CQME

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

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

(Stock Code: 02722)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

RESULTS HIGHLIGHTS

Chongqing Machinery & Electric Co., Ltd. (the "Company" or "Chongqing Machinery & Electric") and its subsidiaries (collectively the "Group") announce the highlights of the consolidated results as set out below.

- Revenue of the Group for the six months ended 30 June 2018 amounted to approximately RMB2,768.0 million, representing a decrease of approximately 22% from the corresponding period of last year.
- Gross profit of the Group for the six months ended 30 June 2018 amounted to approximately RMB604.2 million, representing an increase of approximately 22.7% from the corresponding period of last year.
- Profit attributable to the shareholders of the Company for the six months ended 30 June 2018 amounted to approximately RMB227.8 million, representing an increase of approximately 17.4% from the corresponding period of last year.
- Basic earnings per share for the six months ended 30 June 2018 amounted to approximately RMB0.06.

The board of directors (the "Board") of the Company is pleased to announce the interim results of the Group for the six months ended 30 June 2018 (the "Period"). The Group's interim results have not been audited but have been reviewed by the audit and risk management committee and the Company's auditor, ShineWing Certified Public Accountants (Special General Partnership).

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018

Item	Notes	This Period	Last Period
1. Total operating revenue	V3	**2,767,959,138.61**	3,548,021,596.29
Including: Operating revenue		**2,733,873,606.55**	3,519,111,129.77
Interest income		**33,870,973.44**	28,792,373.02
Transaction fees and commission income		**214,558.62**	118,093.50
2. Total operating cost		**2,793,802,008.14**	3,692,033,982.65
Including: Operating cost		**2,159,124,333.67**	3,051,127,108.77
Interest expenses		**4,561,659.34**	4,566,493.17
Transaction cost and commission fees		**54,420.31**	34,063.60
Business taxes and surcharges		**28,517,225.78**	30,859,518.27
Selling and distribution expenses		**142,579,113.56**	132,602,869.09
Administrative expenses		**256,083,181.28**	376,344,103.64
Research and development expenses		**116,331,772.01**	–
Financial expenses		**62,780,594.46**	41,889,234.31
Including: Interest expenses		**63,291,660.09**	49,346,897.41
Interest income		**12,811,729.52**	7,590,186.04
Loss on impairment of assets		**2,178,043.43**	54,610,591.80
Impairment loss on credit		**21,591,664.30**	–
Add: Other gains	V7	**60,759,243.59**	–
Investment income (Loss listed with "-")	V4	**230,506,396.27**	196,574,269.00
Including: income from investments in associates and joint ventures		**227,196,327.78**	195,107,399.00
Gain arising from the changes in fair value (Loss listed with "-")	V5	**(104,916.90)**	–
Gain on disposal of assets (Loss listed with "-")	V6	**623,652.43**	186,715,396.00
3. Operating profit (Loss listed with "-")		**265,941,505.86**	239,277,278.64
Add: Non-operating income	V8	**6,970,029.97**	18,753,923.66
Less: Non-operating expenses		**2,895,940.38**	6,378,165.62
4. Total profit (Loss listed with "-")		**270,015,595.45**	251,653,036.68
Less: Income tax expenses	V9	**26,320,717.25**	31,029,926.28
5. Net profit (Net loss listed with "-")		**243,694,878.20**	220,623,110.40
(1) Classification by continuing or discontinued operation		**243,694,878.20**	220,623,110.40
1. Net profit attributable to continuing operation (Net loss listed with "-")		**243,694,878.20**	220,623,110.40
2. Net profit attributable to discontinued operation (Net loss listed with "-")		**–**	–
(2) Classification by ownership		**243,694,878.20**	220,623,110.40
1. Net profit attributable to shareholders of the controlling company		**227,779,287.39**	194,032,482.68
2. Net profit attributable to non-controlling interests		**15,915,590.81**	26,590,627.72

Item	Notes	This Period	Last Period
6. Net other comprehensive income after tax		**1,085,663.32**	5,699,476.68
Net other comprehensive income after tax attributable to shareholders of the controlling company		**1,085,663.32**	5,699,476.68
(1) Other comprehensive incomes that can not be reclassified as profit or loss		**–**	5,000,476.68
Including: 1. Changes in net assets or net liabilities from recalculation of designed retirement contribution plan		**–**	5,000,476.68
(2) Other comprehensive income that can be reclassified as profit or loss		**1,085,663.32**	699,000.00
Including: 1. Gain or loss from fair value changes of available-for-sale financial assets		**–**	245,000.00
2. Share of other comprehensive income of investee company under equity method that can be reclassified as profit or loss		**–**	353,000.00
3. Reserve of cash flow hedging		**1,324,807.42**	3,966,000.00
4. Translation differences of financial statements in foreign currencies		**(239,144.1)**	(3,865,000.00)
7. Total comprehensive income		**244,780,541.52**	226,322,587.08
Total comprehensive income attributable to shareholders of the controlling company		**228,864,950.71**	199,731,959.36
Total comprehensive income attributable to non-controlling interests		**15,915,590.81**	26,590,627.72
8. Earnings per share	*VI 2*		
Basic earnings per share		**0.0618**	0.0527
Diluted earnings per share		**0.0618**	0.0527

CONSOLIDATED BALANCE SHEET

As at 30 June 2018

Item	*Notes*	**Ending balance**	Beginning balance
Current assets			
Cash and cash equivalents	*V10*	**1,944,570,182.69**	1,658,694,663.00
Financial assets held for sale		**129,079.58**	–
Notes receivable and Accounts receivable		**4,191,842,744.79**	3,883,314,358.00
Prepayments		**295,828,896.59**	434,915,529.00
Other receivables		**1,014,863,362.69**	1,330,585,622.92
Loans and advances to customers		**1,213,670,239.85**	1,007,178,150.00
Inventories		**1,581,288,413.22**	2,040,955,563.00
Contractual assets		**495,773,425.43**	–
Non-current assets due within one year		**1,138,300.00**	1,138,300.00
Other current assets		**60,279,233.34**	188,049,577.00
Total current assets		**10,799,383,878.18**	10,544,831,762.92
Non-current assets			
Loans and advances to customers		**–**	37,894,354.00
Long-term receivables		**42,669,104.46**	91,669,620.00
Long-term equity investments		**1,193,500,242.34**	1,046,677,545.00
Investment properties		**155,439,419.39**	164,020,539.97
Property, plant and equipment		**3,111,054,290.19**	2,866,356,781.00
Construction in progress		**371,748,287.56**	418,264,300.74
Intangible assets		**630,212,278.19**	615,280,099.72
Development expenditures		**11,935,929.19**	7,138,672.00
Goodwill		**143,312,435.00**	143,312,435.00
Long-term deferred expenses		**191,377,050.78**	203,065,942.02
Deferred tax assets		**137,894,750.23**	68,505,568.00
Other non-current assets		**36,040,440.23**	83,655,571.26
Total non-current assets		**6,025,184,227.56**	5,745,841,428.71
Total assets		**16,824,568,105.74**	16,290,673,191.63

Item	*Notes*	**Ending balance**	Beginning balance
Current liabilities			
Short-term loans		**1,701,672,391.31**	1,669,889,955.00
Deposits from banks and other financial institutions		**888,848,304.06**	877,057,450.00
Notes payable and accounts payable		**3,026,439,284.01**	2,759,082,239.00
Receipts in advance		**502,903,663.92**	677,552,844.00
Contractual liabilities		**44,079,785.91**	–
Employee benefits payables		**61,270,077.44**	57,693,334.00
Taxes and levies payables		**235,795,184.79**	221,341,231.00
Other payables		**593,901,573.51**	526,130,339.20
Non-current liabilities due within one year		**301,746,095.32**	294,663,555.00
Other current liabilities		**5,945,215.03**	–
Total current liabilities		**7,362,601,575.30**	7,083,410,947.20
Non-current liabilities			
Long-term loans		**699,200,000.00**	562,411,906.00
Bonds payable		**798,404,883.43**	797,674,683.43
Long-term payables		**195,225,668.79**	211,496,663.00
Long-term employee benefits payables		**15,968,000.00**	15,968,000.00
Provisions		**12,443,765.42**	–
Deferred revenue		**388,502,803.13**	383,378,140.00
Deferred tax liabilities		**93,257,810.80**	58,346,309.00
Total non-current liabilities		**2,203,002,931.57**	2,029,275,701.43
Total liabilities		**9,565,604,506.87**	9,112,686,648.63

Item	*Notes*	**Ending balance**	Beginning balance
Shareholder's equity			
Share capital		**3,684,640,154.00**	3,684,640,154.00
Capital reserves		**47,161,642.67**	49,744,935.00
Other comprehensive income		**27,458,877.32**	27,977,334.00
Surplus reserves		**309,950,966.18**	297,517,132.00
Retained earnings		**2,776,458,202.81**	2,717,844,150.00
Total equity attributable to shareholders of the Company		**6,845,669,842.98**	6,777,723,705.00
Non-controlling interests		**413,293,755.89**	400,262,838.00
Total shareholder's equity		**7,258,963,598.87**	7,177,986,543.00
Total liabilities and shareholder's equity		**16,824,568,105.74**	16,290,673,191.63

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 30 June 2018

	This Period												
	Equity attributable to the equity holders of the controlling Company												
		Other equity instruments											
Item	Share capital	Preferred shares	Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained earning	Non-controlling interests	Total equity
1. Balance at 31 December 2017	3,684,640,154.00	-	-	-	49,744,935.00	-	27,977,334.00	-	297,517,132.00	-	2,717,844,150.00	400,262,838.00	7,177,986,543.00
Add: Change in accounting policing	-	-	-	-	-	-	-	-	-	-	-169,165,234.60	-2,884,672.92	-172,049,907.52
2. Balance at 1 January 2018	3,684,640,154.00	-	-	-	49,744,935.00	-	27,977,334.00	-	297,517,132.00	-	2,548,678,915.40	397,378,165.08	7,005,936,635.48
3. Increase/Decrease for the period (Decrease listed with "-")	-	-	-	-	-2,583,292.33	-	-518,456.68	-	12,433,834.18	-	227,779,287.41	15,915,590.81	253,026,963.39
(1) Total comprehensive income	-	-	-	-	-	-	-518,456.68	-	-	-	227,779,287.41	15,915,590.81	243,176,421.54
(2) Others	-	-	-	-	-2,583,292.33	-	-	-	12,433,834.18	-	-	-	9,850,541.85
4. Balance at 30 June 2018	3,684,640,154.00	-	-	-	47,161,642.67	-	27,458,877.32	-	309,950,966.18	-	2,776,458,202.81	413,293,755.89	7,258,963,598.87

Item	Last Period												
	Equity attributable to the equity holders of the controlling Company												
	Share capital	Preferred shares	Other equity instruments Perpetual bond	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	Retained earning	Non-controlling interests	Total equity
1. Balance at 31 December 2016	3,684,640,154.00	–	–	–	156,143,834.00	–	14,176,621.00	–	332,505,407.00	–	2,551,313,941.00	580,595,859.00	7,319,375,816.00
2. Balance at 1 January 2017	3,684,640,154.00	–	–	–	156,143,834.00	–	14,176,621.00	–	332,505,407.00	–	2,551,313,941.00	580,595,859.00	7,319,375,816.00
3. Increase/Decrease for the year (Decrease listed with "-")	–	–	–	–	-10,959,885.00	–	5,699,476.68	–	–	–	65,070,079.68	-197,698,031.28	-137,888,359.92
(1) Total comprehensive income	–	–	–	–	–	–	5,699,476.68	–	–	–	194,032,482.68	26,590,627.72	226,322,587.08
(2) Profit appropriations	–	–	–	–	–	–	–	–	–	–	-128,962,403.00	-93,180,091.00	-222,142,494.00
1. Appropriate to Shareholders											-128,962,403.00	-98,540,091.00	-227,502,494.00
2. Increase capital by shareholders non-controlling interest												5,360,000.00	5,360,000.00
(3) Others	–	–	–	–	-10,959,885.00	–	–	–	–	–	–	-131,108,568.00	-142,068,453.00
4. Balance at 30 June 2017	3,684,640,154.00	–	–	–	145,183,949.00	–	19,876,097.68	–	332,505,407.00	–	2,616,384,020.68	382,897,827.72	7,181,487,456.08

CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2018

Item	*Notes*	This Period	Last Period
1. Cash flows from operating activities			
Cash received from sales of goods and rendering of services		**2,292,404,403.92**	4,211,152,212.25
Net decrease in central bank and interbank payments		**–**	19,618,805.51
Net decrease in loans and advances to customers		**–**	247,492,186.00
Cash received from tax refund		**9,344,656.79**	–
Cash received relating to other operating activities		**420,536,260.80**	19,541,607.50
Sub-total of cash inflows from operating activities		**2,722,285,321.51**	4,497,804,811.26
Cash paid for goods and services		**2,030,859,091.33**	3,924,566,469.77
Net decrease in customer deposits and interbank deposits		**–**	210,707,638.00
Cash paid to and on behalf of employees		**418,278,866.11**	461,572,603.99
Payments of taxes and surcharges		**149,925,870.45**	157,954,483.96
Cash paid relating to other operating activities		**291,923,849.45**	386,562,165.69
Sub-total of cash outflows from operating activities		**2,890,987,677.34**	5,141,363,361.41
Net cash flows from operating activities		**(168,702,355.83)**	(643,558,550.15)
2. Cash flows from investment activities			
Cash received from return of investments		**198,763,506.71**	161,466,872.00
Cash received from investments income		**159,076,955.91**	93,285,355.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**926,228.00**	93,531,162.00
Cash received relating to other investing activities		**355,727,525.16**	13,871,229.00
Sub-total of cash inflows from investing activities		**714,494,215.78**	362,154,618.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets		**96,340,047.84**	253,494,733.47
Cash paid for investments		**168,597,735.85**	1,630,722.00
Cash paid relating to other investing activities		**39,222,569.91**	10,787,894.85
Sub-total of cash outflow from investing activities		**304,160,353.60**	265,913,350.32
Net cash flows from investing activities		**410,333,862.18**	96,241,267.68

Item	*Notes*	**This Period**	Last Period
3. Cash flows from financing activities			
Cash received from loans granted		**775,000,000.00**	664,837,217.00
Cash received relating to other financing activities		**–**	5,360,000.00
Sub-total of cash inflows from financing activities		**775,000,000.00**	670,197,217.00
Cash paid for repayment of borrowings		**584,155,743.12**	363,561,203.00
Cash paid for dividends, profits or payments of interests		**61,862,147.16**	144,603,296.03
Cash paid relating to other financing activities		**134,149,408.90**	160,031,378.24
Sub-total of cash outflows from financing activities		**780,167,299.18**	668,195,877.27
Net cash flows from financing activities		**(5,167,299.18)**	2,001,339.73
4. Effects of changes in exchange rate on cash and cash equivalents		**120,596.22**	6,198,805.59
5. Net increase in cash and cash equivalents		**236,584,803.39**	(539,117,137.15)
Add: opening balance of cash and cash equivalents		**1,174,539,298.00**	1,442,933,183.75
6. Balance of cash and cash equivalents at the end of this period	*V10*	**1,411,124,101.39**	903,816,046.60

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF CHONGQING MACHINERY & ELECTRIC CO., LTD.

For the six months ended 30 June 2018

I. GENERAL INFORMATION

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

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

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in manufacturing and sales of clean energy equipment and high-end intelligent equipment, and also industrial service.

The consolidated financial statements have been approved for issue by the Board of Directors of the Group on 23 August 2018.

II. 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, 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Declaration on Compliance with CAS

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

2. Accounting Period

The Group's accounting period begins on 1 January and ends on 31 December of the calendar year.

3. Business Cycle

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

4. Functional Currency

The Group adopts Renminbi as its functional currency.

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

The consideration transferred and net assets acquired in a business combination under common control shall be measured at the combination-date carrying amount. The differences between the carrying amount of net assets acquired and consideration transferred shall adjust capital reserve; if capital reserve is not sufficient for offsetting, the retained earnings shall be adjusted. Acquisition-related costs shall be recognized as expenses in the periods in which the costs are incurred. The costs to issue debt or equity securities shall be recognized in initial costs of debt or equity securities.

The consideration transferred and identifiable net assets in a business combination not under common control shall be measured at fair value at the acquisition date. Where the cost of combination exceeds the acquirer's share of the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill; where the cost of combination is less than the acquirer's share of the fair value of the acquiree's identifiable net assets, the difference are recorded in profit or loss for the period. Acquisition-related costs shall be recognized as expenses in the periods in which the costs are incurred. The costs to issue debt or equity securities shall be recognized in initial costs of debt or equity securities.

6. Preparation of Consolidated Financial Statements

The consolidated financial statements are for the Group consisting of the Company and its subsidiaries.

The Company shall consolidate its subsidiaries when it obtains control and shall not consolidate its subsidiaries when it loses control. For a subsidiary acquired in a business combination involving enterprises under common control, the Company shall consolidate the subsidiary from the date when both entities are ultimately controlled by the same party or parties. The portion of the net profits realized before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition dates.

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

If the accounting treatment of a transaction which considers the Group as an accounting entity is different from that considers the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

7. Dividend Distribution

Cash dividend is recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

8. Revenue Recognition and Measurement

The Group recognizes revenue by five-step. Step 1: identify the contracts with a customer; step 2: identify the performance obligations in the contract; step 3: determine the transaction price; step 4: allocate the transaction price to the performance obligations in the contract and step 5: recognize revenue when (or as) the entity satisfies a performance obligation. The Group recognizes the revenue when customers obtain the control of the good or service.

On inception of the contract, the company identifies each separate performance obligations and the transaction price is allocated to each separate performance obligation in proportion to the stand-alone price of the promised goods. If the stand-alone selling price cannot be directly observed, the Group adopts appropriate techniques to estimate, the ultimately transaction price allocated to each performance obligation reflects the right of the Group to collect expectation considerations from customers by transferring the promised goods.

For each separate performance obligation in the contract, when one of the following criteria is met, the company should recognize the transaction price allocated to each performance obligation as revenue over time within the performance progress: the customer simultaneously receives and consumes the benefits as the performance takes place; the customer can control the asset which is created by the company's performance; the company's performance does not create an asset with an alternative use and the company has an enforceable right to payment for performance completed to date. The performance progress shall be determined by input method or output method according to the nature of the goods to be transferred. When the performance progress cannot be determined, The Company is expected to be reimbursed for the costs already incurred and recognize the revenue based on the costs already incurred until the performance progress can be reasonably determined.

If none of the above criteria has been met, the company should recognize the transaction price allocated to each performance obligation as revenue at a point in time when customer obtains control of the promised good. When judging whether the customer obtains control of the promised good or not, the company should consider the following indications: the company has a present right to the payment for the goods, which means the customer has a present obligation to pay; the company has transferred legal title of the goods to customers, which means customers have legal title to the goods; the company has transferred physical possession of the goods to customers, which means customers has owned the physical possession of the goods; the company has transferred the significant risks and rewards of the ownership to the customers, which means customers have received the significant risks and rewards of the goods; customers have accepted the goods. And other indications show customers have obtained control of the goods.

Disclosure of contractual assets and contractual liabilities: contractual assets refer to the Group's right (has not yet become unconditional) to collect costs from customers in exchange for goods or services transferred by the Group. Contractual liabilities refer to the obligations of the Group to transfer goods or services to customers as a result of receiving consideration from customers (or receiving consideration from customers). On balance sheet date, the contractual assets and liabilities under the same contract shall be shown on a net basis, the contractual assets and liabilities under different contracts cannot be offset against each other.

9. Deferred Tax Assets and Deferred Tax Liabilities

Deferred tax assets and deferred tax liabilities are recognized based on the temporary differences between the tax bases and carrying amount of assets and liabilities. A deferred tax asset shall be recognized for deductible losses to the extent that it is probable that tax profit will be available against which the deductible losses can be utilized in accordance with tax law Deferred tax liabilities for taxable temporary differences relating to goodwill are not recognized to the extent they arise from the initial recognition of goodwill. Deferred tax assets and liabilities are not recognized if the temporary differences arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. As at balance sheet date, deferred tax assets and deferred tax liabilities are determined using the applicable tax rates that are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities are recognized on taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except to the extent that the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are offset to the extent that both of the following conditions are satisfied:

(1) the deferred tax assets and the deferred tax liabilities relate to income tax levied by the same taxation authority on the same taxable entity within the Group;

(2) the taxable entity within the Group has a legally enforceable right to set off current tax assets against current tax liabilities.

10. Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(1) Taxation

The Group is subject to various taxes in the PRC, United Kingdom and Germany. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognized as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax in the periods in which such estimate is changed.

11. Changes in Critical Accounting Policies and Estimates

(1) Changes in critical accounting policies

In 2017, the Ministry of Finance revised "CAS 14 – Revenue", "CAS 22 – Financial Instruments: Recognition and Measurement", "CAS 23 – Transfer of Financial Assets", "CAS 24 – Hedging Accounting", "CAS 37 – Financial Instruments: Presentation" and issued ""General Enterprise Financial Statement Format Notice" (Caikuai [2018] No. 15)" in 2018. As for the public company listed both inside and outside the PRC and public company listed outside the PRC applying International Financial Reporting Standards or CAS to prepare its financial statements, the revised CAS shall be applied commencing from 1 January 2018. On 29 March 2018, the Group held the first meeting of the fourth session of the board of directors in 2018 and approved that the Group would apply the above revised CAS commencing from 1 January 2018 as required by the Ministry of Finance.

The application of the above new stipulations and revised CASs, will influence the Group's accounting policy and the presentation of financial statements commencing from 1 January 2018. The Group has applied the modified retrospective application method to adjust the cumulative effect of applying the revised CASs to all prior periods to the balance of retained earnings as at 1 January 2018 in accordance with transitional provisions. The Group shall not present the comparative information that is not affected. The adjustment on the consolidated financial statements as at 1 January 2018 is addressed below.

Table 1:

Financial statements (as previously stated)	31 December 2017 balance	**Financial statements (as currently stated)**	**1 January 2018 balance**	**Amount for Adjustment**	**Note**
Notes receivable	1,479,630,312.00	Notes receivable and accounts receivable	**3,823,030,279.74**	(60,284,078.26)	*(a)*
Accounts receivable	2,403,684,046.00				
Interest receivable	19,416,374.00	Other receivables	**1,317,945,398.82**	(12,640,224.09)	*(a)*
Dividend receivable	260,528,433.00				
Other receivables	1,050,640,815.91				
Inventory – completed but unsettled	641,364,728.98	Contractual assets	**410,170,037.87**	(231,194,691.11)	*(b)*
Receipts in advance	128,077,485.21	Contractual liabilities	**26,418,362.05**	(101,659,123.16)	
Notes payable	809,054,101.00	Notes payable and accounts payable	**2,759,082,239.00**		
Accounts payable	1,950,028,138				
Interest payable	11,250,751.00	Other payables	**526,130,339.20**		
Dividend payable	30,077,325.00				
Other payables	484,802,263.20				
		Provision	**0**		
Long-term payables	207,600,793.00	Long-term payables	**211,496,663.00**		
Payables for specific projects	3,895,870.00				
Administrative expenses	376,344,103.64	Administrative expenses	**291,602,829.28**		
		Research and development expenses	**84,741,274.36**		

Table 2:

Item	**31 December 2017 Amount**	**Amount for Adjustment**	**1 January 2018 Amount**
Asset	16,290,673,191.63	(261,053,173.09)	16,029,620,018.54
Liabilities	9,112,686,648.63	(89,003,265.55)	9,023,683,383.08
Equity attributable to equity holders	6,777,723,705.00	(169,165,234.60)	6,608,558,470.40
Non-controlling interest	400,262,838.00	(2,884,672.92)	397,378,165.08

Table 3: The impact on the Company's financial statements is addressed below due to the adoption of revised CAS.

Financial statements (as previously stated)	31 December 2017 balance	Financial statements (as currently stated)	1 January 2018 balance
Interest receivable	40,221,072.58	Other receivables	1,994,281,937.00
Dividend receivable	260,528,431.94		
Other receivables	1,693,532,432.48		
Interest payable	9,261,300.00	Other payables	60,628,414.00
Other payables	51,367,114.00		

Due to the adoption of the revised CAS 14 and CAS 22 in 2017, the provision for impairment of financial assets is based on the expected credit losses rather than the historical credit record, so that the provision for impairment was increased, resulting in a decrease of equity attribute to the shareholders of the Company amounting to RMB169,165,234.60, and a decreased of non-controlling interest amounting to RMB2,884,672.92. The explanation is illustrated as follows:

(a) *The impact on provision for impairment of receivables*

In 2017 and prior period, the Group and its subsidiaries assessed the impairment based on the analysis of customers' financial conditions and their historical credit records. As a result of management assessment, no provision for impairment was made for the overdue receivables amounting to RMB1,433,000,000. Due to the adoption of revised CAS 22 for reporting period commencing 1 January 2018, the Company recalculated the beginning balance of provision for impairment based on the expected credit loss rate, resulting in an increase amounting to RMB72,924,302.35 of the beginning balance of provision for impairment.

(b) *The impact on provision for impairment of contractual assets*

Pursuant to revised "CAS 14 – Revenue" in 2017, Chongqing Water Turbine Works Co., Ltd. reclassified the assets recorded under construction contract into contractual assets. Pursuant to revised "CAS 22 – Financial Instruments: Recognition and Measurement", Chongqing Water Turbine Works Co., Ltd. performed impairment assessment on contractual assets based on expected credit losses. A provision for impairment of RMB129.5356 million was made against the beginning balance of contractual assets, resulting in a decrease of the beginning balance of retained earnings.

As at the balance sheet date, contractual assets and contractual liabilities are offset under the same contract. Chongqing Water Turbine Works Co., Ltd. reclassified the beginning balance of inventory-completed but unsettled and receipts in advance related to construction project into contractual assets and contractual liabilities.

(c) Deferred tax asset amounting to RMB30.41 million was recognized on the above provision for impairment, resulting in a decrease amounting to RMB169.1652 million of the equity attributable to shareholders of the Company and a decrease amounting to RMB2.8847 million of non-controlling interests.

(2) Changes in critical accounting estimates

None.

IV. TAXATION

Main categories of tax and corresponding tax rate

Category of tax	Tax base	Tax rate
Enterprise income tax	Taxable income	15%, 25% and 0%
Value-added tax("VAT")	Taxable value-added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period)	17%, 16%, 13%, 11%, 10%, 6%
VAT(easy to collect)	Taxable value-added amount multiplied by VAT collection rate	5%, 3%
City maintenance and construction tax	Taxable amounts of VAT	5% and 7%
Educational surcharge	Taxable amounts of VAT	2% and 3%

Note: Pursuant to regulation jointly issued by the Ministry of Finance and the State Administration of Taxation on April 4, 2018 (Cai Shui [2018] No. 32), since May 1, 2018, the original applicable tax rates of 17% and 11% for the VAT sales receivable or imported goods of the taxpayers would be adjusted to 16% and 10% respectively.

(2) Tax preference

The Group and its ten subsidiaries, including: Chongqing Shengpu Materials Co., Ltd. ("Shengpu Materials"), Chongqing Yinhe Forging and Founding Co., Ltd.("Yinhe Forging and Founding"), Chongqing Water Turbine Works Co., Ltd.("Water Turbine Company"), Chongqing Chongtong Turbine Technology Co., Ltd. ("Chongtong Turbine"), Chongqing Chongtong Wide Wisdom Air Conditioning Equipment Co., Ltd. ("Chongtong Wide Wisdom"), Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. ("Finance Company"), Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd.("Technology Research Academy"), Xilinhaote Chenfei Wind Power Equipment Co., Ltd. ("Xilin Chenfei") and Chongtong Chengfei Wind Power Equipment Jiangsu Co., Ltd., ("Jiangsu Chengfei") apply corporate income tax rate of 25%.

Pursuant to circle of in-depth implementing the western development strategy on the problem of enterprise income tax which was issued by the State Administration of Taxation on April 6, 2012 (The State Administration of Taxation announcement No.12, 2012) (the "Circle"), management of the Group believes that its subsidiaries which was approved by Chongqing Municipal Office, SAT to enjoy 15% preferential enterprise income tax rate from 2001 to 2011, is still eligible to enjoy 15% preferential enterprise income tax rate from 2012 to 2020.

Since the urban sewage treatment program engaged by Tong Kang Water Affairs Company meets the requirements of document (Cai shui [2009] No. 166), the corporate income tax shall be exempted from the first year to the third year and halved from the fourth year to the sixth year starting from the tax year in which the first production and operation income is obtained by the program. The preference period is from 1 January 2014 to 31 December 2019. The Company has filed corporate income tax preference on July 12, 2016. Pursuant to notice of VAT refund as soon as it is imposed (Tongguo Taxation Park Shui Tong [2015] No. 8576) and notice of issuing on the catalogue of value-added tax preferences for the comprehensive utilization of resources and services (Cai Shui [2015] No. 78), Tong Kang Water Affair Company shall be refunded by 70% of actual VAT payment based on the preference policy of refundable VAT as soon as it is imposed. The valid period of VAT reduction is from 1 August 2015, and usually applies to high-tech enterprise with 15%.

On 16 July 2015, Jilin Chongtong Chengfei New Material Co., Ltd. ("Chongtong Chengfei") obtained the high-tech certificate issued by Jilin Province Science and Technology Department (No. GF201522000016), which is valid for 3 years. Pursuant to regulations of article 28 under the enterprise income tax law of the People's Republic of China, the corporate income tax applied to Chongtong Chengfei is 15% for 2018. (For 2017: 15%)

The Group's subsidiaries in United Kingdom, including Precision Technologies Group Inc. ("PTG Group"), Holoryd Precision Rotors Inc. ("Holroyd"), PTG Heavy Industries Ltd. ("PTG Heavy Industries"), Milnrow Investment Ltd. ("Milnrow Investment"), Precision Components Processing Ltd. ("Precision Components") and PTG Advanced Developments Ltd. ("PTG Advanced Developments") were applied 20% of enterprise income tax rate for 2018 (For 2017: 20%)

The Group's subsidiary in Germany, PTG Deutschland Gmbh ("PTG Deutschland") was applied 15.2% of enterprise income tax rate for 2018. (For 2017: 15.2%)

The Group's subsidiary in Hong Kong, PTG Investment Development Company Ltd.("PTG Hong Kong")was applied 16.5% corporate income tax rate for 2018. (For 2017: 16.5%)

The Group's subsidiary in United Kingdom, Precision Technologies Group (US) Limited (PTG US) was applied 20% of enterprise income tax rate for 2018. (For 2017: 20%)

The Group's subsidiary in United States, Precision Technologies Group (PTG) Limited and Holroyd Precision Screw Manufacturing Co., Ltd were applied 34% and 39% of enterprise income tax rate respectively for 2018. (For 2017: 34% and 39%)

The Group's subsidiary, Xinjiang Fubaotian Cotton-picking Service Co., Ltd. ("Fubaotian") is engaged in agricultural machinery operations and its income is exempted from enterprise income tax.

V. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANICAL STATEMENTS

Unless otherwise stated, among the following disclosed data in the financial statements, "Beginning balance" refers to the amount on January 1, 2018 and "Ending balance" refers to the amount on June 30, 2018 "Current period" refers to the period from 1 January 2018 to 30 June 2018. "Last period" refers to the period from 1 January 2017 to 30 June 2017. All amounts are presented in RMB except otherwise stated

1. Taxes Payable

Items	**Ending balance**	Beginning balance
Enterprise income tax	**126,325,957.17**	124,285,739.00
Value-added tax	**102,424,110.69**	89,565,416.00
City maintenance and construction tax	**989,501.28**	1,714,343.00
City land use tax	**150,760.61**	149,905.00
Real estate tax	**620,386.55**	578,104.90
Individual income tax	**2,341,381.98**	860,623.74
Others	**2,943,086.51**	4,187,099.36
Total	**235,795,184.79**	221,341,231.00

2. Retained Earnings

Items	**Current period**	Last period
Ending balance of last year	**2,717,844,150.00**	2,551,313,941.00
Add: Adjustment of beginning balance		
Including: retroactive adjustment due to adoption of revised CAS	**(169,165,234.60)**	–
Beginning balance of current year	**2,548,678,915.40**	2,551,313,941.00
Add: Net profit attributable to shareholders of the Company	**227,779,287.41**	316,644,903.00
Less: Appropriation to statutory reserve	**–**	20,845,494.00
Appropriation to staff bonus and welfare	**–**	306,794.00
Declared ordinary share dividends	**–**	128,962,406.00
Ending Balance	**2,776,458,202.81**	2,717,844,150.00

3. Operating Revenue & Operating Cost

Items	Current period Revenue	Current period Cost	Last period Revenue	Last period Cost
Main operations	**2,679,037,789.71**	**2,127,846,900.73**	3,231,552,060.83	2,783,692,215.35
Other operations	**54,835,816.84**	**31,277,432.94**	287,559,068.94	267,434,893.42
Interest	**33,870,973.44**	**4,561,659.34**	28,792,373.02	4,566,493.17
Transaction fees and commission income	**214,558.62**	**54,420.31**	118,093.50	34,063.60
Total	**2,767,959,138.61**	**2,163,740,413.32**	3,548,021,596.29	3,055,727,665.54

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.

(1) Operating revenue and operating cost are presented on segment basis:

Items	Current period Revenue	Current period Cost	Last period Revenue	Last period Cost
High-end intelligent equipment business	**778,286,361.43**	**601,912,091.89**	710,749,397.02	581,732,991.59
Industrial services	**138,164,919.47**	**118,523,359.30**	1,306,496,238.07	1,289,561,706.34
Clean energy equipment business	**1,840,613,126.05**	**1,473,129,759.83**	1,796,941,636.96	1,481,207,628.77
Less: elimination between segments	**78,026,617.24**	**65,718,310.29**	582,635,211.22	568,810,111.35
Total	**2,679,037,789.71**	**2,127,846,900.73**	3,231,552,060.83	2,783,692,215.35

Note: The revenue and cost of the industrial services do not include the revenue and cost of Financial Company.

(2) Breakdown of revenue

Items	Current period	Last period
Recognized at a certain point in time	**2,507,562,381.83**	3,397,661,572.60
Recognized over time	**260,396,756.78**	150,360,023.69
Total	**2,767,959,138.61**	3,548,021,596.29

4. Investment Income

Items	Current period	Last period
Investment income from long-term equity investments under equity method	**227,196,327.78**	195,107,399.00
Investment income from available-for-sale financial assets during holding period	**–**	1,466,870.00
Investment income from disposals of available-for-sale financial assets	**3,310,068.49**	–
Total	**230,506,396.27**	196,574,269.00

5. Gain arising from the Changes in Fair Value

Items	Current period	Last period
Financial assets at fair value through profit or loss	**(104,916.90)**	–
Total	**(104,916.90)**	–

6. Gains on Disposals of Assets

Items	Current period	Last period	Amount recorded in extraordinary profit and loss for current period
Gains on disposals of non-current assets which are not classified as held for sale			
Including: Gains on disposals of property, plant and equipment	**623,652.43**	186,715,396.00	623,652.43
Total	**623,652.43**	186,715,396.00	623,652.43

7. Other income

Items	Current period	Last period
Amortization of deferred revenue	**14,915,354.87**	–
Income related government grants received in current period	**45,843,888.72**	–
Total	**60,759,243.59**	–

8. Non-operating income

Items	Current period	Last period
Government grants	**3,143,100.00**	15,856,534.00
Debt restructuring	**1,155,518.94**	–
Others	**2,671,411.03**	2,897,389.66
Total	**6,970,029.97**	18,753,923.66

9. Income Tax Expense

Items	Current period	Last period
Current income tax	**27,312,203.70**	32,272,174.60
Deferred income tax	**(991,486.45)**	(1,242,248.32)
Total	**26,320,717.25**	31,029,926.28

10. Cash and Cash Equivalents

Item	Ending Balance	Beginning Balance
Cash	**1,061,684.38**	815,653.00
Bank Deposit	**1,410,062,417.01**	1,173,723,645.00
Balance of cash and cash equivalents at the end of this period	**1,411,124,101.39**	1,174,539,298.00
Other currency equivalents	**533,446,081.30**	484,155,365.00
Total	**1,944,570,182.69**	1,658,694,663.00
Include : Amount deposit in the overseas	**32,875,902.88**	44,881,223.00

VI. SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS

1. Details of Extraordinary Profit or Loss for the Period

(1) In accordance with the requirements of the "Explanatory Announcement on Information Disclosure for Companies Offering Securities to the Public No.1 – Extraordinary Profit or Loss (2008)" issued by the China Securities Regulatory Commission, extraordinary profit or loss of the Group from January 2018 to June 2018 are as follows:

Item	Amount for current period
Gains and losses from disposal of non-current assets	623,652.43
Tax refunds and relief of ultra vires or without formal approval or incidental tax refunds or relief	3,280,311.12
Government grants included in the profit or loss for the period	63,902,343.59
Funds utilization fees collected from non-financial enterprises included in the profit or loss for the period	1,155,440.25
Gains and losses from debt restructuring	(164,957.22)
Employee resettlement compensation	(16,618,691.20)
Investment income derived from the holding of financial assets held for trading, gains and losses arising from changes in fair value of financial liabilities held for trading and disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets (excluding the effective hedging activities related to the normal operation of the Group)	3,205,151.59
Other non-operating income and expenses apart from the above	2,251,465.75
Sub-total	57,634,716.31
Less:	
Impact on income tax	8,645,207.45
Impact on non-controlling interest (after tax)	569,024.50
Total	48,420,484.36

2. Return on Net Assets and Earnings Per Share

In accordance with the requirements of the "Preparation Rules for Information Disclosures by Companies Offering Securities to the Public No.9 – Calculations and Disclosures for Return on Net Assets and Earnings Per Share (Revised in 2010)" issued by the China Securities Regulatory Commission, the weighted average return on net assets, basic earnings per share and diluted earnings per share of the Group from January 2018 to June 2018 are as follows:

Profit for the reporting period	Weighted average return on net assets *(%)*	Earnings per share: Basic earnings per share	Earnings per share: Diluted earnings per share
Net profit attributable to the shareholders of the Company	3.3860	0.0618	0.0618
Net profit attributable to the shareholders of the Company (excluding: extraordinary profit and loss)	2.6662	0.0487	0.0487

Note: Diluted earnings per share equals net profit attributable to the shareholders of the Company after adjusting dilutive potential ordinary share divided by adjusted weighted average issued ordinary shares. Due to no exist of dilutive potential ordinary share for the six months ended 30 June 2018, diluted earnings per share equals basic earnings per share.

3. The explanation for adjustment of beginning balance

On 29 March 2018, the Company held the first general meeting of the fourth session of shareholders and approved that the Group shall prepare the financial statements only based on CAS commencing from preparing the interim financial statements for the six months ended 30 June 2018, in accordance with the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" published by the Stock Exchange in December 2010. On 28 June 2018, the article of the Company is approved to be revised. Starting from the current financial year, the Group decided to prepare its financial statements in accordance with CAS issued by the Ministry of Finance of the PRC and relevant requirements..

The differences in net profit for the year ended 31 December 2017 and net assets as at 31 December 2017 arising from applying CAS and HKFRS are as following:

Item	Net Profits of 2017 *(RMB'000)*	Net Assets on 31 December 2017 *(RMB'000)*
Applying HKFRS	374,419	7,025,528
The appreciation of evaluation	553	116,766
Government appropriation recorded in capital surplus	(5,378)	6,018
The balance of enterprise relocation compensation	(3,730)	29,503
Others	155	172
Applying CAS	366,019	7,177,987

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Sales

For the six months ended 30 June 2018, the Group's total revenue amounted to approximately RMB2,768.0 million, a decrease of approximately 22% as compared with approximately RMB3,548.0 million for the same period of last year, mainly due to the closure of foreign trade business with low gross profit by the Group since 2018.

Overall, revenue of the clean energy equipment segment was approximately RMB1,869.3 million (accounting for approximately 67.5% of the total revenue), a decrease of approximately 5.7%; revenue of the high-end intelligent manufacturing segment was approximately RMB802.7 million (accounting for approximately 29.0% of the total revenue), an increase of approximately 6.9%; revenue of the industrial service segment was approximately RMB95.4 million (accounting for approximately 3.5% of the total revenue), a decrease of approximately 88.3%.

During the Period, the sales revenue of the clean energy equipment segment declined, mainly due to a slight decrease in the wind power blade business. The sales revenue of the high-end intelligent manufacturing segment increased, mainly due to the significant increase in sales revenue of the intelligent manufacturing products. The decline in sales revenue of the industrial service segment was due to the Company's closure of foreign trade business with low gross profit since 2018. Excluding the trading revenue with low gross profit for the second half of 2017, it is expected that the sales revenue of the Group will maintain a stable growth in the second half of 2018 compared to the same period last year.

There has been no significant change in the possible future development of the Group's business and the Group's outlook for the financial year of 2018 since the publication of the Group's annual report for the year ended 31 December 2017.

Gross Profit

The gross profit for the six months ended 30 June 2018 was approximately RMB604.2 million, a significant increase of approximately RMB111.9 million or approximately 22.7% as compared with approximately RMB492.3 million for the same period of last year mainly because the overall clean energy equipment segment was driven by the hydropower equipment business and other products with higher gross profit. The Group's gross profit is expected to remain stable in the second half of 2018.

Asset Disposal Income and Other Gains

Other gains for the six months ended 30 June 2018 were approximately RMB61.4 million, a decrease of approximately RMB125.3 million or approximately 67.1% as compared with approximately RMB186.7 million for the same period of last year, which was mainly because no income was generated from land disposal during the Period.

Selling and Administrative Expenses

The selling and administrative expenses for the six months ended 30 June 2018 were approximately RMB398.7 million, a decrease of approximately RMB110.2 million or approximately 21.7% as compared with approximately RMB508.9 million for the same period of last year, mainly due to separate presentation of research and development expenses as a result of changes in standards during the Period, and the inclusion of research and development expenses in administration expenses for the same period of last year.

Operating Profit

The operating profit for the six months ended 30 June 2018 was approximately RMB265.9 million, an increase of approximately RMB26.6 million or approximately 11.1% as compared with approximately RMB239.3 million for the same period of last year.

Net Finance Expenses

The net interest expenses for the six months ended 30 June 2018 was approximately RMB62.8 million, an increase of approximately RMB20.9 million or approximately 49.9% as compared to approximately RMB41.9 million for the same period of last year, mainly due to the decrease of interest capitalization and increase in borrowings in the Period.

Share of Investment Income of Associates and Joint Ventures

The Group's share of investment income of associates and joint ventures for the six months ended 30 June 2018 was approximately RMB227.2 million, an increase of approximately RMB32.1 million or approximately 16.5% as compared with approximately RMB195.1 million for the same period of last year. This was due to an increase in results of Chongqing Cummins Engine Co., Ltd. resulting from the increase in sales of high-horse power product market, which resulted in an increase of approximately RMB58.2 million in investment income recognised by the Company as compared to the same period last year and due to an increase of approximately RMB3.7 million in investment income arising from Knon-Bremse Systems for Commercial Vehicles(Chongqing) Ltd. ; in contrast, affected by the change in the results of Chongqing ABB Power Transformer Co., Ltd. the investment income recognised during the Period decreased by approximately RMB45.7 million compared to the same period last year.

Income Tax Expenses

The income tax expenses for the six months ended 30 June 2018 were approximately RMB26.3 million, a decrease of approximately RMB4.7 million or approximately 15.2% as compared with approximately RMB31.0 million for the same period of last year.

Profit Attributable to Shareholders

Profit attributable to shareholders for the Period was approximately RMB227.8 million, an increase of approximately RMB33.8 million or approximately 17.4% as compared with approximately RMB194.0 million for the same period of last year. Earnings per share increased from approximately RMB0.05 in the same period last year to approximately RMB0.06 in the current Period.

BUSINESS PERFORMANCE

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

	Revenue		**Gross Profit**		**Segment Results**	
	Period ended 30 June		**Period ended 30 June**		**Period ended 30 June**	
	2018	2017	**2018**	2017	**2018**	2017
	(RMB in million, except for percentage)					
Clean energy equipment business						
Hydropower equipment	**260.4**	150.4	**38.7**	10.5	**(21.4)**	111.1
Electrical wires and cables	**728.5**	732.3	**107.5**	104.3	**48.3**	55.0
General machinery	**547.2**	848.6	**102.0**	107.9	**(7.1)**	26.1
Other products	**333.2**	251.1	**132.7**	113.8	**27.8**	(24.9)
Total	**1,869.3**	1,982.4	**380.9**	336.5	**47.6**	217.1
% of total	**67.5%**	55.9%	**63.0%**	68.4%	**75.2%**	200.6%
High-end intelligent manufacturing business						
CNC machine tools	**418.5**	391.7	**105.3**	88.3	**(35.9)**	(51.2)
Steering systems	**222.7**	185.1	**42.6**	36.9	**5.9**	5.8
Other products	**161.5**	174.1	**38.0**	5.0	**17.9**	(67.7)
Total	**802.7**	750.9	**185.9**	130.2	**(12.1)**	(113.1)
% of total	**29.0%**	21.2%	**30.8%**	26.4%	**(19.1%)**	(104.5%)
Industrial services business						
Trade	**56.7**	785.0	**3.9**	1.8	**2.2**	(0.9)
Finance	**33.9**	27.9	**29.3**	23.2	**25.4**	22.8
Other services	**4.8**	0.5	**3.6**	0.6	**0.1**	(2.4)
Total	**95.4**	813.4	**36.8**	25.6	**27.7**	19.5
% of total	**3.5%**	22.9%	**6.1%**	5.2%	**43.8%**	18.0%
Headquarters						
Total	**0.6**	1.3	**0.6**	–	**0.1**	(15.3)
% of total	**–%**	–%	**0.1%**	–%	**0.1%**	(14.1%)
Total	**2,768.0**	3,548.0	**604.2**	492.3	**63.3**	108.2

CLEAN ENERGY EQUIPMENT

Revenue from the clean energy equipment segment for the six months ended 30 June 2018 was approximately RMB1,869.3 million, a decrease of approximately RMB113.1 million or approximately 5.7% as compared with approximately RMB1,982.4 million for the six months ended 30 June 2017, which was primarily due to the decrease in sales revenue of wind power blades as compared with that of the same period of last year.

During the Period, the gross profit for the clean energy equipment segment was approximately RMB380.9 million, an increase of approximately RMB44.4 million or approximately 13.2% as compared with approximately RMB336.5 million for the six months ended 30 June 2017, which was primarily due to the increase in revenue of the hydropower equipment business and the adjustment of industrial pump products structure.

The results for the clean energy equipment segment for the six months ended 30 June 2018 were approximately RMB47.6 million, a significant decrease of approximately RMB169.5 million or approximately 78.1% as compared with the results of approximately RMB217.1 million for the six months ended 30 June 2017, which were primarily because there was land disposal income of this operating segment last year.

HIGH-END INTELLIGENT MANUFACTURING

Revenue from the high-end intelligent manufacturing segment for the six months ended 30 June 2018 was approximately RMB802.7 million, an increase of approximately RMB51.8 million or approximately 6.9% as compared with approximately RMB750.9 million for the six months ended 30 June 2017, which was mainly due to the increase in revenue of Intelligent Manufacturing Company.

During the Period, gross profit for the high-end intelligent manufacturing segment was approximately RMB185.9 million, an increase of approximately RMB55.7 million or 42.8% as compared with approximately RMB130.2 million for the six months ended 30 June 2017.

For the six months ended 30 June 2018, the results for the high-end intelligent manufacturing operating segment recorded a loss of approximately RMB12.1 million, a decrease in loss of approximately RMB101.0 million or approximately 89.3% as compared with a loss of approximately RMB113.1 million for the six months ended 30 June 2017, primarily due to the decrease in loss of Machine Tools Group and the exclusion of the continuous loss in the transmission systems business last year from the scope of consolidation of the Period.

INDUSTRIAL SERVICE

Revenue from the industrial service segment for the six months ended 30 June 2018 was approximately RMB95.4 million, a significant decrease of approximately RMB718.0 million or approximately 88.3% as compared with approximately RMB813.4 million for the six months ended 30 June 2017, mainly due to the Company's initiative to reduce the low-margin foreign trade business.

During the Period, gross profit for the industrial service segment was approximately RMB36.8 million, an increase of approximately RMB11.2 million or approximately 43.8% as compared with approximately RMB25.6 million for the six months ended 30 June 2017, mainly due to the increase in gross profit margin of finance business from approximately 83.2% for the six months ended 30 June 2017 to approximately 86.4% for the six months ended 30 June 2018.

For the six months ended 30 June 2018, the results for the industrial service segment amounted to approximately RMB27.7 million, an increase of approximately RMB8.2 million or approximately 42.1% as compared with approximately RMB19.5 million for the six months ended 30 June 2017.

CASH FLOW

As at 30 June 2018, the cash and bank deposits (including restricted cash) of the Group amounted to approximately RMB1,944.6 million (31 December 2017: approximately RMB1,658.7 million), representing an increase of approximately RMB285.9 million or approximately 17.2%, mainly due to the receipt of approximately RMB319.0 million by the Group from Qijiang Gear Transmission Co., Ltd., a related company.

During the Period, the Group had a net cash flow generated from operating activities of approximately RMB-168.7 million (for the six months ended 30 June 2017: net cash flow generated from operating activities of approximately RMB-643.6 million), a net cash flow generated from investing activities of approximately RMB410.3 million (for the six months ended 30 June 2017: a net cash flow generated from investing activities of approximately RMB96.2 million), and a net cash flow generated from financing activities of approximately RMB-5.2 million (for the six months ended 30 June 2017: a net cash flow generated from financing activities of approximately RMB2.0 million).

BILLS RECEIVABLES, TRADE RECEIVABLES AND OTHER RECEIVABLES

As at 30 June 2018, the total bills receivables, trade receivables and other receivables of the Group amounted to approximately RMB5,206.7 million, an decrease of approximately RMB7.2 million as compared with approximately RMB5,213.9 million as at 31 December 2017, primarily due to the increases in Chongqing General Group, Intelligent Manufacturing Company, Machine Tools Group of approximately RMB170.0 million, RMB100.0 million and RMB30.0 million, respectively, and the decrease in other receivables of the Company of approximately RMB319.0 million was due to the receipt of borrowings from Qijiang Gear Transmission Co., Ltd., a related company.

BILLS PAYABLES, TRADE PAYABLES AND OTHER PAYABLES

As at 30 June 2018, the total bill payables, trade payables and other payables of the Group amounted to approximately RMB3,620.3 million, an increase of approximately RMB335.1 million as compared with approximately RMB3,285.2 million as at 31 December 2017, primarily due to the increase in Water Turbine Company of approximately RMB100.0 million and the increase in Chongqing Pigeon Electric Wire & Cable Co., Ltd. of approximately RMB60.0 million.

ASSETS AND LIABILITIES

As at 30 June 2018, the total assets of the Group amounted to approximately RMB16,824.6 million, an increase of approximately RMB533.9 million as compared with approximately RMB16,290.7 million as at 31 December 2017. The total current assets amounted to approximately RMB10,799.4 million, an increase of approximately RMB254.6 million as compared with approximately RMB10,544.8 million as at 31 December 2017, accounting for approximately 64.2% of the total assets (31 December 2017: approximately 64.7%). However, the total non-current assets amounted to approximately RMB6,025.2 million, an increase of approximately RMB279.4 million as compared with approximately RMB5,745.8 million as at 31 December 2017, and accounting for approximately 35.8% of the total assets (31 December 2017: approximately 35.3%).

As at 30 June 2018, the total liabilities of the Group amounted to approximately RMB9,565.6 million, an increase of approximately RMB452.9 million as compared with approximately RMB9,112.7 million as at 31 December 2017. The total current liabilities amounted to approximately RMB7,362.6 million, an increase of approximately RMB279.2 million as compared with approximately RMB7,083.4 million as at 31 December 2017, accounting for approximately 77.0% of the total liabilities (31 December 2017: approximately 77.7%). However, the total non-current liabilities amounted to approximately RMB2,203.0 million, an increase of approximately RMB173.7 million as compared with approximately RMB2,029.3 million as at 31 December 2017, and accounting for approximately 23.0% of the total liabilities (31 December 2017: approximately 22.3%).

As at 30 June 2018, the net current assets of the Group amounted to approximately RMB3,436.8 million, an decrease of approximately RMB24.6 million as compared with approximately RMB3,461.4 million as at 31 December 2017.

CURRENT RATIO

As at 30 June 2018, the current ratio (the ratio of current assets over current liabilities) of the Group was 1.47:1 (31 December 2017: 1.49:1).

GEARING RATIO

As at 30 June 2018, by dividing borrowings by total capital, the gearing ratio of the Group was 32.5% (31 December 2017: 31.7%).

INDEBTEDNESS

As at 30 June 2018, the Group had an aggregate bank and other borrowings (not include deferred income) of approximately RMB3,668.5 million, an increase of approximately RMB178.6 million as compared with approximately RMB3,489.9 million as at 31 December 2017.

Borrowings repayable by the Group (not include deferred income) within one year amounted to approximately RMB1,978.6 million, an increase of approximately RMB56.4 million as compared with approximately RMB1,922.2 million as at 31 December 2017. Borrowings repayable after one year amounted to approximately RMB1,689.9 million, an increase of approximately RMB122.2 million as compared with approximately RMB1,567.7 million as at 31 December 2017.

SIGNIFICANT EVENTS

Events for the Period

(1) On 18 January 2018, the Group has decided to cease the low-margin foreign trade business of Chongqing Shengpu Materials Co. Ltd, a wholly-owned subsidiary, from 2018. For details, please refer to the announcement of the Board of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 18 January 2018.

(2) In order to improve the efficiency and reduce the cost of the disclosure and the audit expenses, the Board passed a resolution that the Group is only required to prepare a financial statement in accordance with the PRC Accounting Standards for Business Enterprises since 2018. The interim results of the Group for the six months ended 30 June 2018 would be prepared in accordance with the PRC Accounting Standards for Business Enterprises. The Company believes that the proposed change in the accounting standards will not have any material adverse impact on the Group's interim results for the six months ended 30 June 2018. For details, please refer to the announcement of the Board of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 14 May 2018.

(3) The Group and PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers reached an agreement on non-renewal of engagement, which would take effect after the conclusion of the annual general meeting. Approved by the 2017 Annual General Meeting of the Group, it agreed to engage ShineWing Certified Public Accountants (Special General Partnership) as the Group's 2018 external auditor to provide relevant internal and external audit services in accordance with the PRC Accounting Standards for Business Enterprises. For details, please refer to the announcement of the Board of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 14 May 2018.

(4) With the approval of the Group's 2017 Annual General Meeting, Ms. He Xiaoyan has resigned as a non-executive director and Mr. Wang Pengcheng was appointed as a non-executive director. The above directors shall hold office from the date of the annual general meeting to the expiration of the term of the current Board. The Board was authorized to determine the remuneration of each director based on the directors' remuneration standards approved at the 2015 Annual General Meeting, and enter into a service agreement with each of the directors on terms and conditions as the Board considers appropriate (subject to those terms and conditions), and conduct all the actions and things necessary to carry out such matters. For details, please refer to the announcement of the Board of the Company published on the websites of the Stock Exchange of Hong Kong and the Company on 28 June 2018.

EVENTS AFTER THE PERIOD

The supervisory committee of the Group received the resignation from Mr. Xiang Hu, the member and chairman of the supervisory committee on 5 July 2018. For his personal reasons, he resigned as the member and chairman of the fourth session of the supervisory committee of the Group. The resignation of Mr. Xiang Hu did not result in the number of members of the fourth session of the supervisory committee of the Group to be lower than the statutory minimum number, and will not affect the normal operation of the supervisory committee of the Group. The resignation of Mr. Xiang Hu was effective immediately upon the delivery of the resignation to the supervisory committee. For details, please refer to the announcement of the Board of the Company published on the websites of the Stock Exchange of Hong Kong and the Company on 5 July 2018.

Save as disclosed above, the Company did not have any other material events that were subject to disclosure during the Period.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group had no significant contingent liabilities.

CAPITAL EXPENDITURE

During the Period, the total capital expenditure of the Group was approximately RMB217.0 million, which was principally used for plant expansion, production technology improvement and production, equipment intelligentization upgrade (for the six months ended 30 June 2017: approximately RMB385.6 million).

RISK OF FOREIGN EXCHANGE

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

EMPLOYEES

As at 30 June 2018, the Group had a total of 7,960 employees (30 June 2017: a total of 10,448 employees). The decrease of employees was mainly due to the disposal of Qijiang Gear Transmission Co., Ltd. to the parent company. The Group will continue the upgrade of its technical talent base, foster and recruit technical and management personnel possessed with extensive professional experiences, optimise the distribution system that links with the remunerations and performance reviews, improve training supervision on safety so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

OTHER INFORMATION

Interests of Substantial Shareholders and Other Persons in Shares and Underlying Shares

As at 30 June 2018, so far as the directors are aware, the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance ("SFO"):

Long positions in domestic shares of the Company with par value of RMB1.00 each

Name of shareholders	Number of shares	Stock category	Status	*Note*	Percentage of total issued domestic shares *(%)*	Percentage of total issued H shares *(%)*	Percentage of total issued shares *(%)*
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	1,924,225,189	Domestic shares	Beneficial owner	(1)	74.46*(L)*	–	52.22
	11,652,000	H shares	Beneficial owner	(1)	–	1.06*(L)*	0.32
Chongqing Yufu Assets Management Group Co., Ltd.	232,132,514	Domestic shares	Beneficial owner	(1)	8.98*(L)*	–	6.30
Chongqing Construction Engineering Group Corporation Limited	232,132,514	Domestic shares	Beneficial owner	(2)	8.98*(L)*	–	6.30
China Huarong Asset Management Co., Ltd.	195,962,467	Domestic shares	Beneficial owner	(3)	7.58*(L)*	–	5.32
Chongqing State-owned Assets Supervision and Administration Commission	2,388,490,217	Domestic shares	Controlled corporation interest	(1)	92.42*(L)*	–	64.82
	11,652,000	H shares	Beneficial owner	(1)	–	1.06*(L)*	0.32
Ministry of Finance of the PRC	195,962,467	Domestic shares	Controlled corporation interest	(3)	7.58*(L)*	–	5.32

(L) Long Position

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

Name of shareholder	Number of shares	Status	*Note*	Percentage of total issued H shares	Percentage of total issued shares
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000*(L)* –*(P)*	Custodian		7.93*(L)* –*(P)*	2.37*(L)* –*(P)*
The Bank of New York Mellon Corporation	87,276,000*(L)* 87,276,000*(P)*	Interest of corporation controlled by substantial shareholders	*(4)*	7.93*(L)* 7.93*(P)*	2.37*(L)* 2.37*(P)*
GE Asset Management Incorporated	75,973,334*(L)*	Investment manager		6.91*(L)*	2.06*(L)*

(L) *Long Position*
(S) *Short Position*
(P) *Lending Pool*

Notes:

(1) As Chongqing Machinery and Electronics Holding (Group) Co., Ltd. and Chongqing Yufu Assets Management Group Co., Ltd. are wholly owned by Chongqing State-owned Assets Supervision and Administration Commission, Chongqing State-owned Assets Supervision and Administration Commission is deemed to be interested in 1,924,225,189 domestic shares and 11,652,000 H shares as well as 232,132,514 domestic shares of the Company held by the two companies respectively.

(2) Chongqing Construction Engineering Group Corporation Limited is held as to 76.53% by State-owned Assets Supervision and Administration Commission of Chongqing Municipal Government through its wholly-owned Chongqing Construction Investment Holding Co., Ltd. Therefore, Chongqing State-owned Assets Supervision and Administration Commission is deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Engineering Group Corporation Limited.

(3) China Huarong Asset Management Co., Ltd.*(中國華融資產管理股份有限公司) is held as to 63.36% directly by the Ministry of Finance of the People's Republic of China and as to 4.22% indirectly by the Ministry of Finance of the People's Republic of China through China Life Insurance (Group) Company, its wholly-owned subsidiary. Therefore, the Ministry of Finance of the People's Republic of China is deemed to be interested in 195,962,467 domestic shares of the Company held by China Huarong Asset Management Co., Ltd.

(4) The Bank of New York Mellon Corporation holds 100% interest in The Bank of New York Mellon (formerly known as "The Bank of New York"), which holds 87,276,000 H shares of the Company. The interest in 87,276,000 H shares relates to the same block of shares in the Company and includes a lending pool of 87,276,000 H shares of the Company.

Save as disclosed above, the directors of the Company are not aware of any persons holding any interests or short positions in the shares or underlying shares which were required to be recorded in the register pursuant to Section 336 of the SFO as at 30 June 2018.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the Period, the Company has adopted and complied with the code provisions under the Corporate Governance Code set out in the Appendix 14 of the Listing Rules.

THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has complied with and adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code for securities transactions by directors. The Company has obtained the respective confirmations by all of its directors that they have strictly complied with the provisions set out in the Model Code for the six months ended 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the six months ended 30 June 2018, neither the Group nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividends.

AUDIT AND RISK MANAGEMENT COMMITTEE

The audit and risk management committee, the management and the Company's auditor ShineWing Certified Public Accountants (Special General Partnership) have jointly reviewed the accounting standards, laws and regulations adopted by the Company and discussed internal control and financial reporting matters (including the review of the interim results) of the Group. The audit and risk management committee considered that the interim results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE

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

As at the date of this announcement, the members of the supervisory committee of the Company are Mr. Xia Hua, Ms. Wu Yi, Mr. Huang Hui and Mr. Zhang Mingzhi.

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

The interim results announcement has been published on the websites of the Company (http://www.chinacqme.com) and the Stock Exchange. The interim report will also be available on the websites of the Company and the Stock Exchange on or around 14 September 2018 and will be dispatched to the shareholders of the Company thereafter by the means of receipt of corporate communications they selected.

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

Chongqing, the PRC
23 August 2018

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

* *For identification purposes only*