income		110,226,324.25	99,149,032.85
Surplus reserves		471,043,765.88	444,509,347.69
Undistributed profit		<u>3,220,477,922.19</u>	<u>3,048,090,000.17</u>
Total equity attributable to shareholders of the Company		<u>7,558,379,280.34</u>	<u>7,348,945,455.08</u>
Non-controlling interests		<u>459,248,220.04</u>	<u>464,777,154.40</u>
Total shareholder's equity		<u>8,017,627,500.38</u>	<u>7,813,722,609.48</u>
Total liabilities and shareholder's equity		<u>17,217,824,908.47</u>	<u>16,735,385,231.51</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Unit: RMB

For The Year 2022

Items	Equity attributable to the equity holders of the controlling Company											Total equity	
	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
1. Balance at 31 December 2021	3,684,640,154.00	-	-	-	72,556,920.37	-	99,149,032.85	-	444,519,347.69	-	3,048,090,000.17	464,777,154.40	7,813,722,609.48
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Correction of prior-period errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2022	3,684,640,154.00	-	-	-	72,556,920.37	-	99,149,032.85	-	444,519,347.69	-	3,048,090,000.17	464,777,154.40	7,813,722,609.48
3. Increase/Decrease for the year (Decrease listed with "+")	-	-	-	-	-565,806.35	-	11,077,291.40	-	26,534,418.19	-	172,387,922.02	-5,528,934.36	203,904,890.90
(1) Total comprehensive income	-	-	-	-	-	-	11,077,291.40	-	-	-	310,203,160.96	9,031,006.54	330,311,458.90
(2) Capital contribution and reduction from shareholders	-	-	-	-	-565,806.35	-	-	-	-	-	-	-	-565,806.35
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	-	-	-	-	-565,806.35	-	-	-	-	-	-	-	-565,806.35
(3) Profit appropriations	-	-	-	-	-	-	-	-	26,534,418.19	-	-137,815,238.94	-16,476,390.61	-127,757,211.36
1. Appropriation to statutory reserve	-	-	-	-	-	-	-	-	26,534,418.19	-	-26,534,418.19	-	-
2. Appropriation to staff bonus and welfare	-	-	-	-	-	-	-	-	-	-	-741,616.13	-	-741,616.13
3. Appropriation to shareholders	-	-	-	-	-	-	-	-	-	-	-110,539,204.62	-16,476,390.61	-127,015,595.23
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-

For The Year 2022

Equity attributable to the equity holders of the controlling Company

Items	Other equity instruments										Total equity			
	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	
(4) Transfer	-	-	-	-	-	-	-	-	-	-	-	-	-	
1. Transfer of capital reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	
2. Transfer of surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	
3. Surplus reserves transfer to make up for losses	-	-	-	-	-	-	-	-	-	-	-	-	-	
4. Transfer other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	
5. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	
1. Appropriation	-	-	-	-	-	-	-	-	-	-	-	-	-	
2. Used	-	-	-	-	-	-	-	-	-	-	-	-	-	
(6) Others	-	-	-	-	-	-	-	-	-	-	-	-	-	
4. Balance at 31 December 2022	3,684,640,154.00	-	-	-	71,991,114.02	-	110,226,324.25	-	471,043,765.88	-	3,220,477,922.19	459,248,220.04	1,916,449.71	8,017,627,500.38

For the year 2021

Equity attributable to the equity holders of the controlling Company

Items	Other equity instruments										Total equity		
	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
1. Balance at 31 December 2020	3,684,640,154.00	-	-	-	67,546,968.20	-	36,058,496.54	-	406,895,352.07	-	2,826,706,511.09	453,904,818.31	7,475,752,300.21
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Correction of prior-period errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2021	3,684,640,154.00	-	-	-	67,546,968.20	-	36,058,496.54	-	406,895,352.07	-	2,826,706,511.09	453,904,818.31	7,475,752,300.21
3. Increase/Decrease for the year (Decrease listed with “-”)													
(1) Total comprehensive income	-	-	-	-	5,009,952.17	-	63,090,536.31	-	37,613,995.62	-	221,383,489.08	10,872,336.09	337,970,309.27
(2) Capital contribution and reduction from shareholders	-	-	-	-	-	-	63,090,536.31	-	-	-	296,511,290.59	22,031,557.18	381,633,384.08
1. Common stock capital contribution from shareholders	-	-	-	-	5,009,952.17	-	-	-	-	-	-	330,000.00	5,339,952.17
2. Capital contribution from holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	330,000.00	330,000.00
3. Equity increase from Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	5,009,952.17	-	-	-	-	-	-	-	5,009,952.17
(3) Profit appropriations	-	-	-	-	-	-	-	-	37,613,995.62	-	-75,127,801.51	-11,489,221.09	-49,003,026.98
1. Appropriation to statutory reserve	-	-	-	-	-	-	-	-	37,613,995.62	-	-37,613,995.62	-	-
2. Appropriation to staff bonus and welfare	-	-	-	-	-	-	-	-	-	-	-667,404.35	-	-667,404.35
3. Appropriation to shareholders	-	-	-	-	-	-	-	-	-	-	-36,846,401.54	-11,489,221.09	-48,335,622.63
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-

For the year 2021

Equity attributable to the equity holders of the controlling Company

Items	Other equity instruments										Total equity		
	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
(4) Transfer	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer of capital reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer of surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves transfer to make up for losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Transfer other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Used	-	-	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Balance at 31 December 2021	3,684,640,154.00	-	-	-	72,556,970.37	-	99,149,032.85	-	444,509,347.69	-	3,048,090,000.17	464,777,154.40	7,813,722,609.48

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year 2022

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

Unit: RMB

Items	Notes	For The Year 2022	For The Year 2021
1. Cash flows from operating activities			
Cash received from sales of goods and rendering of services		6,222,665,625.31	6,584,340,897.89
Net increase in customer deposits and interbank deposits		66,706,239.98	114,926,987.63
Cash received from interest, surcharges and commission fee		58,501,908.44	71,661,496.87
Cash received from tax refund		52,884,708.53	23,993,806.84
Cash received relating to other operating activities		469,253,697.42	427,146,088.65
Sub-total of cash inflows from operating activities		6,870,012,179.68	7,222,069,277.88
Cash paid for goods and services		4,571,479,584.10	4,743,987,131.93
Net increase in loans and advances to customers		55,917,666.14	-64,537,153.61
Net increase in central bank and interbank payments		-3,057,350.87	15,896,449.34
Cash paid for interest, surcharges and commission fee		9,320,809.03	11,077,485.48
Cash paid to and on behalf of employees		1,086,340,295.52	1,082,743,610.35
Payments of taxes and surcharges		335,808,403.75	360,944,428.43
Cash paid relating to other operating activities		575,136,077.10	688,211,664.75
Sub-total of cash outflows from operating activities		6,630,945,484.77	6,838,323,616.67
Net cash flows from operating activities		239,066,694.91	383,745,661.21
2. Cash flows from investment activities			
Cash received from return of investments		281,554,960.00	291,653,092.05
Cash received from investments income		360,606,741.15	202,982,812.94
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		204,501,872.16	439,394,504.44
Cash received relating to other investing activities		47,621,113.30	47,755,458.33
Sub-total of cash inflows from investing activities		894,284,686.61	981,785,867.76

Items	<i>Notes</i>	For The Year 2022	For The Year 2021
Cash paid to acquire fixed assets, intangible assets and other long-term assets		71,750,955.88	122,162,276.03
Cash paid for investments		380,554,960.00	282,653,092.05
Cash paid relating to other investing activities		<u>3,730,794.68</u>	<u>35,307,476.11</u>
Sub-total of cash outflow from investing activities		<u>456,036,710.56</u>	<u>440,122,844.19</u>
Net cash flows from investing activities		<u><u>438,247,976.05</u></u>	<u><u>541,663,023.57</u></u>
3. Cash flows from financing activities			
Cash received from investments		-	330,000.00
Including: cash received by subsidiaries from investment of non-controlling interests		-	330,000.00
Cash received from loans granted		1,442,176,314.08	1,733,011,264.62
Cash received relating to other financing activities		<u>533,000.00</u>	<u>4,600,000.00</u>
Sub-total of cash inflows from financing activities		<u>1,442,709,314.08</u>	<u>1,737,941,264.62</u>
Cash paid for repayment of borrowings		1,487,515,251.32	1,738,530,987.50
Cash paid for dividends, profits or payments of interests		180,886,788.80	172,376,012.32
Including: dividends and profits paid to non-controlling interests by subsidiaries		15,847,839.56	6,874,345.00
Cash paid relating to other financing activities		<u>122,319,332.06</u>	<u>243,237,965.32</u>
Sub-total of cash outflows from financing activities		<u>1,790,721,372.18</u>	<u>2,154,144,965.14</u>
Net cash flows from financing activities		<u><u>-348,012,058.10</u></u>	<u><u>-416,203,700.52</u></u>
4. Effects of changes in exchange rate on cash and cash equivalents		<u>2,348,002.12</u>	<u>-8,079,132.99</u>
5. Net increase in cash and cash equivalents		331,650,614.98	501,125,851.27
Add: opening balance of cash and cash equivalents		<u>1,828,414,971.96</u>	<u>1,327,289,120.69</u>
6. Balance of cash and cash equivalents at the end of this period		<u><u>2,160,065,586.94</u></u>	<u><u>1,828,414,971.96</u></u>

NOTES:

I. GENERAL INFORMATION

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

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

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

The consolidated financial statements have been approved for issue by the Board of Directors of the Group on 22 March 2023.

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”, the Listing Rules of Hong Kong Stock Exchange and based on the accounting policies and accounting estimates set out in “IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES” in this note.

2. Going concern

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

3. SEGMENT INFORMATION

The group's reporting segments are business units operating on the basis of different products or services, or in different regions. As various businesses or regions require different technologies and market strategies, the group's divisions independently manage the production and operation activities of each reporting division and evaluate its operating results in order to determine the allocation of resources to it and evaluate its performance.

The Group has 10 reporting divisions which are:

Engine division, responsible for the production and sales of engine products;

Hydropower equipment Division, responsible for the production and sales of hydropower products;

Wire and cable division, responsible for the production and sales of wire and cable products;

General machinery division, responsible for the production and sales of general machinery products;

CNC machine tools division, responsible for the production and sales of CNC machine tools in China and Europe;

High voltage transformer division, responsible for the production and sales of high voltage transformer products;

Material sales division, responsible for material sales;

Financial Services division, responsible for providing financial services such as loans;

Industrial Pump Division: responsible for the production and sales of industrial pump products;

Other divisions, responsible for producing and selling other products.

The inter-division transfer price shall be determined by both parties through negotiation.

Assets, liabilities, revenues and expenses are allocated according to the operations of the segment.

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

Items	Hydroelectric						High-voltage transformers						Other segments						Total
	Engines	generation equipment	Electrical wire and cable	General machinery	Industrial pump	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total	Materials sales	Other segments	Offset	Total			
Total segment revenue	-	183,697,875.71	1,776,519,207.04	4,082,675,889.87	1,103,649,526.77	107,390,616.30	753,004,362.33	-	16,889,925.34	941,500,615.09	-	8,946,328,018.45	-	-	-	8,946,328,018.45			
Inter-segment revenue	-	-7,864,368.34	-6,243,916.91	-1,686,718,179.31	-	-40,138,355.30	-5,856,671.69	-	-161,142.38	-12,992,951.81	-	-1,759,973,585.74	-	-	-	-1,759,973,585.74			
Revenue from external customers	-	175,833,507.37	1,770,275,290.13	2,395,957,710.56	1,103,649,526.77	67,252,261.00	747,147,690.64	-	16,728,782.96	928,507,663.28	-	7,205,352,432.71	-	-	-	7,205,352,432.71			
Operating costs	-	169,900,272.07	1,538,698,359.39	3,536,940,513.94	637,769,988.94	35,065,091.24	571,178,520.95	-	14,042,900.73	773,364,457.44	-	7,277,500,104.70	-	-	-	7,277,500,104.70			
Inter-segment transaction cost	-	8,211,968.19	-6,243,916.91	-1,464,838,860.26	-	-26,066,644.91	-994,546.89	-	-	-8,781,948.89	-	-1,498,713,949.67	-	-	-	-1,498,713,949.67			
External transaction cost	-	178,112,240.26	1,532,454,442.48	2,072,101,653.68	637,769,988.94	9,538,446.33	570,183,974.06	-	14,042,900.73	764,582,508.55	-	5,778,786,155.03	-	-	-	5,778,786,155.03			
Gross profit rates (%)	-	-1.30%	13.43%	13.52%	42.21%	85.82%	23.69%	-	16.06%	17.65%	-	19.80%	-	-	-	19.80%			
Operating (loss)/profit	204,792,206.70	-171,205,881.99	95,465,666.91	72,716,064.16	202,918,240.54	41,355,909.34	-70,844,015.67	44,352,724.35	74,380.44	-40,630,089.26	-	378,995,205.52	-	-	-	378,995,205.52			
Interest income	-	273,300.36	136,532.09	1,958,491.43	2,066,713.47	-	8,265,113.04	-	-60,129.26	28,417,826.01	-	41,057,847.14	-	-	-	41,057,847.14			
Interest costs	-	3,458,737.50	4,453,843.30	2,077,285.74	-	-	14,792,818.55	-	-	84,040,227.41	-	108,822,912.50	-	-	-	108,822,912.50			
Investment income from associates and joint ventures	204,792,206.70	-	-	-	-	-	-9,850,839.27	44,352,724.35	-	-13,209,201.15	-	226,084,890.63	-	-	-	226,084,890.63			
Total profit	204,792,206.70	-171,010,713.45	95,377,814.18	69,580,011.82	210,412,199.14	41,355,909.34	-74,527,215.14	44,352,724.35	110,320.38	-38,861,496.87	-	381,581,760.45	-	-	-	381,581,760.45			
Income tax expense	-	-2,088,304.22	6,383,123.98	22,684,729.64	32,778,614.34	12,685,655.00	-7,397,694.11	-	-	-3,488,526.03	-	61,556,998.60	-	-	-	61,556,998.60			
Net profit	204,792,206.70	-168,922,409.23	88,994,690.20	46,895,282.18	177,633,848.80	28,670,854.34	-67,129,521.03	44,352,724.35	110,320.38	-35,372,970.84	-	320,024,761.85	-	-	-	320,024,761.85			
Other items	Engines	Hydroelectric generation equipment	Electrical wire and cable	General machinery	Industrial pump	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total	Materials sales	Other segments	Offset	Total			
Depreciation of Property, plant and equipment and investment property	-	39,202,010.99	13,209,533.07	52,457,844.62	10,196,603.94	800,269.79	70,117,504.91	-	256,390.59	46,266,159.49	-	232,506,317.40	-	-	-	232,506,317.40			
Amortisation of intangible assets	-	2,051,939.60	789,409.80	25,192,402.67	2,783,567.06	468,039.81	15,242,236.24	-	-	-4,908,146.82	-	41,619,448.36	-	-	-	41,619,448.36			
Provision on inventory	-	-	-17,576,923.56	871,015.94	-2,333,998.09	-	-11,573,974.65	-	-	1,681,712.48	-	-28,931,367.88	-	-	-	-28,931,367.88			
Provision for/(reversal of) impairment of accounts and other receivables	-	-39,674,872.55	-2,505,979.20	14,487,420.00	-12,759,490.84	-	-4,893,192.71	-	794,609.55	-2,807,427.00	-	-47,358,932.75	-	-	-	-47,358,932.75			
Additions to non-current assets (other than financial instruments, long term equity investments and deferred income tax assets)	-	-57,236,918.93	-1,937,585.30	105,595,285.90	51,743,159.51	-4,128,849.67	-321,009,464.08	-	-344,395.78	218,042,588.93	-	-9,276,179.42	-	-	-	-9,276,179.42			

Note: This year, the Group subdivided other segments, distinguishing industrial pumps from other segments.

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

Items	Hydrometric										Total
	Engines	Hydrometric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	
Total segment revenue	-	377,249,520.20	1,793,275,066.02	2,719,399,304.06	107,331,134.22	725,451,314.13	-	47,348,876.31	1,763,661,426.04	-	7,533,716,640.98
Inter-segment revenue	-	-244,319.36	-14,684,725.82	-6,094,635.13	-39,710,945.55	-6,979,128.13	-	-42,620,570.70	-12,768,786.36	-	-123,103,111.05
Revenue from external customers	-	377,005,200.84	1,778,590,340.20	2,713,304,668.93	67,620,188.67	718,472,186.00	-	4,728,305.61	1,750,892,639.68	-	7,410,613,529.93
Operating costs	-	349,651,202.52	1,581,918,220.65	2,127,143,291.73	33,916,536.50	594,947,854.29	-	46,524,130.85	1,283,925,400.70	-	6,018,026,637.24
Inter-segment transaction cost	-	-72,890.79	-14,684,725.82	-3,675,822.09	-24,628,396.76	-1,326,999.64	-	-42,230,134.25	-9,110,241.28	-	-95,729,210.63
External transaction cost	-	349,578,311.73	1,567,233,494.83	2,123,467,469.64	9,288,139.74	593,620,854.65	-	4,293,996.60	1,274,815,159.42	-	5,922,297,426.61
Gross profit rates (%)	-	7.27	11.88	21.74	86.26	17.38	-	9.19	27.19	-	20.08
Operating (loss)/profit	258,904,088.21	-27,148,105.80	93,881,613.52	73,691,863.42	45,465,348.56	-164,729,018.52	80,617,014.43	-110,867,304.40	86,137,335.84	-	335,952,835.26
Interest income	-	475,418.18	191,275.05	1,328,274.22	-	9,130,327.95	-	-48,467.00	30,930,747.05	-	42,007,575.45
Interest costs	-	2,062,547.86	4,014,352.12	9,760,514.39	-	15,347,549.24	-	-16,518.27	79,271,799.75	-	110,440,245.09
Investment income from associates and joint ventures	258,904,088.21	-	-	-	-	2,871,785.05	80,617,014.43	-	42,940,497.27	-	385,333,384.96
Total profit	258,904,088.21	-26,571,786.61	93,000,607.46	76,266,268.12	45,465,348.56	-171,607,907.54	80,617,014.43	-110,743,098.45	84,990,928.41	-	330,141,462.59
Income tax expense	-	-7,997,393.20	7,057,827.63	-584,167.80	13,834,246.50	-12,251,008.65	-	-	12,109,412.69	-	12,148,917.17
Net profit	258,904,088.21	-18,754,393.41	85,962,779.83	76,850,435.92	31,631,102.06	-159,356,898.89	80,617,014.43	-110,743,098.45	72,881,515.72	-	317,992,545.42
Other items	Engines	Hydrometric generation equipment	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
Depreciation of Property, plant and equipment and investment property	-	31,774,616.22	14,685,775.09	47,592,406.87	643,311.83	56,512,675.84	1,454,165.40	743,914.48	67,644,539.46	-	221,001,405.19
Amortisation of intangible assets	-	2,065,761.29	797,825.52	25,885,421.78	367,798.81	14,401,334.57	-	-	4,847,661.35	-	48,363,803.31
Provision on inventory	-	-	101,888.60	9,575,922.08	-	1,099,516.65	-	3,315,274.95	5,201,422.02	-	19,202,324.30
Provision for/(reversal of) impairment of accounts and other receivables	-	17,562,819.10	146,299.35	108,018,241.09	-	15,845,970.21	-	91,627,852.49	46,466,739.89	-	279,667,922.13
Additions to non-current assets (other than financial instruments, long term equity investments and deferred income tax assets)	-	-29,354,752.38	-13,699,464.17	-66,363,431.35	5,181,577.70	-97,089,223.24	-	2,982,960.06	6,807,426.28	-	-191,534,907.10

3.3 Assets and liabilities of each segment

Information on the assets and liabilities of reported segments as follows:

31-Dec-22	Hydroelectric		Engines	Electrical wire and cable		General machinery	Industrial pump	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
	generation equipment	Engines		generation equipment	Engines									
Total assets	1,708,197,250.94	406,890,867.68	1,342,330,918.32	4,728,539,071.65	1,861,796,137.52	3,857,014,311.66	2,435,507,007.82	376,654,006.68	89,568,291.84	10,755,413,613.79	-10,344,086,569.43	17,217,824,908.47		
Total liabilities	1,455,686,933.76	-	901,708,048.23	3,452,047,706.57	940,614,742.12	2,902,254,386.18	1,799,845,961.41	-	307,041,924.97	2,796,054,048.35	-5,355,050,343.50	9,200,197,408.09		
Investment of associates or joint ventures	-	406,890,867.68	-	-	-	-	76,585,735.65	376,654,006.68	-	341,169,084.11	-	1,201,299,694.12		

(Continued)

31 Dec 2021	Hydroelectric		Engines	Electrical wire and cable	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	Other segments	Offset	Total
	generation equipment	Engines										
Total assets	1,837,776,470.07	397,732,004.30	1,163,985,285.67	3,658,094,619.30	3,857,422,604.88	2,783,475,894.08	346,836,133.93	102,552,936.30	12,385,365,114.61	-9,797,875,831.63	16,735,385,231.51	
Total liabilities	1,418,206,097.02	-	766,059,999.20	2,776,396,025.37	2,925,983,874.80	2,051,391,905.41	-	320,486,676.82	3,872,275,468.30	-5,209,137,424.89	8,921,662,622.03	
Investment of associates or joint ventures	-	397,732,004.30	-	-	-	85,618,931.56	346,836,133.93	-	377,501,166.32	-	1,207,708,236.11	

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	7,030,915,794.08	5,730,758,512.72	7,254,832,676.39	5,862,885,451.32
Other operations	107,184,377.63	38,489,195.98	88,160,664.87	50,123,835.55
Interest	67,246,411.95	9,314,149.88	67,604,470.05	9,069,971.91
Transaction fees and commission income	5,849.05	224,296.45	15,718.62	218,167.83
Total	<u>7,205,352,432.71</u>	<u>5,778,786,155.03</u>	<u>7,410,613,529.93</u>	<u>5,922,297,426.61</u>

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	Headquarters	Total
Classified by region	1,459,216,752.49	5,652,241,362.59	91,635,746.34	2,258,571.29	7,205,352,432.71
Including: Mainland of China	1,335,409,538.64	5,589,101,657.76	91,635,746.34	2,258,571.29	7,018,405,514.03
Others	123,807,213.85	63,139,704.83	-	-	186,946,918.68
Types of contracts	1,459,216,752.49	5,652,241,362.59	91,635,746.34	2,258,571.29	7,205,352,432.71
Including: Equipment sales contract	1,230,241,482.67	3,798,414,306.58	-	-	5,028,655,789.25
Service contract	171,322,767.39	36,444,762.57	74,906,963.38	2,258,571.29	284,933,064.63
Materials sales contract	57,652,502.43	1,817,382,293.44	16,728,782.96	-	1,891,763,578.83
Classified by time of revenue recognition	1,459,216,752.49	5,652,241,362.59	91,635,746.34	2,258,571.29	7,205,352,432.71
Including: Recognizes revenue at a point in time	988,669,869.19	5,652,241,362.59	24,383,485.34	-	6,665,294,717.12
Recognizes revenue over time	470,546,883.30	-	67,252,261.00	2,258,571.29	540,057,715.59
Classified by sales channel	1,459,216,752.49	5,652,241,362.59	91,635,746.34	2,258,571.29	7,205,352,432.71
Including: Direct sales	1,358,642,866.42	5,038,905,806.93	74,745,821.00	2,258,571.29	6,474,553,065.64
Distribution	100,573,886.07	612,798,106.08	16,889,925.34	-	730,261,917.49
Internet sales	-	537,449.58	-	-	537,449.58

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

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

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

The income amount of the signed but not fulfilled or not fulfilled obligations is RMB2,522,322,014.96 (the income amount of the signed but not fulfilled obligations is RMB1,764,696,630.03 and the signed but not fulfilled obligations is RMB757,525,384.93).

4.2 SELLING AND DISTRIBUTION EXPENSES

Items	Amount of the year	Amount of last year
Labor cost	118,785,850.48	94,123,843.14
General office expenses	4,471,811.70	2,666,443.39
Property insurance premium	17,566,466.68	4,825,370.23
Service fee	2,086,815.64	3,722,516.41
Travel expenses	33,433,956.13	38,976,485.07
Advertising expenses	4,300,511.34	8,528,079.08
“3-Aspect-Warranty” fee	31,803,279.19	42,541,659.89
After-sale service fee	17,687,780.58	32,029,186.82
Business entertainment fee	12,356,492.09	9,397,546.08
Storage fee	2,491,485.30	2,600,208.55
Others	<u>21,017,073.36</u>	<u>28,290,222.21</u>
Total	<u>266,001,522.49</u>	<u>267,701,560.87</u>

4.3 ADMINISTRATIVE EXPENSES

Items	Amount of the year	Amount of last year
Labor cost	348,367,851.21	345,007,444.44
Depreciation expenses	62,937,960.60	59,997,674.07
Service fee	17,552,764.59	12,112,913.67
Repair charges	23,627,662.54	21,530,233.39
Consulting fee	15,944,665.44	14,240,133.38
–Audit service fees	3,743,338.93	4,150,214.17
–Tax service fees	623,499.39	278,596.11
–Other service fees	11,577,827.12	9,811,323.10
Amortization of intangible assets	13,220,812.02	37,818,178.24
Business entertainment fee	3,536,952.97	4,483,594.03
General office expenses	16,380,982.05	13,570,776.86
Rental fee	5,200,681.28	2,316,185.44
Insurance expenses	1,811,658.37	1,265,166.35
Property management fees	5,155,569.58	8,732,685.00
Staff placement fee	17,555,425.81	24,339,148.23
Transportation expense	3,498,157.47	3,805,835.34
Amortization of long term deferred expenses	341,020.13	368,193.26
Travel expenses	4,246,386.02	5,958,759.12
Others	<u>55,379,009.86</u>	<u>46,696,413.20</u>
Total	<u>594,757,559.95</u>	<u>602,243,334.02</u>

4.4 RESEARCH AND DEVELOPMENT EXPENSES

Items	Amount of the year	Amount of last year
Labor cost	151,179,319.66	147,784,548.37
Material fee	152,324,507.08	169,333,613.97
Amortization of intangible assets	6,165,488.28	6,537,456.28
Depreciation expenses	10,683,863.90	10,388,087.68
Consulting fee	5,446,874.84	24,739,477.81
Power expenses	2,553,858.19	2,177,007.53
General office expenses	1,751,448.29	1,007,557.36
Travel expenses	1,424,264.03	2,141,152.81
Design fee	25,638.30	461,333.08
Business entertainment fee	64,597.28	349,839.17
Others	11,392,494.26	20,164,425.20
Total	<u>343,012,354.11</u>	<u>385,084,499.26</u>

4.5 FINANCIAL EXPENSES

Items	Amount of the year	Amount of last year
Interest expenditure	108,822,912.50	133,568,556.05
Less: capitalized interest	–	23,128,310.96
Interest expenses	108,822,912.50	110,440,245.09
Less: Interest income	41,057,847.14	42,007,575.45
Add: Exchange loss	-29,980,267.74	3,978,331.76
Add: Bill discount expense	11,853,689.11	5,497,667.70
Add: Other expenditure	6,967,033.91	5,909,088.26
Add: Amortization of lease liabilities	381,103.43	5,361,452.79
Total	<u>56,986,624.07</u>	<u>89,179,210.15</u>

4.6 OTHER INCOME

Items	Amount of the year	Amount of last year
Innovative development project grants	51,643,671.00	20,793,648.00
Subsidies related to assets are transferred from deferred income	42,823,476.00	36,441,137.71
Amortization of relocation compensation	15,232,657.00	15,322,896.44
Special funds for industry and information technology	24,432,554.68	4,655,200.00
Others	1,587,805.46	-5,441.98
Tax returns	2,400,000.00	2,000,000.00
Job stabilization and social security subsidy	2,899,965.65	323,347.52
Research and development subsidy	6,968,325.00	15,112,930.00
Various awards related to business operation	7,095,792.00	4,018,645.00
Debt restructuring earnings	<u>23,971,995.16</u>	<u>-</u>
Total	<u>179,056,241.95</u>	<u>98,662,362.69</u>

4.7 INVESTMENT INCOME

Items	Amount of the year	Amount of last year
Investment income from long-term equity investments under equity method	226,084,890.63	385,333,384.96
Investment income from disposal of trading financial assets	383,363.35	432,616.60
Dividends from other equity instruments	1,176,370.79	735,075.00
Gain and loss on debt restructuring	<u>2,020,300.76</u>	<u>48,141.02</u>
Total	<u>229,664,925.53</u>	<u>386,549,217.58</u>

4.8 GAIN AND LOSS ARISING FROM THE CHANGES IN FAIR VALUE

Item	Current year	Last year
Financial assets at fair value through profit or loss	<u>1,629,302.38</u>	<u>-2,576,785.41</u>
Total	<u>1,629,302.38</u>	<u>-2,576,785.41</u>

4.9 IMPAIRMENT LOSS ON CREDIT

Items	Amount of the year	Amount of last year
Deposit inter-bank payments	-992,245.89	–
Bad debt provision for note receivable	-1,712,285.24	-153,894.81
Bad debt provision for accounts receivable	-40,217,814.52	-163,223,544.21
Provision for impairment of receivables financing	1,948,755.71	-4,903,176.93
Bad debt provision for other receivables	-7,141,118.23	-116,444,377.92
Bad debt provision for loans and advances to customers	-1,397,941.65	1,598,578.28
Credit commitment	-58,116.50	–
Total	<u>-49,570,766.32</u>	<u>-283,126,415.59</u>

4.10 LOSS ON IMPAIRMENT OF ASSETS

Items	Amount of the year	Amount of last year
Impairment loss on inventory	-28,931,367.88	-19,202,324.30
provision for bad debts of contract assets	-13,796,088.17	-12,288,640.79
Fixed assets depreciation reserves	-6,868,499.42	-36,389,992.51
Impairment provision of projects under construction	-64,895,150.60	–
provision for impairment of other non current assets	-46,594,374.44	-4,765,078.70
Provision for impairment of goodwill	-24,932,635.19	-12,288,882.21
Total	<u>-186,018,115.70</u>	<u>-84,934,918.51</u>

4.11 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	103,337,051.63	136,621,487.05	103,337,051.63
Including: Gains on disposals of PP&E	29,955,855.72	616,071.09	29,955,855.72
Gains on disposals of intangible assets	15,956,412.58	-7,245,941.69	15,956,412.58
Gain on disposal of Right-of-use assets	833,049.96	258,034.28	833,049.96
Gain on disposal of environmental protection to move assets	56,591,733.37	142,993,323.37	56,591,733.37
Total	<u>103,337,051.63</u>	<u>136,621,487.05</u>	<u>103,337,051.63</u>

4.12 NON-OPERATING INCOME

Items	Amount of the year	Amount of last year	Amount recorded in extraordinary profit and loss
Gains on retirement of non-current assets	–	509,708.74	–
Penalty incomes, default fine and compensation	8,781,637.80	6,531,456.40	8,781,637.80
Government grants	108,000.00	582,893.07	108,000.00
Unpayable payables	1,863,179.59	8,115,339.12	1,863,179.59
Others	1,501,026.87	764,625.51	1,501,026.87
Total	<u>12,253,844.26</u>	<u>16,504,022.84</u>	<u>12,253,844.26</u>

4.13 NON-OPERATING EXPENSES

Items	Amount of the year	Amount of last year	Amount recorded in extraordinary profit and loss
Donation for Public welfare	110,250.00	90,000.00	110,250.00
Loss from damage and Scrapping of non-current assets	922,653.42	13,890,726.06	922,653.42
Penalty and overdue surcharge	8,618,360.85	1,873,823.08	8,618,360.85
Discount and quality deduction	–	4,769,142.22	–
Others	16,025.06	1,691,704.15	16,025.06
Total	<u>9,667,289.33</u>	<u>22,315,395.51</u>	<u>9,667,289.33</u>

4.14 INCOME TAX EXPENSE

Items	Amount of the year	Amount of last year
Current income tax calculated according to tax law and provision	81,642,699.34	47,001,347.23
Deferred income tax	<u>-20,085,700.74</u>	<u>-34,852,430.06</u>
Total	<u>61,556,998.60</u>	<u>12,148,917.17</u>

Note: Since the Group has no taxable income from Hong Kong in the year (within the previous year: none), there is no Hong Kong income tax.

4.15 CASH AND CASH EQUIVALENTS

1. Cash and Cash Equivalents

Items	31 Dec 2022	31 Dec 2021
Cash in hand	188,652.07	229,324.78
Cash at bank	2,144,724,744.89	1,718,264,784.85
Other monetary assets	447,698,414.92	459,148,148.11
Accrued interest	<u>4,386,846.68</u>	<u>1,209,707.81</u>
Total	2,596,998,658.56	2,178,851,965.55
Including: cash deposited abroad	<u>65,645,041.01</u>	<u>49,768,194.60</u>

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

Restricted monetary capital at the end of the year

Items	31 Dec 2022
Bank acceptance bill margin	173,952,566.98
Deposits for letters of credit	138,248,224.42
Lawful reserve	130,404,617.61
Term deposit pledge	89,776,786.11
Litigation freeze	<u>1,156,275.71</u>
Total	<u>533,538,470.83</u>

4.16 NOTES RECEIVABLE

Classification of notes receivable

Items	31 Dec 2022	31 Dec 2021
Bank acceptance bills	422,284,619.71	633,553,443.21
Commercial acceptance bills	156,585,783.33	61,207,309.89
Less: provision for bad debts	<u>2,066,869.28</u>	<u>354,584.04</u>
Total	<u><u>576,803,533.76</u></u>	<u><u>694,406,169.06</u></u>

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

4.17 ACCOUNTS RECEIVABLE

Items	31 Dec 2022	31 Dec 2021
Accounts receivable	3,198,204,236.15	3,141,077,120.96
Less: provision for bad debts	<u>611,324,937.78</u>	<u>623,159,718.09</u>
Carrying amount	<u><u>2,586,879,298.37</u></u>	<u><u>2,517,917,402.87</u></u>

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	31 Dec 2022		
	Book Balance	Provision for bad debts	Percentage (%)
Within 1 year	1,843,481,336.62	23,642,391.90	1.28
1-2 years	335,375,460.59	22,034,365.31	6.57
2-3 years	372,507,469.72	100,655,215.01	27.02
3-4 years	162,400,785.70	90,737,156.24	55.87
4-5 years	185,243,406.19	89,489,687.08	48.31
Over 5 years	299,195,777.33	284,766,122.24	95.18
Total	<u>3,198,204,236.15</u>	<u>611,324,937.78</u>	<u>19.11</u>

(Continued)

Aging	31 Dec 2021		
	Book Balance	Provision for bad debts	percentage (%)
Within 1 year	1,588,844,467.71	31,348,214.98	1.97
1-2 years	621,474,197.87	40,255,791.13	6.48
2-3 years	246,666,531.84	42,687,572.69	17.31
3-4 years	249,766,229.64	120,014,027.24	48.05
4-5 years	145,901,684.37	121,970,364.88	83.60
Over 5 years	288,424,009.53	266,883,747.17	92.53
Total	<u>3,141,077,120.96</u>	<u>623,159,718.09</u>	<u>19.84</u>

4.18 ACCOUNTS PAYABLE

Items	31 Dec 2022	31 Dec 2021
Bank acceptance bill	1,203,846,275.09	1,164,744,807.98
Commercial acceptance bill	11,902,870.00	11,999,048.00
Total	<u>1,215,749,145.09</u>	<u>1,176,743,855.98</u>

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

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

4.19 ACCOUNTS PAYABLE

(1) The types of accounts payable

Items	31 Dec 2022	31 Dec 2021
Material payable	2,028,433,617.71	1,754,402,010.14
Freight payable	28,068,345.47	27,944,139.50
Equipment payable	77,521,873.76	17,169,616.51
Project payable	9,819,710.51	6,252,728.36
Others	60,388,350.60	40,805,680.06
Total	<u>2,204,231,898.05</u>	<u>1,846,574,174.57</u>

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

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

Aging	31 Dec 2022	31 Dec 2021
Within 1 year	1,764,964,201.79	1,431,423,553.31
1-2 years	164,479,741.48	103,472,961.27
2-3 years	31,795,626.49	107,676,351.34
More than 3 years	242,992,328.29	204,001,308.65
Total	<u>2,204,231,898.05</u>	<u>1,846,574,174.57</u>

4.20 UNDISTRIBUTED PROFIT

Items	31 Dec 2022	31 Dec 2021
Ending balance of last year (before adjustment)	3,048,090,000.17	2,826,706,511.09
Add: Adjustment of beginning balance	—	—
Beginning balance of current year (after adjustment)	3,048,090,000.17	2,826,706,511.09
Add: Net profit attributable to shareholders of the Company	310,203,160.96	296,511,290.59
Less: Appropriation to statutory reserve	26,534,418.19	37,613,995.62
Appropriation to staff bonus and welfare	741,616.13	667,404.35
Declared ordinary share dividends	110,539,204.62	36,846,401.54
Ending Balance	<u>3,220,477,922.19</u>	<u>3,048,090,000.17</u>

Note 1: According to the Group's 2021 Annual General Meeting held on June 23, 2022, the Group reviewed and approved the Group's 2021 profit distribution plan, namely the distribution of RMB0.03 (including tax) per share, based on 3,684,640,154 shares issued. A dividend of RMB110,539,204.62 yuan was paid. The Group has distributed the above dividends to shareholders in July 2022.

Note 2: According to the "Administrative Measures for the Provision of Provisions for Financial Enterprise Reserves" (Caijin [2012] No. 20) by the Ministry of Finance, Chongqing Mechanical and Electrical Holdings Group Finance Co., Ltd., a subsidiary of the Group, established a general risk reserve on the basis of withdrawing asset impairment provisions. Make up for potential losses related to risky assets that it has not identified. This general risk reserve is treated as profit distribution and is a component of owner's equity. In principle, it should not be less than 1.5% of the year-end balance of risk assets. At the same time, the method stipulates that: the proportion of the general reserve balance of financial enterprises to the closing balance of risky assets, which is difficult to reach 1.5% at one time, can be divided into years, and in principle should not exceed 5 years. The ending balance of Chongqing Mechanical & Electrical Holdings Group Finance Co., Ltd.'s general risk reserve withdrawal ratio is 1.5% (2021: 1.5%)

On 31 Dec 2022, the Group's undistributed profit included the amount of RMB49,203,831.96 yuan (2021: 47,532,951.38 yuan) withdrawn by the subsidiary Chongqing Mechanical and Electrical Holdings Group Finance.

4.21 RETURN ON NET ASSETS AND EARNINGS PER SHARE

Profit for the reporting year	Weighted average return on equity attributable to the controlling company (%)	Earnings per share (yuan/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to the shareholders of the controlling Company	4.13	0.08	0.08
Net profit attributable to the shareholders of the controlling Company (excluding: extraordinary profit and loss)	<u>1.50</u>	<u>0.03</u>	<u>0.03</u>

CHAIRMAN’S STATEMENT

Dear Shareholders,

On behalf of the Board of the Company, I am pleased to announce the annual results of the Group for the year ended 31 December 2022 (the “Period” or the “Year”). The Group’s annual results have been audited by the Company’s auditor, ShineWing Certified Public Accountants LLP. It is my pleasure to present the annual results of the Group as well as its sustainable development strategy and outlook to shareholders.

I. INTERNATIONAL AND DOMESTIC REVIEW FOR THE YEAR

In 2022, the growth of the global GDP slowed down drastically under a variety of influences such as tightening fiscal and monetary policies, the continuous impact of the Russia-Ukraine war on energy supply, and the weakening of the driving force attributed to the optimization of epidemic prevention and control measures. The trade protectionist confrontation and geographical risks of different countries have increased the cost of global trading, hence making global inflation worse and leading the prices for manufacturing industry, energy and food to surge. Developed countries have tightened monetary policies to cope with high inflation and slowed down market investment, which has dragged down economic recovery.

Within China, the foundation for economic recovery is not yet solid, the triple pressure of shrinking demand, supply shock and weakening expectations remains great, and the external environment is turbulent, which increasingly affects the domestic economy. The Chinese government accurately identified changes, tackled changes scientifically and took the initiative to make changes. It balanced epidemic prevention and control and economic and social development, coordinated development and safety, tightened macro-control and coped with the impact of unexpected factors. In China, the quality of development was steadily improved with fruitful achievements in scientific and technological innovation, and reform and opening up was comprehensively deepened with employment and price basically kept stable. Besides, food security, energy security and people’s lives were effectively guaranteed, and the overall economic and social development was stable. The GDP growth rate for the Year was 3.0%, and the total economic output was approximately RMB121 trillion.

II. RESULTS REVIEW OF THE GROUP FOR THE YEAR

Looking back at 2022, the Group firmly seized the opportunity of the country to build a new development pattern, actively overcame influences from external environmental factors such as price fluctuation of bulk materials, supply chain reconstruction, fierce market competition and investment slowdown. While withstanding the impact of a variety of unfavorable factors such as high temperature power cut-off in Chongqing, and regional static management and closed production because of sporadic cases in a few places, the Group continuously focused on two core businesses of clean energy equipment and high-end smart equipment, and actively expanded the industrial services business. Moreover, the Group firmly seized opportunities presented by China’s

“carbon peaking and carbon neutrality” goals, digital economy and intelligent manufacturing, and constantly improved the core competitiveness in the market and potential for sustainable development by adhering to the market-oriented and innovation-driven strategy, with the overall performance kept stable and a sound growth in total profit and new orders. At the same time, the Group made breakthroughs in market exploration, R&D and innovation, brand building, internal management, and implementation of talent and diversified development strategies. The Group also improved quality and efficiency to promote high-quality development. Its comprehensive strength and core competitiveness were further enhanced, and the annual goals set by the Board have been completed well.

III. OUTLOOK FOR INTERNATIONAL AND DOMESTIC SITUATION IN 2023

Looking forward to 2023, as the global economy is faced with pressure caused by multiple shocks, merchandise trade worldwide will slow down significantly, which is expected to ease inflationary pressure but would increase the risk of global economic recession. And there is a high level of uncertainty. The influence of the COVID-19 epidemic on the global economy has gradually waned. However, the factors affecting the expectations are mainly climate anomalies across the world, Russia-Ukraine conflict, rapid increases in food and energy prices, supply chain reconstruction, inflation and the tightening of monetary policies by central banks of different countries, which further curbed the recovery of the global economy, and global trade will lose momentum and the risk of economic recession will increase. Besides, the interest rate raised by Federal Reserve has not peaked. All of those will restrict the recovery of global economy.

In addition to expanding domestic demand and speeding up the construction of a new development paradigm with a large domestic circulation as the mainstay and the domestic-international dual circulation to reinforce each other, the Chinese government will continuously adhere to the general principle of seeking progress while maintaining stability, implement the new development philosophy fully, accurately and comprehensively, accelerate the construction of a new development pattern, strive to promote high-quality development, and coordinate epidemic prevention and control and economic and social development in a scientific and efficient manner. Moreover, it will better coordinate development and safety, comprehensively deepen reform and opening up, and vigorously boost market confidence. It will also organically combine the implementation of the strategy of expanding domestic demand with deepening the supply-side structural reform, highlight the work of stable growth, stabilizing employment and price stability, effectively prevent and resolve major risks, and promote the overall improvement of economic operation.

IV. DEVELOPMENT STRATEGIES IN 2023

Development strategies and work priorities of the Group in 2023 are as follows:

In 2023, the economic development will still face many difficulties and challenges under the turbulent external environment, and the recovery of domestic economy is not steady. However, as China's economy enjoys strong resilience, tremendous potential and great vitality, the economic performance is expected to be robust as a whole as the effects of various policies appears. Looking forward to the business in 2023, the Group will continue to make steady progress to improve efficiency, make innovations to improve quality, enhance the sense of hardships and bottom line thinking, better coordinate the epidemic prevention and control with operation work, and make every effort to promote the high-quality development of the Company, thereby laying a more solid foundation for the successful completion of the "14th Five-Year Plan" goals.

Key tasks for the year:

(I) Adhere to advance steadily to improve efficiency and operational quality

First, the Group will strengthen strategic cooperation and focus on both international and domestic markets. The Group will also strengthen strategic cooperation with listed companies, central-local state-owned enterprises and other major clients, accelerate the project and order docking, seize the opportunity of building a unified national market, and promote the optimization of product and market structure while targeting both domestic and international markets. Second, the Group will strengthen benchmarking management, consolidate the foundation, promote multi-level cooperation among electromechanical manufacturing enterprises in Chengdu-Chongqing area by taking QCC activities as the starting point, and improve the level of refined management of enterprises. Third, the Group will optimize HSE management, strengthen supervision and assessment, establish a safe production responsibility system for all employees as well as a double prevention mechanism of hierarchical risk control and potential risk identification and treatment for production-oriented enterprises at all levels to observe the bottom line of safe production and ensure no major safety and environmental accidents. Fourth, the Group will pay close attention to financial control, take various measures to reduce costs and increase efficiency, strictly control the "accounts receivable and inventory", effectively prevent debt risks, and keep the asset-liability ratio within a reasonable range. It will strengthen the integration of business and finance and the construction of financial informatization to improve the ability and proficiency of financial management and control.

(II) Focus on innovation to improve quality and gather development momentum

First, based on “14th Five-Year Plan” strategy, the Group will seize the new opportunities of adjusting international and domestic industrial structure and layout and accelerate the cultivation of new kinetic energy. Second, the Group will develop an industrial layout focusing on clean energies such as wind energy, nuclear energy and hydrogen energy, promote the extension, supplement and enhancement of the industrial chain, and continue to promote the formation of a new pattern comprising of clean energy industrial chain development synergy and a sound industrial structure system. Third, the Group will accelerate the development of industrial digitalization, funnel software and hardware resources to conduct digital applications in design, management, production and other links, thereby fully empowering the development of enterprises through digital and intelligent construction. Fourth, aiming at the middle and high end of the product value chain, the Group will solve key technological problems and enhance core competitiveness. It will increase R&D investment, promote the cultivation of “specialty, excellency, uniqueness and innovation” and “small giant”, and continue to promote the preparation work of establishment of a national-level R&D platform.

(III) Optimize and integrate resources and lay out emerging industries

First, the Group will accelerate green and low-carbon transition, actively introduce strategic partners with strong synergy in technology, R&D, market, management and other fields, actively build a number of demonstration projects such as hydrogen energy equipment and recycling of scrapped blades, and accelerate the diversification of assets or equity of businesses such as wind power. Second, by making use of its resource advantages in the field of clean energy, the Group will promote the development of wind and solar resources and wind power resources, optimize the layout of wind power industry, and gradually promote investment in the field of wind and solar energy. Third, the Group will achieve size and chain reduction, business adjustment, personnel optimization and resource sharing for certain subsidiaries through internal absorption and merger, so as to further focus on the main business and enhance sustainable development capability. Fourth, the Group will revitalize existing assets, promote the disposal and realization of idle assets and improve the overall business performance.

(IV) Focus on talent construction and support the “14th Five-Year” development

First, the Group will deepen the implementation of its “14th Five-Year” talent development plan, focus on innovative, practical and skilled talents, and enrich the connotation of dual-management talents. The Group will rely on the incubation platform to accelerate the process of “precisely filling the vacancies” of technical talents under dual management, and introduce the talented person with the help of postdoctoral workstations and colleges involved in school-enterprise cooperation, and explore the resource integration and use mechanism. Second, the Group will break through the bottleneck of talent team construction, conduct

talent survey and inventory, keep the channels of “attracting and retaining talents” open and innovate in the talent mechanism. It will make efforts to improve the labor productivity of all employees, constantly optimize the talent structure, keep a close eye on the training and growth of employees, and carry out a new round of staff rotation and exchange as well as on-the-job training. Third, the Group will continue to deepen the reform of salary distribution system, further explore the periodic management of total salary budget, simulated stock ownership of key employees, and medium-and long-term incentives for business performance, and select pilot subsidiaries for operation in due time.

(V) Strengthen risk prevention and control to empower healthy development

First, the Group will give full play to the role of risk control linkage, risk control evaluation, the Supervisory Committee and audit supervision, strengthen risk diagnosis in key areas of enterprise production and operation, proactively identify, respond to, and steer changes and improve the ability to prevent and defuse major risks. Second, the Group will strictly implement legal review and strengthen the full life cycle management of contracts. It will actively carry out training about rule of law and relevant exchange activities, and continue to carry out the activities of “managing enterprises according to law” to improve the level of compliance management. Third, the Group will perfect the long-term mechanism of supervision of the Supervisory Committee and audit rectification to form a closed-loop management of supervision and rectification. Fourth, the Group will strengthen the awareness of sustainable development, implement the main responsibility of safety and environmental protection, effectively prevent and control the risks of COVID-19 epidemic to ensure the normal production and operation of subsidiaries.

(VI) Continue to standardize governance and fulfill duties and missions

First, the Group will continuously optimize the corporate governance system to ensure a governance mechanism where each governance body performs its duties and responsibilities, operates in coordination, and has effective checks and balances. Second, the Group will strengthen the organic integration of the latest regulatory requirements and daily governance, properly carry out training for Directors, supervisors and senior management, and strictly disclose information. Third, the Group will strengthen the Company’s value management, reinforce the interaction mechanism with investors at multiple levels and through multiple channels, enhance investors’ identification with corporate strategy and long-term value, perfect the working mechanism of environmental, social and governance (ESG), and improve ESG performance.

In 2023, the Group will reaffirm its confidence and live up to its responsibilities. With a sense of urgency that there is no time to waste and the mission of forging ahead, the Group will spare no effort in all work of the year, promote the Group to achieve the high-quality development with new perspectives and new achievements, and return shareholders, investors and society with more excellent performance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

CLEAN ENERGY EQUIPMENT (HYDROELECTRIC GENERATION EQUIPMENT, ELECTRICAL WIRES AND CABLES AND MATERIALS, WIND POWER BLADES, INDUSTRY BLOWERS, INDUSTRIAL PUMPS, GAS COMPRESSORS, ETC.)

BUSINESS REVIEW AND OUTLOOK

In 2022, the Group's clean energy equipment segment seized market opportunities such as the accelerated promotion of the dual-carbon economy and the increase in infrastructure projects. Industrial blowers focused on key industries and key customers, and made targeted efforts in cement, steel and other fields, achieving multiple growth in orders; the industrial pumps business increased breakthroughs in the nuclear power and iron and steel markets; the comprehensive competitiveness of multiple products is leading in China and the large-flow high-lift centrifugal pumps made historic breakthroughs in the water delivery market, and broken the continuous monopoly of foreign companies; relying on the growth opportunity of shale gas market, the gas compressors business continued to increase its market share, and the above three types of businesses achieved good growth. The electrical wires and cables business overcame the adverse impact of fluctuations in raw material prices and real estate market transformation, innovated the business models, vigorously expanded the cable market and obtained orders from major customers such as expressways and rail transit, and the business has remained stable. Although the wind power blades business actively adapted to the large-scale adjustment of unit power and model, accelerated the development of new products, and improved the output efficiency and quality stability of products, the business declined due to the influence of industry adjustment; affected by the epidemic and industry adjustment, the market demand of hydroelectric generation equipment business declined, and some projects were delayed or canceled, resulting in a significant decline in business performance, and the overall operating revenue of this segment was approximately RMB5,652.4 million, with a year-on-year decrease of approximately 2.2%.

During the Period, the gross profit of the clean energy equipment operating segment was approximately RMB1,083.4 million, a decrease of approximately RMB89.9 million or approximately 7.7% as compared with approximately RMB1,173.3 million for the same period of 2021, mainly due to the slowdown of wind power blades and hydroelectric generation equipment businesses.

During the Period, the results of the clean energy equipment operating segment was approximately RMB204.9 million, a decrease of approximately RMB23.4 million or approximately 10.2% as compared with results of approximately RMB228.3 million for the same period of 2021, mainly due to the increase in loss as a result of significant decrease in revenue from hydroelectric generation equipment and wind power blades businesses.

In terms of new product R&D, four products for the “HPR1000” third-generation pressurized water reactor nuclear power plant independently developed by the industrial pump business segment passed the national appraisal. At the same time, the development of nuclear class 2 and 3 pumps for “HPR1000” nuclear power units passed the municipal appraisal. With respect to wind power blades business, the first large-scale wind power CGI90.5A blade with a domestic blade type was successfully developed. This blade is the first successful application of China’s independent blade type on the “90m+” wind turbine blade with the largest size on land. The first set of GW110.5 blades was successfully hoisted and erected, breaking the record of the world’s largest impeller hoisting diameter. The gas compressor business “25t high-speed large-displacement compressor unit with high piston load” was successfully delivered, and many problems in the process of natural gas transmission were solved. It is currently the integral skid-mounted high-speed compressor unit with the highest speed and tonnage in China, and its technology has reached the leading level in China.

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 2022, the Company and China Cummins reached an agreement in respect of significant matters involved in the extension of the joint venture and entered into an agreement to extend the term of the joint venture to 2040. In the same year, new base of Chongqing Cummins was put into operation, and its R&D and manufacturing capacity has been significantly improved. Chongqing Cummins accelerated the development of new products and new customers, successfully promoted QSK38 to become the preferred product suitable for 1000kW high-voltage mobile power supply vehicles, became the preferred supplier of State Grid and China Southern Power Grid, and successfully won the bid for the RMB50 million annual centralized procurement project of SF Logistics in 2022. The mobile power vehicles, oil and gas field power stations, and express logistics industries all achieved share growth, which greatly alleviated the impact of the decline in the traditional power market and kept the business performance stable.

Looking forward to 2023, there are still great uncertainties in the development of the international epidemic. The normal operation of overseas projects of the hydroelectric generation equipment business will face great challenges. However, with the continuous optimization of the COVID-19 epidemic prevention and control policy and the active implementation of expanding domestic demand strategy and other policies in China, the domestic economic quality will maintain a stable and upward momentum, which will further release and stimulate the market potential, support the development of a strong domestic market and promote the sound growth of businesses such as wind power blade, industrial pump, industry blowers, gas compressor and hydroelectric generation equipment, driving the growth of the segment throughout the year.

HIGH-END SMART EQUIPMENT (SMART MACHINE TOOLS, SMART ELECTRONICS, ETC.)

In 2022, in the high-end smart equipment segment of the Group, as the domestic business was driven by the rapid growth of new energy vehicles, the smart machine tools business seized market opportunities to achieve rapid growth in orders for gear grinding machines, driving a greater growth of operating revenue. Driven by the rapid development of the domestic intelligent manufacturing industry, the smart electronics business actively expanded the customer base, enhanced the development of incremental projects, and improved the operation quality. Although the PTG Company in the UK accelerated product R&D and achieved recovery growth in the market, its operating costs increased significantly and its operating performance declined due to the impact of the Bank of England's increase in interest rate and the rise in international energy prices. At the same time, other related businesses decreased, resulting in the overall operating revenue of this segment of approximately RMB1,459.2 million, with a year-on-year decrease of approximately 5.8%.

During the Period, the gross profit of the high-end smart equipment operating segment was approximately RMB276.5 million, an increase of approximately RMB26.1 million or approximately 10.4% as compared with approximately RMB250.4 million for the same period of 2021, mainly due to the increase in profit as a result of the increase of the operating revenue of smart machine business.

During the Period, the loss of the high-end smart equipment operating segment was approximately RMB41.7 million, showing a significant decrease in loss of approximately RMB96.3 million as compared with a loss of approximately RMB138.0 million for the same period of 2021, mainly due to the increase in profit as a result of the product structure adjustment of CNC machine tools business.

With respect to new product R&D, 24 technical breakthroughs were carried out, including gear grinding machines and gear hobbing machines. The trial production of the first YE3140 CNC gear hobbing machine was completed. The design of 12 new products such as YD3126-CD and 8 finalized products such as YE3115CNC, and the improvement and perfection of 3 flow products such as YS7232 were carried out. The smart manufacturing business completed the construction and application deployment of Luoding Industrial Internet Platform (絡釘工業互聯網平台), which was launched at the Smart China Expo for the first time. The transformation of core products MES and WMS microservices and SaaS deployment were completed, and the digital operation cloud and digital operation & maintenance cloud version 1.0 was released. The smart manufacturing business "5G Digital Workshop Construction for Electronic Manufacturing" project passed the acceptance of experts organized by Chongqing Municipal Commission of Economy and Information Technology.

Looking forward to 2023, the Group will seize the opportunity of rapid development of intelligent manufacturing and use big data and intelligence to drive innovation. The smart electronics business will carry out technological innovation centering on intelligent equipment, intelligent testing technology and industrial Internet platform, and intensify market development of new products such as intelligent energy-saving and energy-consumption management and control systems, and smart meters. The PTG Company in the UK will continue to increase the research and development of new products, improve product diversification, enter new markets and new fields, and expand domestic business by seizing the development opportunities of the domestic market. Meanwhile, with the optimization of the epidemic prevention and control policy, the market confidence will resume and the market demand will increase and it is anticipated that the Company will achieve recovery growth. The smart machine tool business will seize the opportunity of transformation and upgrade of the traditional manufacturing industry, and continue to develop the automobile, construction machinery, clean energy equipment and other markets. Capitalizing on the market growth opportunities brought by new energy vehicles, it will promote the industrialization of new products and continue to promote the high-quality development of the Company. Smart equipment system integration business will develop energy storage in respect of power generation and power consumption, intelligent air compressor energy-saving system, digital power distribution system and other businesses, and accelerate R&D and manufacturing and the system integration of hydrogen equipment to promote the implementation of projects. It is expected that the segment will achieve stable growth throughout the year.

INDUSTRIAL SERVICES (INDUSTRIAL EMPOWERMENT, FINANCING, CENTRALIZED PROCUREMENT, ETC.)

In 2022, as the digital intelligence procurement management platform was officially launched for trial operation, the centralized procurement model was continuously optimized, and the financing business remained stable. The industrial empowerment business actively explored markets and established a continuous and stable cooperation relationship with China Mobile, China Telecom and Inspur Group, achieving a relatively large business growth. The operating revenue of this segment amounted to approximately RMB91.5 million, a year-on-year increase of approximately 17.0%. The gross profit was approximately RMB64.4 million, a year-on-year increase of approximately RMB2.1 million or approximately 3.4%.

During the Period, the results of the industrial services operating segments was approximately RMB37.2 million, an increase in profit and decrease in loss of approximately RMB106.4 million as compared with loss of approximately RMB69.2 million for the same period of 2021, mainly due to provision of bad debts for trade receivables for the same period of last year.

The industrial empowerment business continued to strengthen research and development, built the empowerment center cloud infrastructure platform, the state-owned asset monitoring platform, and the industrial Internet platform, and studied the methods for integrating the digital transformation into the “14th Five-Year Plan”. The independently-developed equipment management cloud platform was established, and the public cloud of hardware equipment was launched and achieved results. The first phase of the financial core business system was fully launched and achieved sound results.

Looking forward to 2023, the industrial empowerment business will achieve great breakthroughs in rail BIM projects, smart factories, smart parks, remote operation and maintenance, etc., and accelerate the development and demonstrative application of equipment cloud, big data operation and maintenance system, and supervision and intelligent decision-making platforms. The financial business will strengthen financial services and improve the efficiency of capital use. The centralized procurement business will continue to promote the online coverage of the intelligent procurement platform, improve the application modules such as electronic supermarkets, electronic contracts and online invoicing, and continuously reduce procurement costs. The segment is expected to remain stable growth throughout the year.

SALES

For the year ended 31 December 2022, the Group's total operating revenue amounted to approximately RMB7,205.4 million, a decrease of approximately RMB205.2 million or approximately 2.8% as compared with approximately RMB7,410.6 million for the same period of 2021. Except that the hydroelectric generation equipment and wind power blade businesses recorded a year-on-year decline, other business had achieved stable growth.

The Group expects that the operating revenue for 2023 will achieve stable growth.

GROSS PROFIT

The gross profit for 2022 was approximately RMB1,426.6 million, decreased by approximately RMB61.7 million or approximately 4.1% as compared with approximately RMB1,488.3 million for 2021. The gross profit margin was approximately 19.8%, a slight decrease of 0.3 percentage point as compared with the same period of last year, which basically kept stable.

OTHER INCOME

The other income for 2022 were approximately RMB179.1 million, an increase of approximately RMB80.4 million or approximately 81.5% as compared with approximately RMB98.7 million for the same period of 2021, mainly due to an increase of approximately RMB50.5 million in innovative development project grants and special funds for industry and information technology received from the government during the Period as compared with last year and gains of approximately RMB24.0 million from transfer of appreciated properties of its subsidiary Chongqing Machine Tools (Group) after offsetting debts. Details are set out in Note 4.6 to the consolidated financial statements.

GAIN ON DISPOSAL OF ASSET

The gain on disposal of asset for 2022 was approximately RMB103.3 million, representing a decrease of approximately RMB33.3 million as compared with approximately RMB136.6 million for the same period of 2021, which was mainly attributable to an decrease in net revenue as a result of environmental relocation during the Period. Details are set out in Note 4.8 to the consolidated financial statements.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for 2022 were approximately RMB860.8 million, a decrease of approximately RMB9.1 million or approximately 1.1% as compared with approximately RMB869.9 million for the same period of 2021. The proportion of the selling and administrative expenses in operating revenue increased to approximately 11.9% from approximately 11.7% of the same period of last year, mainly due to a decrease in the total operating revenue during the Period as compared with the same period of last year.

OPERATING PROFIT

The operating profit for 2022 was approximately RMB379.0 million, representing an increase of approximately RMB43.0 million or approximately 12.8% as compared with approximately RMB336.0 million for the same period of 2021.

NET FINANCE COSTS

The net interest expense for 2022 was approximately RMB57.0 million, representing a significant decrease of approximately RMB32.2 million or approximately 36.1% as compared with approximately RMB89.2 million for the same period of 2021, mainly due to the fact that the Company realized the decrease in both loan limit and interest rate through financing coordination, liability monitoring, replacement of high interest rate borrowings with low interest rate borrowings as well as the increase in exchange gains. Details are set out in Note 4.5 to the consolidated financial statements.

INVESTMENT INCOME

Investment income for 2022 amounted to approximately RMB229.7 million, a significant decrease of approximately RMB156.9 million as compared with approximately RMB386.5 million for the same period of 2021, mainly due to the significant decrease in the results of relevant associates and joint ventures as compared with the same period of last year as a result of factors such as the adjustment of automobile industry and the increase in depreciation and amortization cost due to plant relocation. Details are set out in Note 4.7 to the consolidated financial statements.

INCOME TAX EXPENSES

The income tax expenses for the year ended 31 December 2022 were approximately RMB61.6 million, an increase of approximately RMB49.5 million as compared with approximately RMB12.1 million for the same period of 2021, mainly due to the improvement of business performance resulting in the increase in current income tax expenses and the change in deferred income tax expenses. Details are set out in Note 4.11 to the consolidated financial statements.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders for the year ended 31 December 2022 amounted to approximately RMB310.2 million, representing an increase of approximately RMB13.7 million or approximately 4.6% as compared with approximately RMB296.5 million for the same period of 2021. Earnings per share amounted to approximately RMB0.08, which kept flat with that of the same period of 2021.

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.

As at 31 December 2022, the Company's distributable reserves attributable to shareholders of the Company amounted to approximately RMB2,771.5 million.

FINAL DIVIDEND

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

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

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

The Board has recommended the payment of a final dividend of RMB0.03 per share (tax inclusive) for the year ended 31 December 2022 (for the year ended 31 December 2021: RMB0.03 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 2022, totaling RMB110,539,204.62 (totaling RMB110,539,204.62 for the year ended 31 December 2021). Subject to the approval by Shareholders at the forthcoming Annual General Meeting to be convened on 21 June 2023, the proposed final dividend will be paid on 27 July 2023 to Shareholders whose names appear on the Register of Members of the Company on 30 June 2023 (the "Record Date").

In order to ascertain the entitlements of the Shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Wednesday, 28 June 2023 to Wednesday, 5 July 2023 (both days inclusive), during which no transfer of shares will be registered. All transfer documents accompanied by share certificates of the Shareholders of the Company must be lodged with our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 27 June 2023.

WITHHOLDING OF ENTERPRISE INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS

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

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

If any resident enterprise (as defined in the EIT Law) whose name appears on the H Share Register of Members which is duly incorporated in the PRC or under the laws of a foreign country (or a territory) but with a PRC-based de facto management body does not wish to have the 10% enterprise income tax to be withheld by the Company, it should lodge all transfers with and submit a legal opinion issued by a PRC certified lawyer (with affixation of common seal of the law firm thereto) that establishes its resident enterprise status to the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 27 June 2023. 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 27 June 2023. 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 Friday, 16 June 2023 to Wednesday, 21 June 2023 (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 Thursday, 15 June 2023.

CASH FLOW

As at 31 December 2022, the cash and bank deposits (including restricted cash) of the Group amounted to approximately RMB2,597.0 million (31 December 2021: approximately RMB2,178.9 million), representing an increase of approximately RMB418.1 million or approximately 19.2%, mainly due to the increase in receivables collected by the enterprise at the end of the year and collection of dividend of Chongqing Cummins.

During the Period, the Group had a net cash inflow from operating activities of approximately RMB239.1 million (for the year ended 31 December 2021: a net cash inflow of approximately RMB383.7 million), a net cash inflow from investing activities of approximately RMB438.2 million (for the year ended 31 December 2021: a net cash inflow of approximately RMB541.7 million), and a net cash outflow from financing activities of approximately RMB348.0 million (for the year ended 31 December 2021: a net cash outflow of approximately RMB416.2 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.

ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

As at 31 December 2022, the total accounts receivable and other receivables of the Group amounted to approximately RMB3,383.3 million, representing a decrease of approximately RMB83.8 million as compared with approximately RMB3,467.1 million as at 31 December 2021, mainly due to the efforts on the collection of accounts receivable and collection of dividend receivable of Chongqing Cummins.

ACCOUNTS PAYABLE AND OTHER PAYABLES

As at 31 December 2022, accounts payable and other payables of the Group totaled approximately RMB2,599.5 million, representing an increase of approximately RMB292.7 million as compared with approximately RMB2,306.8 million as at 31 December 2021, mainly due to the fact that the raw material market tended to be stable as a result of the end of the rush of installation in wind power blades business segment and the payment terms of purchase contracts returned to normal level.

ASSETS AND LIABILITIES

As at 31 December 2022, the total assets of the Group amounted to approximately RMB17,217.8 million, representing an increase of approximately RMB482.4 million as compared with approximately RMB16,735.4 million as at 31 December 2021. Total current assets amounted to approximately RMB11,296.4 million, representing an increase of approximately RMB446.7 million as compared with approximately RMB10,849.7 million as at 31 December 2021, accounting for approximately 65.6% of total assets. However, the total non-current assets amounted to approximately RMB5,921.4 million, representing an increase of approximately RMB35.7 million as compared with approximately RMB5,885.7 million as at 31 December 2021, accounting for approximately 34.4% of total assets.

As at 31 December 2022, the total liabilities of the Group amounted to approximately RMB9,200.2 million, representing an increase of approximately RMB278.5 million as compared with approximately RMB8,921.7 million as at 31 December 2021. Total current liabilities were approximately RMB7,460.9 million, representing an increase of approximately RMB871.3 million as compared with approximately RMB6,589.6 million as at 31 December 2021, accounting for approximately 81.1% of the total liabilities. However, the total non-current liabilities were approximately RMB1,739.3 million, representing a decrease of approximately RMB592.7 million as compared with approximately RMB2,332.0 million as at 31 December 2021, and accounting for approximately 18.9% of total liabilities.

As at 31 December 2022, the net current assets of the Group were approximately RMB3,835.5 million, representing a decrease of approximately RMB424.6 million as compared with approximately RMB4,260.1 million as at 31 December 2021, mainly due to the increase in current liabilities transferred from long-term loans due within one year.

CURRENT RATIO

As at 31 December 2022, the current ratio (the ratio of current assets to current liabilities) of the Group was 1.51:1 (31 December 2021: 1.65:1).

GEARING RATIO

As at 31 December 2022, calculated as borrowings dividing by the total capital, total capital comprises equity and borrowings as shown in the consolidated balance sheets, the gearing ratio of the Group was 26.7% (31 December 2021: 27.0%).

INDEBTEDNESS

As at 31 December 2022, the Group had an aggregate bank and other borrowings of approximately RMB2,907.2 million, representing an increase of approximately RMB11.3 million as compared with approximately RMB2,895.9 million as at 31 December 2021.

Borrowings repayable by the Group within one year were approximately RMB1,556.1 million, representing an increase of approximately RMB628.4 million as compared with approximately RMB927.7 million as at 31 December 2021. Borrowings repayable by the Group after one year were approximately RMB1,351.1 million, representing a decrease of approximately RMB617.1 million as compared with approximately RMB1,968.2 million as at 31 December 2021.

SECURED ASSETS

As at 31 December 2022, approximately RMB533.5 million of the Group's bank deposits was deposited with the banks with pledge or restriction for use (31 December 2021: approximately RMB549.2 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 RMB295.2 million as at 31 December 2022 (31 December 2021: approximately RMB282.2 million).

CONTINGENT LIABILITIES

As at 31 December 2022, the Group had no significant contingent liabilities.

SIGNIFICANT EVENTS

Events in the Period

(1) Resignation of an executive Director

The Company received a resignation letter from Ms. Chen Ping, the executive director and general manager, on 28 September 2022. Due to attainment of the statutory retirement age, Ms. Chen Ping applied to resign from the positions as an executive director of the sixth session of the Board, a member of the strategy committee and the sixth session general manager of the Company. As the resignation of Ms. Chen Ping would neither lead to the number of members of the sixth session of the Board of the Company falling below the requirement of the statutory minimum number of members, nor affect the normal operation of the Board of the Company, the resignation of Ms. Chen Ping shall take immediate effect upon the delivery of her resignation letter to the Board. Ms. Chen Ping has confirmed that she has no disagreement with the Board or the supervisory committee of the Company and there are no other matters that need to be brought to the attention of the shareholders and creditors of the Company. The Company would like to express its sincere gratitude to Ms. Chen Ping for her contributions to the Company during her tenure. Mr. Zhang Fulun, the executive director and chairman of the Company, shall perform the duty of the general manager until the appointment of the new general manager of the Company. According to the relevant provisions of the Company Law of China and the Articles of Association, the Company will elect a new executive director and general manager to fill her vacancy as soon as possible in accordance with the legal procedures.

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

SUBSEQUENT EVENTS

(1) Appointment of an executive Director

On 22 March 2023, the Company held the extraordinary general meeting to consider and approve the appointment of Mr. Yue Xiangjun as the executive director of the Company. For detailed biography of Mr. Yue Xiangjun, please refer to the announcement of the Company dated 22 March 2023 in relation to the appointment of an executive director and change of a non-executive director and the announcement of the Company dated 18 January 2023 in relation to the engagement of general manager.

(2) Appointment of a non-executive Director

On 22 March 2023, the Company held the extraordinary general meeting to consider and approve the appointment of Ms. Zhu Ying as the non-executive director of the Company in place of Mr. Wang Tingting as a non-executive director. For the biography of Ms. Zhu Ying, please refer to the announcement of the Company dated 22 March 2023 in relation to the appointment of an executive director and change of a non-executive director.

CAPITAL EXPENDITURE

In 2022, the total capital expenditure of the Group was approximately RMB190.1 million which was principally used for plant expansion, improvement of production technology and equipment upgrade (2021: approximately RMB169.0 million).

CAPITAL COMMITMENTS

As at 31 December 2022, the Group had capital commitments of approximately RMB42.2 million (31 December 2021: approximately RMB102.5 million) in respect of fixed assets and intangible assets.

TREASURY POLICIES

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

EMPLOYEES

As at 31 December 2022, the Group had a total of 7,837 employees (31 December 2021: 7,692 employees). The Group will continue to upgrade its technical talent base, foster/recruit technical and management personnel possessed with extensive professional experiences, optimise the distribution system that links with the remunerations and performance reviews of the management and employees, improve training on safety and strengthen epidemic prevention measures so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

OTHER CORPORATE INFORMATION

Competition and Conflict of Interests

For the year ended 31 December 2022, 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 has no connected transactions.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2022, the summary of the connected party transactions entered into by the Group is set out in the notes to the consolidated financial statements, where a majority of the transactions constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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

Master Sales Agreement

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

Additionally, in case where there are material fluctuations in the prices of any or all of the products, the parties shall re-negotiate the terms of the Master Sales Agreement in good faith by way of entering into a supplemental agreement or a new master sales agreement. The Master Sales Agreement is valid for a period of three years from the date of the agreement and can be renewed by the Company for a successive term of three years by giving notice at least three months prior to the expiry of the initial term. Accordingly, the approved annual caps of sales for the year ended 31 December 2022 (as approved at the Annual General Meeting dated 26 June 2019) was set at RMB336.2 million.

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

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

For the year ended 31 December 2022, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB77.8 million (for the year ended 31 December 2021: approximately RMB178.4 million).

Master Supplies Agreement

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

Additionally, in case where there are material fluctuations in the prices of any or all of the products, the parties shall re-negotiate the terms of the Master Supplies Agreement in good faith by way of entering into a supplemental agreement or a new master supplies agreement. The Master Supplies Agreement is valid for a period of three years from the date of the agreement and can be renewed by the Company for a successive term of three years by giving notice at least three months prior to the expiry of the initial term. Accordingly, the approved annual caps of supplies for the year ended 31 December 2022 (as approved at the Board meeting dated 20 March 2019) was set at RMB100.0 million.

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

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

For the year ended 31 December 2022, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB27.0 million (for the year ended 31 December 2021: approximately RMB28.9 million).

Master Leasing Agreement

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

The Parent Group leases land and buildings to the Group as the Group’s offices, production facilities, workshops and staff quarters. Accordingly, the approved annual cap of the lease for the year ended 31 December 2022 (as approved at the Board meeting dated 20 March 2019) was set at RMB45 million.

For the year ended 31 December 2022, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB17.8 million (for the year ended 31 December 2021: approximately RMB21.1 million).

FINANCIAL SERVICES FRAMEWORK AGREEMENT

(I) Parent Group Financial Services Framework Agreement

The Company's subsidiary Chongqing Electrical Holdings Group Finance Company Limited (the "Finance Company") and the Parent Company entered into the Financial Service Framework Agreement on 1 April 2019 (the "Parent Group Financial Services Framework Agreement"), under which, (i) the approved proposed annual cap for loan services for the year ended 31 December 2023 (as approved at the Annual General Meeting held on 26 June 2019) was RMB2,754 million; (ii) the approved proposed annual cap for guarantee services for the year ended 31 December 2023 (as approved at the Board meeting held on 20 March 2019) was RMB100 million (including corresponding handling fees); (iii) the approved proposed annual cap for other financial services for the year ended 31 December 2022 (as approved at the Board meeting held on 20 March 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 indicators and others factors, so as to ensure that the interests for loans provided by the Finance Company to the Parent Group are in line with the above pricing standards for loan services.

Guarantee services

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

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

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

For the year ended 31 December 2022, 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 RMB879.7 million, the transaction amount in respect of guarantee services was approximately RMB0 million and the transaction amount of other financial services was approximately RMB7.9 million (for the year ended 31 December 2021: the daily maximum limit amount in respect of loan services was approximately RMB1,044.05 million, the transaction amount in respect of guarantee services was approximately RMB0 million and the transaction amount of other financial services was approximately RMB0.019 million).

(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 2022, under which, (i) the approved proposed annual cap for the transactions in respect of the deposit services for the year ended 31 December 2022 (as approved at the Annual General Meeting held on 26 June 2019) was RMB3,479 million; (ii) the approved proposed annual cap for the transactions in respect of other financial services for the year ended 31 December 2022 (as approved at the Board meeting held on 20 March 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 the interest rates for deposits of the same type and under similar terms offered to the Group by other independent commercial banks in the PRC.

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

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

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

For the year ended 31 December 2022, 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 RMB2,034.3 million and the amount of the other financial services was approximately RMB0.7 million (for the year ended 31 December 2021: the daily maximum limit amount in respect of deposit services was approximately RMB2,005.2 million and the amount of other financial services was approximately RMB9.7 million).

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

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

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

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

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

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

For the purpose of continuing connected transactions, the Company has complied with the disclosure requirements of the Listing Rules from time to time, and the value and the transaction terms of the transactions for the year ended 31 December 2022 have been determined in accordance with the pricing policies and guidelines set out in the Stock Exchange's Guidance Letter HKEx-GL73-14.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2022 in compliance with the code provisions under the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

AUDIT AND RISK MANAGEMENT COMMITTEE

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

REMUNERATION COMMITTEE

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

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

NOMINATION COMMITTEE

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

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

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

STRATEGY COMMITTEE

In response to the Company's needs of strategic development, the Board of the Company has established the Strategy Committee. The committee has written terms of reference which are available on the websites of the Stock Exchange and the Company. The Strategy Committee of the Company currently consists of 3 executive Directors (namely Mr. Zhang Fulun, Mr. Yue Xiangjun and Mr. Yang Quan), 2 non-executive Directors (namely Mr. Huang Yong and Ms. Zhu Ying) and 3 independent non-executive Directors (namely Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei). Mr. Zhang Fulun is the chairman of the Strategy Committee. The major responsibilities of the Strategy Committee are to carry out research and propose suggestions on the Company's long-term development strategies and material investment decisions for the Board's reference in decision-making.

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises five supervisors, namely Mr. Sun Wenguang, Ms. Wu Yi, Mr. Wang Haibing, Mr. Xia Hua and Mr. Li Fangzhong. Mr. Sun Wenguang acts as the chairman of the Supervisory Committee. To safeguard the interests of the Shareholders, the Company's Supervisory Committee is responsible for the supervision of the Company's financial activities and duty fulfillment of the Board, its members and senior management. In 2022, the Supervisory Committee has reviewed the legality of the Company's financial situation and business. Through convening the meetings of the Supervisory Committee and attending the Board meetings, general meetings and other important meetings and establishing archives, etc., the Supervisory Committee conducted the due diligence on senior management personnel. The Supervisory Committee carefully and thoroughly performed their duties according to the principle of prudence.

SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted procedures governing directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Individual confirmation has been obtained from all Directors to confirm compliance with the Model Code during the year ended 31 December 2022.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2022, 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 14 April 2023 and will be dispatched to Shareholders of the Company thereafter according to the means they choose to receive communications.

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

Chongqing, the PRC
22 March 2023

As at the date of this announcement, the executive Directors are Mr. Zhang Fulun, Mr. Yue Xiangjun and Mr. Yang Quan; the non-executive Directors are Mr. Huang Yong, Ms. Zhu Ying, Mr. Dou Bo and Mr. Cai Zhibin; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei.